



BUSINESS REVIEW

As the Information Technology ("IT") industry in the PRC continued to grow and present unlimited opportunities for all industry players, the Group rode on the wave and delivered a satisfactory result for the year under review. Turnover for the year under review grew by about 13% to approximately HK\$2,801.2 million (2004: approximately HK\$2,489.3 million) and net profit attributable to shareholders increased by about 37% to approximately HK\$27.4 million (2004: approximately HK\$20.1 million).

In keeping abreast with the fast-changing market conditions and product trend in the IT industry, the Group has closely monitored its performance and aligned itself by undertaking various measures. Firstly, our Group has established representative offices and liaison points throughout the major cities such as Beijing, Shanghai and Shenzhen in the PRC so as to tie up more closely with its customers. This allowed the Group to be closer to its end-users thus enabling it to react swiftly to the changing market needs and continuously provide customized value-added services.

Secondly, with the rapid expansion of the digital product market in the PRC in recent years, the sale of digital products has been growing rapidly. Our Group has set up a digital department during the year under review to focus solely on the distribution of digital electronics products including MP3 and Portable Multimedia Players with a brand name "KISS". The management expects that this new business sector will become one of the major growth drivers for the Group in the future.

In the past few years, there has been intense competition in the global IT industry, and many IT companies continuously adjusted their products, prices and service strategies, in an attempt to stay competitive. The Group not only expanded its sales and distribution network and enriched its product portfolio, but also enhanced its distribution efficiency, and improved its after-sales and other value-added services, to boost its market competitiveness. As a result of the Group's aggressiveness and dedicated efforts,

in 2004, the Group was once again honorably bestowed by Seagate Singapore International Headquarters Pte. Ltd., one of its major suppliers, the “Outstanding Achievement: Personal Storage FY2004” Award. In addition, the Group was awarded by AMD the “PC Best PIB Distributor 2004” in the AMD Global Distributors Conference held in Maranello, Italy in 2005 for the recognition of the Group’s outstanding performance during the year under review.

PROSPECTS

In light of the PRC’s entry into the WTO, the organization of Beijing 2008 Olympic Games, Shanghai 2010 World Expo as well as the PRC government’s determination to move the whole nation into the “Digital Age”, the IT sector has been one of the fastest growing industries and the PRC will remain as one of the fastest growing IT markets in the world in the next few years. The huge potential arisen from this burgeoning market has attracted many foreign as well as local players to set foot in the mainland market so as to grab new business opportunities and major foreign manufacturers such as Seagate and AMD are targeting the PRC to be their key growth driver.

Benefited from the Closer Economic Partnership Arrangement (CEPA) signed by the government of Hong Kong Special Administrative Region (“HKSAR”) and the PRC together with the introduction of the Individual Mainland Tourists Scheme which enables many PRC tourists visiting HKSAR to help stimulating HKSAR’s economy, the Group expects to increase its sales through a better spending atmosphere in the local market.

Leveraging on its internationally reputable IT product manufacturers such as Seagate and AMD in the global IT market, our Group has positioned itself to be the distributor of high-quality and reliable IT products and earned considerable trust from its customers. Besides, our Group will continue to gauge the market demand and source for reputable IT and digital products to enrich its distribution portfolio. In order to provide superior value-added services, our Group will continually improve the before-sale, after-sale and technical support services to our customers.

On the product front, the Group will also continue its endless pursuit to source for a variety of modern and functional digital products for its customers. Through the introduction of new products, the Group is able to diversify its revenue stream and appeal to a wide range of customers tastes. During the year under review, our Group had developed its business into digital products including MP3 and Portable Multimedia Players with a brand name “KISS”. Our Group will attract customers by offering the latest and highest quality in such technology.

Award



As for the relationship with its suppliers, the Group's highly responsive and efficient management team and extensive distribution network will continue to rank the Group as one of the choice authorized distributors for internationally reputable IT and digital product manufacturers which wish to enter the PRC market. Not resting on its laurels, the Group will continually look for opportunities to further expand its network in the region so as to reinforce its competitive edge in the marketplace and bring even more sales revenue and profit for both the Group and its suppliers.

Whilst the IT industry in the PRC is still enjoying stable and healthy growth, the management admits that the competitive landscape remains tough and our Group is fully prepared to meet the challenges. Nevertheless, the management firmly believes that the IT industry in the PRC will continue to be the fastest growing area in the world and will offer great potential and opportunities. Based on sound experience in the IT industry, the Group will endeavour to enhance its value by various measures including effective cost control, risk management, responsiveness to market changes, strong capabilities in sales and marketing so as to stay ahead of the competition and achieve even more promising returns for its shareholders in coming years.

FINANCIAL REVIEW

The Group's turnover for the year ended 31st March, 2005 amounted to approximately HK\$2,801,165,000 (2004: approximately HK\$2,489,257,000), representing an increase of approximately 13% as compared with last year. Profit attributable to shareholders amounted to approximately HK\$27,424,000 (2004: approximately HK\$20,057,000), representing an increase of approximately 37% as compared with last year. The main reason for the increase in net profit was mainly due to a marked increase in the sale of Seagate and AMD products. The basic earnings per share for the year amounted to HK3.71 cents (2004: HK2.87 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, 2005, the Group's cash and bank deposits were approximately HK\$46.9 million (2004: approximately HK\$27.8 million).

As at 31st March, 2005, the Group's bank borrowings were approximately HK\$89.6 million (2004: HK\$120.7 million). The gearing ratio, calculated as the total bank borrowings less pledged bank deposits and divided by shareholders' equity, was approximately 0.43 (2004: approximately 0.78 approximately).

As at 31st March, 2005, the Group recorded total current assets of approximately HK\$458.3 million (2004: approximately HK\$484.9 million) and total current liabilities of approximately HK\$299.2 million (2004: HK\$372.8 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 1.53 times as at 31st March, 2005 (2004: approximately 1.30 times).

The Group recorded an increase in shareholders' funds from approximately HK\$123.0 million as at 31st March, 2004 to approximately HK\$161.9 million as at 31st March, 2005. The increase was mainly derived from the net increase in net profits after tax plus the placing of shares on 20th December 2004.

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. For hedging purpose, the Group entered into foreign exchange forward agreements with some banks during the year under review for purchasing foreign currency to settle foreign currency transactions.

PLACING OF SHARES

On 20th December 2004, the Company has placed 140,000,000 ordinary shares of HK\$0.10 each (the "Shares") in the share capital of the Company to independent investors who were not connected persons (as defined in the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) and who were independent of other placees of the Company and its connected persons, at a price of HK\$0.139 per Share (the "Placing"). The 140,000,000 Shares represented 20% of the issued share capital of the Company of 700,000,000 Shares as at the time of the Placing and about 16.67% of the Company's issued share capital of 840,000,000 Shares as enlarged by the Placing.

The Placing price of HK\$0.139 represented (a) a discount of about 12.58% to the closing price per Share of HK\$0.159 as quoted on the Stock Exchange on 3rd December 2004; and (b) a discount of about 11.69% to the average of the closing price per share of HK\$0.1574 as quoted on the Stock Exchange for the last five trading days immediately prior to the date of the announcement of the Placing on 3rd December 2004.

The gross proceeds from the Placing were about HK\$19,460,000. The net proceeds of about HK\$19,168,100 from the Placing would be used for strengthening the working capital requirements of the Company and development of the business relating to new digital electronic products.

Further details of the Placing have been disclosed in the announcement of the Company dated 3rd December, 2004.

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

The Group's banking facilities were secured by pledged bank deposits of HK\$19,244,000 (2004: HK\$24,744,000).

CONTINGENT LIABILITIES

As at 31st March, 2005, the Group did not have any significant contingent liabilities.

EMPLOYEES

As at 31st March, 2005, the Group had 56 (2004: 44) full time employees.

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, 2004.