

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

The Group has achieved satisfactory results for the year ended 31 December 2005. Turnover has increased by 51.1% to approximately HK\$1,900.7 million compared to last year's turnover of HK\$1,257.6 million and gross profit has increased by 27.7% to HK\$94.5 million. However, gross profit ratio has dropped from 5.9% in 2004 to 5.0% in 2005 as a result of the absence of the discontinued operation of the provision of software solutions and services business during the year and the strong competition in the distribution of information products business.

Despite having recorded a large leap in turnover and net profit for the year, total administrative expenses and selling and distribution costs have recorded a decrease of 4.1%.

The Group's audited consolidated profit for the year attributable to the shareholders was HK\$26.6 million (2004: HK\$9.2 million).

The encouraging improvement in operating results for the year was mainly due to :

- a. segment results of the distribution of information products business has increased by 1.8 times to HK\$20.8 million (2004: HK\$7.4 million); and
- b. an increase in the share of profits of associates by 1.2 times to HK\$11.6 million (2004: HK\$5.2 million).

Basic earnings per share for the year was HK2.4 cents (2004: HK0.8 cents).

OPERATION REVIEW AND PROSPECTS

Continuing operations

Distribution of information products ("Distribution Business")

The Group recorded a turnover of HK\$1,900.7 million for the year which was 58.3% higher than last year and segment results also increased by 1.8 times to HK\$20.8 million for the current year (2004: HK\$7.4 million). Gross profit has recorded an increase of 45.5% to HK\$94.5 million (2004: HK\$64.9 million) while gross profit ratio has decreased from 2004's 5.4% to the current year's 5.0%.

The Distribution Business is mainly focused on the distribution of information products such as switches, networking products, servers, storage devices, workstations, notebook computers and screen projectors of a number of internationally famed and branded information product manufacturers such as HP, Huawei-3Com, Apple Computer, IBM, Netgear, CommScope and SGI. With the continued effort to enrich and explore the depth of products for distribution, the Group is also dedicated to develop a closer relationship with the vendors for greater understanding of the market situation. The Group believes that the success in operation was mainly attributable by the close relationship developed between both the upstream vendors and the downstream customers such as the second tier distributors and systems integrators. The Distribution Business has been awarded by various upstream vendors such as HP and Huawei-3Com for the excellent distribution services in terms of distribution channel, coverage, sales growth and overall performance in the PRC.

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The Distribution Business was ranked the 5th place in 2005 by Computer Partner World (電腦商報) of the PRC among the top 200 information products distribution enterprises in the PRC's information products distribution business. In addition, the Distribution Business was also ranked the 6th and 7th places by China Information World (中國計算機報) in 2005 as one of PRC's top 100 largest and top 100 dominant information products distributors respectively.

At present, the Distribution Business has developed an efficient and effective distribution channel and network with branch offices/representative offices spanning 14 major cities in the PRC.

Although the Group has recorded a large increase in the sales of information products, the operation is still faced with severe competition and recorded a gross profit ratio for the year of 5.0% compared with 5.4% of last year. In addition, selling and distribution costs for the year has also recorded an increase of 57.0% which is in line with the increase in turnover for the current year of 58.3%. However, the Group's continued effort to control operating costs was proved to be successful, administrative expenses for the year has recorded a decrease of 1.4% when compared to 2004. As a result, the Distribution Business has recorded an increase in its segment results to turnover ratio from 2004's 0.6% to 1.1% for the current year.

Operating in a strong competition environment, the drive to maintain a high rate of growth would require more working capital to support the distribution chain. The Group's working capital ratio has dropped from 2004's 1.41 to 1.30 for the current year and total liabilities to equity ratio also increased to 2.69 from 2004's 2.03. In order to support the expected future growth, the Distribution Business also plans to open up more branch offices/representative offices in the PRC. Therefore, the Group envisaged that working capital management and costs control will be vital to the future growth of the Distribution Business.

Discontinued operation

Software solutions and services business ("Software Business")

The Software Business was disposed of and terminated during the second half of 2004. As a result, no turnover was recorded for the year and the segment results for the year was approximately HK\$59,000. The 2004 segment results of HK\$1.8 million were mainly due to the gain on disposal of EC-Founder Co., Ltd. of HK\$3.3 million and the gain on compensation received for the termination of advertising agency services carried out by Beijing AdTargeting Inc. of HK\$4.6 million.

Employee

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay level of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

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The Group operates share option schemes for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Group had not granted any share options to its eligible directors and employees during the year.

Due to the increase in the size of operation of the Distribution Business, the Group has approximately 415 employees as at 31 December 2005 (31 December 2004: 330).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 31 December 2005, the Group recorded total assets of HK\$792.1 million (2004: HK\$561.3 million) which were financed by liabilities of HK\$577.3 million (2004: HK\$376.0 million) and equity of HK\$214.8 million (2004: HK\$185.3 million). The Group's net asset value as at 31 December 2005 increased by 15.9% to HK\$214.8 million as compared to approximately HK\$185.3 million as at 31 December 2004.

The Group had total cash and bank balances of HK\$292.7 million as at 31 December 2005 (2004: HK\$189.7 million). The Group had bank loan as at 31 December 2005 of HK\$38.4 million (2004: Nil), hence the Group recorded a net cash balance of HK\$254.3 million as at 31 December 2005 as compared to HK\$189.7 million as at 31 December 2004. As at 31 December 2005, the Group's current ratio was 1.30 (2004: 1.41) and the Group had no long term debt as at 31 December 2005 and 31 December 2004.

As at 31 December 2005, the Group did not have any material capital expenditure commitments.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, Renminbi and United States dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars, Renminbi and United States dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's payables and borrowings are denominated in Hong Kong dollars, Renminbi and United States dollars while the sales of the Group are mainly denominated in Renminbi and United States dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the year under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

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Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition or disposals of subsidiaries and associates in 2005.

In December 2004, the Group completed the disposal of EC-Founder Co., Ltd. for a total cash consideration of RMB13.4 million (equivalent to approximately HK\$12.6 million) and recorded a gain on disposal of subsidiary of approximately HK\$3.3 million.

Charges on assets

As at 31 December 2005, bank deposits of approximately HK\$38.9 million were pledged to banks to secure general banking facilities granted.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2005 (2004: Nil).