

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

### 1. Basis of presentation

These unaudited condensed consolidated interim financial statements for the six months ended 30 September 2006 have been 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 2006 had been consistently applied except in relation to the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which also include HKASs and Interpretations) that affect the Group and has adopted the first time for the current period’s condensed consolidated interim financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4	Financial Guarantee Contracts
Amendments	
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised HKFRSs has no material impact on the Group’s condensed consolidated interim financial statements.

### 2. Segment information

Summary details of the 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..

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## 2. Segment information (continued)

**Primary reporting format – business segments**

The following table presents revenue and results for the Group's business segments for the six months ended 30 September 2006 and 2005:

	Distribution		Systems		Services		Consolidated	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	7,048,662	5,290,624	3,470,471	2,528,276	1,352,516	989,231	11,871,649	8,808,131
Segment gross profit	350,894	261,967	321,554	239,288	156,100	127,490	828,548	628,745
Segment results	153,817	123,852	104,923	75,669	(63,954)	(37,097)	194,786	162,424
Interest income, unallocated revenue and gains							73,068	69,901
Unallocated expenses							(98,306)	(76,301)
Finance costs							(72,532)	(39,837)
Share of profits and losses of:								
Jointly-controlled entities	-	-	-	-	(3,334)	(628)	(3,334)	(628)
Associates	-	-	-	-	(2,296)	(785)	(2,296)	(785)
Profit before tax							91,386	114,774
Tax							(5,856)	(373)
Profit for the period							85,530	114,401

**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 ("Mainland China").

### 3. Revenue, other income and gains

Revenue, which is also the Group's 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 revenue, other income and gains is as follows:

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Revenue	11,871,649	8,808,131
<u>Other income</u>		
Government grants	16,867	14,271
Bank interest income	2,362	1,712
Gross rental income	14,518	–
Others	3,325	2,892
	37,072	18,875
<u>Gains</u>		
Gain on disposal of non-current assets classified as held for sale	–	3,196
Gain on disposal of intangible assets	–	3,487
Foreign exchange differences, net	47,786	58,018
	47,786	64,701
	84,858	83,576

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**4. Total operating expenses**

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

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Selling expenses	62,656	49,294
Promotion and advertising expenses	87,749	49,003
Staff costs included in operating expenses (including directors' remuneration)	290,729	227,094
Other expenses	302,724	230,906
	<b>743,858</b>	<b>556,297</b>

**5. Profit before tax**

The Group's profit before tax is arrived at after charging:

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Cost of inventories sold	10,866,427	8,040,625
Depreciation	33,017	27,458
Amortisation of prepaid land premium	176	104
Impairment of goodwill	28,566	12,894
Amortisation of intangible assets	2,101	2,373
Impairment of intangible assets	8,045	5,885
Provisions and write-off of obsolete inventories	5,660	11,527
Impairment and write-off of doubtful trade receivables	33,918	45,916
Impairment of available-for-sale equity investments	2,425	–
Loss on disposal of items of property, plant and equipment	896	826

## 6. Tax

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Group:		
Current – The People's Republic of China corporate income tax ("CIT")	5,124	2,723
Deferred	732	(2,350)
Total tax charge for the period	5,856	373

- (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 2005 and 2006.
- (c) No provision for Hong Kong profits tax has been made for the jointly-controlled entities and associates as the jointly-controlled entities and associates had no estimated assessable profits arising for the six months ended 30 September 2005 and 2006. CIT has been provided at the rate of 33% on the estimated assessable profits of the PRC jointly-controlled entities and associates for the six months ended 30 September 2006. The share of tax charge attributable to the jointly-controlled entities of approximately HK\$15,000 (six months ended 30 September 2005: Nil) and the share of tax credit attributable to the associates of approximately HK\$187,000 (six months ended 30 September 2005: Nil) for the six months ended 30 September 2006 are included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates" respectively on the face of the condensed consolidated income statement.

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**7. Earnings per share attributable to ordinary equity holders of the parent**

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent for the six months ended 30 September 2006 of approximately HK\$91,542,000 (six months ended 30 September 2005: approximately HK\$118,790,000), and the weighted average of 869,606,731 (six months ended 30 September 2005: 862,150,126) ordinary shares in issue during the six months ended 30 September 2006.

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity holders of the parent for the six months ended 30 September 2006 of approximately HK\$91,542,000 (six months ended 30 September 2005: approximately HK\$118,790,000) and 873,236,826 (six months ended 30 September 2005: 866,203,426) ordinary shares, which was the weighted average of 869,606,731 (six months ended 30 September 2005: 862,150,126) ordinary shares in issue during the six months ended 30 September 2006, and the weighted average of 3,630,095 (six months ended 30 September 2005: 4,053,300) 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 2006.

**8. 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 30 days to 180 days. An aged analysis of the Group's trade and bills receivables as at the balance sheet date and net of impairment is as follows:

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
Within 30 days	1,649,127	1,444,990
31 to 60 days	347,572	339,584
61 to 90 days	245,036	250,167
91 to 180 days	300,495	324,812
Over 180 days	354,245	225,120
	<b>2,896,475</b>	<b>2,584,673</b>

The carrying amounts of the trade and bills receivables approximate to their fair values.

At 30 September 2006, the Group has no amounts due from the associates of the Company's controlling shareholder, included in the trade and bills receivables (31 March 2006: HK\$520,000).

Included in the Group's trade and bills receivables are amounts due from the related companies of a subsidiary of the Group, namely DGT Information Systems Limited ("**DGT**"), a jointly-controlled entity and an associate of approximately HK\$3,917,000 (31 March 2006: HK\$7,293,000), HK\$Nil (31 March 2006: HK\$246,000) and HK\$170,000 (31 March 2006: HK\$617,000), respectively.

The above balances are repayable on similar credit terms to those offered to the major customers of the Group.

## 9. Non-current assets classified as held for sale

The balance represented the Group's land and buildings at Court No. 5, Shangdidong Road, Haidian District, Beijing City, the PRC. The non-current assets classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

## 10. Trade and bills payables

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

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
Within 30 days	1,063,137	778,527
31 to 60 days	646,927	765,235
61 to 90 days	581,689	267,857
Over 90 days	192,380	244,138
	<b>2,484,133</b>	2,055,757

The trade payables are generally settled for a period of 30 days to 180 days.

Included in the Group's trade and bills payables are amounts due to the associates of the Company's controlling shareholder of approximately HK\$71,770,000 (31 March 2006: Nil).

Included in the Group's trade and bills payables are amounts due to related companies of DGT, a jointly-controlled entity and an associate of approximately HK\$859,000 (31 March 2006: Nil), HK\$69,000 (31 March 2006: Nil) and HK\$1,937,000 (31 March 2006: HK\$2,011,000).

The above balances are repayable on similar credit terms to those obtained from the major suppliers of the Group.

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**11. Operating leases arrangements****(i) As lessor**

At 30 September 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with the tenant of the Group's properties falling due as follows:

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
Within one year	25,076	15,987
In the second to fifth years, inclusive	8,294	14,742
	<b>33,370</b>	<b>30,729</b>

**(ii) As lessee**

At 30 September 2006, the Group had total future minimum lease payments under non-cancellable operating leases of its office properties and warehouses falling due as follows:

	At 30 September 2006 (Unaudited) HK\$'000	At 31 March 2006 (Audited) HK\$'000
Within one year	47,067	50,628
In the second to fifth years, inclusive	48,231	44,281
After five years	8,897	10,511
	<b>104,195</b>	<b>105,420</b>



## 12. Related party transactions

### (a) Transactions with related parties:

The Group had the following material transactions with related parties during the period:

		Six months ended 30 September	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
	Notes		
Lenovo Group Limited and its subsidiaries, the associates of the Company's controlling shareholder:			
Sales of goods by the Group	(i)	38,876	8,639
Purchases of goods by the Group	(ii)	576,307	416,843
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, and its subsidiaries:			
Provision of IT services by the Group	(iv)	5,030	2,730
TIS Inc., a shareholder of DGT, and its subsidiaries:			
Provision of IT services by the Group	(iv)	9,214	8,881
Digital China Management Systems (BVI) Limited and its subsidiaries, associates of the Group:			
Sales of goods and provision of IT services by the Group	(i),(iv)	517	1,641
Purchases of goods by the Group and provision of IT services to the Group	(ii),(iv)	1,451	1,322
Nanjing Mercuries DC Financial Systems Ltd., an associate of the Group:			
Purchases of goods by the Group	(ii)	12,085	23,563
Digital China System Access Software Ltd., a jointly-controlled entity of the Group:			
Provision of technical services to the Group	(iv)	2,407	—
Suzhou Digital China JieTong Technology Co., Ltd., a jointly-controlled entity of the Group:			
Sales of goods by the Group	(i)	164	—

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### 12. Related party transactions (continued)

#### (a) Transactions with related parties: (continued)

Notes:

- (i) The sales were made with reference to the listed prices and conditions offered to the major customers of the Group.
- (ii) The purchases were made at prices mutually agreed between the Group and the corresponding related parties with reference to the pricing policies of the Group.
- (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 and technical services were determined at rates mutually agreed between the Group and the corresponding related parties.

#### (b) Outstanding balances with related parties:

- (i) Details of the Group's trade balances with the associates of the Company's controlling shareholder, jointly-controlled entities, associates and related companies of a subsidiary as at the balance sheet date are included notes 8 and 10 to these unaudited condensed consolidated interim financial statements.
- (ii) At 30 September 2006, the amounts due from the associates of the Company's controlling shareholder and an associate included in the Group's prepayments, deposits and other receivables of approximately HK\$58,975,000 (31 March 2006: HK\$26,265,000) and HK\$3,831,000 (31 March 2006: HK\$45,000), respectively.

#### (c) Compensation of key management personnel of the Group:

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short term employee benefits	16,292	12,437
Post-employment benefits	48	40
Share-based payments	1,150	2,107
Total compensation paid to key management personnel	17,490	14,584