

2003/04 Annual Results Announcement

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16 June 2004



China IT market overview 2003

- Steady economic growth in China
 - GDP RMB 11.6 trillion (US\$1.4 trillion) in 2003, one of the top five economies in the world
 - the largest IT market in Asia Pacific (excluding Japan) with RMB208 billion (US\$25 billion) IT spending and 31% of market share
- Strong domestic demand for IT products, with annual growth of 11.1%
 - hardware sale still accounts for the majority of the market
 - IT service & software sustained higher growth rate.
- Demand features industry-specific solutions and application services.
- SARS outbreak in early 2003 set back performance of enterprises.

| Category | 2003 IT Spending Billion Yuan | Growth rate over 2002 | Growth Drivers | Areas of Opportunity |
|-------------|-------------------------------|-----------------------|---|---|
| Hardware | 150.6 | 8.0% | <ul style="list-style-type: none"> • Robust economic growth • Increasing IT penetration among enterprises and government agencies | <ul style="list-style-type: none"> • PC and peripheral • Systems |
| Software | 20.8 | 24.0% | <ul style="list-style-type: none"> • Increasing awareness of ROI among end-users push demand for IT solutions • Customer recognition of value of software and acceptance of various software revenue models | <ul style="list-style-type: none"> • ERP • Vertical application software |
| IT services | 36.9 | 20.6% | <ul style="list-style-type: none"> • High adaptation of more complex hardware makes it necessary for enterprises to seek IT services • Emerging demand for service outsourcing | <ul style="list-style-type: none"> • Implementation • Vertical application software |

Business review

- Group's turnover increased by 14.12%, and managed to achieve profitability by year end, despite SARS havoc.
- Profit attributable to shareholders recorded HK\$34 million. The drop from last year's HK\$179 million was attributed primarily to the loss of HK\$149 million in the first quarter.
- Gross profit margin recorded 6.58%, lower than 8% of previous financial year. The decline is caused mainly by handset stock clearance in Q1 and Q2, and the price discount introduced to dated series of notebook pc later in the year.

| <i>HK\$ million</i> | 2003/04 | 2002/03 | Change |
|-------------------------------------|---------------|---------------|----------------|
| Turnover | 14,277 | 12,511 | 14.12% |
| Gross Margin % | 6.58% | 8.00% | -17.75% |
| EBITD | 126 | 262 | -52.12% |
| Profit attributable to shareholders | 34 | 179 | -81.05% |
| EPS (HK cents) | 3.95 | 20.85 | -81.06% |

Financial highlights by quarter

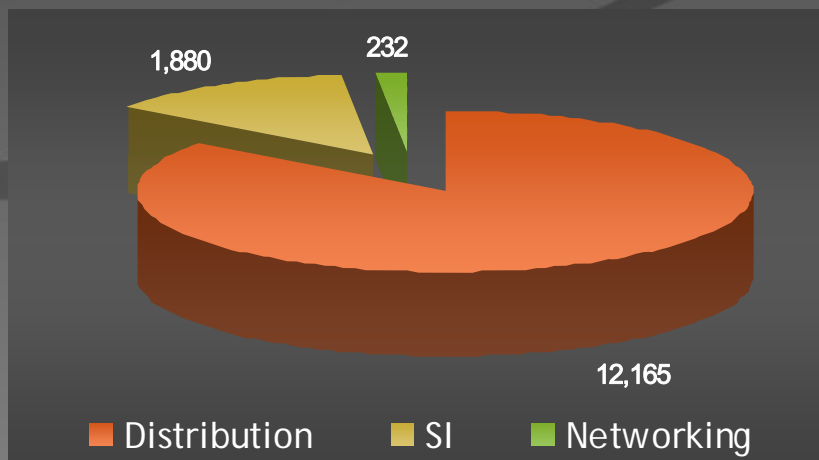
- HK\$3,289 million turnover was generated in Q4, a slight increase of 2.8% over same period last year.
- Profit attributable to shareholders in Q4 recorded HK\$59 million.
- Gross profit margin of 7.36% in Q4 is the highest among the four quarters.

| <i>HK\$ million</i> | 2003/04 Q4 | Q3 | Q2 | Q1 | 2002/03 Q4 | Q3 | Q2 | Q1 |
|--|---------------|-------|-------|-------|---------------|-------|-------|-------|
| Turnover | 3,289 | 3,968 | 3,720 | 3,301 | 3,199 | 3,521 | 2,941 | 2,849 |
| Gross Margin % | 7.36% | 6.90% | 5.38% | 6.80% | 8.09% | 7.85% | 7.73% | 8.37% |
| EBITD | 82 | 93 | 79 | -128 | 56 | 77 | 74 | 55 |
| Profit attributable to shareholders | 59 | 66 | 58 | -149 | 32 | 58 | 52 | 37 |

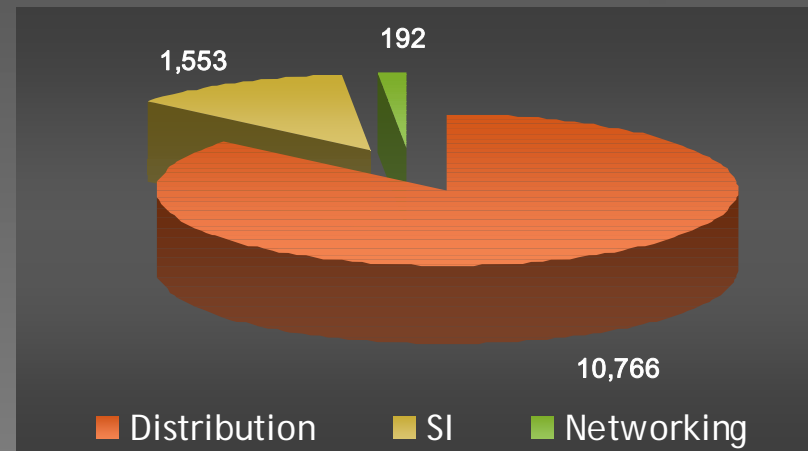
Turnover breakdown by business group

- Distribution business, including general IT products distribution and enterprise-focused systems products, contributed 85% to the groups total revenue in the year, as against 86% last year. y-o-y growth achieved 13%.
- Turnover of systems Integration business grew 21.11%. Turnover of networking products grew by 20.47%.

HK\$ million



**FY2003/04 total turnover:
HK\$14,277 million**

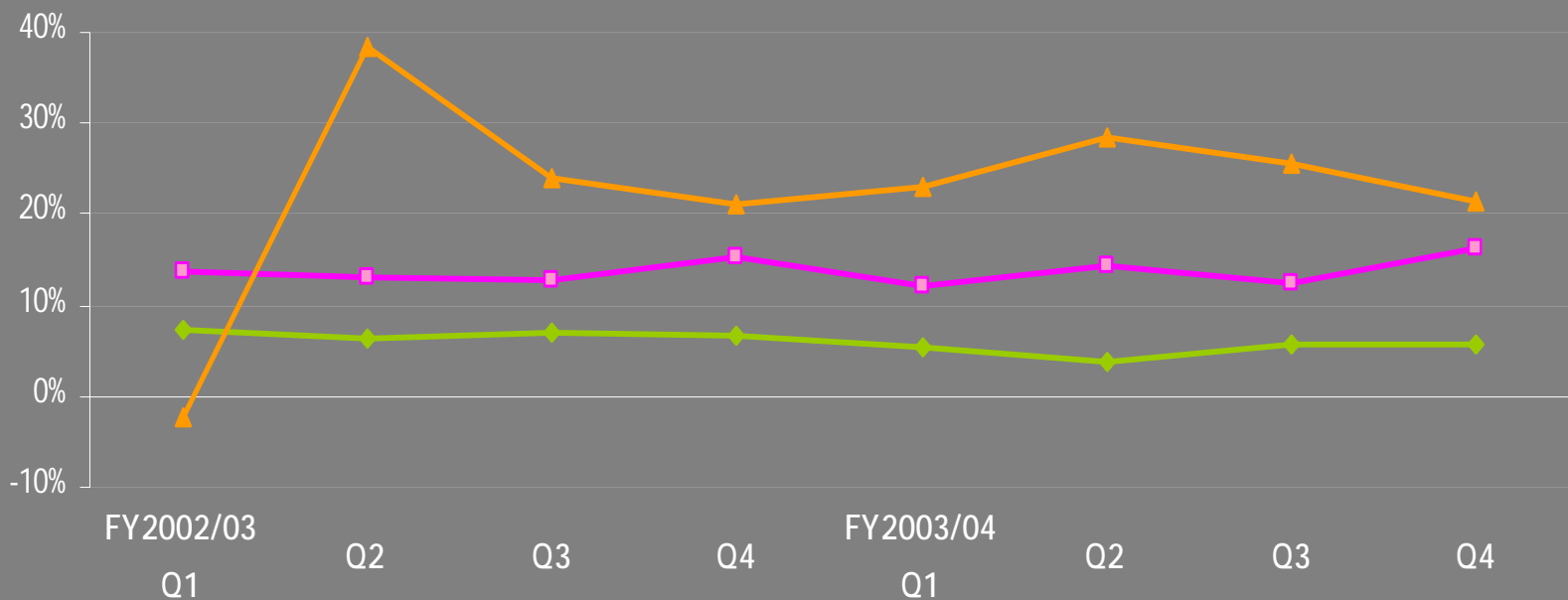


**FY2002/03 total turnover:
HK\$12,511 million**

Turnover breakdown by quarter

| <i>HK\$ million</i> | | Q4 | chg | Q3 | chg | Q2 | chg | Q1 | chg |
|---------------------|--------------|-------|-------|-------|-------|-------|-------|-------|--------|
| FY2003/04 | Distribution | 2,848 | 3.6% | 3,354 | 6.3% | 3,234 | 25.1% | 2,729 | 19.8% |
| | SI | 389 | -5.4% | 547 | 69.2% | 417 | 38.1% | 527 | 2.2% |
| | Networking | 52 | 33.9% | 67 | 54.0% | 68 | 27.1% | 45 | -21.0% |
| FY2002/03 | Distribution | 2,749 | | 3,154 | | 2,586 | | 2,277 | |
| | SI | 412 | | 323 | | 302 | | 516 | |
| | Networking | 39 | | 44 | | 54 | | 56 | |

Gross profit margin trend by business sections



| | | | | | | | | |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Distribution | 7.44% | 6.48% | 7.10% | 6.81% | 5.51% | 3.74% | 5.61% | 5.86% |
| SI | 13.65% | 12.99% | 12.88% | 15.45% | 12.07% | 14.29% | 12.51% | 16.42% |
| Networking | -2.34% | 38.46% | 24.12% | 21.24% | 23.16% | 28.61% | 25.45% | 21.51% |

◆ Distribution ■ SI ▲ Networking

Operating expenses breakdown

| HK\$ million | FY2003/04 | Chg | FY2002/03 |
|---|--------------|--------|-----------|
| Selling expenses | 96 | 13.20% | 84 |
| Promotion and advertising expenses | 83 | -2.57% | 85 |
| Staff costs | 369 | 19.01% | 310 |
| Other operating expenses, net | 267 | 3.10% | 259 |
| Total unallocated items | 814 | 10.27% | 739 |
| As percentage of total turnover | 5.70% | | 5.90% |

- Increase in total unallocated items was primarily due to the increase in staff cost.

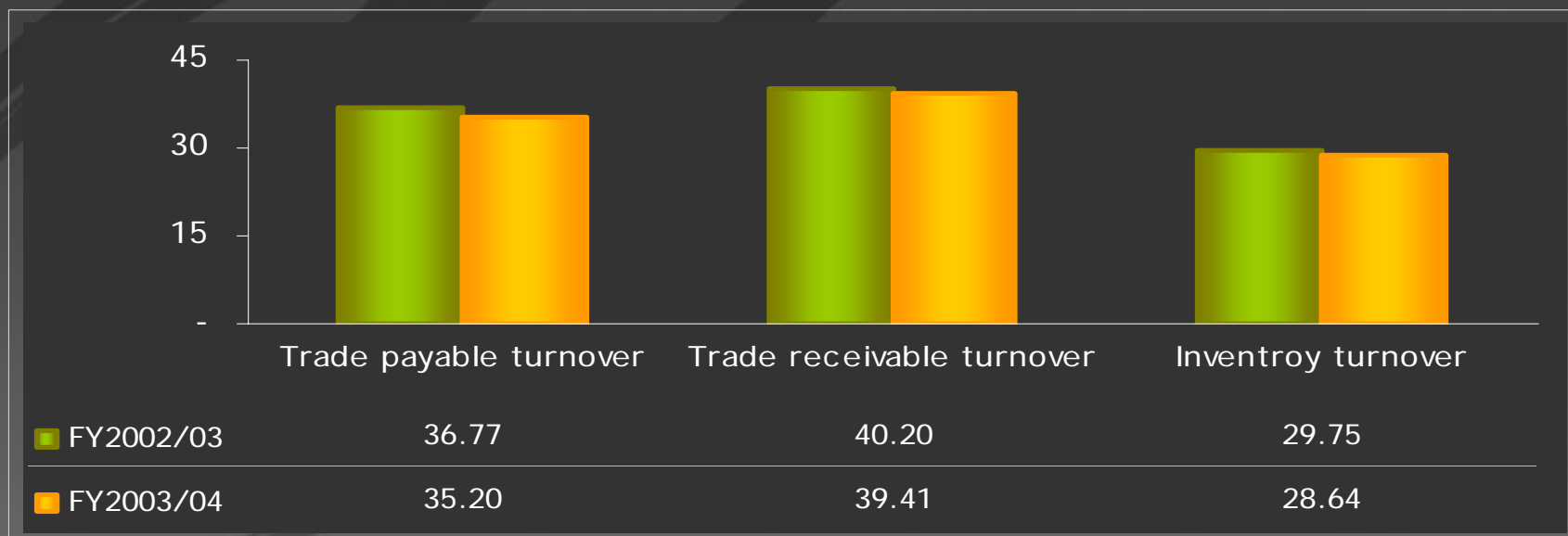
Consolidated balance sheet

| <i>HK\$ million</i> | 31 March 2004 | 31 March 2003 |
|---|---------------|---------------|
| Fixed Assets | 394 | 324 |
| Interests in associates | 30 | 26 |
| Other non-current assets | 51 | 36 |
| Cash and bank balances | 521 | 667 |
| Inventories | 1,101 | 1,021 |
| Trade and bills receivables | 1,614 | 1,512 |
| Other current assets | 327 | 334 |
| Total assets | 4,038 | 3,920 |
| Trade and bills payables | 1,200 | 1,424 |
| Interest-bearing bank borrowings (short term) | 463 | 449 |
| Other current liabilities | 454 | 335 |
| Interest-bearing bank borrowings (long term) | 546 | 312 |
| Total liabilities | 2,663 | 2,520 |
| Shareholders' equity | 1,365 | 1,393 |
| Minority interests | 10 | 7 |

Cash flow statement

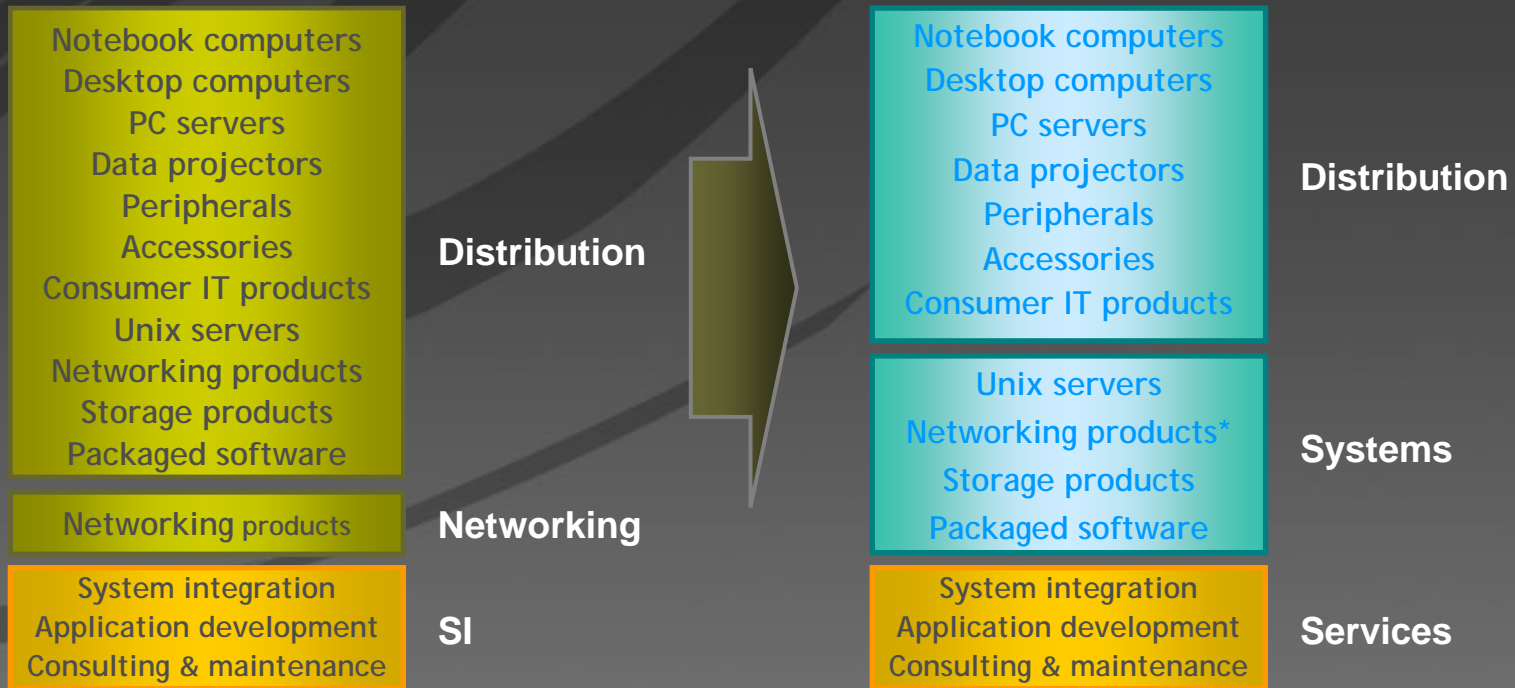
| HK\$ million | 31 March 2004 | 31 March 2003 |
|--|---------------|---------------|
| Cash flows from operating activities | -145 | 258 |
| Cash flows from investing activities | -152 | -311 |
| Cash flows from financing activities | 151 | 250 |
| Cash and cash equivalents at beginning of year | 667 | 473 |
| Cash and cash equivalents at end of year | 521 | 667 |

Operating ratios



| | 03/04 Q4 | Q3 | Q2 | Q1 | 02/03 Q4 | Q3 | Q2 | Q1 |
|----------------------------------|-------------|------|------|------|-------------|------|------|------|
| Trade payable turnover | 42.0 | 39.4 | 40.5 | 37.9 | 50.6 | 37.5 | 32.8 | 32.7 |
| Trade receivable turnover | 45.2 | 37.4 | 40.7 | 44.7 | 43.7 | 38.8 | 46.9 | 45.9 |
| Inventory turnover | 31.5 | 25.1 | 29.6 | 33.8 | 32.9 | 28.5 | 29.6 | 30.0 |
| Cash cycle | 34.8 | 23.1 | 29.9 | 40.6 | 26.0 | 29.9 | 43.7 | 43.2 |

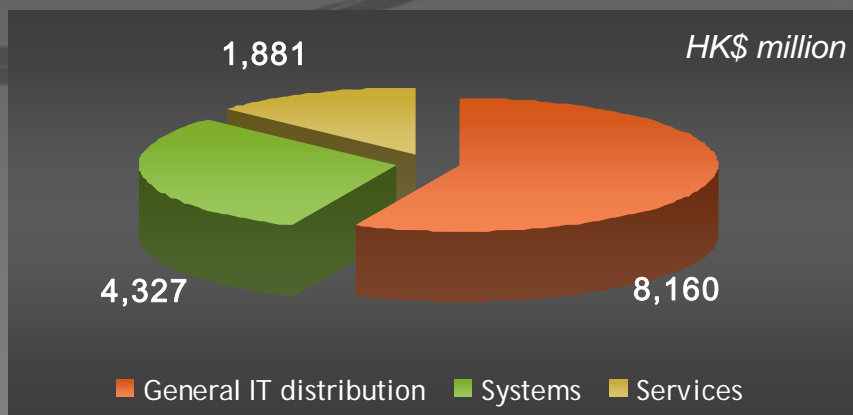
Business model evolution and structure optimization



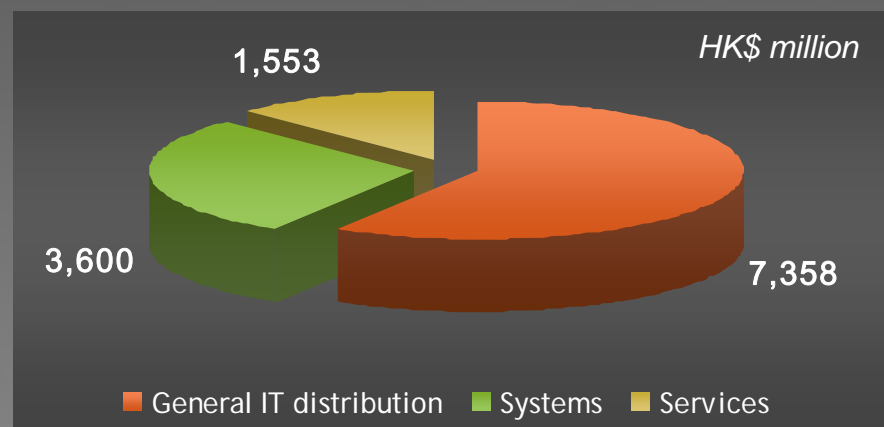
- The business model of distribution business becomes diverging in
 - clientele
 - business-specific expertise
 - product life cycle
 - technical support level
- Operational & managerial indicators are therefore different in
 - margin percentage
 - inventory cycle
 - expense structure
 - net profit margin percentage

Turnover breakdown – from the new angle

- Turnover of general IT products grew by 10.9% to HK\$8,160 million. Product lines reached 33 by end of March 2004 from 24 of last year. Turnover from new product lines as a percentage of this business reached 32%. Gross profit margin recorded 3.34%, declined from 5.86% of last year as a result of the handset clearance and price discount on notebook pc.
- Sales of systems products to enterprises / system integrators increased 17.68% over last year, mainly driven by the grow from network application products, security products and storage. Gross profit margin was 9.72%, similar to last year's 9.87%.
- Services recorded y-o-y growth of 21.11% to HK\$1,881 million. The Group recorded the 3rd largest turnover in IT services in the PRC in 2003, according to IDC's report.



**FY2003/04 total turnover:
HK\$14,277 million**

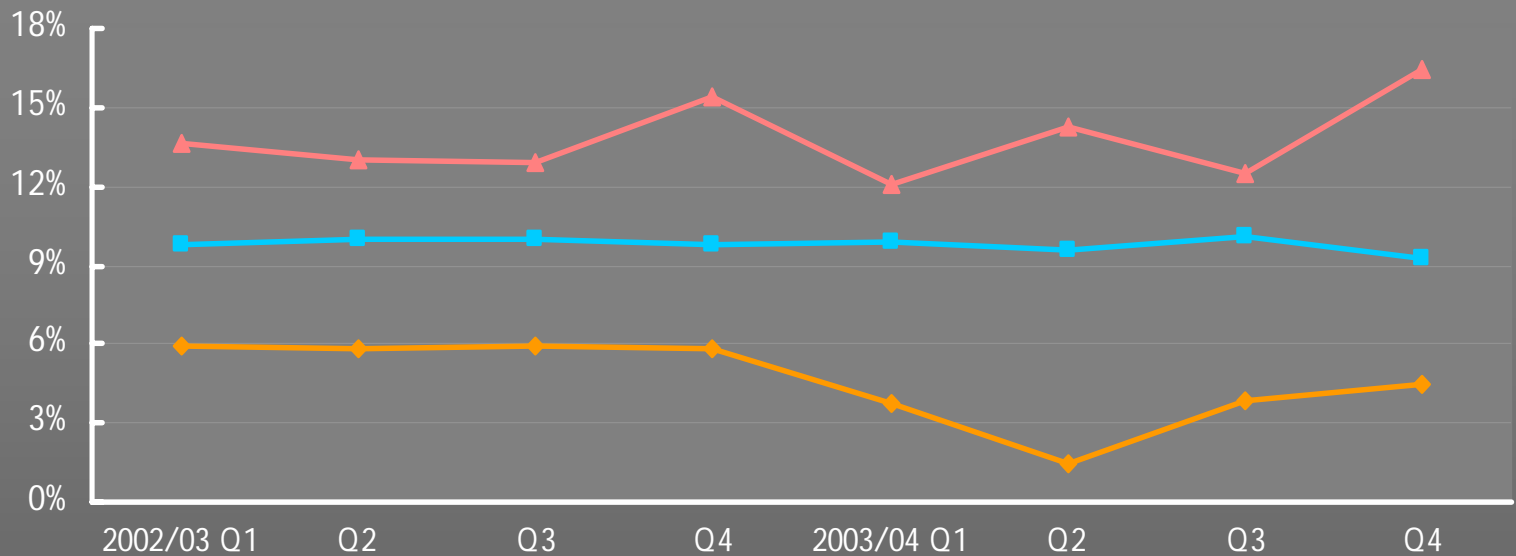


**FY2002/03 total turnover:
HK\$12,511 million**

Turnover breakdown by quarter

| <i>HK\$ million</i> | | Q4 | chg | Q3 | chg | Q2 | chg | Q1 | chg |
|---------------------|--------------|-------|-----|-------|-----|-------|-----|-------|-----|
| FY2003/04 | Distribution | 1,908 | -1% | 2,239 | 8% | 2,171 | 21% | 1,842 | 18% |
| | Systems | 991 | 15% | 1,182 | 6% | 1,132 | 33% | 932 | 22% |
| | Service | 389 | -5% | 547 | 69% | 417 | 38% | 527 | 2% |
| FY2002/03 | Distribution | 1,926 | | 2,078 | | 1,787 | | 1,567 | |
| | Systems | 862 | | 1,120 | | 852 | | 766 | |
| | Service | 412 | | 323 | | 302 | | 516 | |

Gross profit margin trend by business sections



| | | | | | | | | |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Distribution | 5.97% | 5.78% | 5.91% | 5.78% | 3.75% | 1.46% | 3.86% | 4.49% |
| Systems | 9.73% | 9.97% | 9.99% | 9.74% | 9.85% | 9.62% | 10.05% | 9.31% |
| Services | 13.65% | 12.99% | 12.88% | 15.45% | 12.07% | 14.29% | 12.51% | 16.42% |

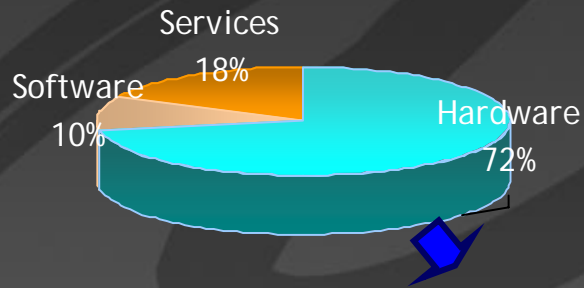
◆ Distribution
 ■ Systems
 ▲ Services

Strategic review and future outlook

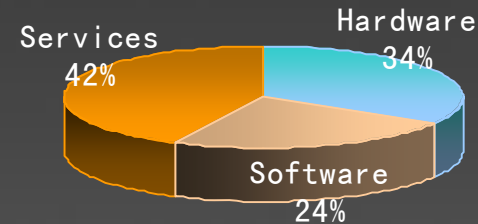
Mr. Guo Wei
16 June 2004



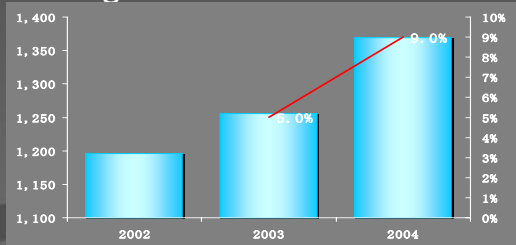
Positioning review



China vs USA

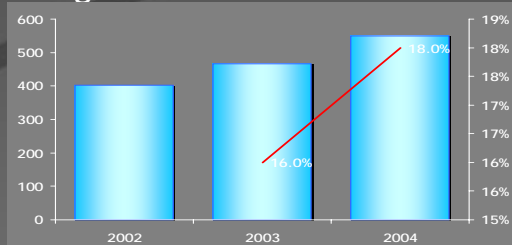


General IT product market growth forecast 9%

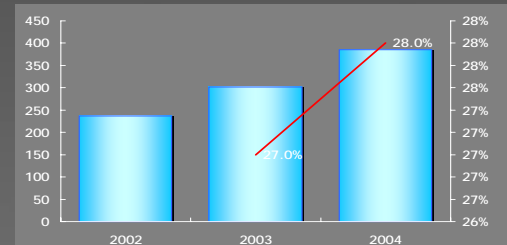


Source: IDC2003

Systems product market growth forecast 18%



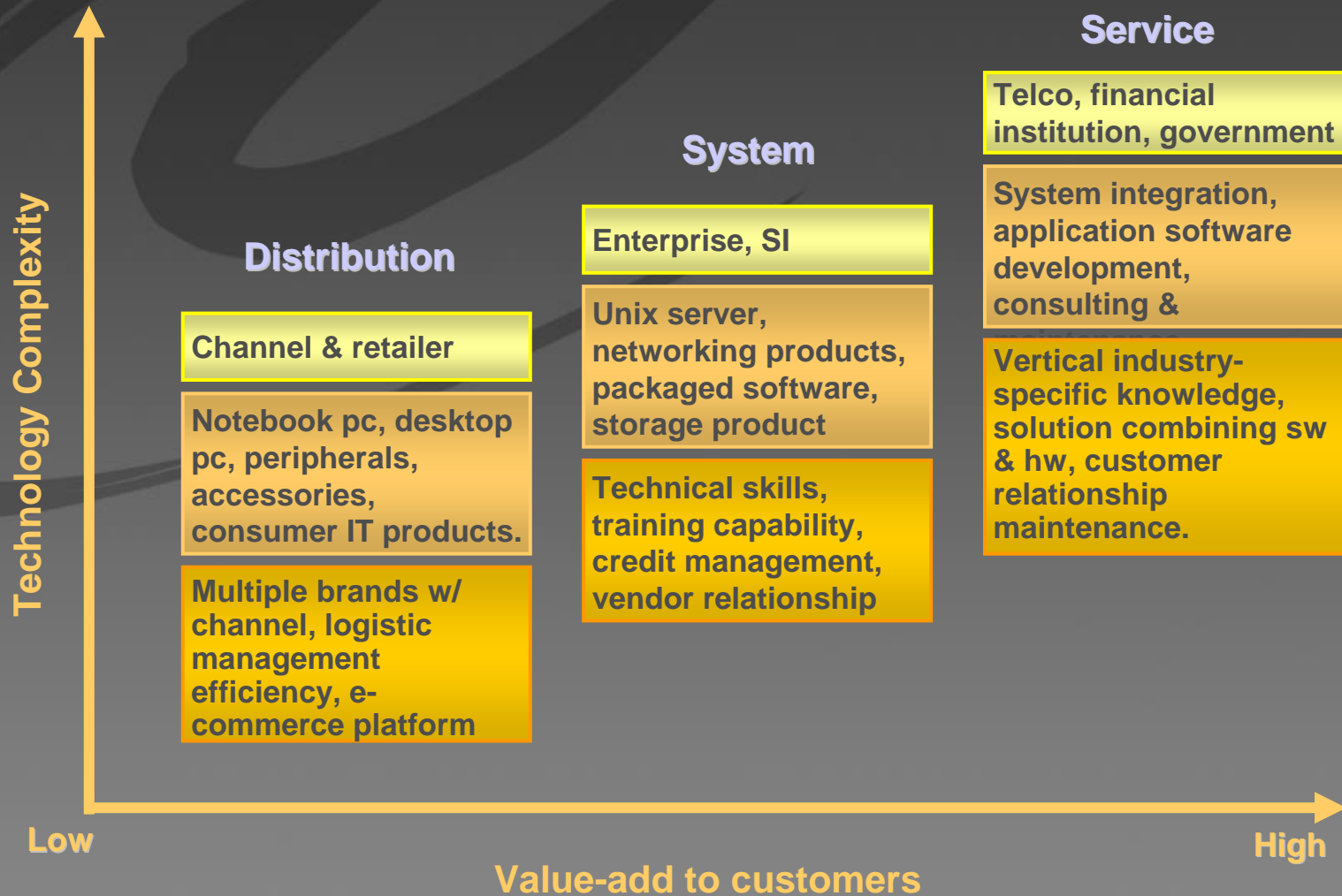
Services market growth forecast 28%



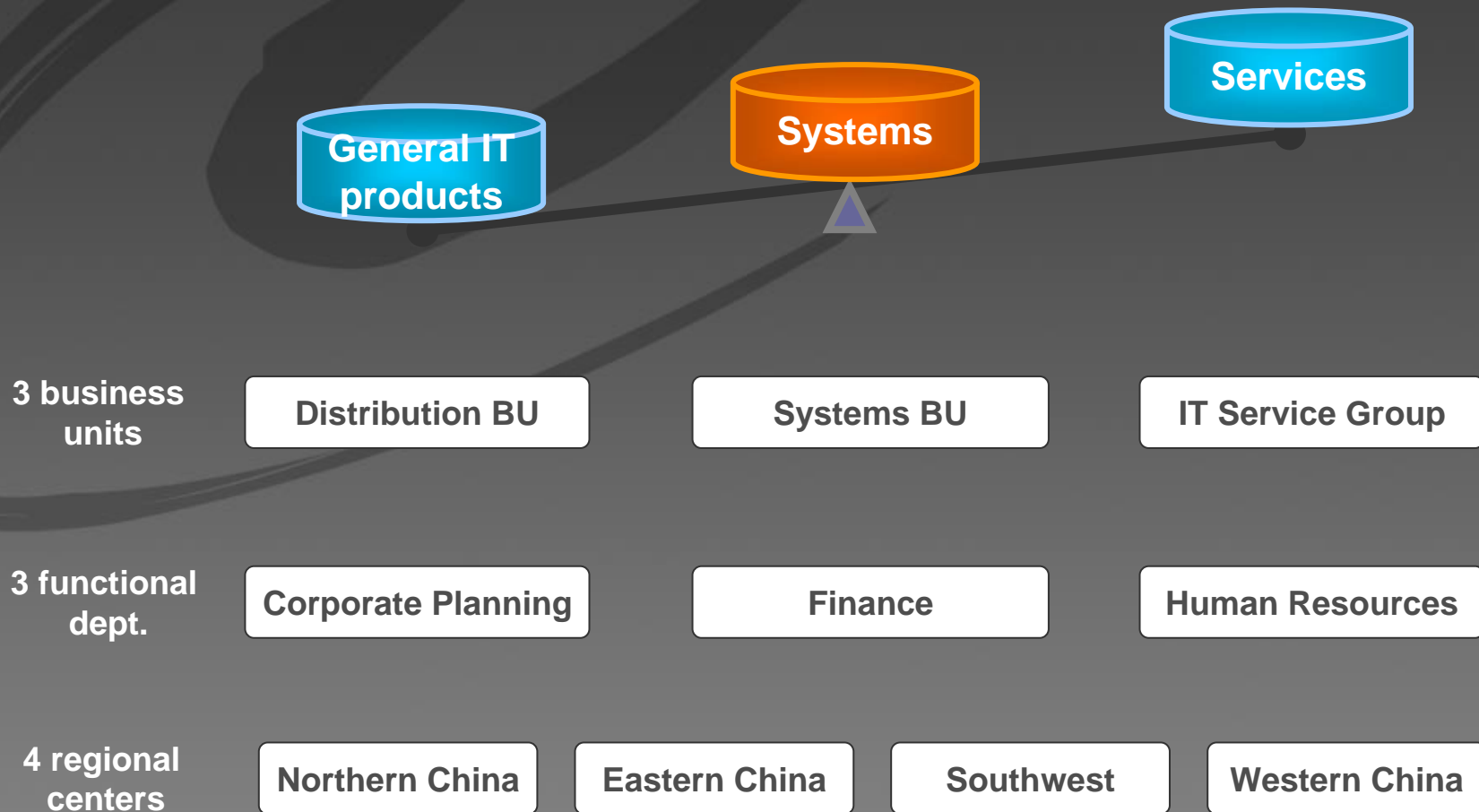
RMB: 100 million

- Software and services in China sustained considerable growth rate, but remain immature.
- The primary growth drive for the Group is the systems product and services.

Business structure optimization



Organization structure : 3+3+4



7 core capabilities



Vision and medium term target

Vision

“Providing top-notch solutions, products and services for the enhancement of e-commerce and communal digitalization in China, through integrating the best ingenuity from all over the world.”

Medium term

- *Further enhance management foundation emphasizing internal risk management and HR management.*
- *To build Digital China the chosen brand in IT services.*

Thank You