



Front: from left to right

Mr. Cheng Kam Chung (Vice Chairman)
Mr. Li Jialin (Chairman and CEO)

Back: from left to right

Dr. Liu Yongping (Independent Non-executive Director)
Madam Sun Ali (Non-executive Director)
Mr. Phileas Fok Kwan Wing, BH (Independent Non-executive Director)

Management Discussion and Analysis



Front: from left to right

Mr. Pang Wing On (Product Manager)
Ms. Chow Ying Chi (Business Operation Manager)
Mr. Li Jialin (Chairman and CEO)
Mr. Lung Cheuk Wah (Company Secretary and Financial Controller)

Group Reorganization and Basis of Presentation

The Company was incorporated in the Cayman Islands on 5th March, 2002 under the Companies Law of Cayman Islands as an exempted company with limited liability. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 9th May, 2002. The Company's subsidiaries are principally engaged in the distribution of IT products.

Pursuant to a group reorganization scheme (the "Reorganization") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies comprising the group (collectively referred to as the "Group") on 16th April, 2002. The Reorganization involved companies under common control, and the Company and its subsidiaries resulting from the Reorganization are regarded as a continuing group.

The Reorganization has been accounted for on the basis of merger accounting, under which the consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the years ended 31st March, 2003 and 2002.

All significant intra-group transactions and balances within the Group are eliminated on consolidation.

Financial Review

The Group's turnover for the year ended 31st March, 2003 amounted to approximately HK\$2,209,467,000 (2002: approximately HK\$1,634,218,000), representing an increase of approximately 35% as compared with the corresponding period last year. Net profit attributable to shareholders amounted to approximately HK\$17,211,000 (2002: approximately HK\$30,245,000), representing a decrease of approximately 43% as compared with the

corresponding period last year. The main reason for the decrease in net profit was due to keen competition in the industry as well as the supply of IT products in excess of demand, which resulted in decline of the profit margin. The basic earnings per share for the year amounted to HK2.52 cents.

A final dividend in respect of the year under review of HK0.6 cents (2002: HK\$ Nil) per ordinary share amounting to HK\$4,200,000 (2002: HK\$ Nil) has been proposed by the Directors on 9th July, 2003. The proposed final dividend is not reflected as a dividend payable at 31st March, 2003, but will be reflected as an appropriation of retained earnings for the year ending 31st March, 2004.

The Group endeavoured to control its operating expenses and net finance cost during the year under review. The Group has implemented an effective control on operating cost successfully. Furthermore, net finance costs were lowered because of decreasing borrowing cost and continued improvement in the application of working capital resulting in less reliance on interest-bearing advances.

Business Review

During the year under review, the Group succeeded in the development of the market in Southwestern PRC and further extended its distribution network. 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 electronic manufacturers, regional resellers and system integrators.

Since its establishment, the Group has endeavoured to work with its suppliers closely to jointly provide technical support to users and to promote and expand the market share of the products. The Group has set up representative offices in the PRC and has its own technical support team which provides after-sale and technical support services to its customers. A good and

close relationship with its suppliers and customers has enhanced the competitiveness of the Group.



Besides on its business development, the Group is also concerned about the overall economy and the promotion of IT products in Hong Kong. It actively participated in "Hong Kong Computer Festival 2002 – IT Carnival" which was held for three days outside Golden Computer Arcade and Golden Computer Centre in Sham Shui Po District starting from 13th December, 2002. Mr. Cheng Kam Chung, the Vice Chairman of the Group was elected as the Convener of this computer festival and was responsible for leading a working group consisted of working group on Promoting Local Community Economy of Sham Shui Po District Council, Sham Shui Po District Office of Home Affairs Department and The Chamber of Hong Kong Computer Industry Co., Ltd. The event attracted 200,000 visitors which was a remarkable record. The event had successfully boosted the local economy and promoted IT culture of Hong Kong. As a participant and supporter, the Group is proud of the success of the event and looks forward to further supporting the development of Hong Kong IT products industry.

Prospects

Following the accession of the PRC to the World Trade Organization, it is expected that more foreign companies will develop their businesses in the PRC. At the same time, enterprises in the PRC will also need IT to enhance the efficiency of their operations, thereby raising their

competitive edge. This will boost the demand for IT products, which will, in turn, bring more business opportunities to the Group. In order to complement the Olympic games to be held in 2008, the Beijing Municipal Government has decided to develop Beijing into a "Digital City". This will certainly boost the market demand for internet and computer products. Moreover, the tenth "Five Year Plan" laid down by the PRC central government announced that it would invest around Renminbi 1 billion to establish a technological administrative management system to enhance its internet operation efficiency.

In view of the above, 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.

On the other hand, the Group will continue to look for more renowned suppliers for distribution rights of various high quality products to diversify its product range. New products being launched by the Group include "Ebrick" brand CD-ROM, DVD and CD-RW as well as "Infocus" digital projector, which are well accepted by the market.

In the meantime, the Group will broaden its client base actively to expand its distribution network, whilst continuing to implement its 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 order to improve its resources allocation, thereby enhancing its competitiveness as a whole.

The Group has endeavoured to develop the market share of the products it distributes. Its objective is to become a leading IT product distributor in the PRC and, at the same time, bring more promising returns to its shareholders.

Liquidity and Financial Resources

As at 31st March, 2003, the Group's cash and bank deposits were approximately HK\$40.0 million (2002: approximately HK\$16.7 million).

As at 31st March, 2003, the Group's bank borrowings were approximately HK\$109.3 million (2002: approximately HK\$127.2 million). The gearing ratio, calculated as the total bank borrowings divided by total assets, was approximately 0.22 times (2002: approximately 0.43 times). The decrease in bank borrowings was mainly because of the generation of proceeds from public listing and the Group's prudent approach towards the cost of funds.

As at 31st March, 2003, the Group recorded total current assets of approximately HK\$490.9 million (2002: approximately HK\$291.3 million) and total current liabilities of approximately HK\$392.6 million (2002: approximately HK\$232.7 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 31st March, 2003 (2002: approximately 1.25 times).

The Group recorded an increase in shareholders' funds from approximately HK\$63.7 million as at 31st March, 2002 to approximately HK\$110.6 million as at 31st March, 2003. The increase was mainly derived from the proceeds from initial public offer in the year under review and the net increase, after the payment of dividend, in net profit after tax.

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 were predominantly subject to floating interest rates.

Cash and bank deposits of the Group were 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 under review.

Charge on Assets

As at 31st March, 2003, the net book value of fixed assets pledged as security for certain of the Group's banking facilities amounted to approximately HK\$8,627,000 (2002: approximately HK\$679,000). The Group's banking facilities were also secured by restricted bank deposits of HK\$24,203,000 held by the Group.

Contingent Liabilities

As at 31st March, 2003, the Group did not have any significant contingent liabilities.

Employees

As at 31st March, 2003, the Group had 47 full time employees. The total staff costs, including the Directors' emoluments, amounted to approximately HK\$14.5 million (2002: approximately HK\$18.7 million) for the year under review.

The Group remunerated its employees mainly based on 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, annual leave and retirement schemes.