TRADING RECORD

The following table is a summary of the combined income statements 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 31 December			For the six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue	1,846,684	2,018,822	2,554,539	1,282,757	1,183,906
Cost of sales	(1,745,103)	(1,847,796)	(2,365,375)	(1,183,671)	(1,076,527)
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	(14,926)	(39,984)	(22,740)	(15,530)	(16,512)
Profit from operations	38,891	67,391	87,580	45,939	49,757
Finance costs	(29,876)	(30,810)	(34,209)	(17,566)	(11,529)
Profit before taxation	9,015	36,581	53,371	28,373	38,228
Income tax	(1,454)	(4,643)	(4,377)	(2,359)	(3,096)
Profit for the year/ period	7,561	31,938	48,994	26,014	35,132
Earnings per Share	[●]	[●]	[●]	[●]	[●]

CRITICAL ACCOUNTING POLICIES

The financial information have been prepared by the Directors in accordance with the International Financial Reporting Standards ("IFRSs"). The accounting policies and accounting estimates and judgements are set out in the accountants' report contained in Appendix I to this document. The preparation of the financial information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of the policies and reported amounts of assets, liabilities, income and expenses. The Group bases the assumptions and estimates on historical experience and on various other assumptions that it believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial information. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial information.

Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are carried at cost or amortized cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the combined income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

— Property, plant and equipment

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflow largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflow independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognized in the combined income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the combined income statement in the year in which the reversals are recognized.

Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out principle, and comprises all cost of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the combined income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the consolidated income statement as follows:

(i) Sale of goods

Revenue is recognized when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Services fee income

Services fee income is recognized when services are rendered to customers.

(iii) Interest income

Interest income from bank deposits is recognized as it accrues using the effective interest method.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Revenue

The Group distributes a variety of enterprise hardware and software products sourced principally from some well-known international IT vendors, such as IBM and Oracle, and provided IT technical support services in association with the distribution of enterprise IT products. The Group purchases the enterprise IT products that it distributes in anticipation of market demand and takes ownership of these products prior to distribution.

1. The following table illustrates the breakdown of the Group's revenue by products during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
IBM					
Enterprise servers	1,096,014	1,422,509	1,843,709	927,907	830,375
System storage products	325,688	293,508	307,804	149,061	174,933
Software	148,337	104,112	195,571	91,925	103,716
Subtotal	**1,570,039**	**1,820,129**	**2,347,084**	**1,168,893**	**1,109,024**
Oracle	180,016	162,407	158,036	112,593	43,133
Services	26,899	33,440	14,169	1,142	5,481
Others *(note)*	69,730	2,846	35,250	129	26,268
Total revenue	**1,846,684**	**2,018,822**	**2,554,539**	**1,282,757**	**1,183,906**

Note: Others include IT products from Huawei Symantec, and other IT products and services.

The Group's revenue has been growing for the three years ended 31 December 2008, from approximately HK$1,846.7 million in 2006 to approximately HK$2,018.8 million in 2007 and further increased to approximately HK$2,554.5 million in 2008, representing an increase of approximately 9.3% from 2006 to 2007 and approximately 26.5% from 2007 to 2008. The Group recorded revenue of approximately HK$1,183.9 million for the six months ended 30 June 2009, representing a slight decrease of approximately 7.7% over the revenue for the corresponding period in 2008. The growth in revenue for the three years ended 31 December 2008 was mainly attributable to the continuous increase in demand for the enterprise servers to cope with rapid change in IT technology and the gradual growth of the IT industry in the PRC as a whole (representing a CAGR of 10.7% from 2006 to 2008). As reported by IDC, the market value of IT products in the PRC increased from US$56.1 billion to US$68.8 billion. The decrease of revenue for the six months ended 30 June 2009 as compared to the corresponding period in 2008 was caused by the financial downturn commenced in the second half of 2008. Enterprises were generally conservative in making their IT acquisition decisions when the economy was uncertain.

IBM's enterprise servers have been the major products of the Group which contributed approximately 59.4%, 70.5%, 72.2% and 70.1% respectively of the Group's total revenue for the Track Record Period. The revenue generated from the sales of IBM's enterprise servers has been increased from approximately HK$1,096.0 million in 2006 to approximately HK$1,422.5 million in 2007, representing a growth of approximately 29.8%, and further increased to approximately HK$1,843.7 million in 2008, representing a growth of approximately 29.6%. For the six months ended 30 June 2009, the revenue generated from the sales of IBM's enterprise servers recorded approximately HK$830.4 million, representing a decrease of 10.5% from its corresponding period in 2008. As reported by IDC, the increase of the server market in the PRC can be demonstrated by the increase of customer revenue from sale of non-X86 server of approximately HK$10.5 billion in 2006 to approximately HK$14.0 billion in 2008.

Apart from IBM's enterprise servers, in terms of contributions to the revenue of the Group, the sales of IBM's system storage products and Oracle's products form another two principal revenue contributors of the Group. The aggregate sales of IBM's system storage products and Oracle's products, during the Track Record Period, accounted for approximately 27.4%, 22.6%, 18.2% and 18.4% of the total revenue of the Group respectively.

Sales of IBM's system storage products have been one of the key revenue sources of the Group. The revenue from IBM's system storage products has been relatively stable during the Track Record Period. Notwithstanding the Group recorded a lower revenue from sale of IBM's enterprise servers for the six months ended 30 June 2009 than that for the corresponding period in 2008, the Group managed to increase the revenue from sale of IBM's system storage products from approximately HK$149.1 million to HK$174.9 million, representing an increase of approximately 17.3%, for the same period. Under a financial distress, enterprises may delay or become more conservative in their IT system upgrade. However, certain industries still require expansion of their storage capacity when the data generated from their customers may grow rapidly.

From 2006 to 2008, the Group recorded a CAGR of approximately 14.8% for the revenue from IBM's software. However, the Group recorded a decrease of revenue from IBM's software from approximately HK$148.3 million for the year ended 31 December 2006 to approximately HK$104.1 million for the year ended 31 December 2007. This reduction in sales was part of the Group's strategy to respond to price pressure imposed by competitors during the year.

Besides IBM, Oracle is the second largest brand of IT products distributed by the Group. From 2006 to 2008, the Group's revenue from sale of Oracle's products decreased from approximately HK$180.0 million for the year ended 31 December 2006 to approximately HK$162.4 million for the year ended 31 December 2007 and further decreased to HK$158.0 million for the year ended 31 December 2008. The Group's revenue from Oracle decreased from approximately HK$112.6 million for the six months ended 30 June 2008 to approximately HK$43.1 million for the six months ended 30 June 2009. Such decreases were due to customers being hesitated to use Oracle's products as a result of model upgrades carried out by Oracle on quite a few products during the Track Record Period.

2. The following table illustrates the breakdown of the Group's revenue by different industrial users/sectors during the Track Record Period:

	For the year ended 31 December			**For the six months ended 30 June**	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue from					
Government bodies (including educational institutions)	372,728	452,289	526,777	324,097	157,151
Financial institutions	437,319	617,010	982,874	485,224	296,948
Telecommunication	279,815	205,602	254,421	114,653	359,835
Petroleum and manufacturing	181,290	129,476	105,056	65,770	27,848
General business	575,532	614,445	685,411	293,013	342,124
	1,846,684	2,018,822	2,554,539	1,282,757	1,183,906

During the Track Record Period, the Group's revenue derived from end-users of government bodies, financial institutions, telecommunication, petroleum and manufacturing and general business. General business comprises power companies, tobacco companies and other small and medium-size enterprises. The three largest sectors, namely government bodies, financial institutions and general business accounted for approximately 75.0%, 83.4%, 85.9% and 67.3% of the Group's total revenue. The Group's revenue from these sectors has been growing for the three years ended 31 December 2008, while the revenue from these sectors dropped by 27.8% for the six months ended 30 June 2009 as compared to the six months ended 30 June 2008 because of the financial downturn. In particular, the financial sector was badly hit worldwide. According to IDC, the CAGR for each of the telecommunication, financial institutions, government bodies and utility sectors in the PRC server market from 2006 to 2008 was approximately 14.0%, 19.9%, 5.5% and 16.0% respectively while the CAGR for each of the telecommunication, government, finance and utility sectors in the PRC storage market from 2006 to 2008 was approximately 24.8%, 16.9%, 27.7% and 12.7% respectively. Traditionally, financial institutions generated most revenue for the Group as the Group has served a lot of banks of national scale.

For public interest and security reason, system failure could not be risked by government bodies and/or financial institutions, while IBM's enterprise IT products are well-known with its advanced stability and processing capacity, therefore IBM has been focused on these sectors which resulted in substantial portion of the Group's revenue derived from these sectors.

The business natures of government bodies and financial institutions, which generally require high data processing capacity for handling a huge number of transactions, in particular, the expected data flow during the Beijing Olympics for these industries, which in turn increased the demand for the enterprise IT products, as such, the revenue derived from the government bodies and financial institutions increased from an aggregate of approximately HK$810.0 million in 2006 to an aggregate of approximately HK$1,069.3 million in 2007 and further increased to an aggregate of approximately HK$1,509.7 million in 2008. The Group's revenue derived from the telecommunication sector decreased from approximately HK$279.8 million in 2006 to approximately HK$205.6 million in 2007, such increase was mainly due to the uncertainty of the formal launch of 3G business which held back the business expansion plan of telecommunication operators. The Group's revenue from telecommunication sector bounced back to approximately HK$254.4 million in 2008, which was mainly due to the establishment of the IT structure in preparations of 3G network deployment. In view of the need to stimulate the economy, the PRC government made an early launch of 3G licenses in the PRC in the first half of 2009. Accordingly, the Group recorded a revenue from the telecommunication sector of approximately HK$359.8 million for the six months ended 30 June 2009, representing an increase of approximately 213.7% over the corresponding period in 2008. Furthermore, this amount of revenue for the six months ended 30 June 2009 represented 1.4 times over the revenue generated from the telecommunication sector in the entire 2008.

Due to the fierce competition with other distributors engaged in the enterprise IT products, as well as the comparatively lower market share of IBM's enterprise IT products in the petroleum and manufacturing sector in the PRC, the revenue derived from this sector decreased from approximately HK$181.3 million in 2006 to approximately HK$129.5 million in 2007 and further decreased to approximately HK$105.1 million in 2008. With the PRC government's policy to stimulate the domestic demand and the large customer base in the general business sector, the revenue derived from this sector increased from approximately HK$575.5 million in 2006 to approximately HK$614.4 million in 2007 and further increased to approximately HK$685.4 million in 2008. Although the individual contract size of the general business sector is relatively smaller than the other sectors, the Group has been benefited by the value of such transactions.

The revenue derived from the government bodies, financial institutions and petroleum and manufacturing sectors had decreased for the six months ended 30 June 2009, mainly due to the cautious enterprise IT products purchase plan as a result of the adverse effect of the financial downturn while the revenue derived from the telecommunication and general business sectors recorded an increase in revenue. The increase in revenue from the telecommunication sector was mainly due to the conclusion of a sale contract from a national telecommunication operator, which accounted for approximately 64.8% of the total revenue of the Group derived from the telecommunication sector for the six months ended 30 June 2009. As a reflection of the government policy and the marketing effort of the Group, the Group also recorded a higher revenue amounted to approximately HK$342.1 million in the general business sector.

Cost of sales

Total cost of sales of the Group for the Track Record Period amounted to approximately HK$1,745.1 million, HK$1,847.8 million, HK$2,365.4 million and HK$1,076.5 million respectively. During the Track Record Period, the cost of sales of IBM's enterprise IT products accounted for approximately 85.3%, 90.4%, 91.5% and 93.4% of the total cost of sales of the Group respectively. It is the normal practice of the suppliers of IBM's products to offer rebates to the Group as performance incentive. The percentage and amount of rebates varied according to the promotion schemes adopted by the suppliers for individual line of products from time to time. Pursuant to the Group's accounting policy, rebates were charged against cost of sales. During the Track Record Period the total rebates granted by suppliers of IBM's products to the Group fluctuated, amounted to approximately HK$56.3 million, HK$45.6 million, HK$67.2 million and HK$10.2 million 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 to the Group's cost of sales before deduction of the rebates.

Gross profit margin

The overall gross profit margin of the Group for the Track Record Period were approximately 5.5%, 8.5%, 7.4% and 9.1% respectively. The gross profit margin was generally determined by the mix of sales made to the customers. During the Track Record Period, the Group recorded gross profit margin of approximately 4.3%, 8.0%, 6.6% and 7.7% from the sales to business partners and gross profit margin of approximately 12.7%, 11.6%, 11.9% and 11.5% from sales to end-users for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively. As the enterprise IT products sold by the Group were usually incorporated by business partners as part of their total IT solution packages for sale to end-users, the gross profit margin generated from sales to business partners were generally lower than that for direct sales to end-users. If no rebate were received from such supplier of IBM's products for the Track Record Period, the gross profit margin of the Group would have amounted to approximately 1.8%, 6.1%, 5.0% and 7.5% respectively. However, in determining the selling price of the products, the Group has always taken into consideration the amount of rebate earned from each individual sales. In 2006, the Group recorded a relatively low gross margin of approximately 5.5% because the Group made an effort to reduce the holding risk of the inventories. Therefore, sale prices have been reflected in this strategy when sales were concluded. Instead of promoting the products sourced by the Group firstly from its suppliers in the past, the Group has revised the strategy to source for the customers' requirements. This customer-oriented strategy has successfully revived the Group's gross profit margin to 8.5% in 2007. In 2008, the Group recorded a decrease in the gross profit margin to approximately 7.4% from approximately 8.5% mainly due to the increased amount of sales derived from the financial institutions and government bodies with relatively lower gross profit margin. The increase in gross profit margin to approximately 9.1% for the six months ended 30 June 2009 from approximately 7.4% for the corresponding period in 2008 was mainly due to the increase in amount of contracts obtained from telecommunication customers, which demanded for advanced system with better processing capacity to cope with the expansion of their 3G telecommunication business.

Other income

It mainly comprises interest income.

Distribution costs

It mainly comprises salaries and bonus expenses of sales and technical support personnel, rental fees, entertainment, transportation and freight charges.

Finance costs

It mainly consists of interest charged by suppliers of IBM's products during the extended credit period and interest on the bank loans.

IBM extends credit to the Group to allow flexibility for the Group to manage its payment cycle. The average interest rates charged by the suppliers of IBM's products for the Track Record Period ranged from approximately 8.0% to 12.0%. Such credit charge would be imposed after the expiry of the required period stipulated in the transaction document provided by such suppliers.

Taxation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and, accordingly, is exempted from payment of the Cayman Islands income tax. The Company's subsidiary established in BVI is registered as BVI business company under the BVI Business Companies Act and is exempted from payment of income tax of BVI.

The Company is essentially an investment holding company and the entire revenue of the Group during the Track Record Period were generated by the operating subsidiaries of the Company in Hong Kong and the PRC.

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the combined income statement.

Hong Kong Profits Tax has been provided at the applicable tax rate of the relevant year of assessment on the estimated assessable profits arising in Hong Kong during the Track Record Period. For the two years ended 31 December 2007, Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the assessable year. For the year ended 31 December 2008 and six months ended 30 June 2009, Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the respective assessable year/period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Prior to 1 January 2008, PRC entities were, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. Being a then recognized Advanced and New Technology Enterprise ("ANTE") located in the Beijing New Technology Industry Development Experimental Zone, Futong Dongfang was granted a preferential tax rate of 15% and was entitled to a tax holiday of a 3-year full exemption followed by a 3-year 50% exemption commencing from the first profit-making year after off setting accumulated tax losses ("3+3 tax holiday"). Futong Dongfang commenced its 3+3 tax holiday in 2004. Accordingly, the applicable tax rates for the years ended 31 December 2006 and 2007 were nil and 7.5% respectively.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Enterprise Income Tax Law of the PRC ("new tax law"), which unified the income tax rate to 25% for all enterprises. The new tax law became effective on 1 January 2008. The State Council of the PRC issued the *Implementation Rules of the Enterprise Income Tax Law* ("Implementation Rules") on 6 December 2007 and GuoFa [2007] No. 39 *Notice on the Implementation of the Transitional Preferential Enterprise Income Tax Policies* ("Circular 39") on 26 December 2007. The new tax law, its Implementation Rules and Circular 39 provide a 5-year transitional period from 1 January 2008 for those enterprises which were established before 16 March 2007 and which were entitled to a preferential lower tax rate under the then effective tax laws and regulations, as well as grandfathering on the 3+3 tax holidays. Further, Futong Dongfang is recognised as an ANTE under the new tax law from 2008 to 2010. Consequently, Futong Dongfang is subject to a tax rate of 7.5% for both years ended/ending 31 December 2008 and 2009. Thereafter, tax rate of 15% applies.

Under the new tax law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the *Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasions*, or Mainland China/HKSAR DTA, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 *Notice on Certain Preferential Enterprise Income Tax Policies*, undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by Futong HK from Futong Dongfang in respect of its profits earned since 1 January 2008 will be subject to withholding tax of 5%. Deferred tax liabilities should be recognized for the undistributed retained earnings of Futong Dongfang for profits earned since 1 January 2008 to the extent that the earnings would be distributed in the foreseeable future.

For each of the three financial years ended 31 December 2008 and six months ended 30 June 2009, the effective tax rates of the Group were approximately 16.7%, 12.6%, 8.2% and 8.1% respectively. The reduction in Group's effective tax rate in the year 2007 and 2008 was primarily due to the increase of the proportion of profit earned by Futong Dongfang, which enjoyed a lower tax rate of 7.5% in PRC as compared with the 17.5%/16.5% tax rate in Hong Kong. The effective tax rate for the six months ended 30 June 2009 was comparable to the corresponding period in 2008.

Discussion on operating results

For the year ended 31 December 2006

Revenue

For the year ended 31 December 2006, the Group's revenue was approximately HK$1,846.7 million, primarily comprising revenue generated from the sales of IBM's enterprise servers, IBM's system storage products, software (comprising IBM's software and Oracle's products), IT technical support services and others of approximately HK$1,096.0 million, HK$325.7 million, HK$328.4 million, HK$26.9 million and HK$69.7 million respectively.

Cost of sales

During the financial year, the Group's cost of sales was approximately HK$1,745.1 million and consisted mainly the cost of sales of IBM's enterprise servers, IBM's system storage products, software (comprising IBM's software and Oracle's products), IT technical support services, and other cost of approximately HK$1,045.8 million, HK$310.2 million, HK$304.7 million, HK$20.6 million and HK$63.8 million respectively.

Gross profit

The gross profit for the year ended 31 December 2006 was approximately HK$101.6 million, representing a gross profit margin of approximately 5.5%. The Group recorded gross profit margin of approximately 4.6%, 4.8%, 7.2% and 23.5% for IBM's enterprises servers, IBM's system storage products, software (comprising IBM's software and Oracle's products), IT technical support services respectively.

Other income

For the year ended 31 December 2006, other income amounted to approximately HK$7.5 million, which primarily consisted of approximately HK$2.6 million of a gain on disposal of trading securities and approximately HK$3.7 million of service fee earned from Futong ComputerLand for provision of administrative services.

Distribution costs

During the financial year, the Group recorded distribution costs of approximately HK$55.3 million (representing approximately 3.0% of the revenue of the Group in 2006) which comprised mainly salaries and allowance of sales and technical support personnel and bonus paid/payable of approximately HK$23.5 million and HK$3.4 million respectively, traveling and transportation expenses of approximately HK$4.2 million and logistics expenses of approximately HK$5.1 million.

Administrative expenses

The administrative expenses amounted to approximately HK$14.9 million, representing approximately 0.8% of the Group's revenue. The administrative expenses for the year primarily consisted of salaries and allowance of approximately HK$5.6 million, rental expenses of approximately HK$1.2 million, depreciation cost of approximately HK$1.7 million, legal cost of approximately HK$1.2 million, and auditing fee of approximately HK$1.1 million.

Finance cost

During the financial year, the Group recorded finance cost of approximately HK$29.9 million mainly consisted of the interest charged by banks which amounted to HK$20.6 million.

Profit for the year attributable to equity holders of the Company

The Group achieved a profit for the year attributable to equity holders of the Company of approximately HK$7.6 million, representing a net profit margin of approximately 0.4%.

For the year ended 31 December 2007

Revenue

Revenue of the Group increased by approximately HK$172.1 million, or approximately 9.3%, from approximately HK$1,846.7 million for the year ended 31 December 2006 to approximately HK$2,018.8 million for the year ended 31 December 2007. Such increase was mainly attributable to the approximately 29.8% increase in the sales of IBM's enterprise servers due to the demand of better processing capacity of enterprise IT products to sustain the business growth of the financial institutions. However, the Group recorded decrease in revenue for IBM's system storage products and software because (i) the 3G license for telecommunication sector was still under negotiation; and (ii) there was a general reduction in purchase of IT products made by petroleum and manufacturing sectors as cost control due to high production cost with increasing prices of raw materials and fuel.

Cost of sales

Cost of sales of the Group increased by approximately HK$102.7 million or approximately 5.9%, from approximately HK$1,745.1 million for the year ended 31 December 2006 to approximately HK$1,847.8 million for the year ended 31 December 2007.

Gross profit

The gross profit for the year ended 31 December 2007 was approximately HK$171.0 million, representing a gross profit margin of approximately 8.5% and an increase of approximately 68.3% from approximately HK$101.6 million for the year ended 31 December 2006. Such increase in the gross profit margin was mainly attributable to the increase of the sales and gross profit margin of IBM's enterprise servers during the year. During the year, the Group recorded gross profit margin of approximately 7.6%, 10.9%, 7.7%, and 29.8% for IBM's enterprises servers, IBM's system storage products, software (comprising IBM's software and Oracle's products) and IT technical support services respectively. The Group's overall profit margin ratios have been enhanced due to adoption of the customer-oriented business strategy by the Group with better understanding of the relevant cost and benefit trade-offs for the customers, thereby source the products for the customers' requirements and have better management of the profit margin to reduce the possibility of mismatch between selling price and cost of products. Furthermore, the Group implemented a more stringent control by not concluding sales with relatively lower gross profit margin and hence the gross profit margin of all products including IBM's enterprise servers generally increased.

Other income

For the year ended 31 December 2007, other income amounted to approximately HK$2.2 million which primarily consisted of approximately HK$1.8 million of interest income on bank deposits, representing a decrease of approximately HK$5.3 million as compared to 2006, such decrease was due to the cessation of business operation of Futong ComputerLand in 2007 and as a result, no service fee was received from 2007 onwards.

Distribution costs

During the year, the Group recorded distribution costs of approximately HK$65.9 million (representing approximately 3.3% of the revenue of the Group in 2007 and generally in line with approximately 3.0% of the revenue of the Group in 2006) representing an increase of approximately HK$10.6 million, or approximately 19.2% from the corresponding period in 2006. Such increase was mainly attributable to the increase in (i) salaries and allowances and bonus paid/payable of approximately HK$4.2 million and HK$4.5 million respectively due to the increase in headcount for the continued expansion of sales team to cope with the Group's business expansion and to solicit sales with potential customers; and (ii) marketing fee of approximately HK$2.9 million.

Administrative expenses

The administrative expenses for the year ended 31 December 2007 amounted to approximately HK$40.0 million, representing approximately 2.0% of the Group's revenue. The administrative expenses for the year representing an increase of approximately HK$25.1 million or approximately 168.5% as compared to the corresponding period in 2006. Such increase was primarily due to the increase of (1) the impairment loss on trade and other receivables of approximately HK$22.6 million by Futong Dongfang as a result of the increase in customer base and the Group has critically assessed the recoverability of individual debtors. Once it obtained relevant approval from the Ministry of Commerce of the PRC for engaging in distribution business of IT products in mid 2005, more sales were made in 2006 which resulted in the substantial increase in the balance of long aged trade receivables and (2) the stamp duty of approximately HK$0.9 million as the total contracts amount had been increased during the year.

Finance cost

During the year, the Group recorded finance cost of approximately HK$30.8 million, representing a slight increase of approximately HK$0.9 million or approximately 3.0% to the year ended 31 December 2006. Such increase was mainly attributable to the increase of interest paid/payable to the suppliers of IBM's products.

Profit for the year attributable to equity holders of the Company

The Group achieved an increase in profit for the year attributable to equity holders of the Company of approximately HK$24.3 million, or approximately 319.7% from approximately HK$7.6 million to approximately HK$31.9 million, representing a net profit margin of approximately 1.6%. The increase in profit was mainly due to (i) the increase in the Group's gross profit by approximately HK$69.4 million; and (ii) a lower effective tax rate of approximately 12.6% in 2007 against approximately 16.7% in 2006.

For the year ended 31 December 2008

Revenue

Revenue of the Group increased by approximately HK$535.7 million, or approximately 26.5%, from approximately HK$2,018.8 million for the year ended 31 December 2007 to approximately HK$2,554.5 million for the year ended 31 December 2008. Such increase was mainly attributable to the increase in sales of IBM's enterprise servers from appropriately HK$1,422.5 million for the year ended 31 December 2007 to HK$1,843.7 million for the year ended 31 December 2008 while the sales of the Group's other lines of products were relatively stable. The Group has experienced this significant increase of revenue because (i) there was a high demand from government bodies for public services for the Olympic year of 2008 in the PRC; (ii) there was high demand from financial institutions for storage and service to cope with higher transaction volume for the Olympic year of 2008 in the PRC; (iii) the PRC government has reached the final stage of negotiation of issuance of 3G license in the PRC; and (iv) the telecommunication operators have started to purchase IT products to develop network infrastructure in anticipation of the launch of 3G services.

Cost of sales

Cost of sales of the Group increased by approximately HK$517.6 million or approximately 28.0%, from approximately HK$1,847.8 million for the year ended 31 December 2007 to approximately HK$2,365.4 million for the year ended 31 December 2008, mainly due to the increase in the sales of IBM's enterprise servers.

Gross profit

The gross profit for the year ended 31 December 2008 was approximately HK$189.2 million, representing a gross profit margin of approximately 7.4%, representing a slight decrease of approximately 1.1% as compared to the year ended 31 December 2007, while the gross profit increased by approximately 10.6% from approximately HK$171.0 million for the year ended 31 December 2007. Such increase in the gross profit was mainly attributable to the increase of the sales of IBM's enterprise servers during the year. During the year, the Group recorded gross profit margin of approximately 8.2%, 6.5%, 5.9% and 14.2% for IBM's enterprises servers, IBM's system storage products, software (comprising IBM's software and Oracle's products) and IT technical support services respectively. The Group's overall gross profit margin have decreased as the gross profit margins generated from government bodies and financial institutions were relatively less than other sectors. During the year, sales to these two sectors contributed approximately 59.1% of the Group's total revenue of the year.

Other income

For the year ended 31 December 2008, other income amounted to approximately HK$2.8 million, representing an increase of approximately HK$0.6 million as compared to the year ended 31 December 2007, which primarily consisted of approximately HK$2.7 million of interest income on bank deposits.

Distribution costs

During the year, the Group recorded distribution costs of approximately HK$81.7 million (representing approximately 3.2% of the revenue of the Group in 2008) which representing an increase of approximately HK$15.8 million, or approximately 24.0% from the corresponding period in 2007. Such increase was mainly attributable to the increase in salaries and allowances and bonus paid/payable of approximately HK$7.1 million and HK$8.0 million respectively due to the continuous expansion of the Group's business, consequently headcount continued to increase to cope with the business development.

Administrative expenses

The administrative expenses for the year ended 31 December 2008 amounted to approximately HK$22.7 million, representing approximately 0.9% of the Group's revenue. The administrative expenses for the year decreased by approximately 43.3% as compared to the corresponding period in 2007. Such decrease was primarily due to the decrease in impairment loss on trade receivables of approximately HK$20.5 million. The impairment loss of approximately HK$23.9 million made during the year ended 31 December 2007 was mainly due to the increase in customer base and the Group has critically assessed the recoverability of individual debtors. Consequently, a further impairment loss of approximately HK$3.4 million has been recognised for the year ended 31 December 2008. Without taking into account the abovementioned impairment loss, the administrative expenses would increase by approximately HK$3.2 million in 2008, or approximately 19.9%. Such increase was primarily attributable to the increase in (1) depreciation cost of approximately HK$1.3 million as a result of acquisition of office equipment at a consideration of approximately RMB3.5 million (equivalent to approximately HK$3.9 million) from Futong ComputerLand to Futong Dongfang pursuant to the fixed assets sale and purchase agreement dated 30 June 2007; and (2) the legal cost of approximately HK$1.0 million in relation to claim by a customer of the Group as disclosed in the paragraph headed "Litigation" in the section headed "Business" in this document.

Finance cost

During the financial year, the Group recorded finance cost of approximately HK$34.2 million, representing an increase of approximately HK$3.4 million or approximately 11.0% from the year ended 31 December 2007. Such increase was mainly attributable to the increase of interest on bank loans of approximately HK$4.8 million or approximately 26.2% for financing the business expansion of the Group.

Profit for the year attributable to equity holders of the Company

The profit for the year attributable to equity holders of the Company increased by approximately HK$17.1 million, or approximately 53.6% from approximately HK$31.9 million to approximately HK$49.0 million, representing a net profit margin of approximately 1.9%. The increase in profit was mainly due to (i) the increase in the Group's gross profit by approximately HK$18.2 million; and (ii) a lower effective tax rate of approximately 8.2% in 2008 against approximately 12.6% in 2007.

For the six months ended 30 June 2009

Revenue

Revenue of the Group decreased by approximately HK$98.9 million, or approximately 7.7%, from approximately HK$1,282.8 million for the six months ended 30 June 2008 to approximately HK$1,183.9 million for the six months ended 30 June 2009. Such decrease was mainly attributable to the decrease in sales of IBM's enterprise servers from appropriately HK$927.9 million for the six months ended 30 June 2008 to approximately HK$830.4 million for the six months ended 30 June 2009. However, the Group was still able to achieve some increase in sales of IBM's system storage products from appropriately HK$149.1 million for the six months ended 30 June 2008 to approximately HK$174.9 million for the six months ended 30 June 2009. The overall decrease in revenue can be explained by (i) financial institutions cutting down their IT purchases as cost control measures when they were hit by the world financial crisis; (ii) the completion of the Olympic Game 2008 which shrank the demand for IT products from government bodies and financial institutions; and (iii) the compensation effect of the significant demand for IT products from the telecommunication sector triggered by the launch of 3G in the PRC.

Cost of sales

Cost of sales of the Group decreased by approximately HK$107.2 million, or approximately 9.1%, from approximately HK$1,183.7 million for the six months ended 30 June 2008 to approximately HK$1,076.5 million for the six months ended 30 June 2009, mainly due to the decrease in sales of IBM's enterprise servers.

Gross profit

Gross profit of the Group increased by approximately HK$8.3 million, or approximately 8.4%, from approximately HK$99.1 million for the six months ended 30 June 2008, representing a gross profit margin of approximately 7.7%, to approximately HK$107.4 million for the six months ended 30 June 2009, representing a gross profit margin of approximately 9.1%. The Group recorded gross profit margin of approximately 10.0%, 9.0%, 4.8% and 23.4% for IBM's enterprises servers, IBM's system storage products, software (comprising IBM's software and Oracle's products) and IT technical support services respectively for the six months ended 30 June 2009. Although the Group recorded a decrease in revenue compared with the corresponding period in 2008, the Group has managed to capture a higher gross profit margin because the sales in telecommunication sector generally had a relatively higher gross profit margin as a result of sales of more high-end IBM's enterprise servers and system storage products with higher gross profit margin. During the period, telecommunication sector shared the biggest portion of approximately 30.4% of the total revenue of the Group during the period.

Other income

During the six months ended 30 June 2009, other income of the Group comprised the interest income on bank deposits of approximately HK$0.5 million, which represent a decrease of approximately HK$1.2 million as compared to the corresponding period in 2008. Such decrease was due to decrease in cash and cash equivalents balance as a result of earlier repayment to the suppliers of IBM's products for purchases to minimize high credit charges imposed by the suppliers.

Distribution costs

During the six months ended 30 June 2009, the distribution costs of the Group were approximately HK$41.6 million (representing approximately 3.5% of the total revenue for the six months ended 30 June 2009 and generally in line with approximately 3.1% of the revenue of the Group for the six months ended 30 June 2008) which representing an increase of approximately HK$2.3 million as compared to the corresponding period in 2008. Such increase was mainly attributable to the increase in salaries and allowances and bonus paid/payable of approximately HK$2.0 million and HK$1.0 million respectively, due to the headcount increased to support the expansion of the Group's business.

Administrative expenses

Administrative expenses of the Group increased by approximately HK$1.0 million, or approximately 6.5%, from approximately HK$15.5 million for the six months ended 30 June 2008 to approximately HK$16.5 million for the six months ended 30 June 2009, mainly due to the increase in the impairment loss on trade receivables of approximately HK$3.5 million.

Finance costs

Finance costs of the Group decreased by approximately 34.7% from approximately HK$17.6 million for the six months ended 30 June 2008 to approximately HK$11.5 million for the six months ended 30 June 2009. For cost saving, the Group settled the outstanding balance for purchases from IBM more promptly in order to reduce the amount of interest being charged.

Profit for the period attributable to the equity holders of the Company

Profit for the period of the Group increased by approximately HK$9.1 million, or approximately 35.0%, from approximately HK$26.0 million for the six months ended 30 June 2008 to approximately HK$35.1 million for the six months ended 30 June 2009. The increase in the profit for the period was mainly caused by (i) increase in gross profit of approximately HK$8.3 million; and (ii) the decrease in finance cost of approximately HK$6.1 million.

Analysis on major balance sheet items

Inventories

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Group recorded inventories of approximately HK$301.8 million, HK$402.4 million, HK$367.0 million and HK$291.7 million respectively. Inventories of the Group principally represent the trading stocks (consists of products and other components) and accounted for approximately 31.7%, 32.4%, 28.7% and 24.7% of the total assets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively. The Group recorded provision for obsolete inventories of approximately HK$20.4 million, HK$22.8 million, HK$24.6 million and HK$30.6 million as at 31 December 2006, 2007, 2008 and 30 June 2009 respectively. In general, the Group keeps inventory level of different products according to its anticipated demand from customers and weekly reviews of the ageing of inventory which reveal if products held in inventory are becoming less marketable as a result of the introduction of new products into the market and/or market fluctuations. The Group generally made provisions for slow-moving inventories and products held by customers for a trial period (as part of marketing strategy) of more than 270 days of approximately HK$3.9 million, HK$3.4 million, HK$1.8 million and HK$6.0 million respectively during the Track Record Period.

The inventory turnover days (being the average of beginning and closing inventories of the year/period divided by total cost of sales and multiplied by 365 days or 181 days, as the case may be) for the Track Record Period were approximately 77.3 days, 69.5 days, 59.4 days and 55.4 days respectively. The decrease in inventory turnover days during the Track Record Period was the direct result of the Group's strategic reduction of inventories for risk control by (i) focusing more on the back-to-back orders; (ii) effective matching of purchase orders from customers to existing inventories; and (iii) making the necessary purchases only to meet the customers' demand.

Trade and other receivables

Trade and other receivables constitute a major component of the Group's current assets throughout the Track Record Period. The trade and bills receivables represent primarily the balances due from the Group's customers. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Group recorded trade and other receivables of approximately HK$430.5 million, HK$574.0 million, HK$646.9 million and HK$679.9 million respectively and the trade and other receivables accounted for approximately 45.3%, 46.2%, 50.5% and 57.7% of the total assets of the Group respectively.

The increase in the trade and other receivables during the Track Record Period was in line with the expansion of the Group's business and the increase of the Group's revenue during the Track Record Period.

As at 31 December 2006, the Group recorded an amount due from a Director, namely Mr. Chen Jian of approximately HK$0.8 million. The amount was fully settled during the year ended 31 December 2007. The Group recorded no amount due from Mr. Chen Jian as at 31 December 2007 and 2008 and 30 June 2009.

The prepayments during the Track Record Period were mainly the payments by the Group to certain suppliers. The related goods were delivered to the Group after the year end. The deposits to suppliers during the Track Record Period were security deposits to certain suppliers. Such deposits were refunded upon the full settlement of payments to these suppliers. The deposits during the Track Record Period consist of bidding deposits, utilities and rental deposits. The bidding deposits were refunded regardless the outcome of the bids.

The following table sets forth the ageing analysis of trade and bills receivables as of the respective balance sheet dates:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current	214,924	353,650	446,500	508,595
Less than 1 month past due	36,846	71,344	51,252	57,240
1 to 3 months past due	35,401	47,606	83,927	69,268
More than 3 months past due	27,676	37,446	41,007	22,721
	314,847	510,046	622,686	657,824

The Group generally grants credit terms of 30 days to 90 days to customers while an extension of credit period would be granted by the Group to certain customers with satisfactory payment records. The credit term and limit for each of the customers are recommended by the Group's sales team and are subject to review and approval from the Group's management. Trade receivables turnover days of the Group (being calculated as the average of beginning and closing net trade and bills receivables of the year/period divided by the total revenue and multiplied by 365 days or 181 days as the case may be) for the three years ended 31 December 2008 and six months ended 30 June 2009 were approximately 60.8 days, 74.6 days, 80.9 days and 97.9 days respectively. The increase in receivables turnover days during the Track Record Period was the direct result of the Group's business strategy of granting longer credit term to customers with low credit risk and good historical payment records.

In determining the amount of impairment required, the Group takes into account the collectability, ageing status, creditworthiness and the past collection history of each customer. If the financial conditions of the customers deteriorate, resulting in an impairment of their abilities to make payments, additional provision may be required. During the Track Record Period, the Group recorded impairment loss of approximately HK$1.1 million, HK$23.9 million, HK$3.4 million and HK$6.9 million respectively, representing approximately 0.1%, 1.2%, 0.1% and 0.6% of the Group's revenue of the respective periods. The high increase in impairment loss recognized of HK$23.9 million in 2007 was due to the increase in customer base and the critical assessment on the recoverability of individual debtors carried out by the Group. Consequently, an additional impairment loss of approximately HK$3.4 million and HK$6.9 million has been recognized for the year ended 31 December 2008 and the six months ended 30 June 2009 respectively.

Trade and other payables

The trade and bills payables are generated for the purchase of the enterprise IT products from its suppliers. Receipts in advance are received from the Group's customers before the delivery of goods. In general, purchases of enterprise IT products from the suppliers are settled by the Group with credit terms of 60 days from the invoice date to make payment with interest charged on any outstanding balance over 30 days. As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Group recorded trade and other payables of approximately HK$683.9 million, HK$845.8 million, HK$828.7 million and HK$700.0 million respectively. Trade payables turnover days of the Group (being calculated as the average of beginning and closing trade payables of the year/period divided by the cost of sales and multiplied by 365 days or 181 days as the case may be) for the three years ended 31 December 2008 and six months ended 30 June 2009 remained stable at approximately 85.0 days, 89.5 days, 87.5 days and 85.3 days respectively.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Group recorded amounts due to related companies of approximately HK$18.8 million, HK$11.4 million, HK$2.2 million and nil, respectively. All of the balance were unsecured and interest free and were trading nature other than the acquisition of fixed assets from Futong ComputerLand. As at 30 June 2009, all of the such amounts due to related parties were fully settled.

As at 31 December 2007, the Group recorded amounts due to Directors, namely Mr. Chen Jian and Ms. Zhang Yun of approximately HK$13.8 million which were subsequently settled in 2008. As at 31 December 2006 and 2008 and 30 June 2009, the Group recorded no amount due to Mr. Chen Jian and Ms. Zhang Yun.

The trade and other payables of the Group for the Track Record Period was mainly attributable to the trade and bills payables and the receipts in advance. The increase in trade and bills payables as at 31 December 2007 of approximately HK$187.4 million was mainly due to (i) onshore purchase policy from IBM resulted in the increase in trade and bills payables to IBM of approximately HK$88.0 million; and (ii) the increase in stock in transit of approximately HK$54.8 million at the late of 2007. The further increase in trade and bills payables of approximately HK$66.9 million as at 31 December 2008 was mainly due to the further expansion of the Group as evidenced by the increase of revenue in 2008. The decrease in trade and bills payables as at 30 June 2009 of approximately HK$166.2 million as compared to 31 December 2008, was mainly due to the decrease in amount payables to IBM for the purpose of lowering the finance costs whenever possible. Receipts in advance are generally required by the Group for its new customers. However, given the Group has developed longer business relationships with its customers, less receipts in advance were recorded during the Track Record Period.

The other payables and accruals consist of mainly salaries, wages, bonus and other benefits payable, accrued interest and VAT payable.

During the Track Record Period, salaries, wages, bonus and other benefits payables, VAT payables and compensation payable accounted for approximately 78.0%, 57.9%, 76.0% and 86.8% respectively of the total other payables and accruals. The salaries, wages, bonus and other benefits payable increased by approximately 109.1% from approximately HK$4.4 million as at 31 December 2006 to approximately HK$9.2 million as at 31 December 2007 and further increased by approximately 92.4% to approximately HK$17.7 million as at 31 December 2008 primarily due to increases in salary levels and the number of employees. The salaries, wages, bonus and other benefits payable as at 30 June 2009 amounted to approximately HK$10.0 million.

The VAT payable decreased from approximately HK$18.6 million as at 31 December 2006 to nil as at 31 December 2007, such decrease was mainly due to the Group recorded an excess VAT recoverable and increased to approximately HK$8.3 million as of 31 December 2008 as a result of increases in sales in the month of December. As at 30 June 2009, the VAT payable amounted to approximately HK$42.5 million.

LIQUIDITY, FINANCIAL RESOURCES AND INDEBTEDNESS

Overview

During the Track Record Period, the Group financed its working capital and capital expenditure requirements principally through net cash flow from operating activities, suppliers' credit and bank borrowings.

Cash flows

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Group had cash and cash equivalents of approximately HK$140.7 million, HK$131.8 million, HK$132.7 million, and HK$75.2 million respectively. Cash generated from operations, when not used for working capital or repayment of bank loan purposes, is held principally in the form of short-term deposits with banks in Hong Kong or the PRC.

The Directors expect that there will not be any material change in the sources and uses of cash of the Group in the future, except that the Group would have additional funds from proceeds of the [●] for implementing its future plans as detailed under the section headed "Future plans and use of proceeds" of this document.

The table below sets out a summary of the cash flow information during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*unaudited*)	*HK$'000*
Net cash generated from / (used in) operating activities	46,891	(20,922)	31,079	(20,026)	(66,505)
Net cash generated from / (used in) investing activities	617	(5,897)	(201)	(706)	(574)
Net cash generated from / (used in) financing activities	58,272	9,175	(37,832)	(39,084)	9,575
Net increase/(decrease) in cash and cash equivalents	105,780	(17,644)	(6,954)	(59,816)	(57,504)
Cash and cash equivalents at beginning of the year / period	34,340	140,706	131,778	131,778	132,684
Effect of foreign exchange rate changes	586	8,716	7,860	8,342	53
Cash and cash equivalents at end of the year / period	140,706	131,778	132,684	80,304	75,233

Operating activities

The Group recorded a net cash inflow from operating activities of approximately HK$46.9 million for the year ended 31 December 2006. This net inflow was mainly attributable to the approximately HK$42.0 million of cash inflow before movements in working capital. Due to relatively high inventory level in the beginning of the year, the Group tried to reduce the holding risk by reducing the inventory level. Accordingly, both of the inventories and trade and other payables decreased significantly at the year end.

The Group's net cash flow from operating activities reversed from inflow of approximately HK$46.9 million for the year ended 31 December 2006 to an outflow of approximately HK$20.9 million for the year ended 31 December 2007 was mainly due to the significant tie-up in the working capital of approximately HK$114.9 million. A significant balance of inventories was held as at 31 December 2007 due to significant purchases of inventories as a result of sales orders received near to the year end. In addition, the Group recorded cash inflows before movements in the working capital of approximately HK$94.6 million for the year ended 31 December 2007 as compared to cash inflows before movements in the working capital of approximately HK$42.0 million for the year ended 31 December 2006 due to the significant increase of net profit during the year.

The Group's net cash flow from operating activities improved from outflow of approximately HK$20.9 million for the year ended 31 December 2007 to an inflow of approximately HK$31.1 million for the year ended 31 December 2008 was mainly due to the release in the working capital of approximately HK$59.8 million and the net payment of profit tax of approximately HK$3.1 million. During the year, the Group recorded significant increase in revenue from approximately HK$2,018.8 million for the year ended 31 December 2007 to approximately HK$2,554.5 million for the year ended 31 December 2008. As the Group has focused more on back-to-back orders, less cash was tied up in inventories resulting in an improvement to the working capital. In addition, the Group still recorded cash inflow before movements in the working capital of approximately HK$94.0 million for the year ended 31 December 2008 as compared to cash inflow before movements in the working capital of approximately HK$94.6 million for the year ended 31 December 2007.

The Group recorded a net cash outflow from operating activities of approximately HK$20.0 million for the six months ended 30 June 2008. This net outflow was mainly attributable to the approximately HK$52.7 million of cash inflows before movements in working capital, outflow of approximately HK$111.4 million for the increase in inventories and receivables, inflow of approximately HK$40.3 million for the decrease in payables and the payment of profit tax of approximately HK$1.6 million.

For the six months ended 30 June 2009, the Group's net cash outflow in operating activities increased to approximately HK$66.5 million from approximately HK$20.0 million for the six months ended 30 June 2008 was mainly due to the hold up in the working capital. In particular, it was the strategies of the Group to (i) focus more on back-to-back orders so as to reduce the inventory level; and (ii) settle the payables in a faster manner so as to reduce the credit charges imposed by suppliers.

Investing activities

The Group recorded net cash inflow from investing activities of approximately HK$0.6 million for the year ended 31 December 2006. Such net cash inflow was mainly attributable to the net proceeds from disposal of trading securities of approximately HK$2.6 million and the payments for purchase of furniture, fittings and equipment of approximately HK$2.4 million.

The Group recorded net cash outflow in investing activities of approximately HK$5.9 million for the year ended 31 December 2007, which was mainly attributable to the payment for the purchase of property, plant and equipment, in particular computer equipments of approximately HK$8.5 million and the interest received of approximately HK1.8 million.

The Group recorded net cash outflow in investing activities of approximately HK$0.2 million for the year ended 31 December 2008, which was mainly attributable to the payment for the purchase of property, plant and equipment, in particular computer equipments of approximately HK$2.9 million and the interest received of approximately HK$2.7 million.

The Group recorded net cash outflow in investing activities of approximately HK$0.6 million for the six months ended 30 June 2009, which was mainly attributable to the payment for the purchase of vehicle of approximately HK$0.8 million and the interest received of approximately HK$0.5 million.

Financing activities

The Group recorded net cash inflow from financing activities of approximately HK$58.3 million for the year ended 31 December 2006 as a result of the net off effect of the proceeds from new bank loans of approximately HK$264.1 million, the placement of pledged deposits of approximately HK$3.4 million, the repayment of bank loans of approximately HK$172.6 million and interest paid of approximately HK$29.9 million.

The Group recorded net cash inflow from financing activities of approximately HK$9.2 million for the year ended 31 December 2007 as a result of the net off effect of new bank loans of approximately HK$451.2 million, the repayment of bank loans of approximately HK$358.3 million, placement of pledged deposits of approximately HK$52.9 million and the interest paid of approximately HK$30.8 million. The Group recorded a significant decrease of net cash inflow from financing activities from approximately HK$58.3 million to approximately HK$9.2 million as a result of placement of pledged deposits of approximately HK$52.9 million as security for additional banking facilities drawndown by the Group during the year.

The Group recorded net cash outflow in financing activities of approximately HK$37.8 million for the year ended 31 December 2008 as a result of the net off effect of the repayment of bank loans of approximately HK$424.5 million, interest paid of approximately HK$34.2 million, withdrawal of pledged deposits of approximately HK$2.1 million and the proceeds from new bank loans of approximately HK$418.7 million.

The Group recorded net cash inflow from financing activities of approximately HK$9.6 million for the six months ended 30 June 2009 as a result of the net off effect of the proceeds from new bank loans of approximately HK$189.8 million, the repayment of bank loans of approximately HK$169.3 million, withdrawal of pledged deposits of approximately HK$0.6 million and the interest paid of approximately HK$11.5 million. To further enhance the sales activities of the Group, a higher level of bank loans was taken by the Group instead of utilising suppliers' credit which bear higher interest rates.

During the Track Record Period, certain banking facilities were guaranteed by Independent Third Party guarantors principally engaged in provision of third party guarantee as requested by banks. As at 30 June 2009, the Group had unutilized banking facilities of approximately HK$207 million, which comprised unutilized bank loans of approximately HK$92.6 million and other unutilized banking facilities of approximately HK$114.4 million.

Indebtedness

As at 30 September 2009, being the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this document, the Group had banking facilities of approximately HK$655.2 million, consisting of utilized banking facilities of approximately HK$431.6 million and unutilized banking facilities of approximately HK$223.6 million.

Save for the aforesaid or otherwise disclosed herein and apart from intra-group liabilities, the Group did not have, at the close of business on 30 September 2009, any debt securities authorized or otherwise created but unissued, or term loans or bank overdrafts, debentures, mortgages, charges, obligations under hire purchase contracts or finance leases, guarantees, or other material contingent liabilities.

Save as discussed herein, the Directors confirm that there is no material adverse change in the Group's indebtedness position since 30 September 2009.

Capital structure

Net tangible assets

As at 30 June 2009, the Group had net tangible assets of approximately HK$274.3 million, comprising non-current assets of approximately HK$42.6 million (comprising mainly property, plant and equipment), net current assets of approximately HK$238.9 million and non-current liabilities of approximately HK$7.2 million (comprising interest-bearing bank loans).

As at 30 September 2009, the Group had net tangible assets of approximately HK$279.5 million, comprising non-current assets of approximately HK$42.3 million (comprising mainly property, plant and equipment), net current assets of approximately HK$243.5 million and non-current liabilities of approximately HK$6.3 million (comprising interest-bearing bank loans).

Net current assets

Based on the unaudited combined management accounts of the Group as at 30 September 2009, the Group had net current assets of approximately HK$243.5 million (30 June 2009: approximately HK$238.9 million) comprising current assets of approximately HK$1,359.5 million (30 June 2009: approximately HK$1,136.3 million) and current liabilities of approximately HK$1,116.0 million (30 June 2009: approximately HK$897.4 million).

The current assets of the Group as at 30 September 2009 of approximately HK$1,359.5 million mainly comprise inventories, trade and other receivables and cash and cash equivalents.

The current liabilities of the Group as at 30 September 2009 of approximately HK$1,116.0 million mainly comprise trade and other payables and interest-bearing bank borrowings.

The increase in the net current assets of approximately HK$4.6 million from approximately HK$238.9 million as at 30 June 2009 to approximately HK$243.5 million as at 30 September 2009 was mainly due to the accumulation of assets generated from the Group's profitable operations during the period from 1 July 2009 to 30 September 2009.

Financial resources

As at 30 September 2009, being the latest practicable date for the purpose of ascertaining information contained in the indebtedness statement prior to the printing of this document, other than the leases of its office, properties and warehouses and the credit commitments in relation of its trading activities, the Group does not have material capital commitments nor major expenditures that would have material impact on the liquidity of the Group. Prior to the completion of the [●], the operations of the Group were financed principally by shareholders' equity and internally generated funds, suppliers' credit and bank borrowings. Upon completion of the [●], the Group expects that its operations will be financed mainly by the net proceeds of the [●], internally generated funds and bank borrowings.

Working capital

The Directors are of the opinion that after taking into account the cashflow generated from the operating activities, the existing financial resources available to the Group including internally generated funds, the available banking facilities and the estimated net proceeds of the [●], the Group has sufficient working capital for its present requirements for the next 12 months from the date of this document.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

During its conduct of business, the Group is exposed to various types of market risks including foreign exchange rate risk, interest rate risk, credit risk and liquidity risk.

Foreign exchange risk

The Group's revenue and cost and expenses are mainly denominated in US$ and RMB. The Group's exposure to exchange rate fluctuations results primarily from revenue generated from overseas purchases from overseas suppliers, which are denominated in US$ and the operating costs incurred in the PRC while the reporting currency of the Group is HK$. During the Track Record Period, approximately nil, nil, nil and 0.2% respectively of the Group's turnover were denominated in currencies other than US$ and RMB. Since HK$ are pegged with US$, no significant exposure is expected on US$ transactions and balances, but any depreciation of RMB will reduce the value of the Group's assets and profitability and any dividends payable on the Shares in HK$ terms.

The Group currently does not have a formal hedging policy and has not entered into any material foreign currency exchange contracts or derivatives transactions to hedge against its currency risk. The finance department of the Group closely monitors the exchange rates and communicates with the sales department to update the exchange rates when sales contracts are entered into.

Interest rate risk

The Group is exposed to interest rate risk resulting from fluctuations in interest rates on the Group's bank loans. Most of the bank loans of the Group bear interest at rates that are subject to adjustment by its lenders in accordance with changes made by the People's Bank of China ("PBOC") and/or the Hong Kong Monetary Authority ("HKMA"). If the PBOC and/or HKMA increases interest rates (or the HIBOR rate is increased, as the case may be), the interest cost of the Group with respect to variable rate borrowings will increase. In addition, to the extent that the Group may need to raise debt finance in the future, upward fluctuations in interest rates will increase the cost of new bank loans. Moreover, the Group is also exposed to interest rate risk resulting from the fluctuations in interest rates of suppliers' credit for the Group's purchase. The interest cost of the Group with respect to variable rate borrowings from the suppliers of IBM's products will also increase should higher interest rates are charged by these suppliers. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of the Group's debt obligations.

The Group does not use any derivative instruments to manage its interest rate risk. To the extent that it decides to do so in the future, there can be no assurance that any future hedging activities will protect the Group from fluctuations in interest rates.

Credit risk

The credit risk of the Group primarily arises from the possibility that customers may not be able to settle their payment obligations according to their terms of transactions. The Group adopts different credit terms for different types of customers. The amount of the credit limit and the term of the credit period granted to each customer are determined based on the length of business relationship between the relevant customer and the Group, past payment history, and the usual size of purchase orders. The credit term and limit for each customer are monitored and reviewed periodically by the Group's relevant senior management members. The Group may amend the credit term and credit limit from time to time in light of changing market conditions and industry norms. The Group grants its customers credit terms of 30-90 days.

The Group has policies in place to ensure that sales are made to customers with available credit limits if not on cash terms. The finance department of the Group is responsible for providing ageing report for trade receivables to identify the overdue accounts, while the sales and marketing department of the Group is responsible for following up with the customers to recover the overdue debts. In addition, the senior management of the Group review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognized for irrecoverable debts. As at each of 31 December 2006, 2007 and 2008 and 30 June 2009, there was no major concentration of credit risk. In respect of trade receivables, the Group does not issue any derivative financial instruments to secure them.

Liquidity risk

The Board regularly monitors the Group's present and future cashflow requirements in order to ensure that the Group maintains sufficient funding readily available for its day-to-day operations, planned capital expenditure and scheduled bank loan repayment.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Group's bank balances and cash on hand amounted to approximately HK$140.7 million, HK$131.8 million, HK$132.7 million and HK$75.2 million respectively and the utilised banking facilities were approximately HK$246.1 million, HK$360.7 million, HK$359.0 million and HK$395.9 million respectively. The Directors consider that the Group is not exposed to any significant liquidity risk as the Group was in a net current asset position as of 31 December 2006, 2007 and 2008 and 30 June 2009.

PROPERTY INTEREST AND PROPERTY VALUATION

Property interests in Hong Kong

As at the Latest Practicable Date, the Group rented (i) Rooms 929-935 on the 9th Floor of Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong as its principal place of business in Hong Kong; (ii) a portion of Flats A, B and C on Ground Floor of How Ming Factory Building, No. 99 How Ming Street, Kwun Tong, Kowloon, Hong Kong as its warehouse in Hong Kong; and (iii) Flat A, 11th Floor, Juniper Mansion, Harbour View Gardens, No. 16 Taikoo Wan Road, Taikoo Shing, Hong Kong as its staff quarter in Hong Kong.

Property interests in the PRC

As at the Latest Practicable Date, the Group owned 1 property in Beijing, the PRC, at Units B1901 on Level 19 and B2001 on Level 20 of Tower B, Chaowaimen Office Center, No. 26 Chaowai Street, Chaoyang District, Beijing, the PRC as its principal offices in the PRC. In addition, the Group also rented Warehouses A and B located at the north of Fu Qian'er Street, Tianzhu Town, Shunyi District, Beijing, the PRC as its warehouse in the PRC and rented 13 other properties as its branch/representative offices in the PRC.

Further details of the Group's property interests are set out in the valuation report issued by Jones Lang LaSalle Sallmanns Limited, independent professional surveyors and valuers, the full text of which is contained in appendix IV to this document.

The table below sets forth the reconciliation of aggregate amounts of property interests from the Group's audited financial statements as at 30 June 2009 to their values as at 30 September 2009 as stated in Appendix IV to this document.

	HK$'000
Net book value of the buildings as at 30 June 2009	27,387
Less: depreciation for the three months ended 30 September 2009	(151)
Add: valuation surplus	34,386
Valuation of properties owned by the Group as at 30 September 2009 as set out in the property valuation report in Appendix IV to this document	61,622

DISTRIBUTABLE RESERVES

The Company was incorporated in the Cayman Islands on 29 July 2009. There was no reserve available for distribution to the shareholders as at 30 June 2009 (being the date to which the latest audited financial statements of the Group were made up) as the Company did not earn any income since its incorporation.

DIVIDEND POLICY

The Group may declare dividends after taking into account, among other things, the results of the Group, cash flows and financial condition and position, operating and capital requirements. Depending on factors including the Group's business operation, earnings, surplus, financial conditions and payments by subsidiaries of dividends to the Group, it is the present intention of the Directors that the Company will declare dividends to the Shareholders in amount not less than 30% of the audited consolidated profit after tax of the Group in each financial year. The amount of distributable profits is based on IFRSs, the memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that are relevant to the Group, including, but not limited to, the consent from certain banks which have credit lines with the Group.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

At the Latest Practicable Date, the Directors confirm that there are no circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with paragraph 4.29 of the Listing Rules is for illustrative purpose only, and is set out herein to provide the prospective investors with further financial information about how [●] might have affected the net tangible assets of the Group after the completion of [●] as if [●] had taken place on 30 June 2009. The unaudited pro forma adjusted net tangible assets statement does not form part of the accountants' report.

	Combined net tangible assets attributable to the equity holders of the Company as at 30 June 2009	Estimated net proceeds from [●]	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share
	HK$'000 *(Note 1)*	*HK$'000*	*HK$'000*	*HK$*
Based on [●]	274,304	[●]	[●]	[●]
Based on [●]	274,304	[●]	[●]	[●]

Notes:

1 The audited combined net tangible assets attributable to the equity holders of the Company as at 30 June 2009 which is based on the combined net assets of the Group attributable to the equity holders of the Company as at 30 June 2009 are extracted from the accountants' report set out in Appendix I to this document.

MATERIAL ADVERSE CHANGES

The Directors have confirmed that there has been no material adverse change in the Group's financial or trading position since 30 June 2009 (being the date to which the Group's latest audited combined financial statements were prepared which was set out in the accountants' report in Appendix I to this document).