

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Turnover of the Group for the year ended December 31, 2000 was approximately HK\$3,512 million and net profit before tax was approximately HK\$28 million. Turnover, cost of sales and expenses of the Group increased significantly compared with 1999 mainly because results of SiS Distribution Limited and its subsidiaries were only accounted for as subsidiaries since November 23, 1999 as a result of the Company's repossession of the 80% interests in SiS Distribution Limited.

### **Liquidity and Financial Resources**

As at December 31, 2000, the Group had approximately HK\$194 million bank balances and cash. The Group's working capital requirements were mainly financed by internal resources and short-term borrowings. As at December 31, 2000, the Group had approximately HK\$59 million short term bank borrowings and HK\$16 million bank overdrafts. The Group's borrowings were mainly denominated in Singapore and U.S. dollars and were charged by banks at floating interest rates.

The Company's share capital had been increased by HK\$710,000 as a result of exercise of share options. There are no present needs for fund raising activities of any material amount.

The Group continued to sustain a good liquidity position without any long term debt funding. At balance sheet date, the Group had a net cash surplus (bank balances and cash less bank borrowings due within one year) of approximately HK\$119 million compared to approximately HK\$161 million in 1999. The decrease of net cash surplus was mainly due to the acquisitions of investment properties, property, plant and equipment and investments in securities during the year.

Gearing ratio, as defined by total bank loans and bank overdrafts to shareholders' funds, as at December 31, 2000 was 19.71% (1999: 25.81%).

### **CHS Case**

The Company commenced an action ("the Foreclosure Action") in the High Court of Hong Kong by issuing an Originating Summons against CHS Electronics, Inc ("CHS") on November 26, 1999, pursuant to Order 88 of the Rules of the High Court of Hong Kong, seeking court authorization to foreclose on the 80% shares of SiS Distribution Limited ("SiSDL").

On April 27, 2000, the Company issued a Writ against CHS seeking an order to release the 20% SiSDL shares which have been charged to CHS ("the Redemption Action").

CHS filed for protection under the Bankruptcy Code on April 4, 2000. On or about June 15, 2000, CHS filed a Compliant for Enforcement of Automatic Stay and Injunctive Relief ("the Bankruptcy Compliant") against the Company. The Company, via its attorneys in the U.S., executed a Stipulation for Dismissal without Prejudice on behalf of the Company and the Bankruptcy Compliant was dismissed.

The Company decided to seek relief from the automatic stay in the Bankruptcy Court and to suspend all further proceedings against CHS in Hong Kong until such relief was granted. On June 23, 2000, the Hong Kong Court granted an Order whereby the Foreclosure Action was adjourned indefinitely to a date to be fixed with liberty to restore.

On November 21, 2000, the United States Bankruptcy Court for the Southern District of Florida issued an order authorizing relief from automatic stay. The Company is now proceeding to restore both the Foreclosure Action and the Redemption Action.

On March 28, 2001, the Company succeeded in the appeal with costs and the Court made an Order whereby the Originating Summons be listed for argument before a judge.

### **Addition of property, plant and equipment and investment properties**

In January 2000, a wholly owned subsidiary of the Company acquired the whole of 8th floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong at a cost of HK\$61,178,000. The property was acquired for investment purpose and is now leased to an independent third party. The directors believe the property is generating a stable and reasonable income for the Group. At balance sheet date, market value of the property was HK\$64,800,000.

In September 2000, a wholly owned subsidiary of the Company acquired an apartment and car parking spaces at Estoril Court, 55 Garden Road, Hong Kong for a cost of HK\$18,156,000. The property is provided to a director as his quarter.

### **Acquisition of subsidiaries and associates**

In July 2000, the Company acquired 100% of Maxima Technology Limited, through its subsidiary, SiS Investment Holdings Limited, for a consideration of US\$1,000,000. Maxima Technology Limited is principally engaged in the business of investment holding and its sole asset is a 75% interest in SiS Distribution (Thailand) Co. Ltd.. SiS Distribution (Thailand) Co. Ltd. is a computer distributor of various computer products which include brands such as HP and Compaq. The acquisition is in line with the Company's overall business strategy to seek investment opportunities in computer-related business and to widen and strengthen its earning base.

During the year, the Company has also acquired various subsidiaries and associates through its wholly owned subsidiary, SiS Netrepreneur Ventures Corp.. SiS Netrepreneur Ventures Corp. invests 60% in Recruitment Online.com Pte Ltd which is incorporated in Singapore and operates employment agencies and human resources centres and invests 70% in E-Logistics Global Master Pte Ltd which is incorporated in Singapore and engaged in provision of parcel delivery services. SiS Netrepreneur Ventures Corp. also invested in two associates – namely Inchone.com Pte Ltd and Intuition Consulting Pte. Ltd. These two associates are incorporated in Singapore and engaged in provision of e-learning services and solution facilities.

### **Charges on group assets**

At the balance sheet date, the Group had pledged bank deposits of approximately HK\$ 11,300,000 (1999: approximately HK\$8,405,000) to banks to secure general banking facilities granted to foreign subsidiaries.

## **Number and Remuneration of Employees, Remuneration Policies, Bonus and Share Option Schemes**

As at December 31, 2000, the Group employed 571 staff and the salary and other benefits paid to employees, including Directors' emoluments, during the financial year amounted to approximately HK\$73,885,000. In addition to the contributory provident fund and medical insurance, the Company adopts share option schemes and shares are granted to key employees of the Group. The Directors believed that the Company's share option schemes could create more incentives and benefits for the employees and therefore increase employees' productivity and contribution to the Group. The Group's remuneration policy is to relate performance with compensation. The Group's salary and bonus system is reviewed annually.

## **Currency Risk Management**

The Company's subsidiaries use their respective local currencies as their functional currency. The financial statements of overseas operations and subsidiaries are translated at the rates ruling on the balance sheet date. Exchange differences are reflected in the reserves. The Company's exposure under these translation, which is unhedged, may affect the carrying value of its foreign net assets and therefore its equity and net tangible book value, but not its net income or cash flow.

Due to the Company has overseas operations and subsidiaries, earnings may experience some volatility related to movements in exchange rates. In order to reduce exposure to fluctuations in exchange rates, subsidiaries of the Company will make forward purchases from time to time. Besides, the Group has adopted a policy of attempting to match levels of local denominated account receivables with accounts payable and to limit holdings of local currencies.

## **Contingent Liabilities**

The Company's corporate guarantees extended to certain banks and vendors as security for banking facilities and goods supplied to the Group amounted to approximately HK\$152 million (1999: approximately HK\$10 million). The increase was due to increase in guarantees given on behalf of overseas subsidiaries.

## **Compliance Code of Best Practice**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not during the twelve months ended December 31, 2000, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Exchange").

In compliance with the Code of Best Practice of the Exchange, the Company established an Audit Committee in 1998 to act in an advisory capacity and make recommendations to the Board. Its members currently include the two independent non-executive directors.