

OVERALL PERFORMANCE

Following to the restructuring of the Group's business in 2003, the Group's results were significantly improved. The turnover for the year ended 31 December 2004 has increased to HK\$1,257.6 million compared to last year's turnover of HK\$625.0 million and the gross profit for the year ended 31 December 2004 has increased by 30.6% to HK\$74.0 million compared to last year's gross profit of HK\$56.7 million. Gross profit ratio has dropped from 9.1% in 2003 to 5.9% in 2004 as a result of the increase in the sales for distribution of information products which had a lower gross profit margin as compared to other business segments of the Group. The Group's audited consolidated net profit attributable to shareholders for the year was approximately HK\$9.2 million (2003: net loss of approximately HK\$22.8 million).

The significant improvement in results was mainly due to:

- a. segment profit of distribution of information products business has increased to HK\$7.4 million;
- b. segment results of provision of software solutions and services business has turned around and recorded a profit of HK\$1.6 million which was mainly contributed by the gain on disposal of EC-Founder Co., Ltd. of HK\$3.3 million and the ex gratia payment received for termination of advertising agency services of Beijing AdTargeting Inc. ("Beijing ADT") of HK\$4.6 million; and
- c. absence of segment results of electronic products business after the disposal of business in 2003 compared to last year's segment loss of HK\$18.3 million.

Basic earnings per share for the year was HK0.8 cents (2003: loss of HK2.4 cents).

OPERATING REVIEW AND PROSPECTS

Continuing Operations

Distribution of information products ("Distribution Business")

In July 2003, the Group completed the acquisition of the Distribution Business by acquiring the entire interests of Beijing Founder Century Information System Co., Ltd. and Founder Century (Hong Kong) Limited from its controlling shareholder – Founder Holdings Limited. The Group recorded the results of the Distribution Business for a full year in 2004 and the turnover was HK\$1,200.8 million which was 2.7 times compared to 2003 and the segment profit increased to HK\$7.4 million.

The Distribution Business is mainly focused on the distribution of information technology products such as servers, workstations, data storage devices and networking products of various international brand names such as HP, IBM, 華為 3COM, SUN, Netgear and Apple. The improvement in the performance of the Distribution Business was mainly attributable to the continued expansion of distribution network in the PRC. In order to strengthen the distribution channels, the Group has established a strong and PRC nationwide distribution network with headquarters in Beijing and 14 branch offices/representative offices in Shanghai, Guangzhou, Nanjing, Chengdu, Xizang Zizhiqu, Wuhan, Shenyang, Xian, Jinan, Hangzhou, Shenzhen, Fuzhou, Harbin and Guiyang. Furthermore, the Distribution Business has gained its ranking from the 7th place in 2003 to the 6th place in 2004 among the top 100 enterprises in the distribution business in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Although the Distribution Business has gained an encouraging growth in the sales of information products in the past two years, the drive for further improvement in the business would require an expansion in product range and stronger control on operating costs, trade receivables and inventories.

Thus, the Group envisaged that the potential risks associated with the continued enlargement in the distribution network, expansion in product range and increase in trade receivables and inventories would become higher as a result of the future growth of the Distribution Business. In addition, more working capital fund is required for the development of the Distribution Business.

Discontinued Operations

(A) Software solutions and services business ("Software Business")

The turnover of Software Business for the year has decreased by 8.7% to HK\$56.8 million (2003: HK\$62.2 million) and recorded a segment profit of HK\$1.6 million compared to a segment loss of HK\$6.8 million in 2003.

The Software Business was still facing fierce competition in the PRC market and it was anticipated that this sector cannot perform well in the future. Hence, the management considered that it is in the best interests of the Group to cease such non-performing business. As a result, EC-Founder Co., Ltd. was disposed of in December 2004 for a consideration of RMB13.4 million (equivalent to approximately HK\$12.6 million) and the Group recorded a gain on disposal of HK\$3.3 million. Also, the advertising agency services carried out by Beijing ADT was also terminated and recorded a gain of RMB4.9 million (equivalent to approximately HK\$4.6 million). The gains of the above transactions have off-set the segment operating loss of HK\$6.3 million and hence giving rise to an overall segment profit of HK\$1.6 million in 2004 as compared to a segment loss of HK\$6.8 million in 2003.

(B) Electronic products business

The Electronic products business was disposed of in September 2003 and therefore no turnover and segment results were recorded in the year 2004.

Employees

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

As at 31 December 2004, the Group had 330 employees. These employees of which almost all work in the Mainland China. The Company has also established share option schemes and the share options are granted at Directors' discretion to motivate and reward the employees with outstanding performance.

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

As at 31 December 2004 the Group recorded total assets of HK\$561.3 million (2003: HK\$457.9 million) which were financed by liabilities of HK\$376.0 million (2003: HK\$281.8 million) and equity of HK\$185.3 million (2003: HK\$176.1 million). The Group's net asset value as at 31 December 2004 increased by 5.2% to HK\$185.3 million as compared to approximately HK\$176.1 million as at 31 December 2003.

The Group had total cash and bank balances of HK\$189.7 million as at 31 December 2004 (2003: HK\$159.5 million). The Group had no bank loan and overdraft as at 31 December 2004 (2003: Nil), hence the Group recorded a net cash balance of HK\$189.7 million as at 31 December 2004 as compared to HK\$159.5 million as at 31 December 2003. As at 31 December 2004, the Group's current ratio was 1.41 (2003: 1.50) and the Group had no long term debt as at 31 December 2004 and 31 December 2003.

As at 31 December 2004, the Group did not have any material capital expenditure commitments.

Treasury policies

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

Exposure to fluctuations in exchange rates and related hedges

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

Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition in 2004.

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

Charges on assets

As at 31 December 2004, bank deposits of approximately HK\$32.8 million were pledged to banks to secure general banking facilities granted.

Contingent liabilities

As at 31 December 2004, the Company had contingent liabilities in relation to guarantees given to suppliers in connection with credit facilities granted to certain subsidiaries amounting to approximately HK\$19.7 million.

The Group did not have any significant contingent liabilities as at 31 December 2004 (2003: Nil).