1. Business Performance

For the six months ended 30 September 2005, the Group's turnover increased by 15.96% to HK$8,808 million, as compared to HK$7,596 million, while profit attributable to equity holders of the parent was 47.83% higher at HK$119 million, as compared to HK$80 million for the corresponding period of last financial year. Basic earnings per share amounted to 13.78 HK cents and 13.71 HK cents on a diluted basis, improving 47.54% and 47.26%, respectively, as compared to the corresponding period of last financial year. The results underpinned remarkable achievements of the Group in terms of market development and profitability.

1.1 Turnover and Gross Profit

The Group's turnover comprised HK$5,291 million from its Distribution business, HK$2,528 million from its Systems business and HK$989 million from its Services business.

Turnover contributed by the Distribution business for the first six months of the current financial year registered a strong growth of 23.95% as compared to HK$4,268 million for the corresponding period of last financial year, benefiting mainly from effective expansion of sales channels, especially in second- and third-tier cities in China, as well as enhanced marketing capabilities. Satisfactory growth was achieved in six out of the Group's seven product categories, with consumer IT products being the exception. Sales of desktop computers and PC servers, accessories and notebook computers increased by 28.46%, 92.00% and 34.21%, respectively. Gross profit margin receded to 4.95% from 5.62% for the corresponding period of last financial year, as the competitor-specific pricing tactic introduced under the strategy of channel expansion, while contributing to turnover growth, inevitably squeezed our margin.

Turnover contributed by the Systems business for the first six months of the current financial year increased by 11.45% as compared to HK$2,269 million for the corresponding period of last financial year. The growth was mainly attributable to effective strategies relating to collaboration with suppliers and regional expansion. Storage products and packaged software reported robust growth of 104% and 42.42%, respectively, while sales of networking products also increased by 9.66%. The Unix server business continued to undergo adjustment during the period but gradual recovery is anticipated in the ensuing quarters. All in all, gross profit margin of the Systems business for the first six months of the current financial year was slightly lower at 9.46%, compared to 9.96% for the corresponding period of last financial year.

Turnover from application software development in the Services business achieved a growth of 56.74% while turnover from the hardware integration business was 12.32% less, combining to result in a 6.58% decrease in turnover contributed by the Services business, as compared to HK$1,059 million for the corresponding period of last financial year. The management expects solid growth in turnover from the Services business in the next quarter given a significantly higher amount under contract from the hardware integration business in the second quarter. The overall gross profit margin of the Services business remained stable as application software development accounted for an increased share of turnover. Gross profit margin for the first six months of the current financial year was higher at 12.89%, compared to 11.31% for the corresponding period of last financial year.

1.2 Operating Expenses

The Group's total operating expenses for the first six months of the current financial year increased by 9.27% to HK$556 million, as compared to the corresponding period of last financial year, representing primarily promotion and advertising expenses and staff cost classified under operating expenses on a group basis, which grew by 27.52% and 14.46%, respectively. Such increase was mainly attributable to advertising and promotional campaigns launched in tandem with our marketing strategies and the hiring of additional sales staff. Notwithstanding, operating expenses were lower at 6.32% as a percentage of turnover, as compared to 6.70% for the corresponding period of last financial year. The Group will continue to enforce the policy of enhancing control over operating expenses and the effect of such policy should become evident in the results for the latter of the current financial year.

1.3 Financial Management

The Group's cash and bank balances at 30 September 2005 and 31 March 2005 amounted to HK$221 million and HK$453 million, respectively.

Cash flow from operating activities for the second quarter improved significantly as compared to the first quarter, with a cash inflow of HK$230 million. For the six months ended 30 September 2005, net cash outflow from operating activities amounted to HK$67 million. Trade receivable and trade payable turnover days for the first six months of the current financial year increased by 2.19 and 6.31 days, respectively, as compared to the corresponding period of last financial year. Inventory turnover day decreased by 2.28 days, contributing to a cash cycle shortened by 6.4 days.

Days	FY2005/06 First half year	FY2005/06 Second quarter	FY2005/06 First quarter	FY2004/05 First half year	FY2004/05 Second quarter	FY2004/05 First quarter
Inventory Turnover	27.73	26.73	33.72	30.01	29.24	33.32
Trade Receivable Turnover	45.72	43.15	50.55	43.53	42.50	45.15
Trade Payable Turnover	40.74	38.13	38.78	34.43	31.98	32.12
Cash Cycle	32.71	31.75	45.49	39.11	39.76	46.35

For the six months ended 30 September 2005, net cash outflow from investing activities amounted to HK$19 million, comprising HK$85 million received for the disposal of building properties, compared to HK$131 million for the corresponding period of last financial year. Net cash outflow from financing activities amounted to HK$154 million, which included HK$73 million in dividends paid, as compared to HK$0.74 million for the corresponding period of last financial year.

2. Business Review and Outlook

The Group formulated business strategies for its three business segments at the beginning of the current financial year, looking to consolidate market leadership and achieve stable growth in the Distribution and Systems businesses while staying industry-focused and enhancing core capabilities for the Services business. Such strategies had been effectively implemented, as reflected by our business performance of the first six months of the financial year, delivering satisfactory operating results for the management and securing a stronger market position. According to latest poll results by Sm@rtPartner, a market research institute specialized in the study of sales channels, the Group's Distribution business and Systems business accounted for 37% of turnover generated by the top 10 distributors for the six months ended 30 September 2005, as opposed to 35% for the 12 months ended 31 December 2004, or 51% of turnover generated by the top 4 distributors as opposed to 47% for the same periods.

2.1 The Distribution business

Turnover from the Group's Distribution business for the first six months of the current financial year was HK$5,291 million, representing a year-on-year growth of 23.95% which is ahead of the average market level. Meanwhile, effective controls over business risks was continued to be maintained. The sound performance was mainly attributable to distributorships for Acer notebook computers, HP home desktop computers and SMC (Accton Technology Corp.) secured by the Group during the period, enhanced efforts in channel expansion and geographic coverage to consolidate existing market shares and win over new shares from competitors. Efforts were also being made to further refine operational management. In addition, the Group formed a dedicated sales team during the first six months of the financial year to boost up business with mega-size consumer electronics stores (CES), a rapidly growing sector, concluding master agreements for supply with Dazhong, Suning, Gome, Hisap and others to complete coverage of major players.

2. Business Review and Outlook (continued)

2.2 The Systems business

Turnover from the Group's Systems business for the first six months of the current financial year registered a year-on-year increase of 11.45%, benefiting from robust market demands as well as stronger ties with brand suppliers, as evidenced by the capturing of the FY05 Cisco China Best Distribution Partner Award and Outstanding Value Added Distributor (2005) by the Group.

As at the end of the second quarter, sales of UNIX servers had been gradually restored to normal levels following effective measures to cope with shrinking sales of the product since the first quarter of the current financial year, and more substantial increase is expected for the third quarter.

2.3 The Services business

Turnover from the Group's Services business for the first six months of the current financial year amounted to HK$989 million, underpinned by a 56.74% turnover growth of the application software development division. While sales of the hardware integration division dropped by 12.32%, the management expects solid growth in revenues from the Services business segment in the third quarter, when deliveries will be made in connection with most of the large-scale projects that have been contracted. Meanwhile, the Services business segment was effectively steered to continue to add value with strong year-on-year growth in gross profit margin, registering gross profit growth of 6.42% and 13.78%, respectively, for the interim period and the second quarter. Through pro-active customer development plans, the Group signed up new patrons that included Huaxia Bank and China Construction Bank in the financial sector and China Academy of Sciences, China Grain Reserves and Haidian District Government in the public sector to generate recurrent income. New customers in the telecommunications sector included China Mobile Henan and China Netcom.

2.4 Outlook

All in all, the management believes that the results of the Group achieved for the first six months of the current financial year is satisfactory. In the latter half of the financial year, the management expects to continue its focus on customer growth and risk management, ensuring balanced and stable progress in key performance indicators and key risk indicators. The Group will also be seeking constant innovations and improvements in management control measures, with a view to greater enterprise value on the back of enhanced productivity.

Capital Expenditure, Liquidity and Financial Resources

The Group mainly finances its operations with internally generated cash flows, bank loans and banking facilities.

The Group had total assets of HK$5,183 million at 30 September 2005 which were financed by total liabilities of HK$3,536 million, minority interests of HK$6 million and equity attributable to equity holders of the parent of HK$1,641 million. The Group's current ratio at 30 September 2005 was 1.29 as compared to 1.39 at 30 June 2005 and 1.40 at 31 March 2005.

During the six months ended 30 September 2005, capital expenditure of HK$62 million were incurred for the acquisition of fixed assets.

The aggregate interest-bearing borrowings as a ratio of equity attributable to equity holders of the parent was 0.63 at 30 September 2005 as compared to 0.85 at 30 June 2005 and 0.68 at 31 March 2005. The computation of the said ratio was based on the total interest-bearing borrowings of HK$1,031 million (30 June 2005 and 31 March 2005: HK$1,376 million and HK$1,076 million respectively) and equity attributable to equity holders of the parent of HK$1,641 million (30 June 2005 and 31 March 2005: HK$1,613 million and HK$1,579 million respectively).

At 30 September 2005, all the interest-bearing borrowings of the Group were denominated in United States dollar.

Part of the United States dollar borrowings amounting to approximately HK$621 million were short-term bank borrowings repayable within one year and guaranteed by the Company. The rest of the United State dollar borrowings amounting to approximately HK$410 million represented the syndicated loan (the "**Syndicated Loan**") repayable within four years counting from the date of the facility agreement and guaranteed by Digital China Limited, a wholly owned subsidiary of the Company. The whole outstanding Syndicated Loan balance amounting to approximately HK$410 million was repaid on 14 November 2005 and, therefore, was classified as current liabilities.

The Group's total available credit facilities at 30 September 2005 amounted to HK$4,973 million, of which HK$2,958 million were in trade lines, HK$1,605 million were in short-term and revolving money market facilities and HK$410 million were in transferable loan facility. At 30 September 2005, the facility drawn down was HK$2,197 million in trade lines, HK$171 million in short-term and revolving money market facilities and HK$410 million in transferable loan facility.

Under the normal course of business, the Group has issued performance bonds to some customers for potential claims of non-performance in order to satisfy the specific requirements of these customers. As no material claims had been made by the customers under such performance bonds in the past, the management considers that the possibility of realisation of any actual material liabilities arising from such performance bonds is remote.

Human Resources

At 30 September 2005, the Group had approximately 4,800 (30 September 2004: approximately 4,300) full-time employees. The majority of these employees work in the PRC. The Group offers remuneration packages in line with industry practice. Employees' remuneration includes basic salaries and bonuses. With the increase in the total number of staff to cope with its business requirements, the Group has recorded a 14.46% increase in staff costs to approximately HK$227 million for the six months ended 30 September 2005 as compared with an approximate sum of HK$198 million (as restated) for the same period of last financial year. In order to attract and retain a high caliber of capable and motivated workforce, the Company offers share options to staff based on the individual performance and the achievements of Company's targets. The Group is committed to providing its staff with various in-house and external training and development programs.

Audit Committee

The Company has established an audit committee comprising members of the three independent non-executive directors of the Company, namely Mr. LEUNG Pak To, Francis (chairman of the audit committee), Professor WU Jinglian and Mr. HU Zhao Guang. The audit committee is responsible for reviewing with the management the accounting principles and practices adopted by the Group and discussing auditing, internal control and financial reporting matters, including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2005.