

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of Presentation and Principal Accounting Policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. In preparing the unaudited condensed consolidated interim financial statements, the same basis of presentation, accounting policies and methods of computation as set out in the Group's annual accounts for the year ended 31 March 2003 had been consistently applied except for the adoption of the following new/revised SSAPs and the change of the accounting estimate:

Adoption of New/Revised SSAPs

- SSAP 12 (Revised) : "Income taxes"
- SSAP 35 : "Accounting for government grants and disclosure of government assistance"

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future, a deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The principal impacts of the revision of this SSAP are that opening retained profits at 1 April 2002 and 1 April 2003 have been increased by HK\$10.7 million and HK\$8.6 million respectively and the tax expense for the six months ended 30 September 2002 increased by HK\$0.7 million and the tax benefit for the six months ended 30 September 2003 increased by HK\$10.0 million.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

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

Change of Accounting Estimate

During the six months ended 30 September 2003, the rates used to determine the general provision of the inventories of a business segment were revised. In the opinion of the Directors, the revised general provision rates would be more appropriate for the Group to determine the inventory value. The effect of change of accounting estimate was not material to the results for the six months ended 30 September 2002 and 2003.

2. 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 of goods sold and services rendered to customers, net of business tax, value-added tax and government surcharges, and after allowances for goods returned and trade discounts.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

Primary Reporting Format — Business Segments

	Three months ended 30 September 2003 (Unaudited) HK\$'000	Six months ended 30 September 2003 (Unaudited) HK\$'000	Three months ended 30 September 2002 (Unaudited) (Restated) HK\$'000	Six months ended 30 September 2002 (Unaudited) (Restated) HK\$'000
Segment turnover				
Distribution of IT products	3,234,404	5,963,111	2,585,646	4,862,584
Provision of systems integration services (including hardware and software sale and services revenue)	416,900	944,228	301,878	817,979
Distribution of networking products	68,270	112,783	53,696	110,069
	3,719,574	7,020,122	2,941,220	5,790,632
Other revenue				
Interest income	616	1,378	775	1,726
	3,720,190	7,021,500	2,941,995	5,792,358
Segment results				
Distribution of IT products	120,953	271,413	167,535	336,898
Provision of systems integration services (including hardware and software sale and services revenue)	59,560	123,208	39,220	109,681
Distribution of networking products	19,530	29,839	20,654	19,335
	200,043	424,460	227,409	465,914
Unallocated items	(132,897)	(497,520)	(162,165)	(352,618)
Profit/(Loss) from operating activities	67,146	(73,060)	65,244	113,296
Finance costs	(10,252)	(23,603)	(8,104)	(17,420)
Share of losses of associates	(1,050)	(4,077)	(2,221)	(4,762)
Profit/(Loss) before tax	55,844	(100,740)	54,919	91,114
Tax	965	7,774	(2,669)	(2,304)
Profit/(Loss) before minority interests	56,809	(92,966)	52,250	88,810
Minority interests	864	2,004	(105)	31
Net profit/(loss) from ordinary activities attributable to shareholders	57,673	(90,962)	52,145	88,841

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

Secondary Reporting Format — Geographical Segments

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

3. Profit/(Loss) from Operating Activities

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

	Six months ended	
	30 September	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Exchange losses, net	3	1,137
Operating lease rentals in respect of land and buildings	15,024	19,721
Loss on disposal of fixed assets	461	242
Amortisation of intangible assets	110	—
Amortisation of goodwill	1,104	124
Provisions and write-off of obsolete inventories	26,227	9,933
Provisions and write-off of doubtful trade receivables	83,499	9,212

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

4. Tax

	Six months ended 30 September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) (Restated) HK\$'000
Group		
Current tax:		
PRC corporate income tax	(2,178)	(1,640)
Deferred tax	9,952	(664)
	7,774	(2,304)

- (a) PRC corporate income tax represents tax charges on the estimated assessable profits of the PRC subsidiaries of the Group. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 33% except for certain subsidiaries which are entitled to tax holidays and preferential tax rates.
- (b) No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits arising in Hong Kong for the six months ended 30 September 2002 and 2003.
- (c) No provision for Hong Kong profits tax and PRC corporate income tax have been made for the associates as the associates have no estimated assessable profits for the six months ended 30 September 2002 and 2003.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)**5. Earnings/(Loss) per Share**

The calculation of basic loss per share was based on the net loss attributable to shareholders for the six months ended 30 September 2003 of approximately HK\$90,962,000 (For the six months ended 30 September 2002: restated net profit of approximately HK\$88,841,000), and the weighted average of 858,704,823 (For the six months ended 30 September 2002: 858,680,331) ordinary shares in issue during the six months ended 30 September 2003.

Diluted loss per share for the six months ended 30 September 2003 has not been calculated as the impact of the outstanding share options was anti-dilutive.

The calculation of diluted earnings per share for the six months ended 30 September 2002 was based on the net profit attributable to shareholders for the six months ended 30 September 2002 of approximately HK\$88,841,000 (restated) and 907,610,462 ordinary shares, which was the weighted average of 858,680,331 ordinary shares in issue during the six months ended 30 September 2002 and the weighted average of 48,930,131 ordinary shares deemed to have been issued at no consideration on the deemed exercise of all the outstanding share options during the six months ended 30 September 2002.

6. Trade and Bills Receivables

An ageing analysis of the trade and bills receivables at balance sheet dates, net of provisions, is as follows:

	At 30 September 2003 (Unaudited) HK\$'000	At 31 March 2003 (Audited) HK\$'000
Within 30 days	822,450	800,880
31 to 60 days	290,326	225,131
61 to 90 days	169,358	134,537
91 to 180 days	170,569	161,376
Over 180 days	149,761	190,257
	1,602,464	1,512,181

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 days, extending up to 60 days, 90 days and 180 days for distribution business, networking products business and systems integration business respectively for major customers.

7. Trade and Bills Payables

An ageing analysis of the trade and bills payables at balance sheet dates is as follows:

	At 30 September 2003 (Unaudited) HK\$'000	At 31 March 2003 (Audited) HK\$'000
Within 30 days	960,961	711,060
31 to 60 days	363,357	446,339
61 to 90 days	113,417	140,647
Over 90 days	90,905	125,982
	1,528,640	1,424,028

8. Contingent Liabilities

At 30 September 2003, the Group had discounted bills with recourse to banks amounting to approximately HK\$340 million (31 March 2003: HK\$372 million).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

9. Commitments

(a) Capital Commitments

At 30 September 2003, the Group had the following capital commitments:

	At 30 September 2003 (Unaudited) HK\$'000	At 31 March 2003 (Audited) HK\$'000
Contracted, but not provided for:		
Land use rights, leasehold land and buildings	57,033	132,884
Capital contribution to an associate	—	6,552

(b) Commitments under Operating Leases

At 30 September 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 30 September 2003 (Unaudited) HK\$'000	At 31 March 2003 (Audited) HK\$'000
Within one year	21,532	22,294
In the second to fifth years, inclusive	20,637	18,001
After five years	4,214	5,049
	46,383	45,344