1. Basis of presentation and principal accounting policies

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2005 are prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "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 annual financial statements for the year ended 31 March 2005 had been consistently applied except the Group has changed certain accounting policies following its adoption of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("**HKFRSs**") and has adopted the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earning per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 20, 21, 23, 24, 27, 28, 33, 37, 38, HKFRS 5, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited condensed consolidated interim financial statements. In summary,

(a) HKAS 1 has affected the presentations of minority interests, share of net after-tax results of a jointly-controlled entity and associates and other disclosures.

(b) HKAS 24 has expanded the definition of related parties to include key management of the Group.

The impact of adopting the other HKFRSs is summarised as follows:

(a) **HKAS 17 – Leases**

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premium, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet as at 31 March 2005 have been restated to reflect the reclassification of leasehold land.

(b) **HKAS 32 and HKAS 39 – Financial Instruments**

In prior periods, the Group classified its investments in equity securities as long term investments which were held for non-trading purposes and were stated at cost less any impairment losses.

Upon the adoption of HKASs 32 and 39, these securities are classified as available-for-sale investments. Available-for-sale investments are those non-derivative investments in unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial market is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments which there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same, and discounted cash flow analysis and option pricing models.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investments, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("**loss events**"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the loss recognised in the income statement shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale investment previously recognised in the income statement.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

1. Basis of presentation and principal accounting policies (continued)

(c) HKFRS 2 – Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("**equity-settled transactions**"), the cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "**vesting date**"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards which vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The effects of adopting HKFRS 2 on the Group's share options granted to employees after 7 November 2002 but had not vested on 1 April 2005 are summarised in note 2 to the unaudited condensed consolidated interim financial statements. Comparative amounts have been restated in accordance with HKFRS 2.

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior periods, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

The transitional provision of HKFRS 3 have required the Group to eliminate at 1 April 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill.

The effects of the above changes are summarised in note 2 to the unaudited condensed consolidated interim financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

Change in presentation of analysis of expenses

The presentation of analysis of expenses on the face of the condensed consolidated income statement has been presented by using the functions of expenses method, whereby expenses are classified according to their function as cost of sales or operating expenses. Prior period expenses analysis is restated for comparative purposes.

2. Summary of the impact of changes in accounting policies

Following the adoption of the HKFRSs, the opening balances of the following accounts were adjusted retrospectively. The details of the prior period adjustment are summarised as follows:

(a) Effect on opening balance of total equity at 1 April 2005

Effect of new policy (Increase/(decrease))	Note	Employee share-based compensation reserve (Unaudited) HK$'000	Retained earnings (Unaudited) HK$'000	Total (Unaudited) HK$'000
Prior period adjustment:				
HKFRS 2 – Employee share option scheme	1(c)	37,595	(37,595)	–
Total effect at 1 April 2005		37,595	(37,595)	–

(b) Effect on opening balance of total equity at 1 April 2004

Effect of new policy (Increase/(decrease))	Note	Employee share-based compensation reserve (Unaudited) HK$'000	Retained earnings (Unaudited) HK$'000	Total (Unaudited) HK$'000
Prior period adjustment:				
HKFRS 2 – Employee share option scheme	1(c)	13,526	(13,526)	–
Total effect at 1 April 2004		13,526	(13,526)	–

The following table summarises the impact on profit after tax for the six months ended 30 September 2005 and 2004 upon the adoption of the new HKFRSs. As no retrospective adjustments have been made by the Group for the adoption of HKAS 39 and HKFRS 3, the amounts shown for the six months ended 30 September 2004 may not be comparable to the amounts shown for the current period.

2. Summary of the impact of changes in accounting policies (continued)

(c) Effect on profit after tax for the six months ended 30 September 2005 and 2004

Effect of new policies (Increase/(decrease))	Notes	2005 Equity holders of the parent (Unaudited) HK$'000	2005 Minority interests (Unaudited) HK$'000	2005 Total (Unaudited) HK$'000	2004 Equity holders of the parent (Unaudited) HK$'000	2004 Minority interests (Unaudited) HK$'000	2004 Total (Unaudited) HK$'000
Effect on profit after tax:							
HKFRS 2 – Employee share option scheme	1(c)	**(7,783)**	**–**	**(7,783)**	(15,167)	–	(15,167)
HKFRS 3 – Discontinuation of amortisation of goodwill	1(d)	**836**	**–**	**836**	–	–	–
Total effect for the period		**(6,947)**	**–**	**(6,947)**	(15,167)	–	(15,167)
Effect on earnings per share:							
– Basic (HK cents)		**(0.81)**			(1.76)		
– Diluted (HK cents)		**(0.81)**			(1.76)		

3. Segment information

Summary details of the three business segments are as follows:

(a) the "Distribution" segment engages in the distribution of general information technology ("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..

Primary reporting format – business segments

The following table presents revenue and results for the Group's primary segments:

	Distribution		Systems		Services		Consolidated	
	Six months ended 30 September							
	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000 (Restated)	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000 (Restated)	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000 (Restated)	**2005 (Unaudited) HK$'000**	2004 (Unaudited) HK$'000 (Restated)
Segment revenue:								
Sales to external customers	**5,290,624**	4,268,260	**2,528,276**	2,268,628	**989,231**	1,058,932	**8,808,131**	7,595,820
Segment gross profit	**261,967**	240,070	**239,288**	225,863	**127,490**	119,802	**628,745**	585,735
Segment results	**123,852**	110,902	**75,669**	58,609	**(37,097)**	(4,087)	**162,424**	165,424
Interest income, unallocated income and gains							**69,901**	11,444
Unallocated expenses							**(76,301)**	(76,893)
Finance costs							**(39,837)**	(23,896)
Share of profits and losses of:								
A jointly-controlled entity	**–**	–	**–**	–	**(628)**	–	**(628)**	–
Associates	**–**	–	**–**	–	**(785)**	765	**(785)**	765
Profit before tax							**114,774**	76,844
Tax							**(373)**	607
Profit for the period							**114,401**	77,451

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 Mainland of the People's Republic of China.

4. Turnover, other income and gains

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.

An analysis of the Group's turnover, other income and gains is as follows:

	Six months ended 30 September	
	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
Turnover	**8,808,131**	7,595,820
Other income		
Government grants	**14,271**	20,650
Interest income	**1,712**	1,645
Others	**2,892**	899
	18,875	23,194
Gains		
Gain on disposal of non-current assets classified as held for sale	**3,196**	–
Gain on revaluation on intangible assets	**3,487**	–
Exchange gains, net	**58,018**	138
	64,701	138
	83,576	23,332

5. Total operating expenses

An analysis of the Group's total operating expenses by nature is as follows:

	Six months ended 30 September	
	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000 (Restated)
Selling expenses	**49,294**	49,445
Promotion and advertising expenses	**49,003**	38,428
Staff costs included in operating expenses (including directors' remuneration)	**227,094**	198,403
Other expenses	**230,906**	222,816
	556,297	509,092

6. Finance costs

	Six months ended 30 September 2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
Interest on bank borrowings	**25,927**	11,593
Interest on discounted bills	**13,910**	12,303
	39,837	23,896

7. Profit before tax

Profit before tax was determined after charging the following:

	Six months ended 30 September 2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000 (Restated)
Cost of inventories sold	**8,040,625**	6,883,242
Depreciation	**27,458**	27,923
Amortisation of goodwill	**–**	830
Impairment of goodwill	**12,894**	–
Amortisation of intangible assets	**2,373**	1,523
Impairment of intangible assets	**5,885**	439
Amortisation of prepaid land premium	**104**	209
Impairment and write-off of trade receivables	**45,916**	42,553
Provisions and write-off of obsolete inventories	**11,527**	22,221
Loss on disposal of fixed assets	**826**	906

8. Tax

	Six months ended 30 September 2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
Group:		
Current – The People's Republic of China corporate income tax ("**CIT**")	**2,723**	3,743
Deferred	**(2,350)**	(4,350)
Total tax charge/(credit) for the period	**373**	(607)

(a) CIT represents tax charged on the estimated assessable profits of the People's Republic of China ("**PRC**") subsidiaries of the Group. In general, the PRC subsidiaries of the Group are subject to the CIT rate of 33% except for certain subsidiaries which are entitled to tax holiday and preferential tax rates.

(b) No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong or had tax losses brought forward from prior years to set off assessable profits for the six months ended 30 September 2004 and 2005.

8. Tax (continued)

(c) No provision for Hong Kong profits tax and CIT had been made for the jointly-controlled entity and associates as the jointly-controlled entity and associates had no estimated assessable profits for the six months ended 30 September 2005. No provision for Hong Kong profits tax and CIT had been made for the associates as the associates had no estimated assessable profits for the six months ended 30 September 2004. Following the adoption of HKAS 1 "Presentation of Financial Statements", share of tax attributable to a jointly-controlled entity and associates, if any, will be included in "Share of profits and losses of a jointly-controlled entity and associates" on the face of condensed consolidated income statement.

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the six months ended 30 September 2005 of approximately HK$118,790,000 (six months ended 30 September 2004: approximately HK$80,356,000 (as restated)), and the weighted average number of 862,150,126 (six months ended 30 September 2004: 860,575,380) ordinary shares in issue during the six months ended 30 September 2005.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the parent for the six months ended 30 September 2005 of approximately HK$118,790,000 (six months ended 30 September 2004: approximately HK$80,356,000 (as restated)). The weighted average number of ordinary shares used in the calculation is the 862,150,126 (six months ended 30 September 2004: 860,575,380) ordinary shares in issue during the six months ended 30 September 2005, as used in the basic earnings per share calculation; and the weighted average of 4,053,300 (six months ended 30 September 2004: 2,250,820) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the six months ended 30 September 2005.

10. Fixed assets

During the six months ended 30 September 2005, the Group disposed of leasehold land and buildings at No.111, Fu Quan Lu, Shanghai City, PRC with an aggregate net book value of approximately HK$81,053,000, resulting in a net gain on disposal of approximately HK$3,196,000.

11. Trade and bills receivables

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 range from 30 days to 180 days. An aged analysis of the trade and bills receivables as at the balance sheet date and net of impairment is as follows:

	At 30 September 2005 (Unaudited) HK$'000	At 31 March 2005 (Audited) HK$'000
Within 30 days	**1,427,238**	1,061,425
31 to 60 days	**301,352**	301,362
61 to 90 days	**151,918**	175,986
91 to 180 days	**187,451**	264,540
Over 180 days	**302,102**	300,754
	2,370,061	2,104,067

12. Trade and bills payables

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

	At 30 September 2005 (Unaudited) HK$'000	At 31 March 2005 (Audited) HK$'000
Within 30 days	**1,120,018**	876,040
31 to 60 days	**642,784**	441,227
61 to 90 days	**113,524**	188,583
Over 90 days	**143,847**	155,105
	2,020,173	1,660,955

13. Interest-bearing bank borrowings, unsecured

At 30 September 2005, the Group's bank borrowings included HK$409,500,000 of the syndicated loan, which was repaid on 14 November 2005 and is classified as current liabilities.

14. Commitments

(a) Capital commitments

At 30 September 2005, the Group's capital commitments comprised:

	At 30 September 2005 (Unaudited) HK$'000	At 31 March 2005 (Audited) HK$'000
Contracted, but not provided for:		
Land use rights and buildings	**125,502**	152,925

(b) Commitments under operating leases

At 30 September 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 30 September 2005 (Unaudited) HK$'000	At 31 March 2005 (Audited) HK$'000
Within one year	**45,121**	36,004
In the second to fifth years, inclusive	**54,166**	55,626
After five years	**13,248**	12,585
	112,535	104,215

15. Related party transactions

(a) Transactions with related parties

	Notes	Six months ended 30 September 2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
Lenovo Group Limited and its subsidiaries, the subsidiaries of the Company's controlling shareholder:			
Sales of goods by the Group	(i)	**8,639**	13,099
Purchases of goods by the Group	(ii)	**416,843**	2,718
Right Lane Limited, a wholly-owned subsidiary of the Company's controlling shareholder:			
Rental expenses paid by the Group	(iii)	**180**	180
GE Capital Mauritius Equity Investment, a shareholder of DGT Information Systems Limited ("**DGT**"), and its subsidiaries:			
Provision of IT services by the Group	(iv)	**2,730**	1,555
TIS Inc., a shareholder of DGT, and its subsidiaries:			
Provision of IT services by the Group	(iv)	**8,881**	8,453
Digital China Management Systems (BVI) Limited and its subsidiaries, associates of the Group:			
Sales of goods and provision of services by the Group	(v)	**1,641**	443
Purchases of goods to the Group and provision of services to the Group	(vi)	**1,322**	–
Nanjing Mercuries DC Financial Systems Ltd., an associate of the Group:			
Purchases of goods by the Group	(ii)	**23,563**	23,281

Notes:

(i) The sales were made according to the listed prices and conditions offered to the major customers of the Group.

(ii) The purchases were made according to the prices and conditions, mutually agreed between the Group and the related parties.

(iii) The rental expenses were determined at rates mutually agreed between the Group and the corresponding related parties based on the prevailing market reference.

(iv) The prices for provision of IT services were determined by the Group and the corresponding related parties on arm's length negotiations based on the prevailing market prices of the services provided.

(v) The sales were made according to the listed prices and conditions offered to the major customers of the Group. The prices for provision of services were determined by the Group and the corresponding related parties on arm's length negotiations based on the prevailing market prices of the services provided.

(vi) The purchases were made according to the prices and conditions, mutually agreed between the Group and the related parties. The prices for provision of services were determined by the Group and the corresponding related parties on arm's length negotiations based on the prevailing market prices of the services provided.

(b) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	At 30 September 2005 (Unaudited) HK$'000	At 31 March 2005 (Audited) HK$'000	**At 30 September 2005 (Unaudited) HK$'000**	At 31 March 2005 (Audited) HK$'000
The subsidiaries of the Company's controlling shareholder	**92,443**	2,057	**69,949**	–
Associates	**390**	480	**1,283**	3,697
Related parties of a subsidiary	**2,339**	8,299	**2,028**	–

(c) Compensation of key management personnel of the Group

	Six months ended 30 September	
	2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
Short term employee benefits	**12,437**	10,835
Post-employment benefits	**40**	21
Share-based payments	**1,059**	1,934
Total compensation paid to key management personnel	**13,536**	12,790