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OVERVIEW

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

The Group is an authorized distributor of certain enterprise IT products in the PRC for IBM, Oracle and Huawei Symantec, with IBM's group companies being the Group's major suppliers. Since 1996, the Group or previously through Futong ComputerLand has developed non-exclusive distribution relationship in the PRC with IBM, the leading global provider for enterprise IT products. As of 30 June 2009, IBM had in the PRC 20 authorized distributors for System p server and system storage products, 11 authorized distributors for System x server products and 6 authorized distributors for software products, all on non-exclusive basis, and about 5 out of those 20 authorized distributors, including the Group, were considered as core distributors by IBM for distribution of IBM's System p server and system storage products in the PRC. Furthermore, IBM confirmed that the Group was one of the top three authorized distributors of IBM's hardware and software products in the PRC from 2006 to 2008. In addition to direct purchase of enterprise IT products from IBM, the Group or previously through Futong ComputerLand has been authorized and admitted to the SDI Program by IBM to establish its own assembly line for certain System p servers since 2004, which enables the Group to (i) offer tailor-made assembled enterprise IT products which are customized to suit its customers' needs; (ii) respond faster to its customers' needs by shortening the order-to-delivery time; and (iii) reduce the inventory risk by stocking up the components or ISUs instead of complete sets of models with prescribed specifications.

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

During the Track Record Period, the Group recorded total sales revenue of approximately HK\$1.8 billion, HK\$2.0 billion, HK\$2.6 billion and HK\$1.2 billion for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively. The Group or previously

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through Futong ComputerLand has received various awards and recognition from IBM for its recognized achievements in distribution of enterprise IT products of IBM in the PRC. Those awards and recognitions signify the well-established leading position of the Group in distribution of enterprise IT products of IBM in the PRC market, which lays a good foundation for the Group in capturing a larger market share by leveraging on its competitive strengths as detailed below, and to be recognized as a leading provider of cost effective IT solutions, quality enterprise IT products and comprehensive IT technical support services in the PRC.

COMPETITIVE STRENGTHS

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

Extensive nationwide sales network in the PRC

The Group sells enterprise IT products to end-users directly and through business partners such as system integrators and independent software vendors who integrate the enterprise IT products purchased from the Group into their IT solutions sold to end-users. Through such business partners, the Group is able to tap on their customer base on end-users who use the enterprise IT products that the Group sells. Over the years, the Group has managed to establish an extensive network of business partners in the PRC, and as a result the Group benefits from having access to a larger base of end-users for the enterprise IT products that it sells. Furthermore, the Group has proactively established 13 branch/representative offices in different regions of the PRC covering Beijing, Shanghai, Guangzhou, Nanjing, Hangzhou, Shenyang, Jinan, Xi'an, Wuhan, Chengdu, Fuzhou and Shenzhen, which enables the Group to serve end-users and business partners all over the PRC and in turn facilitates the Group to develop sound business relationships with some national and large-scale corporations.

The Group has signed contracts with 1,281 customers, 1,091 customers, 1,106 customers and 585 customers for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively, among which approximately 58.5%, 68.1%, 68.7% and 65.6% of customers respectively have made repeated purchases from the Group during the Track Record Period. Furthermore, some of the national and large-scale corporations in the PRC, including the five largest national banks, the largest non-life insurance company, the three largest national telecommunications companies and one of the three largest petroleum companies, and government agencies, including state and local tax or financial bureaus and security bureaus, have made purchases (either directly or through business partners) annually from the Group during the Track Record Period. The sales to the national and large-scale corporations in the PRC (either directly or through business partners) for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 were approximately HK\$876 million, HK\$1,020 million, HK\$1,414 million and HK\$924 million respectively, accounting for approximately 47.4%, 50.5%, 55.3% and 78.0% of the Group's revenue for the corresponding periods respectively. The Directors believe that the Group, leveraging on its strong capability to deliver value-added services as described below, has delivered satisfactory value-added services to its customers in association with distribution of enterprise IT products, which resulted in relatively high percentage of customers, including some end-users of large-scale and national corporations, making repeated purchases from the Group (either directly or through business partners) during the Track Record Period.

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Well established long term relationships with leading international IT vendors

Being one of the leading distributors of enterprise IT products in the PRC, the Group has built up long term and solid relationships with some well-known international vendors of enterprise IT products, such as IBM and Oracle, which allows the Group to sell a variety of quality enterprise IT products which the Group believes have a considerable demand in the PRC. The Group (or previously through Futong ComputerLand) has been IBM’s authorized distributor of enterprise IT products in the PRC for over 12 years. Leveraging on the distinguished IT technical competence of the Group (or previously Futong ComputerLand), the Group has enjoyed strong support from IBM in delivering quality enterprise IT products and solutions to cater for the needs of the Group’s customers, such as on-time delivery of enterprise IT products as well as settlement on open credit terms offered by IBM. During the Track Record Period, IBM’s products accounted for approximately 78.7%, 78.7%, 80.1% and 84.0% of the Group’s total purchases and approximately 85.0%, 90.2%, 91.9% and 93.7% of the Group’s revenue for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively. With the recognized achievements in the distribution of IBM’s enterprise IT products in the PRC, the Group (or previously through Futong ComputerLand) has received various awards and recognitions from IBM since 1997 as described in the paragraph headed “Awards and recognitions” in this section of this document. The Group also works closely with the IT vendors to identify advanced IT system and hardware solutions that are suitable for introduction into the PRC market. Coupled with the Group’s profound knowledge of the IT market in the PRC, in-depth IT technical know-how on features and functionalities of the enterprise IT products that the Group distributes, extensive sales network and strong customer relationship, the Group is well-positioned as a business partner of choice for vendors of enterprise IT products in the PRC.

Experienced management personnel and qualified IT technical and sales force

The Group is led by Mr. Chen Jian, an executive Director and Chairman of the Group who has over 16 years of experience in the IT industry and over 12 years engaging in the distribution business of enterprise IT products and Ms. Zhang Yun, an executive Director and Vice Chairlady of the Group who has worked in Futong ComputerLand and the Group for over 12 years, and managed by Mr. Guan Tao, an executive Director and president of Futong Dongfang who has worked in Futong ComputerLand and the Group for over 12 years. Together with a united team of proactive sales force and competent IT technical staff (over 30% of whom have passed the examinations, attended the trainings or obtained the certifications from the Group’s suppliers in the areas of hardware, software or sales), the Group has experienced strong business growth and achieved a demonstrated record of success throughout the years.

Strong capability to deliver value-added services

In association with distribution of enterprise IT products, the Group also provides value-added services to its end-users or business partners through the provision of IT technical support services to their end-users as described in the paragraph headed “Services” in this section of this document. The Group has built up sales teams by industries, namely, government bodies, financial institutions, telecommunications, petroleum and manufacturing and general business. Each sales team has dedicated effort in keeping updated with the trend of business development and associated IT demands of the industry that it is responsible for, and has established solid relationship with the end-users and

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business partners in that industry, including some of the leading companies in various industries. Unlike general distributors of various IT products or business partners like system integrators and independent software vendors who only have broad-brush understanding of various IT products, the Group has developed thorough understanding of the features and functionalities of enterprise IT products that the Group distributes, which enables the Group to formulate IT solutions for enhancing or optimizing the performance of end-users’ IT systems cost effectively through supply of an appropriate combination of different IT system hardware and software based on the IT requirements of end-users. Business partners like system integrators and independent software vendors who generally do not have such in-depth knowledge of those enterprise IT products have to cooperate with the Group by incorporating the Group’s IT solution into their total IT solution delivered to end-users. Hence, leveraging on accumulated in-depth knowledge about the features and functionalities of enterprise IT products that the Group sells by the Group’s professional IT technical team and the thorough and better understanding of IT requirements and aspects of different industries by the Group’s sales force, the Group is capable of delivering more customer-specific value-added IT solutions as well as provision of comprehensive IT technical support services to meet the ever-changing IT requirements of its business partners or end-users from various industries in a cost effective manner. Although no significant revenue was generated by the Group during the Track Record Period from the provision of value-added services, the Directors believe that the Group’s capability of provision of those value-added services distinguishes itself from other general distributors of enterprise IT products and facilitates itself in attracting sales orders from end-users as well as business partners.

Furthermore, being admitted to the SDI Program by IBM since 2004, the Group (or previously through Futong ComputerLand) has established its own assembly base in the PRC for assembling certain System p servers, which enhances its capability to deliver more customer-specific enterprise IT products and solutions to its customers within a shorter order-to-delivery period. Through cross cooperation between the Group’s qualified IT technical team and sales personnel specializing in different products and industries, and partnered with the Group’s experienced sales and IT technical teams from different branch/representative offices located all over the PRC, the Group has strong capability to deliver attentive IT services to customers with multiple points of business in different parts of the PRC.

PRODUCTS AND SERVICES

Being one of the leading distributors of enterprise IT products in the PRC, 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 provides IT technical support services in association with the distribution of enterprise IT products.

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The following table sets out the Group's revenue generated from its principal products and services for the three years ended 31 December 2008 and for the six months ended 30 June 2009:

	For the year ended 31 December						For the six months ended	
	2006		2007		2008		30 June 2009	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
IBM								
Enterprise servers	1,096,014	59.4	1,422,509	70.5	1,843,709	72.2	830,375	70.1
System storage products	325,688	17.6	293,508	14.5	307,804	12.0	174,933	14.8
Software	148,337	8.0	104,112	5.2	195,571	7.7	103,716	8.8
Subtotal	1,570,039	85.0	1,820,129	90.2	2,347,084	91.9	1,109,024	93.7
Oracle	180,016	9.7	162,407	8.0	158,036	6.2	43,133	3.6
Services	26,899	1.5	33,440	1.7	14,169	0.6	5,481	0.5
Others	69,730	3.8	2,846	0.1	35,250	1.3	26,268	2.2
Total revenue	<u>1,846,684</u>	<u>100.0</u>	<u>2,018,822</u>	<u>100.0</u>	<u>2,554,539</u>	<u>100.0</u>	<u>1,183,906</u>	<u>100.0</u>

IBM

(i) Enterprise servers

The ranges of IBM's enterprise servers that the Group currently sells in the PRC are all models of the System p servers and System x servers.

(a) System p servers

System p servers (formerly known as RS/6000 or pSeries servers), being one category of Power Systems servers, are IBM's unified Power Architecture-based server line running on UNIX (including AIX or Linux) operating system.

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The following table sets out the principal models and features of System p servers that the Group offered during the Track Record Period:

Type	Models	Features
Entry-level	System p5 505, System p5 505Q, System p5 510, System p5 510Q and Power 520 Express	Equipped with 1 to 4 64-bit processors
Mid-range	Power 550 Express and Power 560 Express	Equipped with up to 16 64-bit processors
High-end	Power 570, Power 575, Power 590 and Power 595	Equipped with 64-bit SMP processors with scalability up to many processors

During the Track Record Period, the Group has offered System p servers to end-users (either directly or through business partners) in various industries, such as administration authority for industry and commerce, listed national bank and pharmaceutical enterprise, securities company and state-owned transportation information enterprise.

(b) *System x servers*

System x (formerly known as eServer xSeries) servers are IBM’s servers based mainly on Intel’s processors running on Windows or Linux operating system and mainly categorized into tower or rack-mount style.

The following table sets out the principal models and features of the System x servers that the Group offered during the Track Record Period:

Models	Features
eServer x206m, eServer x226, System x3400, System x3500 and System x3800	Tower servers equipped mainly with Intel’s processors
eServer x306m, eServer x336, System x3550, System x3650, System x3800 and System x3850M2	Rack-mount servers equipped mainly with Intel’s processors

During the Track Record Period, the Group has offered the System x servers to end-users (either directly or through business partners) in various industries, such as listed national bank, national insurance company and telecommunications corporation.

(ii) **System Storage products**

IBM’s System Storage (formerly known as TotalStorage) products that the Group currently sells in the PRC are categorized into disk systems, tape systems and storage area network (SAN).

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(a) *Disk systems*

Disk systems are usually used for data storage. The following table sets out the principal models and features of the disk systems that the Group offered during the Track Record Period:

Type	Models	Features
Mid-range	DS4200 Express, DS4700 Express, DS4800, DS5100 and EXP810	Scalable up to 112 drives for DS4000 series, 448 drives for DS5000 series and 16 drives for EXP series
High-end	DS6800, DS8100 and DS8300	Scalable up to 128 drives for DS6000 series and 1024 drives for DS8000 series

During the Track Record Period, the Group has offered the disk systems to end-users (either directly or through business partners) in various industries and government agencies, such as security bureau, statistics bureau, listed national locomotive enterprise, electric power corporation and tobacco corporation.

(b) *Tape systems*

Tape systems are usually used for data backup and protection. The following table sets out the principal models and features of the tape systems that the Group offered during the Track Record Period:

Type	Models	Features
Entry-level	TS2230 and TS3100	Scalable up to 2 Linear Tape Open (LTO) drives
Mid-range	TS3200 and TS3310	Scalable up to 6 LTO drives
High-end	TS3500	Scalable up to 192 LTO drives

During the Track Record Period, the Group has offered the tape systems to end-users (either directly or through business partners) in various industries and government agencies, such as sanitary division of national army, library, listed national bank and electric power corporation.

(c) *SAN switches*

SAN is an architecture to attach remote computer storage devices to servers in such a way that the devices appear as locally attached to the operating system. SAN simplifies the architecture of storage system, which facilitates the management of data storage.

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The following table sets out the principal models and features of the SAN switches that the Group offered during the Track Record Period:

Type	Models	Features
Entry-level	SAN24B-4 Express	Scalable up to 24 ports
Mid-range	SAN40B-4 and SAN80B-4	Scalable up to 80 ports

During the Track Record Period, the Group has offered the SAN switches to end-users (either directly or through business partners) in various industries and government agencies, such as security bureau and listed national bank.

(iii) Software

The types of IBM's softwares that the Group currently sells in the PRC are all middleware in association with the enterprise servers and system storage products that the Group is authorized to sell in the PRC, and the principal types of which are set out below.

(a) Websphere

IBM's Websphere software comprises a range of software that manage a wide variety of business processes using open standards to interconnect applications, data and operating systems, as well as provide foundation for web-enabled applications. It consists of application server that provides the core operating environment, as well as tools such as Websphere Studio, Websphere Commerce, Websphere Portal, Websphere Everyplace, Websphere Voice, Websphere Express and software development kits that enable users to develop e-commerce applications.

(b) Tivoli

IBM's Tivoli software comprises a range of software for infrastructure management, including security and storage management that help users better manage their IT infrastructure to more effectively deliver IT services. It is a system management tool that allows users to manage and monitor devices that are connected to their systems including, inter alia, servers, routers, switches and storage devices and enables users to monitor their systems for security, performance and availability, as well as provides tools for users to manage system configuration and operations.

(c) Information Management

IBM's Information Management software comprises a range of advanced database, content management, information integration and business intelligence software that help users to integrate, manage and gain value from their business information, such as DB2 information management products which include DB2 Business Intelligence, DB2 Content Management, DB2 Database Servers, DB2 Database Tools and DB2 Information Integration.

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Furthermore, after the acquisition of Cognos by IBM in 2008, the Group is authorized to distribute the business intelligence and financial performance management software from Cognos in the PRC that delivers reporting, analysis and scorecards that integrate with finance-led budgeting, plans, forecasts and financial reporting.

(d) *Rational*

IBM’s Rational software comprises a range of software tools that help users manage their software development processes and capabilities. Users of Rational software are able to automate the management of their software design lifecycle. Such software includes tools that can perform functions such as requirement and analysis, design and construction, automated testing, software configuration management and lifecycle management.

(e) *Lotus*

IBM’s Lotus software comprises collaboration, messaging and social networking software that enables businesses to communicate and collaborate. IBM’s Lotus products include Lotus Notes, Lotus Domino, Lotus Sametime and Lotus Smartsuite.

The following table sets out the market position and approximate market share of IBM’s enterprise hardware and software products (which are the principal enterprise IT products marketed by the Group) in the PRC in terms of sales revenue in 2008:

Product	IBM’s market position (Note 1)	IBM’s approximate market share (Note 1)
Non-x86 servers (including System p servers)	1st	51.8%
x86 servers (including System x servers)	2nd	26.9%
External disk storage products	1st	25.7%
Tape storage products	1st	49.6%
Middleware	2nd (Note 2)	18.3% (Note 2)

Notes:

1. Extracted from IDC — PRC IT Market Overview and Forecast.
2. Oracle took the first market position in the PRC middleware market with market share of approximately 24.4% in 2008.

As shown from the above table, IBM had leading market position with considerable market share in the PRC market of enterprise hardware and software products in 2008.

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Oracle

The products from Oracle that the Group sells in the PRC include database management software, middleware for integration services, business intelligence, collaboration, content management and application server, as well as tools for developing applications. The Group also sells Oracle’s learning credits and technical support service in association with the software products offered. Furthermore, being an Oracle’s authorized education partner, the Group is authorized to sell Oracle’s technology based training software products, learning credits, education services, and vouchers and bundles of Oracle Certified Professional (OCP) examination.

During the Track Record Period, the Group has offered Oracle’s software products to end-users in various industries and government agencies, such as state electric power research institute, government information center, national bank, local tax bureau and airport authority.

SERVICES

Being one of the leading distributors of enterprise IT products in the PRC, the Group adds value to its customers by providing a series of comprehensive IT technical support services in association with its provision of enterprise IT products throughout the whole operation cycle from negotiation, sales conclusion to after sales.

The range of IT technical support services that the Group offers are set out below:

(a) **Formulation of cost effective and quality IT solutions**

End-users have their own unique business processes and management procedures, which impose unique demands on their IT systems in terms of down time, data flow, storage capacity, security and computing power. The Group analyzes IT needs of end-users and assist end-users in capacity planning, specification of features and determination of technical requirements of their system solutions, including hardware and software, as well as document these specifications and technical requirements, in order to formulate cost effective and quality IT solutions for the end-users (either directly or through business partners) without charge, with an aim to initiate and conclude sales order on their purchase of IT products and related services from the Group.

(b) **Provision of IT implementation services**

The Group provides IT technical support services relating to the implementation of the enterprise IT products that are sold by it including customization, installation, user-acceptance testing and tuning of both IT hardware and software products.

(c) **Provision of IT technical training services**

The Group prepares and updates IT technical training manuals and coursework material in relation to the enterprise IT products that the Group provides technical support services for, as well as provides product and technical training services to end-users and business partners on a regular or ad-hoc basis. During the Track Record Period, the Group has offered 43 IT technical training courses.

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(d) Provision of after-sales IT technical support services

The Group provides after-sales IT technical support services to its customers. Such services, including fault identification and resolution for the enterprise IT products, system maintenance services (both preventive and reactive), and system performance optimization and monitoring services, are provided via telephone, email or on-site.

During the Track Record Period, the above services, excluding the formulation of cost effective and quality IT solutions, were provided exclusively to the customers who have purchased the enterprise IT products from the Group.

OTHERS

(i) IT accessories

In connection with the sales of enterprise IT products like servers, system storage products and software, the Group also sells networking products such as routers and switches, and other accessories items like cables and other IT peripheral equipment as requested by its customers.

(ii) Huawei Symantec

Having been a general distributor partner of Huawei Symantec in the PRC since April 2008, the Group is authorized to distribute all types of server products and certain types of storage products (including SAN, NAS and virtual tape system products) and provide after-sales technical services such as installation, maintenance and technical support services. Since July 2009, the Group has been further authorized to distribute certain types of IT security products (including firewall virtual private network and network intrusion detection system products and software products).

PURCHASES AND SUPPLIERS

Suppliers

The Group is an authorized distributor of certain enterprise IT products in the PRC for IBM, Oracle and Huawei Symantec. All of the Group's suppliers, save and except Beijing Deep Thought which is owned as to approximately 69.98% by a brother of Mr. Chen Jian and as to approximately 17.49% by Ms. Zhang Yun, are Independent Third Parties. During the Track Record Period, total purchases made from the five largest suppliers (on individual entity basis) by the Group accounted for approximately 91.1%, 86.6%, 85.8% and 88.1% of the Group's total purchases for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively, while total purchases made from the five largest suppliers (on group basis) by the Group accounted for approximately 92.4%, 88.9%, 89.0% and 91.2% of the Group's total purchases in corresponding periods respectively. Total purchases made from the Group's largest supplier (on individual entity basis), IBM World Trade Corporation, one of IBM's group companies, accounted for approximately 58.4%, 36.7%, 39.5% and 45.8% of the Group's total purchases for the corresponding periods respectively. Total purchases made from the Group's largest supplier (on group basis), IBM, accounted

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for approximately 78.7%, 78.7%, 80.1% and 84.0% of the Group's total purchases for the corresponding periods respectively. The total purchases made from Beijing Deep Thought by the Group were nil, nil, approximately HK\$7.5 million and nil for the corresponding periods respectively.

The Directors have confirmed that none of the Directors, their respective associates or, so far as the Directors are aware, Shareholders (who will own more than 5% of the issued Shares immediately after completion of the [●] and the Capitalization Issue and taking no account of allotment of any Shares which may be taken up under the [●] or allotted or issued pursuant to the exercise of the [●]) had any interest in any of the five largest suppliers of the Group during the Track Record Period.

Frequent communications with the Group's suppliers, in particular with IBM, are carried out by the Group to timely and effectively understand the suppliers' latest promotion plans as well as revert the recent product demands to these suppliers, in order to better match with each other's business development needs. Besides, strategic cooperation with different suppliers, such as establishing the first Power @ Grid Centre in the PRC which creates an operating environment with IBM's System p servers and Oracle's software for performance testing of various application software developed by independent software vendors, is also carried out by the Group to strengthen collaboration with independent software vendors and explore more opportunities for provision of enterprise IT products and services to end-users through those independent software vendors.

Distributorship

IBM

Since 1996, the Group or previously through Futong ComputerLand has developed non-exclusive distribution relationship with IBM. Save for the period between 2000 and 2002, Futong ComputerLand was not a member of the Group. The business cooperation between the Group and Futong ComputerLand since then has been set out in the paragraph headed "Business and corporate development" under the section headed "History and development" in this document.

The Group has entered into distribution agreements with IBM's four group companies (all being subsidiaries of IBM and suppliers of IBM's products) for enterprise IT products including servers, system storage and software products, which have become the major products distributed by the Group. During the Track Record Period, IBM's products accounted for approximately 78.7%, 78.7%, 80.1% and 84.0% of the Group's total purchases for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively. Based on information from publicly available sources including, among other things, IBM's annual report for the fiscal year 2008 and the information disclosed in IBM's website, the Directors understand that IBM is a global leading provider of computer solutions, including technologies, systems, products, services, software and financing, through the use of advanced information technology and operating in over 170 countries. IBM had a total revenue of approximately US\$104 billion in 2008, of which approximately one-fifth was derived from sales to customers in the PRC and other Asia-Pacific regions. IBM's revenue in the PRC, one of IBM's growth markets, experienced a growth of 14.7% (8% adjusted for currency) in 2008. IBM had approximately 400,000 employees worldwide in 2008. IBM offers its products directly and through a variety of third party distributors and resellers, including the Group in the PRC.

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As of 30 June 2009, IBM had in the PRC 20 authorized distributors for System p server and system storage products, 11 authorized distributors for System x server products and 6 authorized distributors for software products, all on non-exclusive basis, and about 5 out of those 20 authorized distributors, including the Group, were considered as core distributors by IBM for distribution of IBM's System p server and system storage products in the PRC. Furthermore, IBM confirmed that the Group was one of the top three authorized distributors of IBM's hardware and software products in the PRC from 2006 to 2008.

Consistent with IBM's practice with distributors in the PRC, during the Track Record Period, the Group entered into separate non-exclusive distribution agreements with each of the four group companies of IBM generally for a term of one year, which, pursuant to those agreements, were automatically renewable for two years after the expiry of the initial term.

Set out below are the respective commencement and expiry dates of the Group's current distribution agreements with each of the four group companies of IBM.

Supplier	Product	Commencement date	Expiry date
IBM World Trade Corporation	System p servers, system storage products and other ancillary products	7 May 2009	6 May 2010
IBM World Trade Corporation	System x servers	12 March 2009	11 March 2010
IBM (China) Company Limited (formerly known as IBM Global Services (China) Co., Ltd.)	System p servers, System x servers, system storage products and other ancillary products	30 April 2009	29 April 2010
IBM Technology Product (Shenzhen) Co., Ltd.*	System x servers	30 April 2009	29 April 2011
IBM Technology Product (Shenzhen) Co., Ltd.*	system storage products (DS3000)	24 April 2009	23 April 2011
IBM Engineering Technology (Shanghai) Co., Ltd.	middleware	23 July 2009	22 July 2010

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

The principal terms of purchases from IBM are set out below:-

- The titles to and risks associated with products supplied by IBM generally pass to the Group upon delivery of products by IBM to the Group.

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- The Group is generally allowed 60 days from the invoice date to make payments, with interest charged on any outstanding balance over 30 days.
- IBM generally provides warranty services in relation to the products supplied for a period of one year to three years. For servers and system storage products which IBM is responsible for its installation pursuant to the terms of purchase, the warranty period commences from the business day after the date on which the products are installed or available for installation by IBM (in case the installation is deferred), which is normally the day on which IBM delivers the product to the Group or the relevant end-user. For servers and system storage products which IBM is not responsible for installation pursuant to the terms of purchase, the warranty period commences from the earlier of (i) the date the product is installed; or (ii) three months or 60 days after the product has been delivered to the Group. For software, the warranty period shall be as described in the license terms of the software. During the warranty period, IBM offers repair and exchange service as well as telephone or online support for correction of problem for hardware products and access to IBM’s databases containing information on known defects, defect corrections, restrictions, and bypasses for software products. End-users of hardware and software products are entitled to refund from IBM if their problems cannot be resolved or the products do not function as warranted.

For high-end enterprise IT products, the Group places order with IBM only upon confirmation of orders from its customers. Pursuant to the distribution agreements with IBM, those products are physically delivered from overseas by IBM to Futong HK in Hong Kong. The titles to and risks associated with these products purchased from IBM are passed to the Group upon delivery. During the Track Record Period, all high-end enterprise IT products were shipped by IBM from overseas directly to Futong HK. Futong HK sells and delivers high-end enterprise IT products directly to the import and export agents or other companies, which are located in either Hong Kong or the PRC, as nominated by the PRC customers for import and delivery of the products to the Group’s customers or business partners in the PRC. Part of the sales of Futong HK is also made to Futong Dongfang upon confirmation of orders from its customers, the amount of which would be eliminated in deriving the Group’s revenue.

For entry-level or mid-range enterprise IT products, the Group prepares its purchase plan based on its then inventory level and expected market demand, places orders from time to time and adjust and/or reschedule the product purchases before the scheduled delivery in order to meet the then market demand. Products are generally delivered from IBM directly to Futong Dongfang’s warehouse in Beijing, the PRC, and the titles to and risks associated with the products purchased from IBM are generally passed to the Group upon delivery. On occasions when entry-level or mid-range enterprise IT products are sold together with high-end enterprise IT products or on request by the Group’s customers who wish to take delivery of the products in Hong Kong, those entry-level or mid-range enterprise IT products are delivered to Futong HK in the same manner as described in the previous paragraph above.

The suppliers of IBM’s products extend credit to the Group to allow flexibility for the Group to manage its payment cycle. The Group is generally allowed 60 days from the invoice date to make payments, with interest charged on any outstanding balance over 30 days. During the Track Record

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Period, the credit charges paid/payable by the Group to the suppliers of IBM's products were approximately HK\$9.3 million, HK\$12.5 million, HK\$11.1 million and HK\$3.5 million respectively, accounting for approximately 31.1%, 40.6%, 32.5% and 30.3% of the Group's total finance costs for each corresponding period respectively. The interest rates charged by the suppliers of IBM's products ranged from 8.0% to 12.0% during the Track Record Period, which were generally higher than the interest rate imposed by banks in corresponding period. The Group has good and long-term relationship with major commercial banks in the PRC and Hong Kong, which have provided the Group with banking facilities. The Group has neither breached the covenants relating to drawn down facilities nor experienced any difficulties in renewing its banking facilities and no late repayment of bank loans were noted during the Track Record Period. Despite this, the Group has sometimes opted for the use of suppliers' credit mainly due to i) the flexibility in drawdowns and repayments offered by suppliers' credit, subject to working capital requirement of the Group; and ii) no request by suppliers' credit for any security deposits from the Group, which were normally the pre-requisites of bank loans. As advised by the Company's PRC legal advisers, such credit arrangement offered by suppliers of IBM's products does not fall into category of financing among enterprises, and is not subject to the relevant restrictions under the Lending General Provision 《貸款通則》 under the PRC laws.

Minimum purchase attainment

In accordance with the distribution agreements with each of the four group companies of IBM, the Group is required to achieve minimum annual purchase attainment for different IT products. If such minimum annual purchase attainment cannot be achieved by the Group, each of the four group companies of IBM is entitled to terminate its agreement, but may at its own discretion, allow the Group a reasonable opportunity to cure the breach. The aggregate amount of the minimum purchase attainment committed by the Group for products of IBM during the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 were approximately HK\$539.5 million, HK\$838.2 million, HK\$964.9 million and HK\$926.8 million respectively. The Directors confirm that the Group has achieved all the minimum annual purchase attainments for the years of 2006 to 2008 and is in the course of achieving the minimum annual purchase attainments for the year of 2009.

Termination

Furthermore, pursuant to the distribution agreements between the Group and each of the four group companies of IBM, either party is entitled to (i) terminate the agreement on written notice if the other party breaches a material term of the agreement, or (ii) terminate the agreement, with or without cause, on three months' written notice. Before termination of the agreement for cause, each of the four group companies of IBM may, at its own discretion, allow the Group a reasonable opportunity to cure the breach.

Restrictions

There is no prohibition or restriction in relation to the Group's distribution of similar types of products of other suppliers under the distribution agreements with IBM. There is no provision in these agreements relating to the selling price of the products and the Group may determine the selling prices and terms for the sale of these products at its own discretion. There is no recommended selling price of the products from IBM for the Group.

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Price protection

If IBM decreases the price or increases the discount for a product, the Group will be eligible to receive a price decrease credit or discount increase credit for that product acquired from IBM during the two months prior to the effective date of the change. During the Track Record Period, such credits received by the Group from IBM amounted to approximately HK\$0.7 million, HK\$2.5 million, HK\$3.9 million and HK\$2.4 million for the three years ended 31 December 2008 and the six months ended 30 June 2009 respectively.

The Directors confirm that the Group has not experienced any material problems in sourcing products from IBM, and are not aware of any intention on the part of IBM or any events which may result in termination of the Group’s authorized distribution relationship with any of the existing contracting parties of IBM, other than the transfer of the Group’s rights and responsibilities under the distribution agreements signed with one of IBM’s contracting parties to another existing IBM’s contracting party effective from 1 August 2009 upon IBM’s restructuring of its businesses in the PRC.

IBM Solution and Delivery Integration Program

In addition to direct purchase of enterprise IT products from IBM, the Group or previously through Futong ComputerLand has been authorized and admitted to the SDI Program by IBM since 2004 to establish its own assembly base in the PRC for certain System p servers. An assembly base has been set up in the Group’s warehouse in Beijing, the PRC, which can accommodate for assembling and testing of approximately 30 System p servers simultaneously. Partially assembled System p servers (known as an Incomplete System Unit or “ISU”), together with different components based on the requirements from customers, must be sourced from IBM by the Group for further assembly. The completed assembled products are then sold to the Group’s customers with no pricing restriction imposed by IBM.

Under the SDI Program, the Group keeps in stock different models of ISUs and various types of components like processors in its warehouse in Beijing. Upon receipt of order for System p server from a customer with specific requirement, the Group is able to assemble a complete set of System p server in accordance with customer-specific requirement using those ISUs and components already stocked up, rather than placing order to IBM and waiting for order confirmation and delivery from IBM. Especially for customer order on System p server with certain designated specifications, the order placing and delivery process from IBM may take much longer time than that derived from ISUs self assembled by the Group. On request from customers, the Group also pre-installs certain applications into the fully assembled System p server as a value-added service provided to customers, which in turn save customers’ time from installation by themselves. Furthermore, the assembled System p server must pass the functional and operational tests before delivery to customers. Malfunction of any parts of System p server can be detected and fixed by the Group before delivery, which in turn enhances the customers’ satisfaction level by reducing the possibility of error or failure upon installation. While the Group has warranted to IBM that the products assembled by the Group under the SDI Program will be free from defects in workmanship under normal use and operation, IBM is responsible for providing warranty services to the end users, generally for a period of one to three years, in relation to the completed assembled products under the SDI Program which are distributed by the Group under the relevant distribution agreements with IBM.

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During the Track Record Period, the revenue generated from sales of System p servers assembled by the Group was approximately HK\$72.8 million, HK\$125.7 million, HK\$174.8 million and HK\$48.1 million respectively, representing approximately 9.7%, 12.0%, 12.9% and 6.6% of the total revenue of System p servers sold by the Group respectively. The utilization rate of the Group's assembly line was approximately 64.6%, 51.7%, 44.0% and 11.2% in the corresponding period respectively.

As an authorized partner to the SDI Program, the Directors believe that the Group is able to (i) offer tailor-made assembled enterprise IT products which are customized to suit its customers' needs; (ii) respond faster to its customers' needs as it has more control over the products that it delivers by assembling them in its own facilities rather than ordering the final products directly from IBM; and (iii) reduce its inventory risk by stocking up the components or ISUs instead of complete sets of models with prescribed specifications.

Rebate Schemes

Suppliers of IBM's products have implemented various rebate schemes to reward their business partners, including the Group, upon achievement of certain purchase and sales targets on different models and types of products. The rebate schemes implemented by suppliers of IBM's products vary from time to time based on the then market conditions, their selling prices of products and their sales and marketing strategies in order to encourage more purchases from business partners and more sales by business partners of their products while maintaining the price competitiveness of their products in the market. The rebates are granted by suppliers of IBM's products upon achievement of the purchase or sales target within the period specified in individual rebate scheme which, inter alia, covers month, quarter or year and the terms, as well as the granting and amount of such rebates are at the sole discretion of suppliers of IBM's products. Any launch of new rebate schemes and change in terms of rebate schemes are communicated by suppliers of IBM's products to business partners, including the Group, through advanced written notice. During the Track Record Period, the rebate schemes under which the Group received rebates from suppliers of IBM's products were performance-based with reference to the volume of purchases and sales of certain enterprise IT products as specified by them, mainly servers and system storage products, made by the Group. The Directors confirm that the Group has not experienced any material change of terms of rebate schemes by suppliers of IBM's products after their inception of individual scheme.

During the Track Record Period, suppliers of IBM's products normally granted the Group purchase volume rebates at the expiry of individual rebate schemes after taking into account the volume of purchases made by the Group. As the amount of rebates based on the purchase volume made by the Group could be reliably estimated in accordance with individual rebate schemes, the Group made accrual of such rebates to net off against inventory, which were then realized upon sale of those products through cost of sales, and adjusted the amount upon receipt of credit note from suppliers of IBM's products for any difference arose. For rebates based on sales volume made by the Group, the Group was entitled to such rebates only when the products have been sold to end-users. As the products which were eligible for this kind of rebate were generally low end products which were sold to system integrators for their subsequent resale to end-users, IBM would normally process the rebate application by the Group after the system integrators have sold the products to the end-users. These rebate applications were subject to review and verification by suppliers of IBM's products on the

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supporting documents provided by the Group, the approval of which was at sole discretion of the suppliers of IBM's products. As a result, the Group could not reliably estimate these rebates at the point of sales by the Group and thus the Group recognized these rebates only upon the approval from the suppliers of IBM's products.

During the Track Record Period, the Group recorded rebates of approximately HK\$56.3 million, HK\$45.6 million, HK\$67.2 million and HK\$10.2 million from suppliers of IBM's products for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively and approximately HK\$69.1 million, HK\$47.2 million, HK\$60.1 million and HK\$18.5 million were realized in the cost of sales respectively, representing approximately 3.8%, 2.5%, 2.5% and 1.7% respectively of the Group's total cost of sales before rebates for the corresponding periods. The amount of rebates entitled by the Group generally decreased during the Track Record Period as a result of launch of fewer rebate schemes by suppliers of IBM's products and decrease in rates of rebates. The increase in the rebates recorded by the Group for the year ended 31 December 2008 was mainly due to the launch of a rebate scheme with a higher rate of rebate for a product by the suppliers of IBM's products to encourage purchases from the business partners. The rebates were subsequently approved by the suppliers of IBM's products and no material variances were noted during the Track Record Period. Based on the Group's experience and understanding, the rebates offered by suppliers of IBM's products may fluctuate due to changes in their marketing strategies to cope with market situations at different times. For details of the risks associated with the rebates from suppliers of IBM's products, please refer to the paragraph headed "Reliance on rebates from suppliers of IBM's products" in the section headed "Risk factors" in this document. In determining the selling prices for IBM's products, it is the practice of the Group to maximize its profitability by taking into account a number of factors including the cost of purchases, payment terms, the possible rebates on the products and the then market demand on the products. As at the Latest Practicable Date, the Group has not received any indication from the suppliers of IBM's products that the principal terms of any rebate schemes being implemented will change significantly and the Directors were not aware of any commercial reason why IBM would terminate the operation of rebate schemes as one of its sales strategies in the near future.

Rebates payable to the Group from its suppliers are paid by the suppliers to the Group directly instead of to the Group's employees, and the salaries of the employees are not correlated to the amount of rebates received by the Group. As such, the Directors do not consider that any such rebate schemes will give rise to any risk of bribery or misconduct by the Group's employees. In addition, to prevent its employees from engaging or involving in bribery or misconduct, the Group has implemented measures, which include among others, the enactment of a code of conduct, the establishment of an internal audit department, the segregation of power of officers in the supply department and the implementation of budgeting and expense control. The Directors consider that these measures and arrangement are adequate and conducive to good corporate governance for the Group.

Oracle

Since 2002, the Group or previously through Futong ComputerLand has developed non-exclusive distribution relationship with Oracle. The Group has entered into distribution agreements with Oracle for the distribution of their enterprise IT products, with the term generally ranging from one year to

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three years, and on non-exclusive basis. Upon expiry of distribution agreement with Oracle, the Group is required to execute the then current version of Oracle’s distribution agreement, subject to acceptance by Oracle. Set out below are the respective commencement and expiry dates of the Group’s current distribution agreements with Oracle:

Supplier	Product	Commencement date	Expiry date
Oracle	Software products, learning credits and technical support services in association with the software products (to Oracle’s resellers)	14 April 2009	13 April 2012
Oracle (“Oracle Partnernetwork Full Use Program Distribution Agreement”)	Software products, learning credits and technical support services in association with the software products (to end-users)	24 January 2008	23 January 2010
Oracle	Oracle’s technology based training software products, learning credits, education services, and vouchers and bundles of Oracle Certified Professional (OCP) examination (to end-users)	29 June 2009	28 June 2010

The Group is generally required to make payment within 30 days of the invoice date for purchase of Oracle’s products. The suppliers generally provide warranty services in relation to the products supplied for a period of one year. During the warranty period, end-users of software products or services are entitled to recover the fees paid to Oracle for the program license and any unused, prepaid technical support fees if the product does not perform as warranted or if the service does not conform to industry standard.

Minimum purchase attainment

In accordance with the distribution agreements and their addendum between the Group and Oracle, the Group is not required to achieve any minimum purchase attainment.

Termination

Either party is entitled to terminate the agreements if the other party fails to cure the breach of such terms within 30 days, and if the Group breaches the terms in the addendum to the Oracle

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Partnernetwork Full Use Program Distribution Agreement, Oracle is entitled to terminate the Oracle Partnernetwork Full Use Program Distribution Agreement upon seven days' notice. Except for non-payment of fees, the non-breaching party may agree in its sole discretion to extend the 30-day period for so long as the breaching party continues reasonable efforts to cure the breach. Either party may also terminate the agreements, with or without cause, on 30-days' or 90-days' written notice to the other party. The Directors confirm that the Group has not experienced any material problems in sourcing products from Oracle, and are not aware of any intention on the part of Oracle or any events which may result in termination of the Group's authorized distribution relationship with Oracle.

Restrictions

There is no prohibition or restriction in relation to the Group's distribution of similar types of products of other suppliers under the distribution agreements with Oracle. There is no provision in these agreements relating to the selling price of the products and the Group may determine the selling price for the distribution of the products of Oracle to its customers. Any purchase order placed by the Group with Oracle for the back-to-back purchase of the products from Oracle will be subject to the price lists and discount terms of Oracle in effect at the time the purchase order is submitted. There is no recommended selling price of the products from Oracle for the Group.

Price protection

If the price lists of Oracle change after the Group issues a written quote to its customer, within 90 days after the written quote is submitted to the customer, the price of products sold by Oracle under the back-to-back order shall be based on the price lists in effect on the date the quote is submitted to the customer.

Rebates

The Group has not received any rebates from Oracle during the Track Record Period.

Huawei Symantec

The Group has also entered into non-exclusive distribution agreements with Huawei Symantec for distribution of their enterprise IT products with a term of one year. Upon expiry of the distribution agreement with Huawei Symantec, the renewal of the distribution agreement will be negotiated between the Group and Huawei Symantec.

Set out below are the commencement and expiry dates of the Group's current distribution agreements with Huawei Symantec:

Supplier	Product	Commencement date	Expiry date
Huawei Symantec	Servers, storage products, and IT security products	1 January 2009	31 December 2009

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The Group is generally required to make payment by cash on delivery for purchase of Huawei Symantec's products. The suppliers generally provide warranty services in relation to the products supplied for a period of one year to three years. During the warranty period, the Group is required to collect faulty products or parts from the end-users and return them to the suppliers for repair, replacement or refund.

Minimum purchase attainment

In accordance with the distribution agreements and its addendum between the Group and Huawei Symantec, the Group is required to achieve minimum purchase attainment, both quarterly and yearly. If 60% of such minimum purchase attainment (either quarterly or yearly) cannot be achieved by the Group, Huawei Symantec is entitled to terminate the agreements in the following quarter or year. The amount of the minimum purchase attainment committed by the Group for products of Huawei Symantec during the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 were nil, nil, approximately HK\$65.3 million and HK\$65.3 million respectively. Since the commencement of distribution relationship with Huawei Symantec from 1 April 2008, the Group has failed to achieve all quarterly and yearly minimum purchase attainments for the distribution of servers and system storage products in 2008 and the first half of 2009 except quarterly minimum purchase attainment for servers in the second quarter of 2008, mainly due to the fact that those servers and system storage products were newly launched to retail market and the Directors believe that more time might be required for wider market acceptance, which resulted in the over-estimation by Huawei Symantec of the extent of market acceptance and minimum purchase attainments. Despite this, the Directors are not aware of any adverse impact to the business relationship between the Group and Huawei Symantec. On the contrary, supplemental agreement has been signed between the Group and Huawei Symantec for inclusion of IT security products to the scope of IT products distributable by the Group effective from 1 July 2009.

Termination

Furthermore, pursuant to the distribution agreements and the supplemental agreement between the Group and Huawei Symantec, Huawei Symantec is entitled to terminate the agreements with 30-day written notice or to terminate the agreements immediately upon occurrence of certain incidents as specified in the agreements, and either party may terminate the agreements if the other party fails to cure the breach within thirty days after receiving the notice of such breach from the non-defaulting party. The Directors confirm that the Group has not experienced any material problems in sourcing products from Huawei Symantec, and are not aware of any intention on the part of Huawei Symantec or any events which may result in termination of the Group's authorized distribution relationship with Huawei Symantec.

Restrictions

Under the distribution agreements with Huawei Symantec, the Group is prohibited from engaging in the development and manufacture of products which may substitute or compete with the products of Huawei Symantec distributed by the Group. However, there is no prohibition in the agreements for the Group to engage in the distribution of similar products. Under the distribution agreements with Huawei Symantec, it would constitute a breach of the agreements if the Group provides a quotation

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to its customers for selling prices different from that as shown on the formal price list for Huawei Symantec's products. In practice, Huawei Symantec does not impose any mandatory selling prices but provides the minimum selling prices for its products only, and, subject to the minimum prices, the Group may determine the selling prices and terms for the sale of these products at its own discretion. The Group is required to inform Huawei Symantec of its proposed lowest selling price of the products sold to the Group's customers by setting out such selling price in the back-to-back purchase order for the products with Huawei Symantec, and Huawei Symantec may refuse to accept such purchase order if the Group's distribution price falls below the minimum selling prices of the relevant Huawei Symantec's products.

Price protection

Notwithstanding there is no price protection provision in the distribution agreements with Huawei Symantec, since all purchase orders with Huawei Symantec are back-to-back purchases for the Group's customers, there is no impact to the Group in the event of any subsequent price increase or reduction of products by Huawei Symantec after the purchase orders are made.

Rebates

The Group has recorded rebates of nil, nil, approximately HK\$1.3 million and HK\$0.2 million respectively from Huawei Symantec during the Track Record Period.

Other

On 23 March 2008, the Group has entered into an agreement with a supplier in the US for distribution of system storage and associated software products effective for an initial term ending on 31 December 2011 and which shall be automatically renewable for consecutive two years terms. Under the agreement, the Group has an exclusive right of distribution in the PRC subject to the achievement by the Group of the annual and quarter minimum net product revenue attainments stipulated under the agreement. If the Group fails to achieve the annual and/or quarter minimum net product revenue attainment, the exclusivity of the distribution right of the Group under the agreement will be revoked and the manufacturer is entitled to terminate the agreement upon 90 days' written notice. The Group has failed to achieve all annual and quarter minimum net product revenue attainments during the Track Record Period. The manufacturer has subsequently waived the obligation of the Group to achieve the product revenue attainments subject to its right to change the exclusivity under the agreement. The Directors do not expect that such change of the exclusivity of the distribution right of the Group under the agreement will have any significant adverse impact to the business development of the Group in the future.

Inventory Management

The Group places purchase orders for high-end enterprise IT products with IBM upon confirmation of orders from its customers. For products which are imported from overseas, the

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products are generally delivered to Futong HK's warehouse in Hong Kong, awaiting (i) delivery to PRC customers' designated licensed import and export agents or other companies in Hong Kong or (ii) import into Futong Dongfang's warehouse or customers' designated place in the PRC through licensed import and export agents.

For those entry-level or mid-range enterprise IT products, the Group places regular orders with suppliers, including IBM, based upon, among other things, the Group's then expected market demand and inventory level, so that the Group can maintain a certain level of inventory to arrange delivery to customers upon request at a relatively short period of time. Normally, the Group receives products from IBM and other suppliers within 30 days after the supplier's confirmation of the Group's purchase orders.

In order to accommodate customers' demand promptly and to minimize the risk of obsolete or slow-moving stock, the Group maintains a certain inventory level and adopts the following inventory control measures:

- keep updates on then IT development needs and latest IT technology trends through frequent communication with the Group's customers and suppliers;
- make purchase orders for products which are expected to be in demand based on the Group's understanding about the market needs;
- closely monitor the inventory level through weekly review by the Group's management to ensure that appropriate measures are taken to resolve any issue of slow-moving stocks.

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) of the Group are approximately 77.3 days, 69.5 days and 59.4 days for each of the three years ended 31 December 2008 respectively and approximately 55.4 days for the six months ended 30 June 2009.

SALES AND MARKETING

Customers

Being one of the leading distributors of enterprise IT products in the PRC, the Group maintains a nationwide network of customers with business relationships up to 9 years, covering end-users and business partners. Other than purchasing enterprise IT products directly from the Group, end-users may have business application which requires services from system integrators or independent software vendors who are able to provide IT solutions for such business application integrating the application software and the enterprise IT products that the Group distributes. Hence, the Group also sells enterprise IT products to those system integrators and independent software vendors and consider them as business partners of the Group. During the Track Record Period, approximately 86.2%, 87.6%, 84.8% and 63.1% of the Group's revenue was derived from the sales to business partners respectively and the remaining was derived from the sales to end-users. The Directors do not expect any material change in the proportion of sales to business partners and end-users in the near future. Upon

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confirmation of sales orders from end-users or business partners, the Group enters into sales contracts with them, the terms and prices of which are subject to individual negotiation without recourse on products sold. 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. The end-users of the enterprise IT products that the Group sells (either directly or through business partners) include government bodies, national financial institutions, large-scale national companies engaging in industries of telecommunications, petroleum and manufacturing, and small to medium enterprises in the PRC.

During the Track Record Period, the Group's five largest customers (on individual entity basis) accounted for approximately 10.8%, 11.3%, 17.3% and 17.0% of the Group's total sales revenue for each of the three years ended 31 December 2008 and for six months ended 30 June 2009 respectively, while the Group's five largest customers (on group basis) accounted for approximately 10.8%, 11.3%, 18.0% and 33.0% of the Group's total sales revenue in corresponding periods respectively. Meanwhile, the Group's largest customer (on individual entity basis) accounted for approximately 2.6%, 3.6%, 5.3% and 4.8% of the Group's total sales revenue for the corresponding periods respectively and the Group's largest customer (on group basis) accounted for approximately 2.6%, 3.6%, 5.3% and 18.7% of the Group's total sales revenue for the corresponding periods respectively. The Directors have confirmed that, save for Futong ComputerLand and Beijing Deep Thought being two of the five largest customers of the Group for the year ended 31 December 2006, none of the Directors, their respective associates or, so far as the Directors are aware, Shareholders (who will own more than 5% of the issued Shares immediately after completion of the [●] and the Capitalization Issue and taking no account of allotment of any Shares which may be taken up under the [●] or allotted or issued pursuant to the exercise of the [●]) had any interest in any of the five largest customers of the Group during the Track Record Period. The following table sets out the Group's sales revenue generated from end-users of different sectors (either through direct sales or business partners) during the Track Record Period:

	For the year ended			For the
	31 December			six months
	2006	2007	2008	ended
	HK\$'000	HK\$'000	HK\$'000	30 June
				2009
				HK\$'000
Government bodies (including educational institutions)	372,728	452,289	526,777	157,151
Financial institutions (including banks and insurance companies)	437,319	617,010	982,874	296,948
Telecommunications	279,815	205,602	254,421	359,835
Petroleum and manufacturing	181,290	129,476	105,056	27,848
General business	<u>575,532</u>	<u>614,445</u>	<u>685,411</u>	<u>342,124</u>
Total	<u><u>1,846,684</u></u>	<u><u>2,018,822</u></u>	<u><u>2,554,539</u></u>	<u><u>1,183,906</u></u>

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(i) **Government bodies**

The Group has offered enterprise IT products to tax bureau, security bureau, statistics bureau, government, government information center, administration authority and airport authority.

(ii) **Financial institutions**

The Group has offered enterprise IT products to the five largest national banks (four of which are listed) and the largest national life insurance and non-life insurance companies in the PRC.

(iii) **Telecommunications**

The Group has offered enterprise IT products to some listed national telecommunications companies.

(iv) **Petroleum and manufacturing**

The Group has offered enterprise IT products to the three largest listed national petroleum companies and car manufacturing company.

(v) **General business**

The Group has offered enterprise IT products to some national tobacco and electric power companies.

Sales and marketing activities

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

Sales leads are usually generated through the Group’s marketing activities, as well as referrals from the Group’s suppliers and business partners, such as independent software vendors and system integrators. The Group also participates in tenders, where a proposal and a quotation based on pre-specified business needs and/or technical requirements are prepared. Typically, upon the identification of a sales opportunity, the sales staff prepares the IT technical proposal (with the assistance from IT technical team) and the quotation with terms and conditions for review by the Group’s management and legal counsel, but in certain circumstances, such proposals and quotations are also reviewed by the Group’s other departments, including the finance and logistics departments. Once the technical proposal and quotation are accepted by the offeror of the tender, the customer order is confirmed, and the terms and conditions of the contract are agreed upon, purchase orders for the

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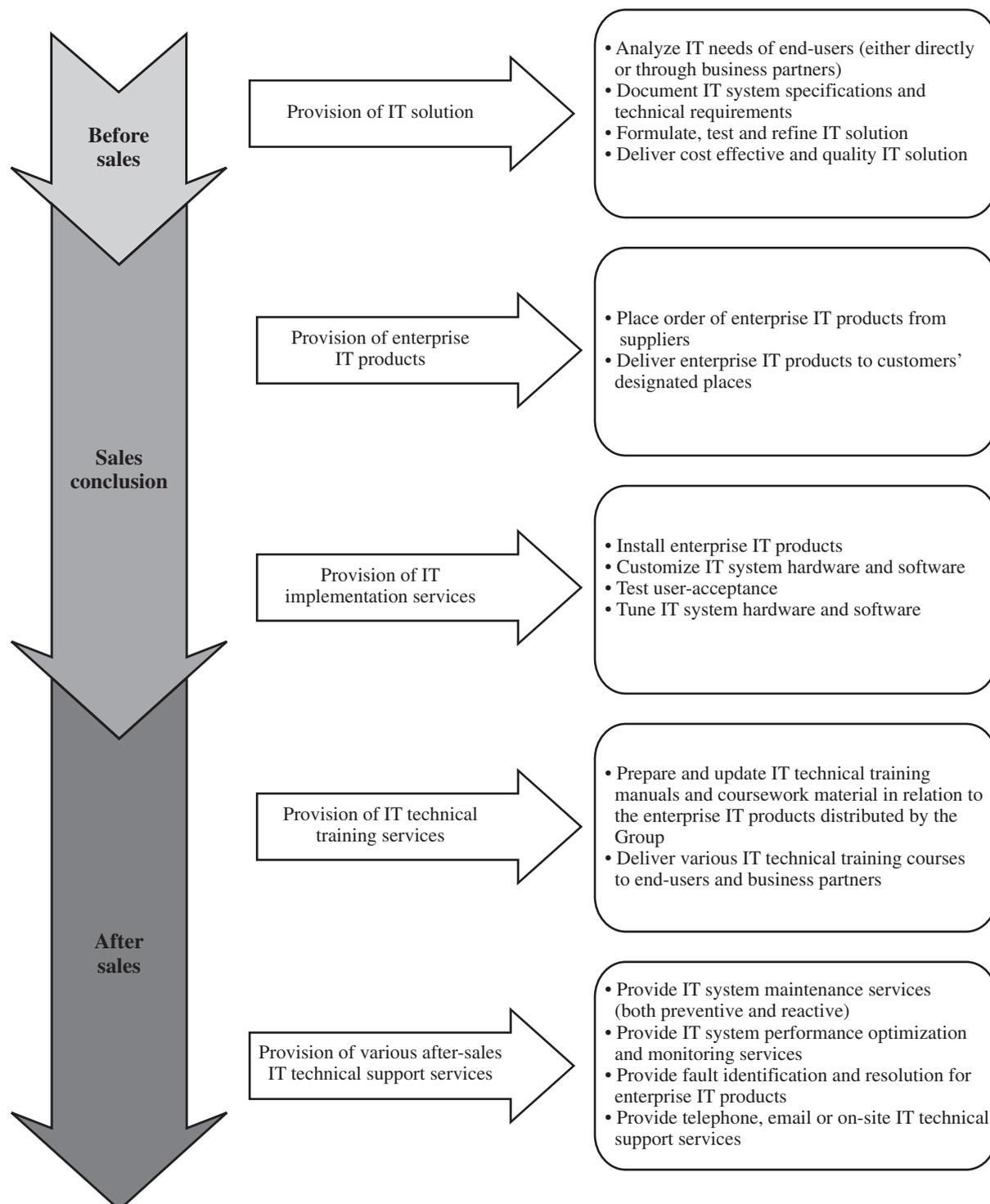
products and/or services are placed with relevant suppliers after reviewing the Group's inventory on hand. Besides pursuing sales lead and concluding sales contract, the Group's sales personnel are also responsible for the management of the Group's customer accounts, including soliciting feedback from the Group's customers.

Upon receipt of products from suppliers, the products are delivered by the Group to the places designated by customers for installation, the completion of which usually takes about one to two weeks and the revenue from the sale of products is recognized upon delivery. Revenue from provision of IT services is recognized upon services rendered. For certain contracts which last for one to two years of which services have not been rendered at the balance sheet dates, the deferred income are recorded as other payables. The amount of deferred income amounted to nil, nil, approximately HK\$6.1 million and HK\$4.3 million respectively during the Track Record Period. For each of the three years ended 31 December 2008 and for the six months ended 30 June 2009, 3,279 sales contracts, 2,586 sales contracts, 2,837 sales contracts and 1,191 sales contracts were signed respectively, while 2,716 sales contracts, 1,918 sales contracts, 2,211 sales contracts and 819 sales contracts were completed respectively. No rebates were given to any customers by the Group during the Track Record Period. Generally, end-users replace their enterprise servers every three to five years with new models of higher computing power to save maintenance costs to be incurred for old models. Furthermore, end-users may demand for more enterprise servers to cater for their IT needs driven by business expansion. Hence, although each sales transaction is concluded by the Group on project and non-recurring basis, end-users and business partners may make repeated purchases of enterprise IT products from the Group. For each of the three years ended 31 December 2008 and for the six months ended 30 June 2009, the Group has signed contracts with 1,281 customers, 1,091 customers, 1,106 customers and 585 customers respectively, among which approximately 58.5%, 68.1%, 68.7% and 65.6% of customers respectively have made repeated purchases from the Group. Furthermore, some of the national and large-scale corporations in the PRC, including the five largest national banks, the largest non-life insurance company, the three largest national telecommunications companies and one of the largest three petroleum companies, and government agencies, including state and local tax or financial bureaus and security bureaus, have made purchases (either directly or through business partners) annually from the Group during the Track Record Period. The sales to the national and large-scale corporations in the PRC (either directly or through business partners) for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 were approximately HK\$876 million, HK\$1,020 million, HK\$1,414 million and HK\$924 million respectively, accounting for approximately 47.4%, 50.5%, 55.3% and 78.0% of the Group's revenue for the corresponding periods respectively.

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In order to enhance the brand awareness and user acceptance of the enterprise IT products offered by the Group, the Group proactively engages in marketing activities like sending out mailers and organizing roadshows to introduce those enterprise IT products as well as organizing seminars and IT technical trainings for business partners and end-users. These activities allow the Group to highlight its suppliers’ marketing messages and at the same time demonstrate the Group’s technical capabilities and knowledge.

Sales flow



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Payment terms and credit policy

The Group's general policy is to require prepayments or letters of credit with credit periods of 30 to 90 days from its customers. All payment terms and credit terms are recommended by the Group's sales team and are subject to review and approval by the Group's management, based on the customers' payment history, financial background, transaction volume and length of business relationship with the Group. All outstanding trade receivable balances are being reviewed by the Group's sales managers on a weekly basis to ensure that any over-due receivables are promptly monitored and appropriate collection actions are taken. For customers who have exceeded their credit terms, the Group's sales personnel follow up on the collections and the Group's finance department monitors the progress of the collection. For those material long outstanding balances, legal actions may be taken for debt collection.

During the Track Record Period, the Group's trade receivables turnover days (being the average of beginning and closing net trade and bills receivables of the year/period divided by the total sales revenue and multiplied by 365 days or 181 days, as the case may be) for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 are 60.8 days, 74.6 days, 80.9 days and 97.9 days respectively.

Product return policy

In accordance with the distribution arrangements between the Group and the suppliers, the warranties of the products that the Group distributes are borne by the suppliers and the product return is subject to the suppliers' warranty policies as stated in the paragraph headed "Distributorship" in this section of the document. The Group generally does not stipulate any rights of product return in the sales contracts entered into with the customers, except in certain circumstances subject to negotiation, the Group may allow product return in the event of any breach of contract due to the default of the Group. The Directors confirm that the Group has not experienced any material product return from its customers during the Track Record Period.

Performance security guarantees

During the Track Record Period, the Group has given certain performance security guarantees to its customers by deposits placed with banks and independent credit guarantee companies. These performance security guarantees are valid for a specific period and will only be utilized in the event of any breaches of the contracts due to the default of the Group. The significant increase in the outstanding amount as at 31 December 2008 was mainly due to the increase in sales to financial institutions of which performance security guarantees were required. As at the Latest Practicable Date, the Group had not breached any of its obligations under the relevant contracts and therefore the amount of performance security guarantees had not been utilized.

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AWARDS AND RECOGNITIONS

The Group or previously through Futong ComputerLand has received various awards and recognitions from IBM for its recognized achievements in distribution of enterprise IT products of IBM in the PRC, the details of which are set out below.

Year of award	Award/ recognition	Awardee
1997	IBM Asia/Pacific 1997 Business Partner Recognition Award: Most Outstanding New Distributor — GCG	Futong ComputerLand
1997-2002, 2004	IBM Best Distributor	Futong ComputerLand
1998-2005	IBM Asia Pacific Top BP/Business Partner Excellence Award and IBM China Top Distributor/Outstanding Achievement Award	Futong ComputerLand
1998, 2000-2006	IBM Storage Leadership/Best Contribution Award	Futong ComputerLand/ Futong Dongfang <i>(since 2005)</i>
1999, 2002-2003	IBM Software Best Value Added Distributor Award	Futong ComputerLand
2001	IBM eServer Partner of Distinction	Futong ComputerLand
2002	Rookie of the Year (IBM eServer xSeries in the PRC)	Futong ComputerLand
2002-2005	IBM eServer pSeries Best Distributor Award (where sales revenue of IBM eServer pSeries was over USD100 million)	Futong ComputerLand/ Futong Dongfang <i>(since 2004)</i>
2004, 2006	IBM Long-term Business Partner Award	Futong ComputerLand
2006	IBM Eastern China Best Partner Award	Futong Dongfang
2006	IBM STG pSeries Best Distributor (Industry Sector Development) Award	Futong Dongfang
2006	IBM Software Database Product Value Added Distributor 100% Growth Award	Futong Dongfang
2007	IBM Certificate of Outstanding Achievement for Achieving the Number 1 Ranking in IBM AP SDI Program Revenue Attainment	Futong Dongfang

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Year of award	Award/ recognition	Awardee
2007-2008	IBM Best/Outstanding Contribution Award	Futong Dongfang
2008	IBM Certificate of Outstanding Achievement for 2008 as the First IBM SDI Distributor shipping more than 1,000 Power systems in a single year and achieving the highest AP SDI utilization	Futong Dongfang

The above awards and recognition signify well-established leading position of the Group in distribution of enterprise IT products of IBM in the PRC market, which lays a good foundation for the Group in capturing a larger market share by leveraging on its competitive strengths as detailed in the paragraph headed “Competitive strengths” above.

COMPETITION

The PRC market of enterprise IT products is dominated by a limited number of large distributors, which compete on numerous criteria, namely price, scope and quality of products and services provided, technology capabilities of IT solutions offered, coverage of distribution and service networks, and availability of financial resources.

As of 30 June 2009, IBM had in the PRC 20 authorized distributors for System p server and system storage products, 11 authorized distributors for System x server products and 6 authorized distributors for software products, all on non-exclusive basis, and about 5 out of those 20 authorized distributors, including the Group, were considered as core distributors by IBM for distribution of IBM’s System p server and system storage products in the PRC. The Directors confirm that the Group faces competition in the PRC market from those distributors as well as the pricing pressure on the IT products as a result of rapid IT technology advancement. Furthermore, apart from IBM, there are other global IT vendors, such as Hewlett Packard and Sun Microsystems that may offer enterprise IT products with similar features and functions as those of IBM, which may compete with IBM’s enterprise IT products that the Group distributes. According to “IDC — PRC IT Market Overview and Forecast”, in terms of 2008 sales revenue, Hewlett Packard’s enterprise IT products accounted for approximately 27.9%, 28.5%, 14.2% and 22.7% of the PRC IT market for non-x86 servers, x-86 servers, external disk storage products and tape storage products respectively while Sun Microsystems’ enterprise IT products accounted for approximately 17.8%, 7.3% and 11.9% of the PRC IT market for non-x86 servers, external disk storage products and tape storage products respectively. For further details of the associated risks, please refer to the paragraph headed “Intense competition in the IT industry in the PRC” under the section headed “Risk factors” in this document.

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The Group is also an authorized distributor of Oracle’s and Huawei Symantec’s products. The products that the Group distributes for Oracle include middleware like database management software which, the Directors consider, directly competes with IBM’s middleware distributed by the Group. According to “IDC — PRC IT Market Overview and Forecast”, Oracle and IBM were the top two vendors in the PRC middleware market in terms of 2008 sales revenue, accounting for market share of approximately 24.4% and 18.3% respectively. The products that the Group distributes for Huawei Symantec include enterprise servers and system storage products which are generally applied by end-users for non-core applications or processes while those IBM’s enterprise servers and system storage products distributed by the Group are generally applied by end-users for core applications or processes, so the Directors consider that there may not be any direct competition among such products. On the contrary, complemented by the product portfolio of Huawei Symantec, the Group’s current product portfolio is more diversified.

Although IBM, Oracle or Huawei Symantec have not disclosed to the Group of the pre-requisite and on-going requirements that must be satisfied in order to become and continue to be their authorized distributor, the Directors believe that there are some entry barriers for new entrants to the industry as it would take time to build comprehensive sales and procurement networks, acquire technical know-how and knowledge on the features of the enterprise IT products and get in-depth and updated understanding of the IT requirements of various business sectors.

In order to cope with those competitions and strengthen the Group’s competitive position in the market, the Group endeavours to keep abreast with the latest market development, development needs of various industry segments, and product and technology advancement. Furthermore, the Directors believe that with the Group’s profound relationship with suppliers, end-users and business partners, well-established nationwide distribution and service networks, and dedicated management and professional team of sales and IT technical personnel, the Group has a solid foothold in the PRC enterprise IT products and services market for future business development.

QUALITY CONTROL

The Group has developed a comprehensive quality management system and first obtained the ISO9001:2000 quality management system certificate on 10 May 2004, which, upon latest renewal, is valid for a period of three years from 8 May 2009 covering the areas of software development, sales, assembly implementation and services of system integration design.

INTELLECTUAL PROPERTY RIGHTS

The Group conducts its business principally under the trademark “ Futong 富通”, which is registered in the PRC and Hong Kong. The Group is also the registered owner of a domain name in the PRC, a domain name in Hong Kong and a number of software copyrights in the PRC in relation to certain software developed for application by its internal business processes. The details of the trademarks, domain names and software copyrights are set out in the paragraph headed “Intellectual property rights of the Group” under the section headed “Further information about the business of the Company” in Appendix VI to this document.

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PROPERTY INTERESTS

As at the Latest Practicable Date, the Group owned one property in Beijing as its principal offices in the PRC, and leased 17 properties in the PRC and Hong Kong for branch/ representative offices, warehouses and staff quarter, with summary as below.

	The PRC	Hong Kong	Total
Owned Property			
Offices	<u>1</u>	<u>Nil</u>	<u>1</u>
Leased Properties			
Offices	13	1	14
Warehouses	1	1	2
Staff quarter	<u>—</u>	<u>1</u>	<u>1</u>
	<u>14</u>	<u>3</u>	<u>17</u>

The Group’s headquarter and principal offices are located 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 (“**Owned Property**”) with gross floor area of approximately 2,226.38 sq.m. and its principal warehouse is located at Warehouses A and B located at the north of Fu Qian’er Street, Tianzhu Town, Shunyi District, Beijing, the PRC with gross floor area of approximately 3,533.1 sq.m., which is also the Group’s assembly base for IBM’s SDI Program.

The Group has obtained all title certificates required by the relevant PRC governmental authorities in respect of the Owned Property. The Group also occupies and uses four underground car parking lots situated at the building of the Owned Property. Pursuant to the supplemental agreement to the sale and purchase agreement dated 5 January 2005 and entered into by Futong HK for the acquisition of the Owned Property, the seller had agreed, among other things, to transfer the four underground car parking lots to Futong HK as a gift. Nevertheless, as at the Latest Practicable Date, Futong HK has not yet applied for obtaining the title certificate(s) for the four underground car parking lots. As advised by the Company’s PRC legal advisers, there might not be substantial legal impediment that may prevent Futong HK from applying for and obtaining the title certificate(s) for the four underground car parking lots subject to the satisfaction of all relevant laws and regulations in relation to the title ownership of those four underground car parking lots by the developer of the building; however, the risk that the competent housing authority may not accept the application for obtaining the title certificate(s) for the four underground car parking lots cannot be ruled out as currently it is at the sole discretion of the competent housing authority to determine whether to accept such application and to issue such title certificate(s). The Group has been using the four underground car parking lots since Futong HK acquired the Owned Property and there has not been any problem or interruption from the seller or management office of the building. The use of four underground car parking lots does not have any impact on the operation of the Group and therefore the Directors are of the view that the failure to obtain the title certificates in respect of these underground car parking lots is immaterial to the Group.

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As at the Latest Practicable Date, the Group had a total of 1 owned property in the PRC, 14 leased properties in the PRC and 3 leased properties in Hong Kong. As at the Latest Practicable Date, there were certain immaterial defects or issues in title among the following properties:

- (i) the tenancy agreement in respect of the Owned Property was refused to be registered with local authorities for the reason that the Owned Property was leased by Futong HK to Futong Dongfang at nil consideration;
- (ii) the sub-tenancy agreement in respect of the property situated at a portion of Unit 615 on Level 6, Zhucheng Building, No. Jia 6 Zhongguancun Nan Avenue, Haidian District, Beijing, the PRC (the “**Haidian Property A**”) has not been registered with local authorities and Futong Unica is in the process of procuring the landlord to make the relevant registration;
- (iii) the landlord of the tenancy agreement in respect of the property situated at Room 793 on Level 7, Fanya Building, No. 128 Zhichun Road, Haidian District, Beijing, the PRC (the “**Haidian Property B**”) is in the process of applying for a change of name of registered owner of the title certificate to reflect its change of name from Beijing Futong Times Computer Co. Limited (北京富通時代電腦有限公司) to Beijing Times Xingda Computer Co., Ltd. (北京時代興達電腦有限公司); and
- (iv) there has been no consent from the owner and the owner’s mortgagee in relation to the sub-tenancy of 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 (the “**HK Property**”) and the user of the property as storage purpose does not conform with the permitted user of workshop for non-domestic use as set out in the occupation permit of such premises.

As advised by the Company’s PRC legal advisers, the non-registration of the tenancy in respect of the Owned Property will not invalidate the tenancy. However, it is possible that Futong HK and Futong Dongfang, being the landlord and lessee of the Owned Property, would be subject to administrative punishment by the relevant land administration bureau. As advised by the Company’s PRC legal advisers, the maximum penalty would be RMB500.

In respect of the Haidian Property A, it is provided by the landlord to Futong Unica merely as the registered office of Futong Unica for registration purpose. Futong Unica will rent another office should it commence its business. Therefore, this trivial issue relating to the Haidian Property A has no impact on the Group’s business at all.

In respect of the Haidian Property B, as advised by the Company’s PRC legal advisers, the tenancy agreement is legal, valid and enforceable under the PRC laws and there is no legal impediment for the landlord to complete the registration at the competent housing authority for a change of name of registered owner of the title certificate from Beijing Futong Times Computer Co. Limited (北京富通時代電腦有限公司) to Beijing Times Xingda Computer Co., Ltd. (北京時代興達電腦有限公司), and therefore this trivial issue has no impact on the Group’s business at all.

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In respect of the HK Property, it is used for storage purpose by the Group in Hong Kong with the logistic services out-sourced to an Independent Third Party. As advised by the Company's Hong Kong legal advisers, the Building Authority may order Futong HK as occupier of the HK Property to discontinue the present use within one month from the service of the order. In the event of Futong HK failing to comply with the order without reasonable excuse, it could be liable on conviction to, among others, a fine of HK\$50,000 and a daily fine of HK\$5,000 for each day of non-compliance. The Directors are of the view that there is abundant supply of similar premises and logistic services in nearby area, and therefore the Directors do not foresee any difficulties to relocate the storage; and there will be no material disruption to the business of the Group in the event of such relocation. In addition, the Controlling Shareholders will provide an indemnity in favour of the Group against any loss and damage it may suffer for relocation due to such failure to obtain the consent from the owner and the owner's mortgagee or the non-conformance of the permitted user under the occupation permit for the premises. For details of the indemnity, please refer to the paragraph headed "Estate duty, tax and other indemnity" in Appendix VI to this document.

The interests of the Group in these owned and leased properties as at 30 September 2009 have been valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the details of which are set out in Appendix IV to this document.

INSURANCE

As at the Latest Practicable Date, the Group has maintained a number of insurance policies to cover its fixed assets and inventories in offices and warehouses in Beijing and Hong Kong, as well as cargo delivery from US to Hong Kong, from Hong Kong to the PRC and within the PRC. As required by and in compliance with the relevant PRC rules and regulations, the Group has provided social insurance to its employees in the PRC. Other than that, the Group does not carry any product liability, third party liability or business interruption insurance as it is not required by laws in Hong Kong and the PRC. Furthermore, in accordance with the distribution arrangements with the Group's suppliers, the warranties of the products that the Group distributes are borne by the Group's suppliers and the Directors confirm that the Group has not experienced any material product return or product liability claim from its customers during the Track Record Period. The Directors are of the view that the Group's insurance coverage, which is generally in line with industry practice in the PRC and Hong Kong, is adequate for its operation.

LITIGATION

On 1 December 2008, a civil claim of approximately RMB8.2 million was lodged against Futong Dongfang by a customer for deficiency in capability of data storage facility supplied by Futong Dongfang. On the basis that the subject product was received by such customer without lodging any written claim against the product within prescribed time as stipulated in the sales and purchase contract, Futong Dongfang has lodged a counter claim against such customer in January 2009 for an overdue unsettled balance of approximately RMB0.8 million. The legal proceedings have not yet been concluded as at the Latest Practicable Date and the Group has already made full provision for the

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claim for the sake of prudence. Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance which was initiated against any member of the Group and no litigation or claim of material importance is known to Directors to be pending or threatened against any member of the Group.

REGULATORY COMPLIANCE

As advised by the Company’s PRC legal advisers and confirmed by the Directors, the Group has (i) obtained all licences, permits or certificates necessary to conduct its business; (ii) complied in its operations with all relevant laws and regulations of the PRC and the terms and conditions set out in the relevant approvals or licences granted to the Group; and (iii) complied in all material aspects with PRC environmental protection laws and, in respect of employment contract terms and social insurance security contribution, the PRC labour laws during the Track Record Period.

CONTINUING CONNECTED TRANSACTIONS

Prior to the [●], the Group has entered into the following transactions with Futong Times and Beijing Deep Thought and these transactions will continue after the [●]. As Futong Times is owned as to 80% by Mr. Chen Jian, an executive Director and a substantial Shareholder immediately following completion of [●] and the Capitalization Issue, and 20% by Ms. Zhang Yun, an executive Director, Futong Times will become a connected person of the Company upon the [●]. As Beijing Deep Thought is owned as to approximately 69.98% by a brother of Mr. Chen Jian, Beijing Deep Thought is deemed as a connected person of the Company upon the [●]. As such, the following transactions will constitute continuing connected transactions (as defined under the Listing Rules) of the Company so long as Futong Times and Beijing Deep Thought remain as connected persons of the Company.

Continuing connected transaction exempt from reporting, announcement and independent Shareholders’ approval requirement

Pursuant to a lease agreement (the “**Lease Agreement**”) entered into between Futong Dongfang and Futong Times on 25 June 2009, Futong Times leased an office with gross floor area of approximately 109.97 sq.m. at Room 793 on Level 7, Fanya Building, No. 128 Zhichun Road, Haidian District, Beijing, the PRC to Futong Dongfang for its office use. The Lease Agreement is for a term of two years commencing from 1 July 2009 at a monthly rent of RMB11,520, which was determined on arm’s length basis between Futong Dongfang and Futong Times. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has confirmed that the rent payable by Futong Dongfang pursuant to the Lease Agreement is consistent with the prevailing market rents for similar premises in similar locations and is fair and reasonable.

As the applicable percentage ratios (other than the profits ratio) of the annual rental expenses payable under the Lease Agreement to Futong Times for each of the three years ending 31 December 2011, being approximately RMB69,120, RMB138,240 and RMB69,120 respectively, are less than 0.1%, the above lease falls under the de minimis provision under Rule 14A.33(3) of the Listing Rules and is therefore exempt from any reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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Continuing connected transactions subject to reporting, announcement and independent Shareholders’ approval requirement

Sale and purchase of enterprise IT products with Beijing Deep Thought

Beijing Deep Thought is a company established in the PRC which is principally engaged in provision of system integration services to end-users in the PRC. Being a distributor of enterprise IT products in the PRC, the Group proactively develops its sales and distribution network through cooperation with business partners, such as system integrators like Beijing Deep Thought. During the Track Record Period, Futong Dongfang sold approximately HK\$37.3 million, HK\$24.2 million, HK\$38.4 million and HK\$2.7 million of enterprise IT products to Beijing Deep Thought for each of the three years ended 31 December 2008 and for the six months ended 30 June 2009 respectively, representing approximately 2.0%, 1.2%, 1.5% and 0.2% of the Group’s total sales revenue in those periods, respectively. The Directors believe that through business cooperation with Beijing Deep Thought, the Group’s sales and distribution network coverage can be further extended, which is beneficial to the business development and operating results of the Group.

Furthermore, as may be requested from the Group’s customers, the Group may occasionally source enterprise IT products which are not among the products distributed by itself from other suppliers. As Beijing Deep Thought is a distributor of some IT products which are not offered by the Group, the Group has been purchasing those IT products from Beijing Deep Thought upon request from its customers. The Group purchased nil, nil, approximately HK\$7.5 million and nil of enterprise IT products from Beijing Deep Thought for each of the three years ended 31 December 2008 and the six months ended 30 June 2009 respectively, representing nil, nil, approximately 0.3% and nil of the Group’s total purchase in those periods, respectively. The terms and conditions of these transactions had been agreed between Futong Dongfang and Beijing Deep Thought on case by case basis after arm’s length negotiations between the parties and with reference to the then prevailing selling prices of the relevant IT products offered by Futong Dongfang or, as the case may be, Beijing Deep Thought to third party purchasers.

On 11 November 2009, Futong Dongfang has entered into a master supply agreement (the “**Supply Agreement**”) and a master purchase agreement (the “**Purchase Agreement**”) with Beijing Deep Thought for the respective sales and purchase of enterprise IT products between Futong Dongfang and Beijing Deep Thought. Under the Supply Agreement and the Purchase Agreement, each of Futong Dongfang and Beijing Deep Thought has agreed to supply IT products to the other on such terms and conditions and at such prices to be determined from time to time by the parties on case by case basis after arm’s length negotiations, and each sales and purchase transaction under the Supply Agreement and the Purchase Agreement will be reduced into separate contract or order as agreed between Futong Dongfang and Beijing Deep Thought provided that (a) such terms and conditions of each contract or order shall be on normal commercial terms and (i) in respect of the Supply Agreement, on terms which are no more favourable to Beijing Deep Thought than those offered by Futong Dongfang to Independent Third Party purchasers for such IT products of comparable quantity;

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and (ii) in respect of the Purchase Agreement, on terms which are no less favourable to Futong Dongfang than those offered by Beijing Deep Thought to its Independent Third Party purchasers for such IT products of comparable quantity; and (b) the purchase price payable by Futong Dongfang in respect of purchases under the Purchase Agreement shall be payable by Futong Dongfang within 90 days after the date of the relevant invoice issued by Beijing Deep Thought, or such longer period as the parties may agree; and (c) the purchase price payable by Beijing Deep Thought in respect of purchases under the Supply Agreement shall be payable by Beijing Deep Thought within 30 days after the date of the relevant invoice issued by Futong Dongfang. Each of the Supply Agreement and the Purchase Agreement has a term expiring on 31 December 2011 unless terminated earlier by three months' written notice by either party.

The Directors estimate that the annual transaction amount:

- for the sales of enterprise IT products by the Group to Beijing Deep Thought under the Supply Agreement for each of the three years ending 31 December 2011 will not exceed the annual caps of HK\$56 million, HK\$80 million and HK\$86 million respectively; and
- for the purchase of enterprise IT products by the Group from Beijing Deep Thought under the Purchase Agreement for each of the three years ending 31 December 2011 will not exceed the annual caps of HK\$8 million, HK\$8 million and HK\$8 million respectively.

In arriving at the above annual caps for the sales of enterprise IT products by the Group to Beijing Deep Thought, the Directors have considered (i) the amount of supply to Beijing Deep Thought for the nine months ended 30 September 2009 of approximately HK\$15.2 million; (ii) the expected amount of supply to Beijing Deep Thought based on the amount of contracts signed and in negotiation of approximately HK\$40 million for the remaining three months of 2009; and (iii) the expected increase in amount of supply to Beijing Deep Thought based on the amount of contracts in negotiation of approximately HK\$18 million for each of the two years ending 31 December 2011 and the expected future growth of the business between the Group and Beijing Deep Thought at an annual rate of approximately 10%.

In arriving at the above annual caps for the purchase of enterprise IT products by the Group from Beijing Deep Thought, the Directors have considered (i) the historical transaction amounts for each of the three years ended 31 December 2008; (ii) the amount of purchase from Beijing Deep Thought for the nine months ended 30 September 2009 of approximately HK\$0.1 million; (iii) the nature of transaction is on project basis that the number of transactions and amount of each transaction may vary and the transactions may not occur evenly throughout a year and (iv) the expected future growth of the business of the Group and Beijing Deep Thought.

Given that the applicable percentage ratios (other than the profits ratio) of the transactions contemplated under the sales and purchase transactions under the Supply Agreement and the Purchase Agreement, on an aggregated basis, is more than 2.5%, it is subject to the reporting, announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) are of the view, which is concurred by the [●] based on the above, that the non-exempt continuing connected transactions to be

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contemplated under the Supply Agreement and the Purchase Agreement have been and will be entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and together with the proposed annual caps, are fair and reasonable and in the interests of the Shareholders as a whole.

Application for waiver from strict compliance of the Listing Rules

Pursuant to Rule 14A.42(3) of the Listing Rules, the Group has applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a specific waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in connection with the transactions contemplated under the Supply Agreement and the Purchase Agreement as described above. The Company confirmed that it will comply with the applicable requirements under the Listing Rules as amended from time to time, and will immediately inform the Stock Exchange if there are any changes to the aforesaid transactions.

COMPETING BUSINESS OF AN EXECUTIVE DIRECTOR

Beijing Deep Thought is a limited company established in the PRC which is principally engaged in the provision of system integration services to end users in the PRC. To the best of the Directors' knowledge and information after making reasonable enquiry, the turnover of Beijing Deep Thought for each of the three years ended 31 December 2008 amounted to approximately RMB102.9 million, RMB77.1 million and RMB60.6 million, respectively, and the net profit after tax of Beijing Deep Thought for each of the three years ended 31 December 2008 amounted to approximately RMB0.3 million, RMB3.0 million and RMB1.0 million respectively. As at the Latest Practicable Date, Beijing Deep Thought was owned as to approximately 17.49% by Ms. Zhang Yun, approximately 69.98% by a brother of Mr. Chen Jian, approximately 0.72% by Mr. Xie Hui, the vice president of Futong Dongfang and an aggregate of approximately 11.81% by eight individuals who are Independent Third Parties. The business of Beijing Deep Thought is managed by its board of directors (with the brother of Mr. Chen Jian being one of the directors), its general manager and by other senior management of Beijing Deep Thought who are Independent Third Parties. None of Ms. Zhang Yun, other Directors and/or other senior management and employees of the Group is a director of Beijing Deep Thought or is otherwise involved in the management or daily operation of the business of Beijing Deep Thought.

Incidental to the provision of system integration services to its customers, Beijing Deep Thought will also procure the requisite IT products for use of the systems for its customers. The business of Beijing Deep Thought may potentially compete with the business of the Group because both involve the provision of IT products to customers. Nevertheless, the Directors consider that the competition between the Group and Beijing Deep Thought is only nominal in that:

- (A) Beijing Deep Thought is a system integrator which is principally engaged in the provision of system integration services to end users in the PRC and its revenue is generally derived from the services provided, whereas the Group is a distributor which is principally engaged in the distribution of enterprise IT products and its revenue is generally derived from the sales of enterprise IT products;

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- (B) the products recommended by Beijing Deep Thought to its customers are solution-oriented, and different brands and types of IT products would be recommended to its customers based on a broad-brush understanding of the functionality of different products. Beijing Deep Thought needs to source the relevant IT products from different suppliers, including the Group. On the other hand, with an in-depth knowledge of the features and functionalities of the products the Group distributes and a proactive sales force with thorough understanding of the IT requirements and aspects of different industries, the Group acts as supplier of its own distributed products and would recommend to its customers, including Beijing Deep Thought and other similar system integrators or IT solution service providers, the products which the Group is authorized to distribute, on an exclusive or non-exclusive basis, which could best serve the customers’ requirements; and

- (C) the customers of Beijing Deep Thought are only end-users while the customers of the Group include both business partners and end-users.

To ensure efficient allocation of the Group’s resources and utilization of the management’s expertise, the Directors consider it is in the best interest of the Group to focus on the development of its enterprise IT products distribution business. Given the difference of the business nature of the Group and that of Beijing Deep Thought, the business of Beijing Deep Thought had not been included in the Group.

Beijing Deep Thought is one of the Group’s customers and suppliers of IT products only. The Group has its own independent management, sales and marketing teams and none of the directors, senior management or staff of Beijing Deep Thought is or otherwise involved in any of the Group’s administrative, development, engineering, sales, marketing and customer service teams. The Group has its own independent administrative resources and other assets which are significant to the business and operation of the Group, including trademarks and software registrations. The Group has independent access to all of its customers, customer records and suppliers. The IT products purchased by the Group from Beijing Deep Thought at the request of the Group’s customers during the Track Record Period were not exclusively supplied by Beijing Deep Thought and, so far as the Directors are aware of, there are other suppliers of the same IT products in the market. On the above basis, the Directors consider that the Group has been, and will be, carrying on its business independent of, and at arms length from, Beijing Deep Thought.

Please also refer to the sub-paragraph headed “Continuing connected transactions subject to reporting, announcement and independent Shareholders’ approval requirement” under the paragraph headed “Continuing connected transactions” above for details of the transactions between the Group and Beijing Deep Thought.

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NON-COMPETE UNDERTAKING

Each of the Controlling Shareholders has confirmed that none of them is engaged in, or interested in any business (other than the Group) which, directly or indirectly, competes or may compete with the business of the Group. To protect the Group from any potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking (“**Non-compete Undertaking**”) in favour of the Group on 11 November 2009 pursuant to which each of the Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken with the Group on a joint and several basis that at any time during the Relevant Period (as defined below), each of the Controlling Shareholders shall, and shall procure that their respective associates (other than the Group) shall:

- (i) save for the Exempted Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business currently and from time to time engaged by the Group (“**Restricted Business**”) including but not limited to the marketing, sales, distribution, manufacturing and/or processing of IT products and other products of the Group from time to time (“**Restricted Products**”), and the provision of relevant IT technical support services;
- (ii) not solicit any existing or then existing employee of the Group for employment by them or their respective associates (excluding the Group);
- (iii) not, without the consent from the Company, make use of any information pertaining to the business of the Group which may have come to their knowledge in their capacity as the Controlling Shareholders and/or Directors for the purpose of competing with the Restricted Business; and
- (iv) as soon as practicable inform the Group in the event that any of them or their respective associates is given or identifies any opportunity (“**New Opportunity**”) to engage in the marketing, sales, distribution, manufacturing and/or processing of any Restricted Products and/or the provision of the relevant technical support services, and if the Group decides to take up the New Opportunity, unconditionally use reasonable endeavours to assist the Group to obtain the New Opportunity.

For the above purpose:

- (A) the “**Relevant Period**” means the period commencing from the [●] and shall expire for the earliest of the dates below:
 - (a) the date on which the Controlling Shareholders (individually or taken as a whole) ceases to be a Controlling Shareholder for the purpose of the Listing Rules and (in respect of Mr. Chen Jian only, if he remains as a Director after he ceases to be a Controlling Shareholder for the purpose of the Listing Rules) the date on which Mr. Chen Jian ceases to be a Director;
 - (b) the date on which the Shares cease to [●];

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- (B) the “Exempted Business” means any direct or indirect investments of the Controlling Shareholders and/or their respective associates (excluding the Group) in any member of the Group.

The Directors and senior management of the Company will decide whether to accept any New Opportunity based on their expertise and experience in the industry and in the best interest of the Group and its Shareholders as a whole. Under the Non-compete Undertaking, even if the Group decides not to take up any New Opportunity, the Controlling Shareholders or their respective associates are not allowed to take up the New Opportunity themselves for so long as it may otherwise constitute a breach of the Non-compete Undertaking.

Each of the Controlling Shareholders has undertaken under the Non-compete Undertaking that he or it shall provide to the Group and/or the Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance of the terms of the Non-compete Undertaking by the Controlling Shareholders. Each of the Controlling Shareholders has also undertaken to make annual declaration on compliance with the terms of the Non-compete Undertaking in the Company’s corporate governance report as contained in the Company’s annual report.

CORPORATE GOVERNANCE MEASURES

The Directors believe that there are adequate corporate governance measures in place to manage any conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the Non-compete Undertaking or any conflict of interest between the Company and any Directors, and to safeguard the interests of the Shareholders, including:

- (i) the independent non-executive Directors will review, at least on an annual basis, the compliance with the undertaking given by the Controlling Shareholders under the Non-compete Undertaking;
- (ii) the Controlling Shareholders have undertaken to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-compete Undertaking;
- (iii) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Non-compete Undertaking in the corporate governance report as contained in the annual reports of the Company;
- (iv) the Directors (including any Director appointed after [●]) will continue to prominently disclose details as required under Rule 8.10(2)(a) of the Listing Rules of any interests of any Director (including any interests acquired after [●]), which competes or is likely to compete, either directly or indirectly, with the Group’s business in the annual reports of the Company and any change in details previously so disclosed in this document or in any annual report of the Company; and

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- (v) in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the Non-compete Undertaking or any other matters involving any potential conflict of interests, in particular any connected transaction (including the sourcing and provision of IT products from and to Beijing Deep Thought), he/she may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association. In addition, it is provided in the Articles of Association that any such Director shall excuse himself/herself from any meeting or part of any meeting of the Board and shall not participate in any discussions in respect of any resolutions where any contract or arrangement or other proposal in which he/she or any of his/her associates is materially interested is discussed or resolved, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by the remaining Directors.