

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 2.125 “Interim Financial Reporting” except that the comparative figures of the condensed consolidated cash flow statement have not been presented as the Company has adopted the transitional provisions set out in paragraph 37.3 of Appendix 16 of the Rules Governing the Listing of Securities on the SEHK.

The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2000.

Several new accounting standards issued by the Hong Kong Society of Accountants are effective for this financial period. The changes to the Group’s accounting policies arise from the adoption of SSAP9 (Revised) and SSAP30.

The adoption of SSAP9 (Revised) “Events after the balance sheet date” results in a change in accounting policy whereby dividends proposed after the balance sheet date are no longer recognised as a liability at the balance sheet date. This change has been applied retrospectively and comparatives have been restated. The opening reserve as at 1st January 2001 has increased by HK\$1.81 million as a result of the reversal of the previous year’s proposed dividend. Proposed dividends are now separately disclosed on the face of the balance sheet within shareholders’ funds.

Goodwill arising on consolidation represents the excess of cost of acquisition of subsidiary over the group’s share of the fair value ascribed to the separable net assets at the date of acquisition. In previous years, goodwill was taken to the reserve in the year in which it arose. With the introduction of HK SSAP 30 “Business combinations”, the group has adopted the transitional provisions prescribed therein. New goodwill incurred after 1 January 2001 is capitalised in the balance sheet and is amortised to the profit and loss account on a straight-line basis over its estimated useful economic life. All goodwill arising from earlier acquisitions before 1 January 2001 will continue to be held in the reserve and no reinstatement has been made. However, any impairment arising on such goodwill is recognised in the profit and loss account.

2. Related party transactions and connected transactions

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Purchase of information technology products from Minority shareholders of certain subsidiaries of the Company		
– Open Environment Corporation	–	27
Related companies		
– certain members of the Datacraft Asia Ltd group	225	4,376
Connected parties		
– A subsidiary of a shareholder of a non-wholly owned subsidiary	89	–
– Non-wholly owned subsidiary	6,384	–
Sale of information technology products to a subsidiary of a shareholder of a non-wholly owned subsidiary	8	–
Management fees received from a member of the Datacraft Asia Ltd group	–	235
Software development service fees paid to a company in which the spouse of a director of the Company during the period is a director	–	240
Systems integration service income received from a company in which the spouse of a director of the Company during the period is a director	–	274
Rental income received from an investee company	206	–

Note: Mr. Derek Peter Althorp, a director of the Company, is a director of Datacraft Asia Ltd, a company listed on The Singapore Exchange Securities Trading Limited.

In the opinion of the directors, the above related party and connected party transactions were entered into by the Group in the ordinary course of business and on terms agreed with the minority shareholders and related companies. The directors consider that these transactions were made according to prices and conditions similar to those offered to other third parties.

3. Turnover

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts and services rendered. All significant intra-Group transactions have been eliminated on consolidation.

An analysis of turnover is as follows:

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Distribution of computer hardware products	218,647	135,481
Distribution of computer software products	29,129	17,198
Provision of computer technology services	17,567	30,996
	<u>265,343</u>	<u>183,675</u>
By geographical area:		
The People's Republic of China (the "PRC")		
Hong Kong	51,623	24,730
Elsewhere	213,720	158,945
	<u>265,343</u>	<u>183,675</u>

4. Profit/(loss) from operating activities

The Group's profit/(loss) from operating activities is arrived at after charging:

	Six months ended 30 June	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of goods sold	231,424	132,004
Depreciation	3,551	1,962
Amortization of deferred development costs	500	659
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5. Tax

	Six months ended 30 June	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	–	250
Elsewhere	126	2,926
Deferred	(78)	–
	<u> </u>	<u> </u>
	<u>48</u>	<u>3,176</u>

No provision has been made for Hong Kong profits tax as the Group has no estimated assessable profits for the period (2000: 16%). Taxes on profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Tax recoverable represents provisional tax paid in excess of the estimated tax liability of the Group.

6. Interim dividend

The Directors have resolved not to pay an interim dividend to shareholders (2000: 1.5 Hong Kong cents).

7. Earnings/(loss) per share

The calculation of the basic loss per share for the six months ended 30 June 2001 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$36,558,000 and on the weighted average of 362,000,000 shares in issue during the period.

The calculation of the basic earnings per share for the six months ended 30 June 2000 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$14,988,000 and on the weighted average of 316,692,308 shares in issue during the period.

The calculation of diluted loss per share for the six months ended 30 June 2001 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$36,558,000 and the weighted average of 362,334,495 shares issued during the period. Included in the weighted average number of shares used in calculating the diluted earnings per share are weighted average of 334,495 shares, which are deemed to be issued at no consideration if all outstanding share options have been exercised.

The calculation of diluted earnings per share for the six months ended 30 June 2000 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$14,988,000 and the weighted average of 318,750,265 shares issued during the period. Included in the weighted average number of shares used in calculating the diluted earnings per share are weighted average of 2,057,957 shares, which are deemed to be issued at no consideration if all outstanding share options have been exercised.

8. Accounts receivable

The aged analysis of accounts receivable was as follows:

	30 June 2001	31 December 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 90 days	186,342	163,592
91 days to 180 days	21,837	2,585
181 days to 365 days	20,995	2,981
Over 365 days	7,106	15,740
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	236,280	184,898
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The various group companies have different credit policies, dependent on the requirements of their markets and the business which they operate. In general, the credit period does not exceed 60 days.

9. Accounts payable

The aged analysis of accounts payable was as follows:

	30 June 2001	31 December 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 90 days	48,147	16,260
91 days to 180 days	3,298	7,223
181 days to 365 days	4,723	15,538
Over 365 days	4,243	2,032
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	60,411	41,053
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10. Banking facilities

As at 30 June 2001, the Group's banking facilities were secured by the pledge of the Group's deposits amounting to approximately HK\$36.6 million (As at 31 December 2000: HK\$15.9 million)

11. Finance lease payables

	30 June 2001	31 December 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable :		
Within one year	455	869
in the second year	455	834
in the third to fifth years, inclusive	417	644
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Total minimum finance lease payments	1,327	2,347
Future finance charges	(248)	(406)
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Total net finance lease payables	1,079	1,941
Portion classified as current liabilities	(370)	(723)
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Long term portion	709	1,218
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12. Share options

Under the terms of the share option scheme adopted by the Company on 12 June 1999, the board of directors is authorised, on or before 11 June 2009, at its absolute discretion, to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company. The subscription price will be the higher of 80% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the offer of grant of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which have been duly allotted and issued. The share option scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 6 July 1999.

The movements in the number of share options to subscribe for shares in the Company during the period were as follows :

Date of grant of share options	Number of share options outstanding at 1 January 2001	Number of share options granted during the period	Number of share options lapsed during the period	Number of share options outstanding at 30 June 2001	Exercise price	Exercise period
21 January 2000	4,978,000	–	1,734,000	3,244,000	HK\$ 2.532	21 January 2001 to 20 January 2010
31 May 2000	500,000	–	–	500,000	HK\$ 1.82	31 May 2001 to 30 May 2010
29 September 2000	200,000	–	–	200,000	HK\$ 2.108	29 September 2001 to 28 September 2010
27 December 2000	750,000	–	200,000	550,000	HK\$ 1.481	27 December 2001 to 26 December 2010
26 March 2001	–	100,000	100,000	–	HK\$ 1.2	
24 May 2001	–	5,200,000	136,000	5,064,000	HK\$ 0.91	24 May 2002 to 23 May 2011
	<u>6,428,000</u>	<u>5,300,000</u>	<u>2,170,000</u>	<u>9,558,000</u>		

At 30 June 2001, the Company had 9,558,000 share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 9,558,000 new ordinary shares of HK\$0.10 each in the Company.

13. Reserves

	Share premium account HK\$'000	Contributed surplus HK\$'000	Goodwill reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Proposed dividend HK\$'000	Retained profits HK\$'000	Total HK\$'000
Opening balance as previously reported	277,121	(19)	(37,548)	45	–	61,243	300,842
Change in accounting policy to proposed dividend	–	–	–	–	–	1,810	1,810
Proposed dividend separately disclosed on face of balance sheet	–	–	–	–	1,810	(1,810)	–
Opening balance as restated	277,121	(19)	(37,548)	45	1,810	61,243	302,652
2000 final dividend paid	–	–	–	–	(1,810)	–	(1,810)
Exchange realignments	–	–	–	13	–	–	13
Net loss for the period	–	–	–	–	–	(36,558)	(36,558)
At 30 June 2001	277,121	(19)	(37,548)	58	–	24,685	264,297

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation on 12 June 1999 over the nominal value of the share capital of the Company issued in exchange therefor.

14. Capital commitments

- (a) A sale and purchase agreement (the “S & P Agreement”) was entered with an independent third party (the “Seller”) in 2000 for the acquisition of a 55% shareholding in a subsidiary (the “Subsidiary”) for a total consideration of HK\$36.8 million. HK\$23.3 million has been settled up to 30 June 2001.

Pursuant to the S & P Agreement, the Seller will be entitled to additional consideration calculated according to the formulae as set out in the announcement of 25 July 2000.

- (b) On 28 November 2000, the Group entered into a sale and subscription agreement (the “Agreement”) with, inter alia, an independent third party (the “Vendor”) for ultimate acquisition of 51% of the issued share capital of DMX. HK\$60 million out of HK\$65 million has been settled up to 30 June 2001.

Pursuant to the Agreement, the Seller will be entitled to additional consideration calculated according to the formulae as set out in the announcement of 2 January 2001.

15. Contingent liabilities

	30 June 2001 <i>HK\$'000</i>	31 December 2000 <i>HK\$'000</i>
Guarantees in respect of performance bonds in favour of contract customers	901	275
Bills discounted with recourse	<u>12,680</u>	<u>—</u>
	<u>13,581</u>	<u>275</u>