

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

Working against the challenging year of 2004, the Group expanded our marketing scope from a hardware distributor to a high tech solution provider. The Group managed to achieve a profit after taxation of approximately HK\$33 million for the year 2004, representing a decrease of 34% from HK\$50 million of last year.

During the year under review, the Group's turnover was approximately HK\$1,659 million (2003: approximately HK\$2,203 million), representing a decrease of 25%. Turnover from PRC market in 2004 was about 62% (2003: 46%) of total turnover. The increase was mainly due to the Group continues to expand its distribution and logistic networks in the PRC.

Gross profit margin improved from 4% to 5% when comparing the result from last year, it is contributed by higher profit margin of LCD monitors and the e-enabling solutions projects. Gross profit was approximately HK\$83 million for the year 2004 (2003: approximately HK\$93 million) representing a decrease of 11% over last year.

Finance costs for 2004 was approximately HK\$15 million which is the same as last year. The administrative expenses slightly increased to approximately HK\$31 million from approximately HK\$29 million of year 2003.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

The Group had total cash and bank balances (including pledged bank deposits) of approximately HK\$118 million as at 31 December 2004 (2003: approximately HK\$148 million). Balance of bank overdrafts and short-term bank borrowings was approximately HK\$387 million as at 31 December 2004 (2003: approximately HK\$324 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 2004 calculated as a ratio of total bank loans to total assets was 43% (2003: 35%). Net assets were approximately HK\$452 million (2003: approximately HK\$426 million).

The Group recorded total current asset value of approximately HK\$943 million as at 31 December 2004 (2003: approximately HK\$923 million) and total current liability value of approximately HK\$485 million (2003: approximately HK\$500 million). The current ratio of the Group, calculated by dividing the total current asset value by the total current liability value, was 1.9 as at 31 December 2004. It was approximately the same at last year.

The Group had inventories of approximately HK\$361 million as at 31 December 2004 (2003: approximately HK\$332 million) representing an increase of 9% from last year.

The Group recorded another profitable year in 2004 and this contributed to an increase in shareholders' funds to approximately HK\$452 million as at 31 December 2004 (2003: approximately HK\$426 million).

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TREASURY POLICIES

The Group's major borrowings are in US dollars and HK dollars. All borrowings are based on LIBOR or Hong Kong best lending rates. As the Group's revenues are mainly in US dollars, and major borrowings and payments are in either US dollars or HK dollars, there is a natural hedge mechanism in place and currency risk exposure is relatively low. However, the Group has strengthened its treasury management functions and will continue to manage its currency and interest rate exposures.

PLEDGE OF 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 grant to the Group.

INVESTMENTS

In June 2004, the Group acquired 30% of issued share capital of a well-established logistics company in Hong Kong at a cash consideration of HK\$15 million. The acquisition is expected to bring synergistic effects, particularly the lower logistics expenses, to the Group.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at the balance sheet date.

EMPLOYEES

As at 31 December 2004, the Group had 75 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 principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee has reviewed the financial statements of the Group for the year ended 31 December 2004.

The Audit Committee comprises three independent non-executive directors, namely Dr. Liu James Juh, Ms. Hu Gin Ing and Mr. Yim Hing Wah.