



# Management Discussion and Analysis

## Business Review

Despite the outbreak of Severe Acute Respiratory Syndrome ("SARS") which occurred in the late March 2003, our group still marks an increase in turnover and net profit attributable to shareholders. The turnover for the period under review increased by 13 % to approximately HK\$2,489.3 million (2003: approximately HK\$2,209.5 million) and the profit attributable to shareholders increased by 17% to approximately HK\$ 20.1 million (2003: approximately HK\$17.2 million).

Our Group has continued to extend its customer base to expand its business. The customers of the Group include OEMs, PC and other consumer electronic manufacturers, regional resellers and system integrators. We believe that efficient sales channels and cost controls can raise the Group's competitiveness, broaden its market share and enhance its profitability. To achieve these goals, we have implemented measures which include expanding our sales network, strengthening its distribution efficiency, lowering the inventory level, strengthening the control of operating cost, and improving the quality of customer services to suit the needs of new customers. These measures have proved to be effective and sharply increased the Group's market share. Although our profit margin continues to be pressured under the competitive environment, our Group's aggressiveness and dedicated effort have led to a remarkable increase in both market share and earnings. This has created a good foundation for the long-term development of the Group. We shall endeavor to reinforce the well-established connection with our customers and suppliers. Our ultimate goal is to generate better returns on investment to our shareholders.



During the year under review, our Group was granted two Awards by Seagate Singapore International Headquarters Pte. Limited ("Seagate"), namely " Outstanding Achievement: Personal Storage FY2003" and "No Limits Challenge Award Asia Pacific FY2003". The latter is the first ever in Asia Pacific by Seagate to award an authorized Distributor in the best performance of promoting and selling hard disk drives in the Consumer Electronic market. This has clearly proven our ability to successfully sell Seagate's products in the new market segments. Our Group was also granted by AMD an award, named "PC Processors Distributor of the Year 2003, China" in recognition of our Group being the number one distributor of AMD products in terms of sales revenue in the PRC. Moreover, during the Asia Pacific Business Partners' Conference 2004 held in Shanghai, our Group was granted an award by InFocus, being in appreciation of our support and contribution in promoting and distributing their high quality digital projectors.

## Prospect

In view that Shanghai will be the host of the 2010 World Expo and PRC's admission to the World Trade Organization, foreign companies have sped up their business development in the PRC, inducing positive competition between foreign and local enterprises. This has accelerated the need for greater operational efficiency in the Information Technology ("IT") industry in the PRC. In order to complement the Olympic games to be held in Beijing in 2008, the Beijing Municipal Government had decided to develop the city into a "Digital City". This will definitely boost up the market demand for internet and computer products in the PRC. In addition, according to the PRC's tenth "Five Year Plan", the PRC Government will invest about 1 billion Chinese Yuan to establish a scientific administrative management system for enhancing its internet operation efficiency. This will certainly create greater demand for IT products and generate even more opportunities for the Group.

In light of the Closer Economic Partnership Arrangement ("CEPA") signed by the Hong Kong Special Administrative Region and the PRC, the Group will quicken its development in IT products and strengthen its sales network before other foreign competitors entering the PRC market. Since the IT product market is growing at a rapid pace, we plan to expand our distribution channels into other potential PRC cities so as to widen our network.



In view of the above, the Group will strive to enhance the function of its distribution networks in the PRC so as to provide more comprehensive and supporting services to its customers.

Moreover, the Group will continue to look for renowned suppliers for distribution rights of various high quality products and diversification of its product range. With a focus on IT product sales, our Group is presently an Authorized distributor and/or product developer for a number of internationally reputable IT product manufacturers including Seagate, AMD, Supermicro, EBrick, VIA and InFocus. In order to increase our competitiveness, we have been offering our customers first-rate value-added services such as superior before-sale, and after-sale services.

We have enlarged our sales engineer team to focus on design-in business with Consumer Electronic customers. With these new customers, we can carry new products that have synergy effect, for example, the flash memory products. This has increased our opportunity of sales and profits which means better returns to our shareholders.

In order to remain competitive, we are very concerned with the operation costs. Our cost reduction plan including a tight control in staff headcount which has proved successful in terms of a substantial decrease in administrative cost. Moreover, by streamlining our operation, we would save a lot of rental and logistic expenses. All these measures will result in lower costs and hence higher profits from business operation.

As Hong Kong's economy is recovering gradually, coupled with the earnest desire for IT products in the PRC, we firmly believe that we can take advantage of the enormous market potential in the PRC market by offering diverse products and maximizing our expertise through integrating our upstream and downstream marketing channels. The combination of diverse products and an efficient market infrastructure would be beneficial to our Group and would generate better returns to our shareholders.

## Financial Review

The Group's turnover for the year ended 31st March, 2004 amounted to approximately HK\$2,489,257,000 (2003: approximately HK\$2,209,467,000), representing an increase of approximately 13% as compared with last year. Profit attributable to shareholders amounted to approximately HK\$20,057,000 (2003: approximately HK\$17,211,000), representing an increase of approximately 17% as compared with last year. The main reason for the increase in net profit was due to a marked increase in the sale of AMD products and a decrease in administration and finance expenses. The basic earnings per share for the year amounted to HK2.87 cents (2003: HK2.52 cents).

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.

## Liquidity and Financial Resources

As at 31st March, 2004, the Group's cash and bank deposits was approximately HK\$27.8 million (2003: approximately HK\$40.0 million).

As at 31st March, 2004, the Group's bank borrowings were approximately HK\$120.7 million (2003: HK\$109.3 million). The gearing ratio, calculated as the total bank borrowings less restricted cash deposits and divided by shareholders' equity, was approximately 0.78 (2003: approximately 0.77).

As at 31st March, 2004, the Group recorded total current assets of approximately HK\$484.9 million (2003: approximately HK\$490.9 million) and total current liabilities of approximately HK\$372.8 million (2003: HK\$392.6 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 1.30 times as at 31st March, 2004 (2003: approximately 1.25 times).

The Group recorded an increase in shareholders' funds from approximately HK\$110.6 million as at 31st March, 2003 to approximately HK\$123 million as at 31st March, 2004. The increase was mainly derived from the net increase, in net profits after tax and after the payment of dividend.

## 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 was predominantly subject to floating interest rates.

Cash and bank deposits of the Group was 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.

### Material Acquisitions/Disposal and Significant Investments

Save as disclosed herewith, the Group did not have any material acquisition, disposal and significant investments during the year under review.

### Charge on Assets

As at 31st March, 2004, the net book value of fixed assets pledged as security for certain of the Group's banking facilities amounted to approximately HK\$6,111,000 (2003: approximately HK\$8,627,000). The Group's banking facilities were also secured by restricted bank deposits of HK\$24,744,000 (2003: HK\$24,203,000) held by the Group.

### Contingent Liabilities

As at 31st March, 2004, the Group did not have any significant contingent liabilities.

### Employees

As at 31st March, 2004, the Group had 44 full time employees. The total staff costs, including the Directors' emoluments, amounted to approximately HK\$11.7 million (2003: approximately 14.5 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.

Save as disclosed herewith, no information in relation to the Group's performance has changed materially from the information disclosed in the annual report of the Company for the year ended 31st March, 2003.