

## NOTES TO THE CONDENSED 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, the Company became the holding company of the companies now comprising the Group on 15th May 2001. The Company acquired the entire issued share capital of Digital China (BVI) Limited ("Digital China (BVI)"), the then holding company of the other companies comprising the Group through a share swap arrangement in accordance with the terms of Share Swap Agreement dated 15th May 2001 and became the holding company of the 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.

Although the Reorganisation was not completed and, accordingly, the Group did not legally exist until 15th May 2001, the unaudited condensed consolidated balance sheet of the Group as at 30th September 2001 and the unaudited condensed consolidated profit and loss account, statement of recognised gains and losses and cash flow statement for the six months ended 30th September 2001 (collectively referred to herein as "unaudited financials") including the comparative figures, are prepared using the merger basis of accounting as permitted by the Hong Kong Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" as if the Company had been the holding company of the Group throughout these periods. All significant intra-group transactions and balances have been eliminated on consolidation.

These unaudited financials are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The Directors are responsible for the preparation of the Group's unaudited financials. In preparing the unaudited financials, the same principal accounting policies and methods of computation as set out in the Group's annual accounts for the year ended 31st March 2001 are consistently applied except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard

Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	: Events after the balance sheet date
SSAP 14 (revised)	: Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	: Segment reporting
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 29	: Intangible assets
SSAP 30	: Business combinations
SSAP 31	: Impairment of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

SSAP 14 (revised) : Leases

In note 12 to the condensed financial statements, the Group has disclosed lease commitments as defined under SSAP 14 (revised). The revised standard requires the aggregate future minimum lease payments analysed into the following periods:

- (i) not later than one year
- (ii) later than one year and not later than five years
- (iii) later than five years

This is a change from the previous SSAP 14 which only required disclosure of the minimum lease payments payable in the next twelve months, analysed into the periods in which the lease expired within that year, in the second to fifth year inclusive and over five years from the balance sheet date.

Comparative figures have been stated to conform with the current period's presentation.

## **2. Turnover, revenue and segment information**

Turnover represents sales at invoiced value to customers outside the Group less sales tax, returns and discounts. The Group is principally engaged in the distribution of third party IT products, provision of systems integration services and development and distribution of networking products.

	Three months ended 30th September 2001 HK\$'000	Six months ended 30th September 2001 HK\$'000	Three months ended 30th September 2000 HK\$'000	Six months ended 30th September 2000 HK\$'000
Turnover				
Distribution of third party IT products	1,983,748	3,871,576	1,500,813	3,227,878
Provision of systems integration services (including hardware and software sales and service revenues)	312,541	708,267	368,726	581,784
Distribution of networking products	147,115	355,109	138,806	235,514
Total turnover	2,443,404	4,934,952	2,008,345	4,045,176
Other revenue				
Interest income	2,471	5,095	1,611	3,466
Total revenues	2,445,875	4,940,047	2,009,956	4,048,642
Gross profit by business activities:				
Distribution of third party IT products	150,150	278,662	131,640	287,018
Provision of systems integration services (including hardware and software sales and service revenues)	49,552	111,287	46,200	66,422
Distribution of networking products	35,801	87,842	30,446	54,109
Total gross profit	235,503	477,791	208,286	407,549
Less: unallocated operating expenses	(178,736)	(377,183)	(157,347)	(331,447)
Profit before taxation	56,767	100,608	50,939	76,102

No geographical analysis is provided as over 90% of the turnover and trading results of the Group are attributable to the market in the People's Republic of China ("PRC").

**3. Profit from operations**

	Six months ended 30th September 2001 HK\$'000	Six months ended 30th September 2000 HK\$'000
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Profit from operations is stated after  
charging the following:-

Loss on disposal of fixed assets	28	-
Write off of fixed assets	627	1,004

**4. Finance costs**

	Six months ended 30th September 2001 HK\$'000	Six months ended 30th September 2000 HK\$'000
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Interest on bank loans	27,988	317
Net interest expenses on current account with Legend Holdings Limited	740	26,486
Other interest	-	6
Total finance costs	28,728	26,809

**5. Taxation**

- (a) No provision for Hong Kong profits tax has been made for the six months ended 30th September 2000 and 2001 as the Group has no estimated profit assessable to Hong Kong profits tax.
- (b) 神州數碼(中國)有限公司("Digital China (China) Limited"), a PRC subsidiary of the Company, which took up the distribution and systems integration businesses of Legend (Beijing) Limited pursuant to the Reorganisation and started operation in May 2000, obtained an approval document from the relevant authorities and was qualified as a new technology enterprise on 8th April 2000. The relevant PRC income tax rate for new technology enterprises is 15%. According to the approval document from the State Tax Bureau of the PRC

dated 13th July 2000, Digital China (China) Limited is entitled to full exemption from the PRC income tax until 31st December 2002 and a 50% PRC income tax reduction for the following three years provided that it can maintain the status as a new technology enterprise. Accordingly, no PRC income tax was provided for Digital China (China) Limited. The status of Digital China (China) Limited as a new technology enterprise and hence the preferential PRC tax treatment thereon are subject to annual review by the relevant PRC authorities in the future.

- (c) Pursuant to certain approval documents issued by the State Tax Bureau of the PRC, 武漢神州數碼有限公司 ("Wuhan Digital China Limited"), a PRC subsidiary of the Company, is qualified as a high-technology enterprise and subject to a PRC income tax rate of 15%. It is entitled to full exemption from PRC income tax for two years starting from the first profit-making year and a 50% PRC income tax reduction for the following three years. In addition, if Wuhan Digital China Limited fails to be regarded as a manufacturing-oriented high-technology enterprise from the third year, it will be subject to PRC income tax at a rate of 15%.
- (d) 廣州神州數碼有限公司 ("Guangzhou Digital China Limited"), a PRC subsidiary of the Company, is classified as a high-technology enterprise and is subject to the PRC income tax rate of 15%. It is entitled to full exemption from PRC income tax for two years starting from the first profit-making year and a 50% PRC income tax reduction for the following two years. No provision for PRC income tax has been made as this company did not have any assessable profit during the six months ended 30th September 2000 and 2001.
- (e) Other PRC group companies are subject to the PRC income tax rate of 33%. No provision for PRC income tax has been made as these companies did not have any estimated assessable profit during the six months ended 30th September 2000 and 2001.

## 6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$80,757,000 (2000: HK\$66,815,000) and on the weighted average of 824,847,424 shares (2000: 757,181,609 shares) deemed to be in issue during the six months ended 30th September 2001. The weighted average number of shares in issue has been calculated as if 757,181,609 shares issued pursuant to the Reorganisation mentioned in note 1 and 10(b) had been issued throughout the period presented and on the basis that the 101,498,722 shares had been issued pursuant to global offering of the Company in June 2001 as mentioned in note 10(b).

The diluted earnings per share is based on 824,847,424 shares (2000: 757,181,609 shares) which is the weighted average number of shares in issue during the period, plus the weighted average number of 1,684,364 shares (2000: Nil shares) deemed to be issued at no consideration if all outstanding share options had been exercised.

## 7. Fixed assets

	HK\$'000
Cost or valuation	
At 1st April 2001	129,578
Additions	37,475
Disposals	(14,405)
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At 30th September 2001	152,648
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Accumulated depreciation	
At 1st April 2001	40,098
Charge for the period	10,992
Disposals	(8,419)
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At 30th September 2001	42,671
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Provision for permanent diminution in value	
At 1st April 2001	8,190
Disposals	(2,741)
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At 30th September 2001	5,449
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Net book value	
At 30th September 2001	104,528
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At 31st March 2001	81,290
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## 8. Accounts receivable

The ageing analysis of accounts receivable is as follows:

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
Current to 30 days	<b>889,753</b>	579,360
31 days to 60 days	<b>141,898</b>	201,296
61 days to 90 days	<b>115,124</b>	20,809
91 days to 120 days	<b>96,519</b>	43,749
121 days to 180 days	<b>28,541</b>	37,680
Over 180 days	<b>108,949</b>	88,574
	<b>1,380,784</b>	971,468

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

## 9. Accounts payable

The ageing analysis of accounts payable is as follows:

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
Current to 30 days	<b>417,743</b>	572,693
31 days to 60 days	<b>311,097</b>	46,096
61 days to 90 days	<b>23,033</b>	19,721
Over 90 days	<b>112,588</b>	36,918
	<b>864,461</b>	675,428

## 10. Share capital

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
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### Authorised:

2,000,000,000 (31st March 2001: 1,000,000) ordinary shares of HK\$0.10 each	<b>200,000</b>	100
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### Issued and nil-paid:

Nil (31st March 2001: 1,000,000) ordinary shares of HK\$0.10 each (note (a))	–	100
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### Issued and fully paid:

858,680,331 (31st March 2001: Nil) ordinary shares of HK\$0.10 each (note (b))	<b>85,868</b>	–
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The following changes took place during the period from 25th January 2001 (date of incorporation) and up to the date of this report:

- (a) The Company was incorporated in Bermuda on 25th January 2001 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were allotted and issued to Legend Holdings Limited nil-paid on 1st February 2001 (the "Initial Shares").
- (b) In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the following changes in the Company's authorised and issued share capital took place:
  - (1) Pursuant to written resolutions of Legend Holdings Limited dated 14th May 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 on 14th May 2001 by the creation of an additional 1,999,000,000 ordinary shares of HK\$0.10 each. Such shares rank pari passu in all respects with other existing shares in issue of the Company.
  - (2) On 15th May 2001, the Company further allotted and issued a total of 756,181,609 new ordinary shares of HK\$0.10 each, credited as fully paid to Legend Holdings Limited and credited as fully paid the Initial Shares as consideration for the acquisition of the entire issued share capital of Digital China (BVI), which is now a subsidiary of the Company.



- (3) Pursuant to the global offering of the Company's shares in June 2001, 101,498,722 ordinary shares of HK\$0.10 each were allotted and issued to the public and institutional investors at HK\$3.68 per share for cash. The excess of the issue proceeds over the par value of the shares allotted and issued was credited to the share premium account of the Company.

## 11. Reserves

	Retained earnings HK\$'000	Other reserves HK\$'000	Total HK\$'000
At 1st April 2001	85,626	203,411	289,037
Reserves arising from group reorganisation and new issue of shares	–	715,465	715,465
Profit for the period	80,757	–	80,757
Exchange differences	–	(298)	(298)
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At 30th September 2001	166,383	918,578	1,084,961
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## 12. Commitments under operating leases

At the balance sheet date, the Group's total future minimum payments under non-cancellable operating leases in respect of land and buildings were as follows:

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
Payable:		
Within one year	1,605	5,208
In the second to fifth years inclusive	48,872	46,444
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	50,477	51,652
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### 13. Contingent liabilities

As at 30th September 2001, the Group had the following contingent liabilities:

- (a) A subsidiary of the Group has been involved in legal proceedings in the PRC arising out of a contract dated 20th March 1998 entered into with a third party in relation to the establishment of a computer information management system. By a notice dated 5th January 2001 issued by the Beijing People's Court and served on the subsidiary, the third party (as plaintiff) initiated court proceedings against the subsidiary for breach of contract, claiming that the subsidiary had failed to set up and deliver the requisite system on time. Damages claimed amounted to RMB4.65 million plus costs. The Directors are of the opinion that no provision is required as the result of the case is not certain at this stage and the amount of the claim involved is not significant to the Group.
- (b) The Group had discounted bills with recourse to banks amounting to HK\$75 million (31st March 2001: Nil).

### 14. Related party transactions

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

	Six months ended 30th September 2001 HK\$'000	Six months ended 30th September 2000 HK\$'000
Fellow subsidiaries		
Sales of goods by the Group	10,550	3,691
Recharge of rental expenses to the Group	1,239	297
Net interest expenses payable by the Group	740	26,486
A minority shareholder and its group companies		
Purchases of goods by the Group	<u>167,853</u>	<u>93,962</u>

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