MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

Working against the challenging year of 2003 with the outbreak of SARS epidemic, the Group managed to achieve a profit after taxation of approximately HK$50 million for year 2003, representing a decrease of 24% from HK$66 million of last year.

During the year under review, the Group's turnover was HK$2,203 million (2002: HK$2,122 million) representing a slight increase of 4% over last year. Turnover from the PRC market in 2003 was about 46% (2002: 29%) of total turnover. The increase was mainly due to the Group continues to expand its distribution and logistic networks in the PRC.

Gross profit was HK$93 million for year 2003 (2002: HK$ 120 million) representing a decrease of 23% over last year as the low rebate from Intel.

Finance costs for 2003 increased to HK$15 million from HK$10 million of year 2002 mainly due to the increase in bank loan interests. However, operating costs for 2003 reduced to HK$38 million from HK$39 million of year 2002.

Liquidity and Financial Resources

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK$148 million as at 31 December 2003 (2002: HK$242million). Balance of short-term bank borrowings and overdrafts was approximately HK$324 million as at 31 December 2003 (2002:HK$425million). 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 2003 calculated as a ratio of total bank loans to total assets was 35% (2002:36%). Net assets were approximately HK$426 million as at 31 December 2003 (2002:HK$385 million).

The Group recorded total current asset value of approximately HK$923 million as at 31 December 2003 (2002: HK$1,185 million) and total current liability value of approximately HK$500 million (2002:HK$803 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, improved to 1.9 as at 31 December 2003 (2002:1.5).

The Group had inventory of approximately HK$332 million as at 31 December 2003 (2002:HK$632 million) representing a decrease of 48% from last year.

The Group recorded an increase in shareholders' funds from approximately HK$385 million as at 31 December 2002 to approximately HK$426 million as at 31 December 2003.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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 2003, approximately HK$110 million of the net proceeds had been applied by the Group as general working capital. Approximately another HK$3 million were applied to the development and expansion of the Group's distribution and logistics network in the PRC. The remaining net proceeds were placed as fixed deposits with well-known banks in Hong Kong.

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.

Investments

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

Contingent Liabilities

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

Employees

As at 31 December 2003, the Group had 80 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 2002. The Group's financial statements for the year ended 31 December 2003 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.