
SUMMARY

OVERVIEW

Being one of the leading distributors of enterprise IT products in the PRC, the Group is principally engaged in the provision of IT solutions, the distribution of enterprise IT products and provision of IT technical support services in the PRC. The Group distributes a variety of enterprise hardware and software products, including mainly enterprise servers, system storage products, software in association with servers and system storage products, and provides IT technical support services in association with the distribution of enterprise IT products.

The Group is an authorized distributor of certain enterprise IT products in the PRC for IBM, Oracle and Huawei Symantec, with IBM's group companies being the Group's major suppliers. Since 1996, the Group or previously through Futong ComputerLand has developed non-exclusive distribution relationship in the PRC with IBM, the leading global provider for enterprise IT products. IBM's products that the Group distributes in the PRC include (i) enterprise servers (System p servers and System x servers), (ii) system storage products like disk systems, tape systems and SAN switches, and (iii) various middleware. According to the report "IDC — PRC IT Market Overview and Forecast", IBM's non-x86 servers (including System p servers), external disk storage products and tape storage products ranked first and its x-86 servers (including System x servers) and middleware ranked second in terms of sales revenue generated from the PRC IT market in 2008. During the Track Record Period, IBM's products accounted for approximately 78.7%, 78.7%, 80.1% and 84.0% of the Group's total purchases and approximately 85.0%, 90.2%, 91.9% and 93.7% of the Group's revenue for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively.

As at 30 June 2009, IBM had in the PRC 20 authorized distributors for System p server and system storage products, 11 authorized distributors for System x server products and 6 authorized distributors for software products, all on non-exclusive basis, and about 5 out of those 20 authorized distributors, including the Group, were considered as core distributors by IBM for distribution of IBM's System p server and system storage products in the PRC. Furthermore, IBM confirmed that the Group was one of the top three authorized distributors of IBM's hardware and software products in the PRC from 2006 to 2008. The Group or previously through Futong ComputerLand has received various awards and recognitions from IBM for its recognized achievements in distribution of enterprise IT products of IBM in the PRC since 1997, the details of which are set out in the paragraph headed "Awards and recognitions" under the section headed "Business" in this document. In addition to direct purchase of enterprise IT products from IBM, the Group or previously through Futong ComputerLand has been authorized and admitted to the SDI Program by IBM since 2004 to establish its own assembly line in Beijing, which is certified under ISO9001:2000 quality management system, for certain System p servers, which enables the Group to (i) offer tailor-made assembled enterprise IT products which are customized to suit its customers' needs; (ii) respond faster to its customers' needs by shortening the order-to-delivery time; and (iii) reduce the inventory risk by stocking up the components or ISUs instead of complete sets of models with prescribed specifications.

Other than IBM's enterprise IT products, the Group also distributes database management software, middleware for integration services, business intelligence, collaboration, content management and application server, as well as tools for developing applications from Oracle and server, storage and IT security products from Huawei Symantec in the PRC, on a non-exclusive basis.

SUMMARY

Being one of the leading distributors of enterprise IT products in the PRC, in association with the sales of enterprise IT products, the Group adds value to its customers by providing a series of comprehensive IT technical support services throughout the whole cycle from negotiation, sales conclusion to after sales, including (i) the formulation of cost effective and quality IT solutions; (ii) provision of IT implementation services; (iii) provision of IT technical training services; and (iv) provision of after-sales IT technical support services.

The details of the current distribution agreements signed with IBM, Oracle and Huawei Symantec are summarized as below (please refer to the paragraph headed “Distributorship” in the section headed “Business” for details of the distributorship of the Group):

Supplier	Product	Commencement date	Expiry date
IBM World Trade Corporation	System p servers, system storage products and other ancillary products	7 May 2009	6 May 2010
IBM World Trade Corporation	System x servers	12 March 2009	11 March 2010
IBM (China) Company Limited (formerly known as IBM Global Services (China) Co., Ltd.)	System p servers, System x servers, system storage products and other ancillary products	30 April 2009	29 April 2010
IBM Technology Product (Shenzhen) Co., Ltd.*	System x servers	30 April 2009	29 April 2011
IBM Technology Product (Shenzhen) Co., Ltd.*	system storage products (DS3000)	24 April 2009	23 April 2011
IBM Engineering Technology (Shanghai) Co., Ltd.	middleware	23 July 2009	22 July 2010
Oracle	Software products, learning credits and technical support services in association with the software products (to Oracle’s resellers)	14 April 2009	13 April 2012

SUMMARY

Supplier	Product	Commencement date	Expiry date
Oracle	Software products, learning credits and technical support services in association with the software products (to end-users)	24 January 2008	23 January 2010
Oracle	Oracle’s technology based training software products, learning credits, education services, and vouchers and bundles of Oracle Certified Professional (OCP) examination (to end-users)	29 June 2009	28 June 2010
Huawei Symantec	Servers, storage products, and IT security products	1 January 2009	31 December 2009

* *With effect from 1 August 2009, due to the business restructuring of IBM in the PRC, the rights and obligations of IBM Technology Product (Shenzhen) Co., Ltd. under the agreements have been transferred to IBM (China) Company Limited.*

Suppliers of IBM’s products have implemented various rebate schemes to reward their business partners, including the Group, upon achievement of certain purchase and sales targets on different models and types of products. The rebate schemes implemented by suppliers of IBM’s products vary from time to time solely at their discretion based on the then market conditions, their selling prices of products and their sales and marketing strategies in order to encourage more purchases from business partners and more sales by business partners of their products while maintaining the price competitiveness of their products in the market. In determining the selling prices for IBM’s products, it is the practice of the Group to maximize its profitability by taking into account a number of factors including the cost of purchases, payment terms, the possible rebates on the products and the then market demand on the products. During the Track Record Period, the total rebates recorded by the Group from suppliers of IBM’s products amounted to approximately HK\$56.3 million, HK\$45.6 million, HK\$67.2 million and HK\$10.2 million for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively and approximately HK\$69.1 million, HK\$47.2 million, HK\$60.1 million and HK\$18.5 million were realized in the cost of sales respectively, representing approximately 3.8%, 2.5%, 2.5% and 1.7% respectively of the Group’s total cost of sales before rebates for the corresponding periods. Although the Directors believe that suppliers of IBM’s products will continue to offer incentives to their distributors, there is no assurance that there would not be any significant change to the current incentive policy from suppliers of IBM’s products applicable to the Group. If no rebates were received from suppliers of IBM’s products for the three years ended 31 December 2008 and for the six months ended 30 June 2009, the Group would have recorded a gross profit of approximately HK\$32.5 million, HK\$123.8 million, HK\$129.1 million and HK\$88.9 million respectively and a net (loss)/profit after tax of approximately HK\$(57.8 million),

SUMMARY

HK\$(12.1 million), HK\$(4.5 million) and HK\$20.3 million respectively in these periods. As at the Latest Practicable Date, the Group has not received any indication from the suppliers of IBM’s products that the principal terms of any rebate schemes being implemented will change significantly and the Directors were not aware of any commercial reason why IBM would terminate the operation of rebate schemes as one of its sales strategies in the near future.

The Group maintains a nationwide network of customers with business relationships up to 9 years, covering end-users and business partners. Other than purchasing enterprise IT products directly from the Group, end-users may have business application which requires services from system integrators or independent software vendors who are able to provide IT solutions for such business application integrating the application software and the enterprise IT products that the Group distributes. Hence, the Group also sells enterprise IT products to those system integrators and independent software vendors and consider them as business partners of the Group. During the Track Record Period, approximately 86.2%, 87.6%, 84.8% and 63.1% of the Group’s revenue was derived from the sales to business partners respectively. The end-users of the enterprise IT products that the Group sells (either directly or through business partners) include government bodies (such as tax bureau, security bureau, statistics bureau and government), national financial institutions (such as the five largest national banks, four of which are listed, and the largest national life insurance (listed) and non-life insurance companies), large-scale listed national companies engaging in industries of telecommunications, petroleum (such as the three largest listed national petroleum companies) and manufacturing, and small to medium enterprises in the PRC.

Headquartered in Beijing, the PRC, the Group currently has 13 branch/representative offices in different regions of the PRC covering Beijing, Shanghai, Guangzhou, Nanjing, Hangzhou, Shenyang, Jinan, Xi’an, Wuhan, Chengdu, Fuzhou and Shenzhen for business development and liaison. The Group is equipped with a sales and marketing force of approximately 130 staff, which is generally divided into teams specifically covering different products, sectors and sales regions and are fully supported by a pool of approximately 90 IT technical personnel.

COMPETITIVE STRENGTHS

The Directors believe that the following are the key components to the success of the Group.

- Extensive nationwide sales network in the PRC
- Well established long term relationships with leading international IT vendors
- Experienced management personnel and qualified IT technical and sales force
- Strong capability to deliver value-added services

SUMMARY

FUTURE PLANS AND PROSPECTS

The PRC IT industry represented only a small fraction of the worldwide IT industry in terms of the amount of IT spending from 2006 to 2008. However, that proportion is expected to continue to grow in the PRC on an accelerated level as anticipated by IDC. According to the 2006-2020 National Information Technology Development Plan, the PRC government will encourage the development of IT industry in the PRC including the promotion of the use of IT in various enterprises, enabling electronic public services, developing advanced cultural network, facilitating a digital economy, improving information-based facilities and enhancing the competitiveness of IT industry in the PRC. The Directors are confident that the IT industry in the PRC continues to be one of the fastest growing markets in Asia, with the enterprise IT market in the PRC continuing to grow steadily. According to the China Statistical Yearbook 2009, the business volume of telecommunication services, government expenditure and total energy production increased by approximately 19.7%, 25.7% and 8.3% respectively from 2007 to 2008. The Directors believe that the Group’s business operation in the PRC will benefit from the continued development in various sectors of the PRC economy.

As a result of the foregoing, being one of the leading providers of cost effective IT solutions, quality enterprise IT products and comprehensive IT technical support services in the PRC, the Group intends to enhance its market leading position by formulating a series of development plans as set out below.

- Strategic extension of sales network and coverage
- Broadening of IT product range and procurement network
- Expansion of the IT service provision in the PRC

SUMMARY

TRADING RECORD

The following table is a summary of the combined results of the Group for the three years ended 31 December 2008 and the six months ended 30 June 2008 and 30 June 2009 which has been extracted from, and should be read in conjunction with, the accountants’ report set out in Appendix I to this document.

	For the year ended			For the six months	
	31 December			ended 30 June	
	2006	2007	2008	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Revenue	1,846,684	2,018,822	2,554,539	1,282,757	1,183,906
Cost of sales	<u>(1,745,103)</u>	<u>(1,847,796)</u>	<u>(2,365,375)</u>	<u>(1,183,671)</u>	<u>(1,076,527)</u>
Gross profit	101,581	171,026	189,164	99,086	107,379
Other income	7,495	2,202	2,811	1,698	521
Distribution costs	(55,259)	(65,853)	(81,655)	(39,315)	(41,631)
Administrative expenses	<u>(14,926)</u>	<u>(39,984)</u>	<u>(22,740)</u>	<u>(15,530)</u>	<u>(16,512)</u>
Profit from operations	38,891	67,391	87,580	45,939	49,757
Finance costs	<u>(29,876)</u>	<u>(30,810)</u>	<u>(34,209)</u>	<u>(17,566)</u>	<u>(11,529)</u>
Profit before taxation	9,015	36,581	53,371	28,373	38,228
Income tax	<u>(1,454)</u>	<u>(4,643)</u>	<u>(4,377)</u>	<u>(2,359)</u>	<u>(3,096)</u>
Profit for the year/period	<u>7,561</u>	<u>31,938</u>	<u>48,994</u>	<u>26,014</u>	<u>35,132</u>
Earnings per Share					
— Basic and diluted (<i>HK\$</i>)	<u>[●]</u>	<u>[●]</u>	<u>[●]</u>	<u>[●]</u>	<u>[●]</u>

SUMMARY

RISK FACTORS

The Group’s operations are subject to a number of risks, a detailed discussion of which is set out in the section headed “Risk factors” in this document. These risks can be broadly classified as: (i) risks relating to the business of the Group; (ii) risks relating to the industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the [●]. A list of risks is set out below.

Risks relating to the business of the Group

- Reliance on the supply of IBM’s enterprise IT products
- Reliance on a small number of key suppliers and products
- The Group may not be able to keep updates on IT technology change, its suppliers’ technologies and consumer preference
- The Group may not be able to deliver the products on a timely basis
- Sustainability of revenue, gross profit margin and net profit margin in the future
- Reliance on rebates from suppliers of IBM’s products
- Reliance on key management
- Inventory risks
- Trade and other receivables and liquidity risks
- The quality of products manufactured by the suppliers is not subject to the Group’s control
- Reliance on suppliers’ credit
- The Group’s customers may order IT products directly from the Group’s suppliers
- Dividend policy
- The Group’s results may be adversely affected by the recent economic downturn in the world
- The Group’s net cash outflow from operating activities

Risks relating to the industry

- Reduced spending on enterprise IT products and services may affect the Group’s business
- Intense competition in the IT industry in the PRC

SUMMARY

Risks relating to conducting business in the PRC

- Political and economic policies of the PRC government could affect the Group’s business
- Any changes in the PRC government policies regarding foreign investments in the PRC may adversely affect the Group’s business, financial condition and results of operations
- Distribution and transfer of funds may be subject to restrictions under PRC law
- Foreign exchange considerations
- The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect the Group’s business and results of operations
- The preferential tax treatments the Group currently enjoys may be changed or discontinued, which may adversely affect the Group’s profitability
- Recent changes to the PRC tax laws, and any future changes may have material adverse impact on the Group’s financial condition and results of operations
- PRC rules and regulations on foreign exchange control may adversely affect the Company
- Potential recurrence of severe acute respiratory syndrome (SARS), pandemic influenza, avian influenza (including H5N1) or influenza A (H1N1) (also sometimes referred to as swine influenza) or other widespread public health problem

Other risk factors

- Accuracy of official government statistics, facts and other information contained in this document with respect to the PRC and its respective economy
- Risks associated with forward-looking statements