

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of Presentation and Principal Accounting Policies

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2004 are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public 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 consolidated financial statements for the year ended 31 March 2004 had been consistently applied except for the following change in segment accounting policy:

Change in segment accounting policy

During the six months ended 30 September 2004, the Group has changed its identification of reportable business segments. The Group has reclassified its previous three business segments, namely, "Distribution of information technology ("IT") products", "Provision of systems integration services" and "Development and distribution of networking products" into three new business segments, namely, "Distribution", "Systems" and "Services". Further information of the three new business segments is detailed in note 2 below. In the opinion of the directors of the Company, the new basis of segmentation provides a more appropriate presentation of the segment information. Prior period segment information is restated for comparative purposes.

2. Turnover, Revenue and Segment Information

The Group is principally engaged in the distribution of general IT and systems products and the provision of IT services. 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.

From 1 April 2004, the Group has adopted a new segment reporting basis and reclassified its businesses into three new business segments. Summary details of the three new business segments are as follows:

- (a) the "Distribution" segment engages in the distribution of general IT products which consist of notebook computers, desktop computers, PC servers, data projectors, peripherals, accessories and consumer IT products;
- (b) the "Systems" segment engages in the distribution of systems products which consist of Unix servers, networking products, storage products and packaged software, as well as the provision of related value-added services; and
- (c) the "Services" segment engages in the provision of systems integration, applications software development, consultancy and training, etc..

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

2. Turnover, Revenue and Segment Information (continued)

Primary reporting format — business segments

	Three months ended 30 September 2004 (Unaudited) HK\$'000	Six months ended 30 September 2004 (Unaudited) HK\$'000	Three months ended 30 September 2003 (Unaudited) (Restated) HK\$'000	Six months ended 30 September 2003 (Unaudited) (Restated) HK\$'000
Segment turnover				
Distribution	2,308,835	4,268,260	2,170,673	4,012,249
Systems	1,156,050	2,268,628	1,132,000	2,063,644
Services	676,990	1,058,932	416,901	944,229
	4,141,875	7,595,820	3,719,574	7,020,122
Other revenue				
Interest income	676	1,645	616	1,378
	4,142,551	7,597,465	3,720,190	7,021,500
Segment results				
Distribution	118,858	240,070	31,608	100,591
Systems	116,514	225,863	108,874	200,660
Services	75,663	119,802	59,561	123,209
	311,035	585,735	200,043	424,460
Unallocated expenses	(235,464)	(470,593)	(132,897)	(497,520)
Profit/(Loss) from operating activities	75,571	115,142	67,146	(73,060)
Finance costs	(13,270)	(23,896)	(10,252)	(23,603)
Share of profits/(losses) of associates	796	765	(1,050)	(4,077)
Profit/(Loss) before tax	63,097	92,011	55,844	(100,740)
Tax	722	607	965	7,774
Profit/(Loss) before minority interests	63,819	92,618	56,809	(92,966)
Minority interests	1,368	2,905	864	2,004
Net profit/(loss) from ordinary activities attributable to shareholders	65,187	95,523	57,673	(90,962)

Secondary reporting format — geographical segments

No geographical segment information is presented as over 90% of the Group's customers and operations are located in The People's Republic of China ("PRC").

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

3. Profit/(Loss) from Operating Activities

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

	Six months ended 30 September 2004 (Unaudited) HK\$'000	Six months ended 30 September 2003 (Unaudited) HK\$'000
Exchange (gains)/losses, net	(138)	3
Operating lease rentals in respect of land and buildings	22,774	15,024
Loss on disposal of fixed assets	906	461
Amortisation of intangible assets	1,962	110
Amortisation of goodwill	830	1,104
Provisions and write-off of obsolete inventories	22,221	26,227
Provisions and write-off of doubtful trade receivables	42,553	83,499

4. Tax

	Six months ended 30 September 2004 (Unaudited) HK\$'000	Six months ended 30 September 2003 (Unaudited) HK\$'000
Group		
Current tax:		
PRC corporate income tax	(3,743)	(2,178)
Deferred tax	4,350	9,952
Total tax credit for the period	607	7,774

- (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 had been made as the Group had no estimated assessable profits arising in Hong Kong nor had tax losses brought forward from prior years to set off assessable profits for the six months ended 30 September 2003 and 2004.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

4. Tax (continued)

- (c) For the six months ended 30 September 2004, no provision for Hong Kong profits tax had been made for the associates as the associates had no estimated assessable profits arising in Hong Kong and no provision for PRC corporate income tax had been made for the associates as the associates had tax losses brought forward from prior years to set off assessable profits. No provision for Hong Kong profits tax and PRC corporate income tax had been made for the associates as the associates had no estimated assessable profits for the six months ended 30 September 2003.

5. Earnings/(Loss) per Share

The calculation of basic earnings/(loss) per share was based on the net profit attributable to shareholders for the six months ended 30 September 2004 of approximately HK\$95,523,000 (For the six months ended 30 September 2003: net loss of approximately HK\$90,962,000), and the weighted average of 860,575,380 (For the six months ended 30 September 2003: 858,704,823) ordinary shares in issue during the six months ended 30 September 2004.

The calculation of diluted earnings per share was based on the net profit attributable to shareholders for the six months ended 30 September 2004 of approximately HK\$95,523,000 and 862,826,200 ordinary shares, which were the weighted average of 860,575,380 ordinary shares in issue during the six months ended 30 September 2004 and the weighted average of 2,250,820 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 2004.

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

6. Trade and Bills Receivables

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

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Within 30 days	1,128,447	700,029
31 to 60 days	268,896	343,666
61 to 90 days	183,768	101,999
91 to 180 days	237,291	233,266
Over 180 days	241,432	234,861
	2,059,834	1,613,821

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 periods normally range from 30 days to 180 days.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS *(continued)***7. Trade and Bills Payables**

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

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Within 30 days	869,577	576,741
31 to 60 days	340,540	491,577
61 to 90 days	176,796	35,847
Over 90 days	146,559	95,665
	1,533,472	1,199,830

8. Contingent Liabilities

At 30 September 2004, the Group had discounted bills with recourse to banks amounting to approximately HK\$396 million (31 March 2004: HK\$252 million).

9. Commitments

(a) Capital commitments

At 30 September 2004, the Group's capital commitments comprised:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Contracted, but not provided for:		
Land use rights, leasehold land and buildings	173,873	216,447

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS *(continued)***9. Commitments** *(continued)*

(b) Commitments under operating leases

At 30 September 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 30 September 2004 (Unaudited) HK\$'000	At 31 March 2004 (Audited) HK\$'000
Within one year	39,744	23,743
In the second to fifth years, inclusive	63,809	31,588
After five years	15,373	14,138
	118,926	69,469

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2004 (For the six months ended 30 September 2003: nil).