Management Discussion and Analysis

1. Overall Business Performance

For the six months ended 30 September 2006, the Group sustained a rapid growth in its business, achieved significant increase in profit (before special items) for the current period and reinforced its market position. Moreover, the Group's operating cash flow and cash cycle also achieved outstanding performance.

During the second quarter of the financial year, the overall turnover of the Group continued its robust growth of 28.28% comparing to the corresponding period of last financial year, which sustained its leading market position and competitive edges. According to a report provided by IDC in November 2005, the PRC IT market is expected to have a stable growth in 2006 with an estimated growth rate of 14.4%. The Group recorded a turnover of HK$11,872 million for the six months ended 30 September 2006, representing an increase of 34.78% comparing to HK$8,808 million of the corresponding period of last financial year, with a growth rate far exceeding the estimated growth rate of the PRC IT market. The remarkable performance was mainly attributable to the better implementation of the Group's different business growth strategies set for its three business segments. The Group's gross profit margin for the six months ended 30 September 2006 was 6.98% and remained stable as comparing to the corresponding period of last financial year.

During the financial year, the Group focused on enhancing the investment returns for its business, and achieved a satisfactory growth on profit (before special items) for the current period. The Group's profit (before special items) for the second quarter of the financial year was approximately HK$60 million, an increase of 56.21% comparing to the corresponding period of last financial year. Profit (before special items) for the six months ended 30 September 2006 was approximately HK$87 million, representing an increase of 26.28% from the corresponding period of last financial year.

In respect of special items, apart from the exchange gains, while the Group obtained satisfactory operating results, the Group adopted, following prudence principle, financial treatments on certain special items arose in previous financial years with contingency risks. As a result of the direct impacts of these special items, profit attributable to equity holders of the parent (profit attributable to equity holders) for the second quarter and the first six months of the financial year decreased as compared to the corresponding period of last financial year. Relevant special items are illustrated as follows:

(1) The Group recorded an exchange gain of approximately HK$15 million in the second quarter of the financial year, representing a decrease of HK$42 million from approximately HK$57 million of the corresponding period of last financial year;

(2) After the completion of merger of Beijing Si-Tech Information Technology Co., Ltd. ("**STQ**"), the new company has fully deployed initiatives to promote systems integration services as well as application development services to all telecom customers in China. In order to reflect the future profit and loss of this new company in a clearer manner, based on prudence principle, the Group charged in full the goodwill arising from the acquisition of STQ of approximately HK$29 million as impairment in the financial year;

Management Discussion and Analysis

1. Overall Business Performance (continued)

(3) In respect of a systems business customer with trade receivable balance of approximately HK$12 million, the Group, based on prudence principle, made a provision for bad debts of approximately HK$5 million for such trade receivable in the second quarter of the financial year in light of the progress of the legal proceedings. Despite the provision, the Group has adopted active measures to recover the outstanding amount so as to reach an appropriate settlement for the case as earliest as possible; and

(4) During the second quarter of the financial year, the Group amortised and impaired an aggregate amount of approximately HK$5 million in respect of intangible assets (development costs capitalised) capitalised in previous financial years. No additional development costs were capitalised for the current financial year (additional development costs capitalised in the corresponding period of last financial year was approximately HK$2 million higher than the amount amortised and impaired).

After taking into account the above special items, the profit attributable to equity holders of the parent for the second quarter of the financial year amounted to approximately HK$37 million, while the profit attributable to equity holders of the parent for the six months ended 30 September 2006 was approximately HK$92 million, representing a decrease of 22.94% from the corresponding period of last financial year. Basic earnings per share and diluted earnings per share amounted to 10.53 HK cents and 10.48 HK cents respectively.

The Group continued to put emphasis on healthy growth during the second quarter of the financial year, with cash cycle recording satisfactory performance and operating cash flow achieving significant improvement. Net cash inflow from operating activities of the Group for the second quarter of the financial year amounted to approximately HK$900 million, representing a significant increase from approximately HK$230 million of the corresponding period of last financial year. For the six months ended 30 September 2006, accumulated net cash inflow from operating activities increased by HK$549 million from the corresponding period of last financial year. The increase was mainly attributable to the decrease in inventory and the increase in trade payables. The Group's cash cycle for the second quarter of the financial year also recorded satisfactory performance with overall cash cycle reducing 5.76 days comparing to the corresponding period of last financial year. The turnover days of trade receivables and inventory reduced by 2.16 days and 5.77 days respectively. The Group's cash cycle for the first six months of the financial year reduced 6.60 days comparing to the corresponding period of last financial year, whereas the turnover days of trade receivables and inventory reduced by 4.16 days and 4.99 days respectively.

2. Business Strategy Review

2.1 The Distribution business

Backed by the stable gross profit margin brought about by the Group's growth strategies for its overall business, the turnover from its Distribution business again experienced robust growth in the financial year. Turnover from the Group's Distribution business for the second quarter of the financial year was HK$3,717 million, representing an increase of 28.87% from the corresponding period of last financial year, while that for the six months ended 30 September 2006 amounted to HK$7,049 million, representing an increase of 33.23% from the corresponding period of last financial year, both of which were far exceeding the estimated growth rate of the PRC IT market. The outstanding performance was attributable to the Group's continuous efforts in business expansion for its Distribution business and strengthening of its internal management.

2.1.1 Expansion-driven Growth

After the development for almost a year, the new products introduced by the Group's Distribution business in last financial year began to grow rapidly during the financial year, where the ACER business division had already recorded a turnover of HK$949 million in the first six months of the financial year, accounting for 13.46% of the turnover from the Distribution business. The continuous exploration of new products enabled the major business segments of the Group to experience robust growth in turnover for the six months ended 30 September 2006. Desktop computers, Consumer IT products and notebook computers achieved a growth of 77.28%, 55.06% and 45.87% respectively comparing to the corresponding period of last financial year.

2.1.2 Expanded Business Channels to Support Business Growth

The Group is committed to expanding the coverage of its business channels. As at 30 September 2006, the number of effective channels for its Distribution business increased to 6,218 companies, representing an increase of 50.12% from the corresponding period ended 30 September 2005. Such expansion in channel coverage has become a solid foundation for the current and future growth of the Group's Distribution business.

2.1.3 Continued Enhancement of Internal Management to Maintain the Leading Position in the Market

On the internal management front, the Group continued to enhance its internal procedures, risk management and business operations. Such enhancement of internal management enabled the Group to manage the operating risks exposed to its Distribution business effectively, which resulted in an improved turnover days in terms of trade receivables and inventory comparing to the corresponding period of last financial year and stable provision for bad debts.

Management Discussion and Analysis

2. **Business Strategy Review (continued)**

2.2 The Systems business

The Group's Systems business for the first six months of the financial year maintained a rapid growth. During the second quarter of the financial year, turnover from the Group's Systems business reached HK$1,810 million, representing an increase of 36.47% comparing to the corresponding period of last financial year. Turnover for the six months ended 30 September 2006 amounted to HK$3,470 million, representing a rise of 37.27% comparing to the corresponding period of last financial year. Along with the rapid growth in business scale, the profitability of the business remained stable. Gross profit margin of the Group's Systems business for the first six months of the financial year was 9.27%, basically maintaining the same level of the corresponding period of last financial year of 9.46%.

2.2.1 Cordial Relationship with Suppliers and Business Channels Boosted the Sustained Growth in Turnover for all Major Business Segments of the Group's Systems Business

For the first six months ended 30 September 2006, turnover from the Group's packaged software, storage products and UNIX servers increased by 36.94%, 34.56% and 37.80% respectively comparing to the corresponding period of last financial year.

2.2.2 The Group's Key Development Strategy for the Financial Year Focused on Close Alliance with Regional Core Channels and Expanded Coverage in Small to Middle-tier Cities

By undertaking a series of marketing initiatives for its Systems business during the financial year, including "2006 Conference of Channels in Tier 2 and 3 Cities"(2006夥伴關愛之旅), Core Channels Authorizing Conference(核心渠道峰會以及授牌)and "Core Channels Award Program"(成長聯盟採購積分計劃), the Group further increased the number of core channels, expanded the scope for business cooperation and enhanced cordial cooperation with respective channels. At the same time, the sales volume in small to middle-tier cities in the PRC was also expanded through the strengthening of regional penetration and coverage.

2.2.3 The Group Continued to Enhance its Technology Services and Management of its Servicing Staff and its Capabilities in the Financial Year

The number of technical staff increased from 178 persons as at 31 March 2006 to 201 persons as at 30 September 2006. The turnover of Services business from the Group's Systems business sustained its robust growth momentum in the second quarter of the financial year. Services turnover for the second quarter ended 30 September 2006 increased by 315% comparing to the corresponding period of last financial year, while that of the first six months of the financial year increased by 241% comparing to the corresponding period of last financial year.

2.3 The Services business

Turnover from the Group's Services business for the second quarter of the financial year amounted to HK$732 million, representing an increase of 9.47% from the corresponding period of last financial year. During the six months ended 30 September 2006, the Group's Services business recorded a turnover of HK$1,353 million, representing a surge of 36.72% from the corresponding period of last financial year. Gross profit margin of the Services business for the second quarter of the financial year slightly fell to 12.75% from 12.87% of the corresponding period of last financial year. It was partly due to the lower gross profit margin of sizeable telecommunication projects under the hardware system integration business of the Group's Services business. In addition, the Group's Services business was undergoing transformation and additional efforts were placed in the development of software localisation, and development of service, products and solution in the first six months of the financial year. Therefore, the overall gross profit of the Services business was affected, resulting in a declined gross profit of the Group's Services business for the first six months of the financial year of 11.54% from 12.89% of the corresponding period of last financial year.

2.3.1 Fruitful Results Attained by Clientele Expansion with Enhanced Market Position

During the six months ended 30 September 2006, the Group's Services business achieved a breakthrough on the clientele expansion, which further enhanced its market influence towards various industries such as finance, telecommunications and the government (including taxation), and continued to increase its market share.

According to a report provided by IDC in October 2006, the finance software and services under the Group's Services business increased by 0.2 percentage point in its market share in the PRC during the first six months of the financial year comparing to that of 2005, continuing to maintain its second largest position in the PRC market. The e-government services under the Group's Services business increased by 0.2 percentage point in its market share in the PRC for the first six months of the financial year from that of 2005, continuing to enjoy its dominant position in the PRC market. The telecommunications software services under the Group's Services business increased by 2.6 percentage points in its market share in the PRC for the first six months of the financial year from that of 2005, becoming one of the top four providers of the PRC market.

During the first six months of the financial year, the Group's Services business maintained its collaborative relationship with its existing core customers in the finance sector, such as China Construction Bank, and achieved another breakthrough in securing new customers such as policy banks and small to medium sized banks. In respect of its governmental sector, the Group successfully secured new core customers in various aspects such as local tax bureau, electricity and power. In the telecommunications sector, the Group continued its collaboration with telecommunication operators such as China Mobile, China Telecom, China Network Communications and China Unicom, and concluded a number of hundred-million-worth major contracts.

2. Business Strategy Review (continued)

2.3 The Services business (continued)

2.3.2 Significant Increase of Products Support and IT Outsourcing and Maintenance Services and Efficiency in System Structure

For the six months ended 30 September 2006, the products support and IT outsourcing and maintenance services of the Group's Services business concluded contracts valued over HK$150 million, representing an increase of 60% from the corresponding period of last financial year. The Group's Services business collaborated with various customers such as China Mobile and China Railcom, and signed various million-worth major contracts in respect of product support and IT outsourcing and maintenance services. The Group also successfully passed the international certification of IT service management (ITIL/ITSM) system ISO 20000 on 19 October 2006, and became the first enterprise obtaining such certification in the PRC after such international standard was upgraded to ISO20000:2005. This manifests the management system and management capabilities of the Group's Services business attained advanced international standards, and attached significance towards the overall development of the transformation strategy of the Group's IT services.

2.3.3 Enhancement in the Development of Core Capabilities of Services and the Investment in Infrastructure for the Implementation of Services Business Strategies

For the six months ended 30 September 2006, in view of providing better services to customers in the industry and enhance the profitability of its software and services business, the Group's Services business devoted additional efforts on transformation by establishing and promoting three core capabilities, which will also be the ongoing commitment of the Group's Services business in a long run.

(1) Transforming from customer on-site development to localised development. In the first six months of the financial year, the Group's Services business significantly enhanced the infrastructure capabilities of its Xi'an software development base, including expansion of workforce and investment in infrastructure. Such moves aimed at changing the traditional service model and improving the delivery capabilities for its customers, so as to achieve unification and standardisation for its Services business;

(2) Transforming from applied software development business to IT operation outsourcing business. The Group expanded its Services business and established outsourcing data centres and service control centres in the financial year, building up the capability of providing comprehensive operation outsourcing services of labour, equipments and facilities; and

(3) Transforming from customised software development to software product development. In the first six months of the financial year, the Group's Services business increased its contribution in software product development for its major sectors such as finance, telecommunications and government. The gradual enhancement of its software product capabilities will improve the efficiency by way of module replication, thereby reducing the delivery costs for software projects and improving delivery efficiencies.

3. Outlook

The management of the Group are very satisfied with the better implementation of its operation and management strategies in the first half of the financial year and the achievements of its outstanding operating results. Looking forward, the management will strike to ensure the achievement of the annual performance target by adhering to the existing operation and management strategies, while at the same time continue to apply its prudent financial principle, in order to lay a solid foundation for the realisation of the Group's target in its IT services transformation.

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$6,035 million at 30 September 2006 which were financed by total liabilities of HK$4,204 million, minority interests of HK$13 million and equity attributable to equity holders of the parent of HK$1,818 million. The Group's current ratio at 30 September 2006 was 1.33 as compared to 1.24 at 30 June 2006 and 1.25 at 31 March 2006.

During the six months ended 30 September 2006, capital expenditure of HK$43 million were mainly incurred for the acquisition of office equipment and leasehold improvements of buildings in Beijing.

The aggregate interest-bearing borrowings as a ratio of equity attributable to equity holders of the parent was 0.53 at 30 September 2006 as compared to 0.89 at 30 June 2006 and 0.68 at 31 March 2006. The computation of the said ratio was based on the total interest-bearing borrowings of HK$965 million (30 June 2006 and 31 March 2006: HK$1,661 million and HK$1,206 million respectively) and equity attributable to equity holders of the parent of HK$1,818 million (30 June 2006 and 31 March 2006: HK$1,862 million and HK$1,787 million respectively).

At 30 September 2006, the denomination of the interest-bearing borrowings of the Group was shown as follows:

	Denominated in United States dollar HK$'000	Denominated in Renminbi HK$'000	Total HK$'000
Current			
Interest-bearing bank borrowings, unsecured	727,964	8,731	736,695
Interest-bearing bank borrowing, secured	–	4,851	4,851
Interest-bearing other loan, secured	–	19,402	19,402
	727,964	32,984	760,948
Non-current			
Interest-bearing bank borrowings, unsecured	–	203,725	203,725
Total	727,964	236,709	964,673

Capital Expenditure, Liquidity and Financial Resources (continued)

The Group's current borrowings of approximately HK$24 million extended by financial institutions to a subsidiary of the Group, STQ, were secured by a property situated in the Mainland China with a net carrying amount of approximately HK$17 million at 30 September 2006 and 14,061,976 issued shares of STQ in favour of Beijing Zhongguancun Sci-Tech Guaranty Co. Ltd. (the "**Pledgee**"), an independent third party, for securing a guarantee issued by such Pledgee on behalf of STQ. The Group's non-current bank borrowings of approximately HK$204 million represented the term loans which are repayable in July 2008.

The Group's total available credit facilities at 30 September 2006 amounted to HK$6,862 million, of which HK$980 million were in term loan facilities, HK$4,242 million were in trade lines and HK$1,640 million were in short-term and revolving money market facilities. At 30 September 2006, the facility drawn down was HK$204 million in term loan facilities, HK$2,441 million in trade lines and HK$421 million in short-term and revolving money market facilities.

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 2006, the Group had approximately 6,700 (30 September 2005: approximately 4,800) 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 31.47% increase in staff costs to approximately HK$350 million for the six months ended 30 September 2006 as compared with an approximate sum of HK$266 million 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 the Company's targets. The Group is committed to providing its staff with various in-house and external training and development programs.

AUDIT COMMITTEE

The audit committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed 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 2006.