

Management Discussion and Analysis

OVERALL PERFORMANCE

The Group reported a profit attributable to equity holders of the parent for the year ended 31 December 2006 of approximately HK\$14.9 million (year ended 31 December 2005: HK\$26.6 million). The Group's revenue for the current year has increased by 21.8% to approximately HK\$2,314.8 million compared to HK\$1,900.7 million for the year ended 31 December 2005. With an increase in the gross profit margin from last year's 4.97% to the current year's 5.34%, gross profit has increased by 30.7% to approximately HK\$123.5 million (year ended 31 December 2005: HK\$94.5 million).

Though revenue has recorded a moderate 21.8% growth in the current year, total selling and distribution costs and administrative expenses for the current year has increased by 42.9% compared to the year ended 31 December 2005.

The decrease in the Group's consolidated profit for the year attributable to the equity holders of the parent was mainly the net results of:

- a. a decrease in the segment profit of the distribution of information products business by 22.1% to approximately HK\$16.2 million (year ended 31 December 2005: HK\$20.8 million);
- b. an increase in segment loss for the corporate and others segment by 88.9% to approximately HK\$8.5 million (year ended 31 December 2005: HK\$4.5 million);
- c. a decrease in the share of profits and losses of associates by 23.3% to approximately HK\$8.9 million (year ended 31 December 2005: HK\$11.6 million).

Basic earnings per share attributable to equity holders of the parent for the year was HK1.4 cents (year ended 31 December 2005: HK2.4 cents).

OPERATING REVIEW AND PROSPECTS

Distribution of information products ("Distribution Business")

The Group's principal operating activity during the year is the distribution of information products business. The Distribution Business recorded a turnover of approximately HK\$2,314.8 million representing an increase of 21.8% comparing to the last financial year, which exceeded the estimated average growth of the PRC information products and segment results for the year ended 31 December 2006 has decreased by 22.1% to HK\$16.2 million (year ended 31 December 2005: HK\$20.8 million). However, gross profit for the Distribution Business has recorded an increase of 30.7% to HK\$123.5 million for the year ended 31 December 2006 (year ended 31 December 2005: HK\$94.5 million) and gross profit ratio has increased to 5.34% for the current year comparing to 4.97% for the year ended 31 December 2005.

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and screen projectors of a number of internationally famed and branded information products manufacturers such as HP, Huawei-3Com, Apple, Netgear, CommScope, Barco, Epson and Microsoft.

During the second half of the current year, the Distribution Business segment has recorded a higher gross profit ratio of 5.82% comparing to 4.86% for the six months ended 30 June 2006. However, the higher gross profit ratio for the second half of the current year was offset by the moderate 35.6% increase in the second half of the current financial year in total selling and distribution costs and administrative expenses from the first half of the current financial year, segment results for the second half of the current financial year was HK\$7.4 million comparing to HK\$8.8 million for the six months ended 30 June 2006. The increase in total

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selling and distribution costs and administrative expenses was mainly due to the increase in the number of headcount and increased marketing and selling effort for keeping a growth in turnover during the second half of the current year.

The Distribution Business has been awarded by various upstream vendors such as HP, Huawei-3Com and SGI during the year for its excellent partnership in terms of distribution channel, coverage, growth and overall performance in the PRC. In June 2006, the Distribution Business was ranked the 4th place (2005: 5th) by Computer Partner World (電腦商報) among the top 200 information products distributors in the PRC's information products distribution business and was also ranked the 5th place (2005: 7th) by China Information World (中國計算機報) in June 2006 as one of the PRC's top 100 dominant information products distributors. In addition, the Distribution Business was ranked the 5th place in June 2006 by Smart Partner (計算機產品與流通) among the top 10 most excellent information products distributors in the PRC.

During the year under review, 5 major cities, namely Chong Qing, Zheng Zhou, Kun Ming, Chang Sha and Dalian have been added to the distribution channel and network of the Distribution Business. At present, the Distribution Business operates its nation-wide distribution channel and network in 21 major cities in the PRC.

The operating environment of the Distribution Business in the PRC was very competitive, total selling and distribution costs for the Distribution Business as a percentage to turnover has increased from 2.31% for the first half of the current financial year to 3.09% for the second half of the current financial year. With the opening up of additional branch offices/representative offices, selling and distribution costs and administrative expenses for the Distribution Business for the current financial year also increased by 51.1% and 33.1% respectively compared to the year ended 31 December 2005. To strike for continued expansion in operation, the Group has placed much effort on current assets management. The Group's trade and bills receivables and inventory turnover periods have improved from 2005's 49.0 days and 26.1 days to the current year's 43.6 days and 20.1 days respectively. The working capital ratio for the Group as at 31 December 2006 was 1.30 (31 December 2005: 1.30).

To fuel for future growth, the Group is dedicated for a medium to long term development plan which is feasible, sustainable and flexible. The Distribution Business will continuously refine its product structure to avoid product overlapping and minimize market risk. The Group will focus on the distribution of information products with higher margin and exploring the more profitable value-added service business. In addition to imposing efficient and effective internal control measures and the continuing provision of staff development programs, the Group is committed to strive for leadership in the information products distribution business in the PRC. Nevertheless, to enrich and widen the product range and improving the Group's profitability, the Group will continue to look for alliance with other international information products suppliers and investment opportunities. The Board and the management team are also devoted to sustain the Group's future growth and widen the revenue base for a better reward to the shareholders.

EMPLOYEE

The Group has developed its human resources policies and procedures based on performance and merits. 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.

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 current financial year.

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Due to the increase in the size of operation of the Distribution Business, the Group has approximately 526 employees as at 31 December 2006 (31 December 2005: 415).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 31 December 2006, the Group recorded total assets of HK\$900.0 million (31 December 2005: HK\$792.1 million) which were financed by liabilities of HK\$663.2 million (31 December 2005: HK\$577.3 million) and equity of HK\$236.8 million (31 December 2005: HK\$214.8 million). The Group's net asset value as at 31 December 2006 increased by 10.2% to HK\$236.8 million as compared to approximately HK\$214.8 million as at 31 December 2005.

The Group had total cash and bank balances of HK\$356.9 million as at 31 December 2006 (31 December 2005: HK\$292.7 million). The Group had bank and other borrowings as at 31 December 2006 of HK\$40.4 million (31 December 2005: HK\$38.4 million), of which approximately HK\$40.0 million (31 December 2005: HK\$38.4 million) was repayable within one year and approximately HK\$0.4 million (31 December 2005: Nil) was repayable within two to five years. Hence the Group recorded a net cash balance of HK\$316.5 million as at 31 December 2006 as compared to HK\$254.3 million as at 31 December 2005. As at 31 December 2006, the Group's current ratio was 1.30 (31 December 2005: 1.30).

As at 31 December 2006, 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. The sales and purchases made by the subsidiary of the Group in the PRC are conducted in Renminbi and hence, the transactional currency exposure is minimal. As the exchange rates of United States dollars against Hong Kong dollars was 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.

Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition or disposals of subsidiaries and associates in 2006.

Charges on assets

As at 31 December 2006, bank deposits of approximately HK\$88.5 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 2006 (2005: Nil).