



Futong Technology Development Holdings Limited

富通科技發展控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 465



today's
ACHIEVEMENT
tomorrow's
GROWTH

Interim Report 2010

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FINANCIAL SUMMARY

RESULTS

	Six months ended 30 June	
	2010 HK\$'000 Unaudited	2009 HK\$'000 Audited
Revenue	1,409,087	1,183,906
Profit from operations	60,244	49,757
Finance costs	(10,125)	(11,529)
Share of losses of associate	(1,351)	—
Profit before taxation	48,768	38,228
Income tax	(9,116)	(3,096)
Profit for the period	39,652	35,132
Earnings per share — Basic and diluted (HK\$)	0.13	0.16

ASSETS AND LIABILITIES

	At 30 June	At 31 December
	2010 HK\$'000 Unaudited	2009 HK\$'000 Audited
Total assets	1,539,877	1,565,833
Total liabilities	(1,079,925)	(1,147,569)
NET ASSETS	459,952	418,264

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Sales of IBM's products

For the six months ended 30 June 2010, revenue from the distribution of IBM's hardware and software products including enterprise servers, system storage products and middleware, and which are often bundled with value-added services amounted to approximately HK\$1,218.6 million (2009: approximately HK\$1,109.0 million). This marked an increase in revenue by approximately HK\$109.6 million. The distribution of IBM's products and provision of related services remained as the primary revenue generator of Futong Technology Development Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), and accounted for approximately 86.5% of total revenue of the Group for the period under review (2009: approximately 93.7%).

The growth in revenue from the sales of IBM's products for the period under review was mainly driven by a higher demand for IT solutions from financial institutions resuming capital expenditure following the economic crisis. Revenue from sales of IBM's enterprise servers increased by approximately HK\$81.9 million or 9.9% to approximately HK\$912.3 million compared with the corresponding period last year. Revenue from sales of IBM's system storage products and related services rose by approximately HK\$24.1 million or 13.8% to approximately HK\$199.0 million for the six months ended 30 June 2010. Sales of IBM's software and related services amounted to approximately HK\$107.3 million, an increase of approximately HK\$3.6 million or 3.5%.

Sales of Oracle's products

Database management software and middleware for application servers from Oracle represent the other major category of products distributed by the Group. For the period under review, sales of Oracle's products and related services amounted to approximately HK\$83.3 million, up by approximately HK\$40.2 million or 93.3% over the corresponding period last year. It accounted for approximately 5.9% of the Group's total revenue. The Group has observed a stronger demand for Oracle's products from the government bodies and general business sectors.

Sales of other products

Other sources of revenue for the Group included sales of IT products of Huawei Symantec as its authorised distributor, including servers, storage and IT security solutions, as well as sales of other accessories. Revenue from these products and services increased to approximately HK\$92.3 million during the six months ended 30 June 2010 (2009: approximately HK\$26.3 million) which was mainly contributed from sales of Huawei Symantec's products and related services. The Group has been putting more effort in promoting Huawei Symantec's products since it became the authorised distributor of Huawei Symantec in 2008 and thus the Group recorded a substantial contribution from selling of Huawei Symantec's products during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2010, revenue of the Group increased by approximately HK\$225.2 million to approximately HK\$1,409.1 million from approximately HK\$1,183.9 million for the corresponding period last year. The rise was mainly attributable to an increase in demand for IT solutions from financial institutions after resumption of capital expenditures following the economic crisis.

Gross profit

Gross profit of the Group increased by approximately HK\$15.8 million or 14.7%, from approximately HK\$107.4 million for the six months ended 30 June 2009 to approximately HK\$123.2 million for the six months ended 30 June 2010. Gross profit margin of the Group dropped slightly to approximately 8.7% for the period under review from approximately 9.1% for the corresponding period last year.

Distribution costs

During the six months ended 30 June 2010, the distribution costs of the Group amounted to approximately HK\$54.9 million, an increase of approximately HK\$13.3 million or 32.0% compared to the corresponding period in 2009. This increase was mainly the combined effect of a rise in staff costs due to increase in headcount and travelling cost to support wider sales and service coverage.

Administrative expenses

Administrative expenses of the Group dropped by approximately HK\$8.0 million or 48.5%, from approximately HK\$16.5 million for the six months ended 30 June 2009 to approximately HK\$8.5 million for the six months ended 30 June 2010. For the six months ended 30 June 2009, the Group incurred impairment losses on trade receivables of approximately HK\$6.9 million. The Group recorded a reversal of impairment losses on trade receivables of approximately HK\$6.3 million for the period under review.

Finance costs

Finance costs of the Group decreased by approximately HK\$1.4 million or 12.2% from approximately HK\$11.5 million for the six months ended 30 June 2009 to approximately HK\$10.1 million for the six months ended 30 June 2010. The reduction was mainly attributable to finance cost saved from prompt settlement of the outstanding balances for purchases from IBM.

Profit for the period attributable to equity shareholders of the Company

For the period under review, profit attributable to equity shareholders of the Company increased by approximately HK\$4.7 million or 13.4%, from approximately HK\$35.1 million for the six months ended 30 June 2009 to approximately HK\$39.8 million. This increase in profit was mainly attributable to the increase in revenue during the interim period as a result of a higher demand of enterprise IT products from financial institutions.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 30 June 2010, the Group had total assets of approximately HK\$1,539.9 million and had net assets of approximately HK\$460.0 million (31 December 2009: approximately HK\$1,565.8 million and approximately HK\$418.3 million, respectively). The Group's cash and cash equivalents as at 30 June 2010 amounted to approximately HK\$189.0 million and bank borrowings amounted to approximately HK\$239.4 million (31 December 2009: approximately HK\$210.9 million and approximately HK\$302.3 million, respectively). Taking into account the cash on hand and recurring cash flows from its business, the Group's financial position was healthy, positioning the Group advantageously to expand its core business and to achieve its business objectives.

As at 30 June 2010, bank loans of the Group were made in Hong Kong dollars and Renminbi while cash and cash equivalents were held at Hong Kong dollars, United States dollars and Renminbi.

As at 30 June 2010, the bank loans were repayable as follows:

	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
Within 1 year	236,034	297,075
After 1 year but within 2 years	3,326	4,178
After 2 years but within 5 years	—	1,087
	3,326	5,265
	239,360	302,340

As at 30 June 2010, approximately 29% (31 December 2009: approximately 35%) of total borrowings were at fixed interests rates.

PLEDGE OF ASSETS

As at 30 June 2010, certain assets of the Group with carrying value of approximately HK\$330.3 million (31 December 2009: approximately HK\$361.3 million) were pledged to banks for banking facilities and bank guarantees granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

NET DEBT-TO-CAPITAL RATIO

The Group's net debt-to-capital ratio as at 30 June 2010 was approximately 11% (31 December 2009: approximately 22%). This ratio represents total bank loans less cash and cash equivalents divided by total equity.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases and banking facilities that are denominated in United States dollars, a currency other than the functional currency of its subsidiaries in Hong Kong.

As the Hong Kong dollars is pegged to United States dollars, the Group considers the risk of movement in exchange rates between the Hong Kong dollars and the United States dollars to be insignificant.

As at 30 June 2010, the Group did not enter into any hedging arrangements. However, the management will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

INTERIM DIVIDEND

The board (the "Board") of directors (the "Directors") of the Company resolved not to declare an interim dividend for the six months ended 30 June 2010 (2009: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2010, the Group had 421 (31 December 2009: 363) employees in the PRC and Hong Kong. Total staff costs amounted to approximately HK\$41.7 million (2009: approximately HK\$32.3 million).

The Group's employees are remunerated by reference to industry practices and performance and experience of individual employees. Our main focus is to ensure that the Group remains competitive within the market it operates in, to ensure we attract and retain the right talent necessary to grow the business and maximise shareholders' value. We place great emphasis on the development of our people as we firmly believe they are the core to the Group. Through our ongoing training programme, we encourage them to develop their talents and to move up the organisation. We believe these will be mutually beneficial to the Group and its employees.

ESTABLISHMENT OF A JOINT VENTURE COMPANY

During the six months ended 30 June 2010, the Group established a joint venture company in Beijing with Centrin Data Systems Co., Ltd.. The registered capital of the joint venture company is RMB50 million. The Group has 40% interest in the joint venture company and as at the date of this report, the Group has contributed its portion of capital of RMB20 million to the registered capital of the joint venture company. The formation of the joint venture company will enhance the Group's ability in providing IT technical support services and expand its range of services.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

After deducting share issuance expenses, the net proceeds from the initial public offering of the Company's shares in December 2009 amounted to approximately HK\$115.9 million. As at 30 June 2010, the Group had used approximately HK\$2.0 million for set up of new branch offices, approximately HK\$0.3 million for sourcing new enterprises IT products, approximately HK\$1.6 million for establishment and expansion of IT solution support centers and approximately HK\$2.4 million for set up of training centers. The remaining balance of the net proceeds was placed in short-term deposit bank accounts. The Group will apply the remaining net proceeds in the manner set out in the prospectus of the Company dated 24 November 2009 (the "Prospectus").

OUTLOOK

The PRC Government's official policy is to encourage the development of the IT industry in the nation. This encompasses the promotion of IT applications to enhance productivity within enterprises, rolling out e-government and other public services, developing an advanced cultural network, nurturing a digital economy, and improving information-based facilities to enhance the competitiveness of the IT industry in the PRC. The PRC should continue to be a relatively vibrant market for those IT vendors who can assist IT users to achieve efficiency and productivity gains. Thus, the Group is well positioned within an industry sector that is steadily growing.

Leveraging extensive experience of the management team of the Group as a leading provider of quality enterprise IT products, cost effective IT solutions and integrated IT technical support services, the Group intends to enhance its market leading position by a number of strategic directions: (i) extension of its sales network and coverage and diversification of its product distribution portfolio; (ii) broadening its product sourcing network; and (iii) expansion of its IT services within the PRC.

During the period under review, the Group has further strengthened its IT technical service team which aims to expand the Group's IT services capability in the PRC by meeting the needs of the end-users. The team is led by experienced and qualified technicians. In the near future, the IT technical service team will focus on providing services in the areas of: (i) centralised monitoring and service procedures; (ii) disaster recovery; and (iii) IT system maintenance.

Furthermore, on 14 July 2010, Futong Technology Development Holdings (HK) Limited, a wholly owned subsidiary of the Company, and EMC Computer Systems (FE) Limited, a global leader focused on IT infrastructure solution, signed a memorandum of understanding for a strategic partnership to promote virtual storage and cloud computing products and solutions with multi-facet, profound and comprehensive cooperation. The needs of enterprise data centers are presently changing dramatically. Thus the Group expects unprecedented growth of China's cloud computing market now and in the future. This partnership is intended to address the customers' shifting requirements. Through this strategic cooperation with upstream vendors, the Group will attain a more favorable position as the market transforms.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

During the six months ended 30 June 2010, the Board considered that the Company had applied the principles of and had complied with the code provisions set out in the Code on Corporate Governance Practices as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), except for the deviations from code provision A.2.1.

The Board believes that appointing Mr. Chen Jian as both the chairman and chief executive officer of the Company is conducive to a strong and consistent leadership, which enables the Group to implement decisions and business strategies promptly and efficiently. The Board considers that the present arrangement will not impair the balance of power and authority between the Board and the management of the Company as the proper balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals. Furthermore, the Board meets regularly to discuss major issues affecting the operations of the Group and make collective decisions by majority voting to ensure power is not concentrated in any one individual.

CODE OF CONDUCT REGARDING DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Director’s securities transactions.

Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code for the six months ended 30 June 2010.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2010.

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The details of the principal terms and conditions of the Share Option Scheme were summarized in the section headed “Share Option Scheme” in Appendix VI to the Prospectus.

No share options have been granted by the Company under the Share Option Scheme during the six months ended 30 June 2010 and there were no outstanding options at 30 June 2010.

AUDIT COMMITTEE

The Group’s unaudited consolidated results for the six months ended 30 June 2010 and this 2010 interim report have been reviewed by its audit committee, which was of the opinion that the preparation of such results and report complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2010, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long positions in the shares of the Company:

Name of Director	Capacity/nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital (%)
Chen Jian	Interest in controlled corporations	225,000,000 (Notes 1 ,2, 3)	72.29
Zhang Yun	Interest in controlled corporation	42,631,650 (Note 2)	13.70

(ii) Long positions in the shares of China Group Associates Limited:

Name of Director	Capacity/nature of interest	Number of shares held	Approximate percentage of the issued share capital (%)
Chen Jian	Beneficial owner	100	100.00

Notes:

- 153,947,250 of these shares are held by China Group Associates Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Jian. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the shares held by China Group Associates Limited.
- 42,631,650 of these shares are held by Rich China Investments And Trading Ltd., the entire issued share capital of which is owned as to approximately 66.67% by Mr. Chen Jian and approximately 33.33% by Ms. Zhang Yun. By virtue of the SFO, both Mr. Chen Jian and Ms. Zhang Yun are deemed to be interested in the shares held by Rich China Investments And Trading Ltd..
- 28,421,100 of these shares are held by Rich World Development Ltd., the entire issued share capital of which is owned as to approximately 81.67% by Mr. Chen Jian, approximately 13.33% by Mr. Guan Tao, approximately 3.33% by Mr. Xie Hui and approximately 1.67% by Mr. Jie Wen. By virtue of the SFO, Mr. Chen Jian is deemed to be interested in the entire 28,421,100 shares held by Rich World Development Ltd..

CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above and those as disclosed under the heading “Discloseable Interests and Short Positions of Substantial Shareholders under the SFO” below, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2010.

Discloseable Interests and Short Positions of Substantial Shareholders Under the SFO

As at 30 June 2010, the following persons or corporations (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or chief executive of the Company:

(i) Long positions in the shares of the Company:

Name	Capacity/nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital (%)
China Group Associates Limited (Note 1)	Beneficial owner	153,947,250	49.46
Rich China Investments And Trading Ltd. (Note 2)	Beneficial owner	42,631,650	13.70
Rich World Development Ltd. (Note 3)	Beneficial owner	28,421,100	9.13
Ms. Zhang Xin (Note 4)	Interest of spouse	225,000,000	72.29
Mr. Meng Huiqiang (Note 5)	Interest of spouse	42,631,650	13.70

CORPORATE GOVERNANCE AND OTHER INFORMATION

(ii) Long positions in the registered capital of Beijing Futong Dongfang Unica Technology Co. Ltd. (“Futong Unica”):

Name	Capacity/nature of interest	Amount of registered capital held	Approximate percentage of the registered capital (%)
Qu Weiwei	Beneficial owner	RMB450,000 (RMB225,000 of which has been paid up) (Note 6)	45.00

Notes:

- China Group Associates Limited is a company incorporated in the British Virgin Islands (“BVI”) with limited liability which is wholly and beneficially owned by Mr. Chen Jian. Mr. Chen Jian is the sole director of China Group Associates Limited.
- Rich China Investments And Trading Ltd. is a company incorporated in the BVI with limited liability which is owned as to approximately 66.67% by Mr. Chen Jian and approximately 33.33% by Ms. Zhang Yun. Ms. Zhang Yun is the sole director of Rich China Investments And Trading Ltd..
- Rich World Development Ltd. is a company incorporated in the BVI with limited liability which is owned as to approximately 81.67% by Mr. Chen Jian, approximately 13.33% by Mr. Guan Tao, approximately 3.33% by Mr. Xie Hui and approximately 1.67% by Mr. Jie Wen. Mr. Guan Tao is the sole director of Rich World Development Ltd..
- Ms. Zhang Xin is the spouse of Mr. Chen Jian. Under the SFO, Ms. Zhang Xin is taken to be interested in the same number of shares in which Mr. Chen Jian is interested.
- Mr. Meng Huiqiang is the spouse of Ms. Zhang Yun. Under the SFO, Mr. Meng Huiqiang is taken to be interested in the same number of shares in which Ms. Zhang Yun is interested.
- As at the date of this interim report, the total registered capital of Futong Unica was RMB1 million of which RMB500,000 has been paid up. Beijing Futong Dongfang Technology Co., Ltd. owned 55% and Ms. Qu Weiwei owned 45% of the equity interest in Futong Unica, respectively.

Save as disclosed above, there was no person or corporation, other than a Director or chief executive of the Company, who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept by the Company under Section 336 of the SFO as at 30 June 2010.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010 — unaudited

	Notes	Six months ended 30 June	
		2010 HK\$'000	2009 HK\$'000
Revenue	4	1,409,087	1,183,906
Cost of sales		(1,285,872)	(1,076,527)
Gross profit		123,215	107,379
Other income	6	457	521
Distribution costs		(54,929)	(41,631)
Administrative expenses		(8,499)	(16,512)
Profit from operations		60,244	49,757
Finance costs	6	(10,125)	(11,529)
Share of losses of associate		(1,351)	—
Profit before taxation	6	48,768	38,228
Income tax	7	(9,116)	(3,096)
Profit for the period		39,652	35,132
Attributable to:			
Equity shareholders of the Company		39,763	35,132
Non-controlling interests		(111)	—
Profit for the period		39,652	35,132
Earnings per share			
— Basic and diluted (HK\$)	8	0.13	0.16
Other comprehensive income for the period			
— Exchange differences on translation of financial statements of operations outside Hong Kong		2,036	67
Total comprehensive income for the period		41,688	35,199
Attributable to:			
Equity shareholders of the Company		41,799	35,199
Non-controlling interests		(111)	—
Total comprehensive income for the period		41,688	35,199

CONSOLIDATED BALANCE SHEET

At 30 June 2010 — unaudited

	Notes	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
Non-current assets			
Property, plant and equipment		38,894	38,458
Interest in associate		3,227	—
Deferred tax assets		7,822	8,694
Total non-current assets		49,943	47,152
Current assets			
Inventories		385,309	356,352
Trade and other receivables	9	794,744	807,393
Pledged deposits		120,839	144,053
Cash and cash equivalents		189,042	210,883
Total current assets		1,489,934	1,518,681
Current liabilities			
Trade and other payables	10	834,321	841,566
Bank loans		236,034	297,075
Tax payable		6,244	3,663
Total current liabilities		1,076,599	1,142,304
Net current assets		413,335	376,377
Total assets less current liabilities		463,278	423,529
Non-current liabilities			
Bank loans		3,326	5,265
NET ASSETS		459,952	418,264
CAPITAL AND RESERVES			
Share capital		31,125	31,125
Reserves		428,758	386,959
Total equity attributable to equity shareholders of the Company		459,883	418,084
Non-controlling interests		69	180
TOTAL EQUITY		459,952	418,264

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 — unaudited

	Attributable to equity shareholders of the Company						Total	Non-controlling interests	Total equity
	Share Capital	Share premium	Merger reserve	Translation reserve	Statutory reserves	Retained profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
At 1 January 2009	390	50,041	—	13,329	9,760	165,585	239,105	—	239,105
Total comprehensive income for the period	—	—	—	67	—	35,132	35,199	—	35,199
Appropriations	—	—	—	—	2,942	(2,942)	—	—	—
At 30 June 2009	390	50,041	—	13,396	12,702	197,775	274,304	—	274,304
At 1 January 2010	31,125	92,555	270	13,662	24,874	255,598	418,084	180	418,264
Total comprehensive income for the period	—	—	—	2,036	—	39,763	41,799	(111)	41,688
Appropriations	—	—	—	—	7,628	(7,628)	—	—	—
At 30 June 2010	31,125	92,555	270	15,698	32,502	287,733	459,883	69	459,952

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010 — unaudited

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Cash generated from/(used in) operating activities	38,075	(64,890)
Tax paid	(5,588)	(1,615)
Net cash generated from/(used in) operating activities	32,487	(66,505)
Net cash used in investing activities	(6,079)	(574)
Net cash (used in)/generated from financing activities	(49,269)	9,575
Net decrease in cash and cash equivalents	(22,861)	(57,504)
Cash and cash equivalents at 1 January	210,883	132,684
Effect of foreign exchange rate changes	1,020	53
Cash and cash equivalents at 30 June	189,042	75,233

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 29 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Group is principally engaged in the distribution of enterprise IT products in the People's Republic of China (the "PRC") and the provision of IT solutions and IT technical support services.

The companies comprising the Group underwent a reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange. On 11 November 2009, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the Prospectus.

The Company's shares were listed on the Stock Exchange on 4 December 2009.

2. BASIS OF PRESENTATION

The unaudited interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Listing Rules, including compliance with International Accounting Standard 34 "Interim financial reporting" ("IAS 34") issued by the International Accounting Standard Board. The unaudited interim financial statements were authorised for issue on 25 August 2010.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of the interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial information contains unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial statements. The unaudited condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

2. BASIS OF PRESENTATION *(Continued)*

The financial information relating to the year ended 31 December 2009 that is included in the interim financial statements for the six months ended 30 June 2010 as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. The financial information relating to the six months ended 30 June 2009 is derived from the accountants' report included in the Prospectus. The Prospectus and the statutory financial statements for the year ended 31 December 2009 are available at the Company's registered office. The Company's auditors have expressed an unqualified opinion on those financial information in their reports dated 24 November 2009 and 31 March 2010, respectively.

3. CHANGES IN ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in preparation of the interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009.

(a) Accounting for business combinations

From 1 January 2010, the Group has applied IFRS 3 (revised 2008) "Business combinations" in accounting for business combinations. The change in accounting policy has been applied prospectively.

For acquisitions on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Accounting for the acquisitions of non-controlling interests

From 1 January 2010, the Group has applied IAS 27 “Consolidated and separate financial statements” in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively; there was no impact on earnings per share in the current period.

From 1 January 2010, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised. Previously, goodwill arising on the acquisition of non-controlling interests in a subsidiary has been recognised, and represented the excess of the cost of additional investment over the carrying amount of the interest in the net assets acquired at the date of transaction.

(c) Distributions of non-cash assets to owners

From 1 January 2010, the Group has applied IFRIC 17 “Distributions of non-cash assets to owners” in accounting for distributions of non-cash assets to owners. This new accounting policy has been applied prospectively.

The Group measures a liability to distribute non-cash assets to owners at the fair value of the assets to be distributed. The carrying amount of the liability is remeasured at each reporting period and at the settlement date with any changes recognised in equity as adjustments to the amount of the distribution.

On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

4. REVENUE

Revenue represents the sales value of goods sold to customers excluding value added tax or other sales taxes and is after allowances for goods returned and deduction of any trade discounts. The amounts of each significant category of revenue recognised during the six months are as follows:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Sales of goods	1,394,264	1,178,425
Provision of services	14,823	5,481
	1,409,087	1,183,906

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

5. SEGMENT REPORTING

The Directors consider that the Group operates in a single business and geographical segment as the revenue and profits are derived entirely from the distribution of enterprise IT products and provision of services to the customers in the PRC. Accordingly, no segmental analysis is presented.

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Other income:		
Interest income on bank deposits	(384)	(521)
Others	(73)	—
	(457)	(521)
Finance costs:		
Interest on bank borrowings wholly repayable within five years	8,757	8,036
Other borrowing costs	1,368	3,493
	10,125	11,529
Staff costs:		
Salaries and allowances	38,355	30,103
Contributions to retirement schemes	3,348	2,195
	41,703	32,298
Other items:		
Depreciation	2,699	2,235
Net foreign exchange gain	(144)	(14)
(Reversal)/provision of impairment losses on trade receivables	(6,318)	6,937
Operating lease charges in respect of properties	4,920	4,133

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

7. INCOME TAX

Income tax represents:

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	1,404	634
PRC income tax	6,989	3,040
	8,393	3,674
Deferred tax		
Origination and reversal of temporary differences	723	(578)
	9,116	3,096

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits. Taxation outside Hong Kong has been provided for at the applicable current rates of taxation ruling in the relevant countries on the estimated assessable profits.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit attributable to equity shareholders of the Company of HK\$39,763,000 and weighted average number of 311,250,000 shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2009 is based on the profit attributable to equity shareholders of the Company of HK\$35,132,000 and on the assumption that 225,000,000 shares of the Company are in issue and issuable, after completion of the Reorganisation and capitalisation issue as if the shares were outstanding throughout the period.

There were no potential dilutive ordinary shares as at 30 June 2009 and 2010.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) of HK\$747,336,000 (31 December 2009: HK\$772,396,000) with the following ageing analysis as of the balance sheet date:

	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
Current	561,597	574,596
Less than 1 month past due	53,378	98,544
1 to 3 months past due	99,199	72,863
More than 3 months past due	33,162	26,393
Amounts past due	185,739	197,800
	747,336	772,396

Trade and bills receivables are due within 30-90 days from the date of billing.

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$569,757,000 (31 December 2009: HK\$533,978,000) with the following ageing analysis as of the balance sheet date:

	At 30 June 2010 HK\$'000	At 31 December 2009 HK\$'000
Due within 60 days	542,418	528,600
Due after 60 days but within 120 days	23,415	2,928
Due after 120 days	3,924	2,450
	569,757	533,978

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Jian (*Chairman and Chief Executive Officer*)
Ms. Zhang Yun
Mr. Guan Tao

Independent Non-executive Directors

Mr. Lee Kwan Hung
Mr. Yuan Bo
Mr. Ho Pak Tai Patrick

COMPANY SECRETARY

Mr. Yuen Kwok Hon, *CFA, CPA*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

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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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 929-935, 9th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
CITIC Ka Wah Bank Limited
Nanyang Commercial Bank, Ltd.
China Construction Bank (Asia) Corporation Limited
HSBC Bank (China) Company Limited
China Merchants Bank Co., Ltd.
Bank of Beijing
Bank of Hangzhou
Bank of DaLian Co., Ltd.

COMPLIANCE ADVISER

Taifook Capital Limited

LEGAL ADVISORS

As to Hong Kong law:
King & Wood

As to Cayman Islands law:
Conyers Dill & Pearman

AUDITORS

KPMG

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F., Tesbury Centre, 28 Queen's Road East,
Wanchai, Hong Kong

STOCK CODE

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