CONTENT

INTERIM RESULTS AND DIVIDEND

The Board of Directors (the "Directors") of Digital China Holdings Limited (the "Company") is pleased to announce that the unaudited consolidated profit attributable to shareholders of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th September 2002 was HK$89.5 million. Basic earnings per share were HK10.42 cents.

The Directors do not recommend the payment of interim dividend for the six months ended 30th September 2002 (30th September 2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Affected by the languishing global economy and the decelerated growth in the information technology ("IT") industry, growth in the People Republic of China ("PRC") IT market slowed down significantly during the first half of 2002. According to estimates by the International Data Corporation ("IDC"), the IT market in the PRC recorded only a single-digit growth in the first six months, which led the IDC to slash its full-year growth forecast for the market from the original 18.2% down to 9.5%. The slowdown was mainly due to significant reduction in IT spending in the telecommunications and financial sectors, both being the major customers of IT products in the PRC.

For the six months ended 30th September 2002 (the first half of the Group's fiscal year), the Group recorded a turnover of HK$5,791 million, which represents an increase of 17% compared to the turnover of HK$4,935 million recorded in the corresponding period last year. Turnover grew by 14% in the first fiscal quarter and 20% in the second fiscal quarter. Gross profit margin for the six months ended 30th September 2002 decreased to 8.05% from the 9.68% recorded a year ago, which was mainly due to the reduced proportion of turnover attributable to the systems integration business and networking products business which command a higher margin. The decline in gross profit margin accounted for the deceleration in the growth of profit attributable to shareholders during the six months ended 30th September 2002, which grew by 11% to approximately HK$90 million.

Distribution

Distribution of IT products, which remained as the Group's largest source of revenue, managed to maintain a high growth despite the adverse market conditions. During the six months ended 30th September 2002, turnover of the distribution business amounted to HK$4,863 million, representing a strong growth of 26% over that of the same period last year. The turnover grew by 30% in the second fiscal quarter on the heels of the strong growth of 21% recorded in the first fiscal quarter. Given the tough conditions prevailing in the PRC's IT market, these remarkable results achieved by the business with its existing resources are particularly palatable, which can be attributed to several factors. First, sales of enterprise products continued to grow strongly. The products included IBM, HP and SUN servers and storage products, and notebook computers. Among the latter, the TOSHIBA notebook series managed to secure a higher market share owing to proper positioning and marketing and prolific sales channels, and was named by the IDC as the only bright spot in the PRC's notebook computer market during the first half of 2002. Rapid growth was also seen in the sales of Oracle, Microsoft, BEA and Symantec software to corporate customers. Second, significant progress was achieved in the development of new business through the introduction of new products. The enterprise networking product lines were enriched by a new series of networking and application products - including Brocade network management systems, NetScreen and Checkpoint network security products, NetScout network management products, and Unisys high-end servers. As for personal computers and peripherals, new products including HP notebook computers, Epson projectors and other brand mobile storage products were introduced. Moreover, the mobile telephone distribution business commenced last year contributed significantly to the revenue growth. Other consumer IT products including Kodak digital cameras and JVC digital recorders were added to the product lines, and the Group is actively exploring the applicable sales models for other segments of the consumer market with the intention of introducing more variety of products. In this regard, the Group has started co-operation with retailers in Beijing to establish "DigiExpress", which is a franchise store with a unified image and shop design and linked on line to the Group. What distinguishes this chain store from the others is that its sales system is linked with the Group's internal systems through e-Bridge, the Group's e-commerce website, thus enabling the Group to monitor the sales of all the DigiExpress stores on a real-time basis. With the Group's fast logistics system, the shops can maintain virtually zero inventories, which significantly reduces the business risks involved and greatly enhances the utilisation of capital. Hence, this business model is highly attractive to retailers, and is also beneficial to the Group in gaining a faster and more accurate picture of market changes. The new attempt has obtained the support of a number of high profile international IT brands such as Sony and JVC, and the Group will actively explore the potential of this new business model. For the six months ended 30th September 2002, the gross profit margin of the distribution business was 6.93%, down slightly from the 7.2% recorded a year ago. This is mainly attributable to the characteristics of the newly commenced mobile telephone distribution business, whose sales model requires a high sales volume and fast turnover with a relatively lower gross profit margin in order to win. To a large extent, the rapid growth of the enterprise products has offset the impact so that the average gross profit margin only dropped slightly.

Networking Products

During the first half of the fiscal year, the Group's networking products business was interrupted by the acquisition of the joint venture shareholding interest held by Taiwanese partner D-Link. As a result, the business suffered a significant decline in turnover, which dropped to HK$110 million from the HK$355 million a year ago. However, it is gratifying that the gross profit margin showed a recovery from the negative figure recorded in the first fiscal quarter, giving rise to an average gross profit margin of 17.57% for the six months ended 30th September 2002. The management is confident that the networking business can turn back to a healthy track in this fiscal year. The market in the PRC for low-to-medium-end networking products is dominated by local manufacturers and subjugated by intense competition. While the Group is maintaining considerable competitive advantages in the low-to-medium-end networking products market, it has also started to enter the high-end switches and routers market and has secured a breakthrough in the sales to the education, financial and government sectors. In order to enable the networking products business to secure long-term competitiveness, the Group will increase its investment in research and development.

Systems Integration

Affected by the significant reduction in capital expenditure in major sectors including telecommunications and finance, growth of the Group's systems integration business recorded a slowdown. Turnover of the business for the first half of the fiscal year amounted to HK$818 million, representing a growth of 15% over the same period last year. The turnover grew by 30% to HK$516 million in the first fiscal quarter, and retreated to HK$302 million in the second fiscal quarter compared with HK$313 million recorded a year ago. Following years of substantial investment on networking infrastructure development, telecommunications operators have been slashing their investment on networking hardware by more than 30% so far this year. In the face of growing competition among local operators and forthcoming forays by foreign counterparts, telecommunications operators in the PRC are stepping up the search for investment approaches that can rapidly enhance their competitiveness, and have become more rational during the course. In the meantime, the financial sector has also reduced its investment in IT hardware products. Both sectors are highly important to the Group's systems integration business. Confronted by the adverse change in macro-environment, the business is transforming its operations into a customer-oriented model through strengthening its sales management and customer relations, keeping abreast of customers' needs and providing tailor-made, customer-oriented services.

Some encouraging changes have emerged against the unfavourable background. While reducing their expenditure on hardware and adopting a more rational approach towards investment, major customers in some sectors are gradually becoming more sophisticated about the importance of application software to their business development. For instance, customers in the telecommunications and financial sectors - who for years have been investing hugely on infrastructure - now recognise that the successful employment of application software is the key for securing competitive advantages in future. As such, these customers have not reduced their investment on application software, and are likely to spend more on this in the future. This change in trend gives proof that the Group has adopted the right decision in developing industry-specific application software and related services as part of its long-term development strategy.

To enhance the transformation of the Group's systems integration business into a software and related services provider, the Group acquired Sinoray Science and Technology Industrial Limited ("Sinoray") during the first half of the fiscal year. Sinoray is a company with strong experience in providing banks with systems integration services for automatic teller machines, and has an extensive customer base. Its strong experience, successful operating model and good reputation are complements to the Group's services for the financial sector. To further develop its software business, the Group orchestrated other strategic moves in October 2002. The first of these was the announcement of the establishment of Digital China Software Limited, which was formed by separating the application software division from the Group's systems integration business to make it operate as a company, with all its personnel transferred from the original division comprising those whose responsibilities range from product development to sales and marketing. The aim of this exercise is to provide the staff of the software business with a more incentive-driven environment as well as broader room for unleashing their talents. During the same month, the Group disclosed the coming formation of a new company providing electronic administration solutions specifically for government related bodies. The acquisition of Sinoray and the formation of these new companies, together with Digital China Management Systems Limited, a joint venture with Taiwanese Data Systems Consulting Co., Ltd. (the announcement of its establishment was made in March) to capitalise on the growing ERP market in the PRC, have basically completed the Group's strategic master plan for the overall development of its software business.

On 4th November 2002, the Group announced in Beijing the launch of network computers under "Digital China" brand name, which utilise the Central Processing Unit ("CPU") named "Fangzhou 1" invented by China CoreTech Corporation. The introduction of Digital China network computers represents another major breakthrough in the successful application of the PRC's locally developed technology in IT products.

The major advantages of network computers over personal computers lie in two areas. First, network computers are lower in total costs that comprise the costs of development as well as system running, maintenance and updating. Second, network computers are more reliable than personal computers in terms of system security. This is because network computers rely on the CPU for running and storing data without using hard disc, software and CD-Rom, which effectively block potential attacks from computer viruses and hackers. As such, network computers are particularly suitable for enterprises requiring high network security, such as government departments, tax bureaux, securities firms, and cost-conscious organizations like universities and schools. The Digital China network computers have successfully won a number of clients.

In view of the softening demand in the overall IT market, the Group has strengthened its risk control measures. During the first half of the fiscal year, the Group's total inventory was maintained at a comfortable level. While the inventory level at the end of September was slightly higher than that at the end of June, it showed a decline compared with a year ago. Significant improvement in inventory turnover was also achieved, which was 30.6 days on average during the first half of the fiscal year compared to 39.3 days in the same period last year. As for accounts receivable, while the amount hit a high level of HK$1,622 million at the end of June, it was significantly reduced to HK$1,444 million at the end of September. Accounts receivable turnover for the first half of the fiscal year slightly improved to 42.4 days from the 42.9 days a year ago, whereas accounts payable increased significantly during the second fiscal quarter. Given the above, the Group was able to maintain a strong cash flow position, with cash inflow from operations amounted to HK$321 million in the second fiscal quarter, which enabled the Group to significantly reduce its cash outflow in operations to HK$6.6 million in the first half of the fiscal year. New bank loans amounted to approximately HK$300 million, of which approximately HK$100 million was used to finance the purchase and renovation of the Group's new headquarters in Beijing, with the balance used primarily for the acquisition of Sinoray and the shareholding interest held by D-Link in the joint venture company and general working capital.

PROSPECTS

Taking into account the reduced demand in the PRC's IT market and the altered landscape in competition, the management considers the Group's results for the first half of the fiscal year as highly satisfactory, and believes the results have outperformed those recorded by the market counterparts. The shifting of investment focus from hardware and infrastructure towards application software and related services that took place among customers in various industries has also reinforced the Group's commitment to its adopted strategy of transforming into a software and services provider. At the same time, the Group will actively seek development in software outsourcing and strive to achieve a major breakthrough in that area within this fiscal year.

Looking forward to the second fiscal half, the management believes that the macro-environment will remain tough. Demand for IT products from the telecommunications and financial sectors in the PRC is not expected to significantly improve, however their demand for application software is likely to grow. The overall demand for IT products could be stronger in the corporate front, and the commencement of electronic administration in PRC government bodies may provide a highly positive driving force for the market. With its solid foundations and management, strong experience in responding to changes in market environment, and strong capabilities in sales and marketing and risk control, the management is confident that the Group can continue to outperform its market counterparts and to achieve breakthroughs in its new business ventures despite the tough market conditions.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group continued to follow the practice of prudent financial management during the period. As at 30th September 2002, the Group had total assets of HK$3,319.5 million which were financed by total liabilities of HK$2,026.3 million, minority interests of HK$0.5 million and shareholders' funds of HK$1,292.7 million.

The Group had a current ratio of approximately 1.79 compared to that of 1.76 as at 31st March 2002.

As at 30th September 2002, the Group has cash and bank balances and unsecured short-term bank borrowings of HK$495 million and HK$355 million respectively.

The aggregate interest-bearing debts as a ratio of shareholders' funds increased from 0.3 as at 31st March 2002 to 0.52 as at 30th September 2002. The computation of this ratio is based on the total interest-bearing borrowings of HK$667 million (31st March 2002: HK$378 million) and shareholders' funds of HK$1,293 million (31st March 2002: HK$1,261 million). The increase in the above debt ratio was mainly due to the drawn down of syndicated loans of US$30 million in April 2002 and US$10 million in August 2002 in order to satisfy the change in the financial needs of the Group.

As at 30th September 2002, the Group has borrowings denominated in Renminbi and United States Dollar amounting to HK$151 million and HK$516 million respectively.

The whole Renminbi borrowings and part of United States Dollar borrowings amounting to HK$204 million were short-term bank borrowings repayable within one year and guaranteed by Digital China Holdings Limited. The rest of United States Dollar borrowings amounting to HK$312 million represents the syndicated loans repayable within three years and guaranteed by Digital China Limited, a subsidiary of the Group.

As at 30th September 2002, the Group's total available credit facilities amounted to HK$3,544 million of which HK$2,175 million was in trade lines, HK$901 million was in short term and revolving money market facilities and HK$468 million was in transferable loan facility. As at 30th September 2002, the facility drawn down was HK$1,015 million in trade lines, HK$260 million in short term and revolving money market facilities and HK$312 million in transferable loan facility.

Under the normal course of business, the Group had issued performance bonds to some customers for potential claims of non-performance in order to satisfy the specific requirements of these customers. As no material claims had been made by the customers under such performance bonds in the past, the management considered that the possibility of realisation of any actual material liabilities arising from such performance bonds is remote.

During the six months ended 30th September 2002, capital expenditure of HK$72 million was incurred in the construction of an integrated and centralised research and development and management center in Beijing and an automated warehouse in Shanghai to accommodate the Group's future growth. Apart from the above, capital expenditure spent on the regular acquisition of fixed assets was HK$29 million. In addition, borrowing cost of approximately HK$367,000 incurred in financing the construction project was being capitalised during the period.

Management considered that the Group's satisfactory financial position and operating results, together with its availability of sufficient unutilised credit facilities, can provide sufficient financial resources for further expansion of the Group's business operation, as and when required. Should investment opportunities arise requiring additional funding, management believes that the Group is in a good position to obtain additional financing on favourable terms.

Global Offering and Use of Proceeds

The Company's shares were listed on The Stock Exchange of Hong Kong Limited on 1st June 2001 with a global offering of 101,498,722 new shares at an issue price of HK$3.68 each to the public and institutional investors. Net proceeds from the global offering after deducting listing expenses, amounted to approximately HK$300 million. As at 30th September 2002, approximately HK$145 million of the net proceeds was applied by the Group as general working capital and approximately HK$135 million of the net proceeds was applied for the enhancement of the Group's ERP and logistic system and product development in connection with the development of software and application solutions. The Group applied the remaining net proceeds, which have no immediate capital or revenue commitments, as general working capital to achieve efficient utilisation of the Group's resources.

Human Resources

The Group had approximately 3,500 full-time employees. The majority of these employees work in the PRC. Remuneration of the Group's employees includes basic salaries and bonuses. The Group incurred staff cost of approximately HK$129,467,000 for the six months ended 30th September 2002 (30th September 2001: HK$123,487,000). In order to attract and retain a high caliber of capable and motivated workforce, the Company offers share options to staff based on the individual performance and the achievements of Company's targets. The Group is committed to providing its staff with various in-house and external training and development programs.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Three months ended 30th September 2002 (Unaudited) HK$'000	Six months ended 30th September 2002 (Unaudited) HK$'000	Three months ended 30th September 2001 (Unaudited) HK$'000	Six months ended 30th September 2001 (Unaudited) HK$'000
Turnover	3	2,941,220	5,790,632	2,443,404	4,934,952
Cost of sales		(2,713,811)	(5,324,718)	(2,207,901)	(4,457,161)
Gross profit		227,409	465,914	235,503	477,791
Less:					
Selling expenses		20,004	40,256	21,247	42,011
Promotional and advertising expenses		22,640	39,227	12,916	31,180
Staff costs		63,448	129,467	56,896	123,487
Other operating expenses, net		47,094	128,085	71,925	145,880
Earnings before interest, tax and depreciation		74,223	128,879	72,519	135,233
Depreciation		(9,754)	(17,309)	(5,567)	(10,992)
Interest income	3	775	1,726	2,471	5,095
Profit from operating activities	4	65,244	113,296	69,423	129,336
Finance costs	5	(8,104)	(17,420)	(12,656)	(28,728)
Share of losses of associates		(2,221)	(4,762)	—	—
Profit before tax		54,919	91,114	56,767	100,608
Tax	6	(1,542)	(1,640)	—	—
Profit before minority interests		53,377	89,474	56,767	100,608
Minority interests		(105)	31	(6,592)	(19,851)
Net profit from ordinary activities attributable to shareholders		53,272	89,505	50,175	80,757
Earnings per share — Basic	7		10.42 cents		9.79 cents
— Diluted	7		9.86 cents		9.77 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th September 2002 (Unaudited) HK$'000	31st March 2002 (Audited) HK$'000
Non-current assets			
Fixed assets		236,878	147,037
Goodwill		5,334	—
Interests in associates		11,070	4,487
		253,282	151,524
Current assets			
Inventories		926,510	882,026
Accounts receivable	8	1,444,288	1,282,021
Deposits, prepayments and other receivables		200,056	113,401
Cash and bank balances		495,387	472,707
		3,066,241	2,750,155
Current liabilities			
Accounts payable	9	1,107,615	955,551
Accruals and other payables		252,113	233,158
Interest-bearing bank borrowings - unsecured	10	354,588	377,769
		1,714,316	1,566,478
Net current assets		1,351,925	1,183,677
Total assets less current liabilities		1,605,207	1,335,201
Non-current liabilities			
Interest-bearing bank borrowings - unsecured	10	312,000	—
		312,000	—
Minority interests		529	73,764
		1,292,678	1,261,437
Financed by:			
Issued capital		85,868	85,868
Reserves		1,206,810	1,175,569
		1,292,678	1,261,437

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th September 2002 (Unaudited) HK$'000	Six months ended 30th September 2001 (Unaudited) HK$'000
Net cash outflow from operating activities	(6,564)	(143,991)
Net cash outflow from investing activities	(133,709)	(34,885)
Net cash inflow from financing activities	162,264	202,993
Increase in cash and cash equivalents	21,991	24,117
Effect of foreign exchange rate changes	689	(298)
Cash and cash equivalents at the beginning of the period	472,707	251,060
Cash and cash equivalents at the end of the period	495,387	274,879

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (Unaudited) HK$'000	Share premium (Unaudited) HK$'000	Capital reserve (Unaudited) HK$'000	Reserve funds (Unaudited) HK$'000	Exchange fluctuation reserve (Unaudited) HK$'000	Retained profits (Unaudited) HK$'000	Total (Unaudited) HK$'000
At 1st April 2002	85,868	289,850	623,689	14,259	(669)	248,440	1,261,437
Exchange realignment	—	—	—	—	1,672	—	1,672
Net profit for the period	—	—	—	—	—	89,505	89,505
Dividends paid	—	—	—	—	—	(59,936)	(59,936)
At 30th September 2002	85,868	289,850	623,689	14,259	1,003	278,009	1,292,678
At 1st April 2001	100	—	198,074	5,682	(345)	85,626	289,137
Exchange realignment	—	—	—	—	(298)	—	(298)
Acquisition of subsidiaries	75,618	—	(75,678)	—	—	—	(60)
Issue of shares	10,150	363,365	—	—	—	—	373,515
Share issue expenses	—	(73,515)	—	—	—	—	(73,515)
Capitalisation issue	—	—	501,293	—	—	—	501,293
Net profit for the period	—	—	—	—	—	80,757	80,757
At 30th September 2001	85,868	289,850	623,689	5,682	(643)	166,383	1,170,829

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Group reorganisation and basis of preparation

The Company was incorporated in Bermuda on 25th January 2001 under the Companies Act 1981 of Bermuda (as amended) as an exempted company with limited liability.

Pursuant to a corporate reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 15th May 2001. The Company acquired the entire share capital of Digital China (BVI) Limited ("Digital China (BVI)"), the then holding company of the other subsidiaries, through a share swap arrangement in accordance with the terms of the Share Swap Agreement dated 15th May 2001 and became the holding company of Digital China (BVI) and its subsidiaries. Details of the Reorganisation are set out in the Company's prospectus dated 23rd May 2001. The Company's shares were listed on the Stock Exchange on 1st June 2001.

The Reorganisation is accounted for using merger accounting as permitted by the Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants ("HKSA"). The unaudited condensed consolidated interim financial statements of the Group for the period ended 30th September 2001 are prepared as if the Company had been the holding company of the Group from the beginning of the period. All significant intra-group transactions and balances have been eliminated on consolidation.

The Directors are responsible for the preparation of the Group's unaudited condensed consolidated interim financial statements. These unaudited condensed consolidated interim financial statements have been prepared in accordance with the SSAP No. 25 "Interim financial reporting" issued by the HKSA.

Certain comparative amounts have been reclassified to conform with the current period's presentation due to the adoption of new classification policies.

2. Principal accounting policies

In preparing the unaudited condensed consolidated interim financial statements, the same accounting policies and methods of computation as set out in the Group's annual audited financial statements for the year ended 31st March 2002 had been consistently applied, except for the following new/revised SSAPs issued by the HKSA have been adopted for the first time:

SSAP 1 (Revised)	:	"Presentation of financial statements"
SSAP 11 (Revised)	:	"Foreign currency translation"
SSAP 15 (Revised)	:	"Cash flow statements"
SSAP 33	:	"Discontinuing operations"
SSAP 34	:	"Employee benefits"
SSAP 35	:	"Accounting for government grants and disclosure of government assistance"

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The unaudited condensed consolidated statement of changes in equity for the current period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the unaudited condensed consolidated interim financial statements is that the profit and loss accounts of subsidiaries and associates operating in the People's Republic of China ("PRC") and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that, where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements. The effect of this change on current period's results is not significant.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The unaudited condensed consolidated cash flow statement for the current period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. This SSAP has had no major impact on these unaudited condensed consolidated interim financial statements.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on these unaudited condensed consolidated interim financial statements.

SSAP 35 prescribes the accounting treatment and disclosures for government grants and the disclosures for other forms of government assistance. This SSAP has had no major impact on these unaudited condensed consolidated interim financial statements.

3. Turnover, revenue and segment information

The Group is principally engaged in the distribution of information technology ("IT") products, provision of systems integration services and development and distribution of networking products. Turnover represents invoiced value to customers outside the Group, net of value-added tax and government surcharges, and after allowances for goods returned and trade discounts.

Primary reporting format – business segments

	Three months ended 30th September 2002 (Unaudited) HK$'000	Six months ended 30th September 2002 (Unaudited) HK$'000	Three months ended 30th September 2001 (Unaudited) HK$'000	Six months ended 30th September 2001 (Unaudited) HK$'000
Segment turnover				
Distribution of IT products	2,585,646	4,862,584	1,983,748	3,871,576
Provision of systems integration services (including hardware and software sales and services revenue)	301,878	817,979	312,541	708,267
Distribution of networking products	53,696	110,069	147,115	355,109
	2,941,220	5,790,632	2,443,404	4,934,952
Other revenue				
Interest income	775	1,726	2,471	5,095
Total revenue	2,941,995	5,792,358	2,445,875	4,940,047

	Three months ended 30th September 2002 (Unaudited) HK$'000	Six months ended 30th September 2002 (Unaudited) HK$'000	Three months ended 30th September 2001 (Unaudited) HK$'000	Six months ended 30th September 2001 (Unaudited) HK$'000
Segment results				
Distribution of IT products	167,535	336,898	150,150	278,662
Provision of systems integration services (including hardware and software sales and services revenue)	39,220	109,681	49,552	111,287
Distribution of networking products	20,654	19,335	35,801	87,842
Total gross profit	227,409	465,914	235,503	477,791
Less: unallocated items				
Selling expenses	20,004	40,256	21,247	42,011
Promotional and advertising expenses	22,640	39,227	12,916	31,180
Staff costs	63,448	129,467	56,896	123,487
Other operating expenses, net	47,094	128,085	71,925	145,880
Depreciation	9,754	17,309	5,567	10,992
Interest income	(775)	(1,726)	(2,471)	(5,095)
Finance costs	8,104	17,420	12,656	28,728
Share of losses of associates	2,221	4,762	—	—
Profit before tax	54,919	91,114	56,767	100,608
Tax	(1,542)	(1,640)	—	—
Profit before minority interests	53,377	89,474	56,767	100,608
Minority interests	(105)	31	(6,592)	(19,851)
Net profit from ordinary activities attributable to shareholders	53,272	89,505	50,175	80,757

Secondary reporting format – geographical segments

Over 90% of the Group's operations are located in PRC, which is considered as one geographical location in an economic environment with similar risks and returns. Consequently, no geographical segment analysis is presented.

4. Profit from operating activities

The Group's profit from operating activities is arrived at after charging:

	Six months ended 30th September 2002 (Unaudited) HK$'000	Six months ended 30th September 2001 (Unaudited) HK$'000
Exchange losses, net	**1,137**	61
Loss on disposal of fixed assets	**242**	655
Operating leases rentals in respect of land and buildings	**18,717**	19,359
Retirement benefit costs	**7,371**	5,691
Amortisation of goodwill*	**124**	—
Provision for slow-moving inventories*	**9,933**	12,278
Provision for bad and doubtful debts*	**9,212**	27,739

* The amortisation of goodwill, the provision for slow-moving inventories and the provision for bad and doubtful debts are included in "Other operating expenses, net" of the unaudited condensed consolidated profit and loss account.

5. Finance costs

	Six months ended 30th September 2002 (Unaudited) HK$'000	Six months ended 30th September 2001 (Unaudited) HK$'000
Interest on bank borrowings	6,383	25,373
Interest on discounted bills	11,404	2,615
Net interest expenses on current account with Legend Group Limited	—	740
	17,787	28,728
Capitalisation of interest	(367)	—
Total finance costs	17,420	28,728

6. Tax

The amount of tax charged to the unaudited condensed consolidated profit and loss account represents:

	Six months ended 30th September 2002 (Unaudited) HK$'000	Six months ended 30th September 2001 (Unaudited) HK$'000
Group:		
PRC income tax	**1,640**	—

(a) PRC income tax represents tax charges on the profits of the PRC subsidiaries for statutory reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretations thereof. In general, the PRC subsidiaries are subject to the PRC income tax rate of 33% except for certain subsidiaries which are entitled to tax holiday and preferential tax rates.

(b) No provision for Hong Kong and overseas profits tax have been made as the Group has no estimated assessable profit for the six months ended 30th September 2001 and 2002.

(c) No provision for Hong Kong profits tax, PRC income tax and overseas profits tax have been made for the associates as the associates have no estimated assessable profit for the six months ended 30th September 2002.

7. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders of approximately HK$89,505,000 (30th September 2001: HK$80,757,000) and on the weighted average of 858,680,331 shares (30th September 2001: 824,847,424 shares) in issue during the six months ended 30th September 2002.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders of approximately HK$89,505,000 (30th September 2001: HK$80,757,000) and 907,610,462 shares (30th September 2001: 826,531,788 shares), which is the weighted average of 858,680,331 shares (30th September 2001: 824,847,424 shares) in issue during the period plus the weighted average number of 48,930,131 shares (30th September 2001: 1,684,364 shares) deemed to have been issued at no consideration if all outstanding share options had been exercised.

8. Accounts receivable

At 30th September 2002, the ageing analysis of accounts receivable, net of provision, was as follows:

	30th September 2002 (Unaudited) HK$'000	31st March 2002 (Audited) HK$'000
Current to 30 days	**841,930**	833,000
31 days to 60 days	**175,659**	156,197
61 days to 90 days	**143,308**	98,958
91 days to 180 days	**126,611**	155,022
Over 180 days	**156,780**	38,844
	1,444,288	1,282,021

Customers of distribution of IT products business and networking products business are generally granted credit terms of 30 to 60 days and 30 to 90 days respectively. Credit terms for customers of systems integration business are normally ranging from 30 to 180 days.

9. Accounts payable

At 30th September 2002, the ageing analysis of accounts payable was as follows:

	30th September 2002 (Unaudited) HK$'000	31st March 2002 (Audited) HK$'000
Current to 30 days	**608,008**	602,383
31 days to 60 days	**351,635**	200,732
61 days to 90 days	**90,531**	79,217
Over 90 days	**57,441**	73,219
	1,107,615	955,551

10. Interest-bearing bank borrowings – unsecured

	30th September 2002 (Unaudited) HK$'000	31st March 2002 (Audited) HK$'000
Trust receipt loans, unsecured	**94,842**	110,188
Bank loans, unsecured	**571,746**	267,581
	666,588	377,769
Trust receipt loans repayable within one year	**94,842**	110,188
Bank loans repayable:		
Within one year or on demand	**259,746**	267,581
In the third to fifth years, inclusive	**312,000**	—
	571,746	267,581
	666,588	377,769
Portion classified as current liabilities	**(354,588)**	(377,769)
Long term portion	**312,000**	—

11. Commitments

(a) *Capital commitments*

At 30th September 2002, the Group had the following capital commitments:

	30th September 2002 (Unaudited) HK$'000	31st March 2002 (Audited) HK$'000
Capital commitments in respect of construction of property, contracted but not provided for	**35,511**	67,842
Capital contribution to associates, contracted but not provided for	**10,296**	14,973
	45,807	82,815

(b) *Commitments under operating leases*

At 30th September 2002, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	30th September 2002 (Unaudited) HK$'000	31st March 2002 (Audited) HK$'000
Within one year	**18,611**	27,087
In the second to fifth years inclusive	**18,497**	11,257
	37,108	38,344

12. Contingent liabilities

As at 30th September 2002, the Group had discounted bills with recourse to banks amounting to approximately HK$197,030,000 (31st March 2002: HK$296,431,000).

13. Related party transactions

The Group had the following material related party transactions during the period.

	Six months ended 30th September 2002 (Unaudited) HK$'000	Six months ended 30th September 2001 (Unaudited) HK$'000
Legend Group Limited and its subsidiaries:		
Sales of goods by the Group	**2,183**	10,550
Recharge of rental expenses to the Group	**1,558**	1,638
Net interest expenses payable by the Group	**—**	740
Right Lane Limited (a shareholder):		
Rental expenses paid by the Group	**330**	330
神州數碼管理系統有限公司 ("Digital China Management Systems Limited") (an associate):		
Sales of goods by the Group	**901**	—
D-Link Corporation (an ex-minority shareholder) and its group companies:		
Sales of goods by the Group	**25,906**	—
Purchases of goods by the Group	**36**	167,853

The above transactions were conducted on normal commercial terms in the ordinary course of business.

SHARE OPTIONS

At the Annual General Meeting of the Company held on 18th July 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Share Option Scheme") and the termination of the share option scheme approved and adopted by the written resolution of the then sole shareholder of the Company on 14th May 2001 (the "Old Share Option Scheme") (such that no further options shall thereafter be granted under the Old Share Option Scheme but in all other respects the provisions of the Old Share Option Scheme shall remain in full force and effect).

For the six months ended 30th September 2002, no share options had been granted under the New Share Option Scheme. Therefore, only details of the share options outstanding as at 30th September 2002 which have been granted under the Old Share Option Scheme are disclosed as follows:

	Number of share options								
Grantee	Outstanding as at 01/04/02	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30/09/02	Exercise Price (HK$)	Date of Grant (DD/MM/YY)	Vesting Period (DD/MM/YY)	Exercise Period (DD/MM/YY)
Director									
GUO Wei	2,800,000	—	—	—	2,800,000	3.180	12/07/01	12/07/02-12/07/05	12/07/02-11/07/09
	2,800,000	—	—	—	2,800,000	1.976	31/08/01	31/08/02-31/08/05	31/08/02-30/08/09
LIN Yang	1,500,000	—	—	—	1,500,000	3.180	12/07/01	12/07/02-12/07/05	12/07/02-11/07/09
	1,500,000	—	—	—	1,500,000	1.976	31/08/01	31/08/02-31/08/05	31/08/02-30/08/09
YU Lishan	1,100,000	—	—	—	1,100,000	3.180	12/07/01	12/07/02-12/07/05	12/07/02-11/07/09
	1,100,000	—	—	—	1,100,000	1.976	31/08/01	31/08/02-31/08/05	31/08/02-30/08/09
HUA Zhinian	1,100,000	—	—	—	1,100,000	3.180	12/07/01	12/07/02-12/07/05	12/07/02-11/07/09
	1,100,000	—	—	—	1,100,000	1.976	31/08/01	31/08/02-31/08/05	31/08/02-30/08/09

	Number of share options								
Grantee	Outstanding as at 01/04/02	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30/09/02	Exercise Price (HK$)	Date of Grant (DD/MM/YY)	Vesting Period (DD/MM/YY)	Exercise Period (DD/MM/YY)
Employees under continuous contracts	37,911,000	—	—	2,129,000	35,782,000	3.604	08/06/01	08/06/02-08/06/05	08/06/02-19/06/09
	400,000	—	—	400,000	—	3.180	12/07/01	12/07/02-12/07/05	12/07/02-11/07/09
	20,872,000	—	—	601,000	20,271,000	1.976	31/08/01	31/08/02-31/08/05	31/08/02-30/08/09
	1,000,000	—	—	—	1,000,000	3.425	31/01/02	31/01/03-31/01/06	31/01/03-30/01/10

The Directors do not consider it appropriate to disclose a theoretical value of the options granted under the Old Share Option Scheme because a number of factors crucial for the valuation are subjective and uncertain. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful and would be misleading.

No options were cancelled under the Old Share Option Scheme and New Share Option Scheme during the six months ended 30th September 2002.

According to the terms of the Old Share Option Scheme, options on 3,130,000 shares have lapsed during the period under review. As at 30th September 2002, the number of options outstanding under Old Share Option Scheme was 70,053,000.

DISCLOSURE OF INTERESTS

Directors' Interest in Equity Securities

As at 30th September 2002, the interest of the Directors in the equity securities of the Company and its associated corporations (as defined under the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance")) as recorded in the register required to be kept by the Company pursuant to section 29 of the SDI Ordinance or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Interests in the shares of the Company

	Number of Shares		
Name of Director	Personal Interest	Family Interest	Total Interest
LI Qin	536,000	—	536,000
GUO Wei	504,000	—	504,000
ZENG Maochao	408,000	—	408,000
LIN Yang	56,000	—	56,000
YU Lishan	48,000	—	48,000
HUA Zhinian	25,600	—	25,600

The interests of the Directors in the Company's share options are separately disclosed in the section "Share Options" above.

Save as disclosed above and as disclosed below under the heading "Directors' Rights to Acquire Shares or Debentures", none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) and recorded in the register required to be maintained pursuant to section 29 thereof.

Directors' Right to Acquire Shares or Debentures

Save as disclosed under the headings "Directors' Interests in Equity Securities" and "Share Options" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial Shareholders

As at 30th September 2002, according to the register of interest required to be kept by the Company under section 16(1) of the SDI Ordinance, the Company had been notified by the following persons that they were, directly or indirectly, beneficially interested in 10 per cent. or more in the issued share capital of the Company:

Name	Notes	Number of Shares beneficially held	Approximate percentage of issued share capital
聯想控股有限公司 (Legend Holdings Limited) ("LHL")	1	429,140,114	49.9767%
聯想控股有限公司職工持股會 (Employees' Shareholding Society of Legend Holdings Limited.)	2	429,140,114	49.9767%
Right Lane Limited	3	139,049,042	16.1933%
GAP Coinvestment Partners II, L.P.	4	103,089,000	12.0055%
GAP (Bermuda) Limited	4	103,089,000	12.0055%
General Atlantic Partners (Bermuda), L.P.	4	103,089,000	12.0055%
General Atlantic Partners, LLC	4	103,089,000	12.0055%
GapStar, LLC	4	103,089,000	12.0055%

Notes:

1. The controlling shareholder of the Company changed its name from "聯想集團控股公司" (Legend Group Holdings Co.) to "聯想控股有限公司" (Legend Holdings Limited). Its English name is a direct transliteration of its Chinese registered name.

2. 聯想控股有限公司職工持股會 (Employees' Shareholding Society of Legend Holdings Limited) is deemed to be interested in the 429,140,114 shares of the Company under the SDI Ordinance by virtue of its interests in LHL which in turn wholly owns Right Lane Limited.

3. Right Lane Limited is a wholly owned subsidiary of LHL. Therefore, the number of shares in which Right Lane Limited is shown as being interested are part of the shares in which LHL is shown to be interested.

4. As GAP Coninvestment Partners II, L.P., GAP (Bermuda) Limited, General Atlantic Partners (Bermuda), L.P., General Atlantic Partners, LLC and GapStar, LLC have entered into an agreement to which section 9 of the SDI Ordinance applies, each of the aforesaid parties is therefore deemed to be interested in the aggregate 103,089,000 shares of the Company under the SDI Ordinance.

Save as disclosed above, the register of interest maintained by the Company pursuant to section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company at 30th September 2002.

ADOPTION OF CHINESE TRANSLATION NAME

The adoption of the Chinese translation name "神州數碼控股有限公司" by the Company for the purpose of registration under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), which was approved by the shareholders of the Company at the Annual General Meeting of the Company held on 18th July 2002, was accepted by the Registrar of Companies in Hong Kong and the Certificate of Registration of Change of Name was issued on 3rd September 2002.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th September 2002, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements and this report.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period under review, in compliance with Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the non-executive director and independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the Bye-Laws of the Company.

BY ORDER OF THE BOARD

LI Qin
Chairman

Hong Kong, 19th November 2002