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## **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012**

### **HIGHLIGHTS**

1. The Group meticulously advanced its Sm@rt City-focused operating approach and proactive customer development plans formulated early in the year. For the six months ended 30 September 2012, the Group reported trend-bucking business growth with turnover of approximately HK\$37,404 million, an increase of 9.57% compared to the corresponding period of last financial year. Turnover for the second quarter alone amounted to approximately HK\$19,627 million, achieved another breakthrough and recorded a historical high for quarterly results. Meanwhile, profit attributable to equity holders of the parent for the interim period of the current financial year reported approximately HK\$741 million, an increase of 11.39% over the corresponding period of last financial year. Basic earnings per share amounted to 69.39 HK cents, a growth of 11.92% as compared to 62.00 HK cents for the corresponding period of last financial year.
2. Our gross profit margin declined to 6.87% as the Group cleared our stocks swiftly in a judicious move to avoid risks amidst soft demand in the consumer market and increasing competition and uncertainties in technologies and products since the beginning of the financial year. Meanwhile, our expense ratio for the first six months of the current financial year was lowered by 0.63 percentage point, as compared to the corresponding period of last financial year, to 5.02%, credit to stronger cost control measures in line with our persistent implementation of the operating principle of “prudent progress and streamlined establishment with enhanced efficiency”, as well as effective control of obsolete inventories and trade receivables provisions.
3. Owing to the Group’s comprehensive and balanced business portfolio, we reported stable growth which reflected our strong resilience outperforming our peers despite ongoing volatility in the consumer market. In particular, our Systems Business continued to reap additional market shares in close tracking of demands for the construction of data centres and cloud computing centres, while the development of CES and e-commerce channels supported the positive growth of our Distribution Business, and our Supply Chain Services Business reported business value enhancements following persistent initiatives in structural optimization. Meanwhile, the prudent advancement of the “Sm@rt City” strategy has cemented the foundation for us to carry on our service-oriented transformation in greater depth.
4. The Group implemented stringent and effective risk management measures on a long-term basis to enhance cash flow control. Against the backdrop of tight liquidity in the market, our net cash inflow from operating activities amounted to approximately HK\$338 million for the first six months of the current financial year in sustained positive performance, providing a strong backing for the sustained healthy and stable growth of its business.

## UNAUDITED CONSOLIDATED INTERIM RESULTS

The board of directors (the “**Board**”) of Digital China Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 September 2012 together with comparative figures for the corresponding period of last financial year as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended 30 September 2012 (Unaudited) HK\$'000	Six months ended 30 September 2012 (Unaudited) HK\$'000	Three months ended 30 September 2011 (Unaudited) HK\$'000	Six months ended 30 September 2011 (Unaudited) HK\$'000
	<i>Notes</i>				
<b>REVENUE</b>	3	<b>19,626,814</b>	<b>37,403,597</b>	18,099,893	34,137,847
Cost of sales		<u>(18,398,345)</u>	<u>(34,834,401)</u>	<u>(16,763,558)</u>	<u>(31,577,521)</u>
Gross profit		<b>1,228,469</b>	<b>2,569,196</b>	1,336,335	2,560,326
Other income and gains	3	<b>316,806</b>	<b>418,039</b>	230,754	381,656
Selling and distribution costs		<b>(711,626)</b>	<b>(1,419,679)</b>	(759,605)	(1,366,100)
Administrative expenses		<b>(156,042)</b>	<b>(287,647)</b>	(144,081)	(264,941)
Other operating expenses, net		<b>(137,600)</b>	<b>(169,489)</b>	(163,925)	(297,507)
Total operating expenses	4	<u>(1,005,268)</u>	<u>(1,876,815)</u>	<u>(1,067,611)</u>	<u>(1,928,548)</u>
Finance costs		<b>(79,883)</b>	<b>(156,856)</b>	(63,898)	(162,134)
Share of profits and losses of:					
Jointly-controlled entities		<b>2,133</b>	<b>1,179</b>	(268)	(409)
Associates		<b>(14,263)</b>	<b>(10,274)</b>	8,647	14,833
<b>PROFIT BEFORE TAX</b>	5	<b>447,994</b>	<b>944,469</b>	443,959	865,724
Income tax expense	6	<u>(30,672)</u>	<u>(99,340)</u>	<u>(112,879)</u>	<u>(149,133)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>417,322</b></u>	<u><b>845,129</b></u>	<u>331,080</u>	<u>716,591</u>
Attributable to:					
Equity holders of the parent		<b>340,461</b>	<b>741,072</b>	308,150	665,320
Non-controlling interests		<b>76,861</b>	<b>104,057</b>	22,930	51,271
		<u><b>417,322</b></u>	<u><b>845,129</b></u>	<u>331,080</u>	<u>716,591</u>
<b>EARNINGS PER SHARE</b>					
<b>ATTRIBUTABLE TO</b>					
<b>ORDINARY EQUITY</b>					
<b>HOLDERS OF THE</b>					
<b>PARENT</b>	7				
Basic			<u><b>69.39 HK cents</b></u>		<u>62.00 HK cents</u>
Diluted			<u><b>68.57 HK cents</b></u>		<u>61.68 HK cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2012	2011
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
<b>PROFIT FOR THE PERIOD</b>	<b>845,129</b>	716,591
<b>OTHER COMPREHENSIVE INCOME:</b>		
Change in fair value of an available-for-sale investment	71,375	5,382
Exchange differences on translation of foreign operations	<u>6,543</u>	<u>69,502</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<u>77,918</u>	<u>74,884</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u><b>923,047</b></u>	<u>791,475</u>
Attributable to:		
Equity holders of the parent	818,076	721,516
Non-controlling interests	<u>104,971</u>	<u>69,959</u>
	<u><b>923,047</b></u>	<u>791,475</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 September 2012 (Unaudited) <i>HK\$'000</i>	At 31 March 2012 (Audited) <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,372,202	1,236,475
Investment properties		211,078	305,005
Prepaid land premiums		189,062	163,215
Goodwill		236,762	236,377
Intangible assets		7,176	4,591
Investments in jointly-controlled entities		79,850	33,224
Investments in associates		683,892	780,739
Available-for-sale investments		557,231	214,321
Deposit paid for acquisition of land use right		157,152	-
Deferred tax assets		60,570	32,135
Total non-current assets		3,554,975	3,006,082
<b>CURRENT ASSETS</b>			
Inventories		4,737,215	5,154,490
Trade and bills receivables	8	12,603,423	10,787,427
Prepayments, deposits and other receivables		4,451,091	3,527,378
Derivative financial instruments		61,934	92,440
Financial assets at fair value through profit or loss		185,819	-
Cash and cash equivalents		3,309,577	4,253,966
		25,349,059	23,815,701
Non-current asset classified as held for sale	10	12,467	-
Total current assets		25,361,526	23,815,701
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	13,549,167	12,315,472
Other payables and accruals		2,363,876	2,728,849
Tax payable		195,470	201,525
Interest-bearing bank borrowings		3,174,430	2,323,895
Bond payable		36,675	-
Total current liabilities		19,319,618	17,569,741
<b>NET CURRENT ASSETS</b>		6,041,908	6,245,960
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		9,596,883	9,252,042
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		1,552,500	1,692,000
Bond payable		-	36,615
Total non-current liabilities		1,552,500	1,728,615
<b>NET ASSETS</b>		8,044,383	7,523,427

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

	At 30 September 2012 (Unaudited) <i>HK\$'000</i>	At 31 March 2012 (Audited) <i>HK\$'000</i>
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the parent</b>		
Issued capital	109,291	109,273
Reserves	7,132,057	6,286,928
Proposed final dividend	-	424,986
	<u>7,241,348</u>	<u>6,821,187</u>
<b>Non-controlling interests</b>	<u>803,035</u>	<u>702,240</u>
<b>TOTAL EQUITY</b>	<u><b>8,044,383</b></u>	<u><b>7,523,427</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Six months ended 30 September	
	2012 (Unaudited) <i>HK\$'000</i>	2011 (Unaudited) <i>HK\$'000</i>
Net cash inflow from operating activities	338,137	257,588
Net cash outflow from investing activities	(1,514,558)	(527,582)
Net cash inflow from financing activities	<u>233,227</u>	<u>1,000,084</u>
Net increase/(decrease) in cash and cash equivalents	(943,194)	730,090
Cash and cash equivalents at the beginning of the period	4,253,966	3,049,455
Effects of foreign exchange rate changes, net	<u>(1,195)</u>	<u>38,673</u>
Cash and cash equivalents at the end of the period	<u><b>3,309,577</b></u>	<u><b>3,818,218</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent												
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Employee share trust (Unaudited) HK\$'000	Employee share-based compensation reserve (Unaudited) HK\$'000	Available- for-sale investment revaluation reserve (Unaudited) HK\$'000	Reserve funds (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed final dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non- controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 April 2012	109,273	2,052,706	901,639	(359,914)	104,279	26,904	263,373	268,297	3,029,644	424,986	6,821,187	702,240	7,523,427
Profit for the period	-	-	-	-	-	-	-	-	741,072	-	741,072	104,057	845,129
Other comprehensive income for the period:													
Change in fair value of an available-for-sale investment, net of tax	-	-	-	-	-	71,375	-	-	-	-	71,375	-	71,375
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	5,629	-	-	5,629	914	6,543
Total comprehensive income for the period	-	-	-	-	-	71,375	-	5,629	741,072	-	818,076	104,971	923,047
Exercise of share options	18	1,447	-	-	(381)	-	-	-	-	-	1,084	-	1,084
Share-based compensation	-	-	-	-	26,102	-	-	-	-	-	26,102	-	26,102
Capital contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	9,168	9,168
Disposal of investment in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(13,344)	(13,344)
Change in net asset of an associate	-	-	(115)	-	-	-	-	-	-	-	(115)	-	(115)
Final 2012 dividend	-	-	-	-	-	-	-	-	(424,986)	(424,986)	-	-	(424,986)
At 30 September 2012	109,291	2,054,153	901,524	(359,914)	130,000	98,279	263,373	273,926	3,770,716	-	7,241,348	803,035	8,044,383

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity holders of the parent												
	Issued share capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Capital reserve (Unaudited) <i>HK\$'000</i>	Employee share trust (Unaudited) <i>HK\$'000</i>	Employee share-based compensation reserve (Unaudited) <i>HK\$'000</i>	Available- for-sale investment revaluation reserve (Unaudited) <i>HK\$'000</i>	Reserve funds (Unaudited) <i>HK\$'000</i>	Exchange fluctuation reserve (Unaudited) <i>HK\$'000</i>	Retained profits (Unaudited) <i>HK\$'000</i>	Proposed final dividend (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>	Non- controlling interests (Unaudited) <i>HK\$'000</i>	Total equity (Unaudited) <i>HK\$'000</i>
At 1 April 2011	109,121	2,041,222	878,244	(24,041)	16,423	-	200,280	194,717	2,265,114	351,916	6,032,996	537,837	6,570,833
Profit for the period	-	-	-	-	-	-	-	-	665,320	-	665,320	51,271	716,591
Other comprehensive income for the period:													
Change in fair value of an available-for-sale investment, net of tax	-	-	-	-	-	5,382	-	-	-	-	5,382	-	5,382
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	50,814	-	-	50,814	18,688	69,502
Total comprehensive income for the period	-	-	-	-	-	5,382	-	50,814	665,320	-	721,516	69,959	791,475
Exercise of share options	90	6,825	-	-	(1,626)	-	-	-	-	-	5,289	-	5,289
Share-based compensation	-	-	-	-	35,002	-	-	-	-	-	35,002	-	35,002
Contribution to employee share trust	-	-	-	(335,873)	-	-	-	-	-	-	(335,873)	-	(335,873)
Capital contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	5,857	5,857
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(2,882)	(2,882)
Final 2011 dividend	-	-	-	-	-	-	-	-	7,796	(351,916)	(344,120)	-	(344,120)
At 30 September 2011	109,211	2,048,047	878,244	(359,914)	49,799	5,382	200,280	245,531	2,938,230	-	6,114,810	610,771	6,725,581

## NOTES:

### 1. Basis of preparation

These unaudited condensed consolidated interim financial information for the six months ended 30 September 2012 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 (“HKICPA”). In preparing the unaudited condensed consolidated interim financial information, 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 2012 had been consistently applied except in relation to the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and interpretations) that affect the Group and has adopted the first time for the current period’s unaudited condensed consolidated interim financial information:

HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfer of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of these revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated interim financial information.

### 2. Operating segment information

For management purposes, the Group’s operating businesses are structured and managed separately according to the nature of their operations, target customer segments and the products and services they provide. Each of the Group’s reportable operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other reportable segments. Particulars of the Group’s four reportable operating segments are summarised as follows:

- (a) the “Distribution” segment, with a primary focus on the SMB & Consumer markets, focuses on meeting the demand for information technology (“IT”) products and solutions from SMB and consumer markets, and also explores new opportunities in mobile internet devices and their applications with the implementation of the Sm@rt City strategy. It engages in the sale and distribution of general IT products which consist of notebook computers, desktop computers, peripherals, accessories and consumer IT products;
- (b) the “Systems” segment, with a primary focus on the Enterprise market, focuses on meeting the IT demand from the urban information infrastructure construction, as well as the enterprise market and also makes direct sales to regional customers to enhance direct control over the demand of the enterprise market. It engages in the sale and distribution of systems products which consist of servers, networking products, storage products and packaged software;
- (c) the “Supply Chain Services” segment, with a primary focus on the Hi-tech Industries, Branded e-Commerce Platform Operators and Branded Service Providers, is targeted at manufacturers of IT and other high-value density products manufacturers and industry customers, branded e-commerce platform operators and branded service providers, providing one-stop supply chain consultancy and execution services in logistics, business flow, capital flow and information flow; and



- (d) the “Services” segment, with a primary focus on the provision of urban information infrastructure and Sm@rt City operation services to the Industry market, focuses on the provision of urban information infrastructure and Sm@rt City operation services targeted at large-scale industry customers, offering IT planning and IT systems consultation, design and implementation of industry application software and solutions, outsourcing of IT system operation and maintenance, as well as products and services in system integration and maintenance.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group’s profit before tax except that interest income, finance costs, unallocated corporate income and gains, unallocated corporate expenses and share of profits and losses of jointly-controlled entities and associates are excluded from such measurement.

The Group made certain adjustments to its business classification at the start of this financial year, the main details of which are as follows:

- (1) A sub-segment of the “Supply Chain Services Segment” will be devoted to the provision of professional supply chain management services including one-stop logistics and maintenance services, to hi-tech corporate customers and industry customers; another sub-segment will provide purchasing services to chain electronic stores (CES) for terminal products such as PC, notebook, smart devices, digital products, where CES is deemed as a retail format and an effective complement to the Distribution Segment which aims at a comprehensive coverage of all business formats. Therefore, this sub-segment has been reallocated to the Distribution Segment. In order to provide a more appropriate presentation for the Group’s operating segment information, the Group reallocated this sub-segment from the “Supply Chain Services Segment” to the “Distribution Segment” at the start of this financial year and the relevant results for the corresponding period of last financial year have been restated accordingly; and
- (2) A sub-segment of the “Distribution Segment” will continue to focus on full channel coverage for all retail formats for IT products and devices, developing and supplying IT products and solutions of broader variety and higher value to consumer and SMB customers. Another sub-segment in the original Distribution Segment, covering products such as PC, servers, will become an important part of IT infrastructure building in line with the development of cloud computing, which will be more compatible with the business positioning of the Systems Segment, which aims to become a supplier of IT infrastructure products and solutions. Therefore, this sub-segment has been reallocated to the Systems Segment. In order to provide a more appropriate presentation for the Group’s operating segment information, the Group reallocated this sub-segment from the “Distribution Segment” to the “Systems Segment” at the start of this financial year and the relevant results for the corresponding period of last financial year have been restated accordingly.

The following table presents revenue and results for the Group's operating segments for the six months ended 30 September 2012 and 2011:

	Distribution		Systems		Supply Chain Services Six months ended 30 September		Services		Consolidated	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000 (Restated)	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000 (Restated)	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000 (Restated)	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
<b>Segment revenue:</b>										
Sales to external customers	<b>19,546,906</b>	19,329,208	<b>13,349,520</b>	10,699,324	<b>549,643</b>	583,769	<b>3,957,528</b>	3,525,546	<b>37,403,597</b>	34,137,847
<b>Segment gross profit</b>	<b>619,325</b>	860,230	<b>1,202,766</b>	1,007,226	<b>116,875</b>	103,346	<b>630,230</b>	589,524	<b>2,569,196</b>	2,560,326
<b>Segment results</b>	<b>145,484</b>	289,768	<b>620,747</b>	517,727	<b>26,607</b>	17,230	<b>310,895</b>	138,408	<b>1,103,733</b>	963,133
Interest income, unallocated revenue and gains									<b>142,491</b>	130,442
Unallocated expenses									<b>(135,804)</b>	(80,141)
Finance costs									<b>(156,856)</b>	(162,134)
Share of profits and losses of:										
Jointly-controlled entities	-	-	-	-	-	-	<b>1,179</b>	(409)	<b>1,179</b>	(409)
Associates	-	-	-	-	-	-	<b>(10,274)</b>	14,833	<b>(10,274)</b>	14,833
Profit before tax									<b>944,469</b>	865,724
Income tax expense									<b>(99,340)</b>	(149,133)
Profit for the period									<b>845,129</b>	716,591

### 3. Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold and services rendered to customers, net of business tax and government surcharges, and after allowances for goods returned and trade discounts.

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

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
<u>Other income</u>		
Government grants	36,405	24,389
Interest income	36,118	20,852
Imputed interest income on other receivables	-	31,680
Gross rental income	21,094	18,751
Dividend income from available-for-sale investments	-	37
Others	28,642	13,728
	<u>122,259</u>	<u>109,437</u>
<u>Gains</u>		
Gain on derivative financial instruments	49,468	69,097
Gain on disposal of investment in a subsidiary	230,914	-
Foreign exchange differences, net	9,006	200,417
Others	6,392	2,705
	<u>295,780</u>	<u>272,219</u>
	<u>418,039</u>	<u>381,656</u>

### 4. Total operating expenses

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

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Selling expenses	178,064	187,355
Promotion and advertising expenses	144,426	108,253
Staff costs included in operating expenses (including directors' remuneration)	957,878	887,824
Other expenses	596,447	745,116
	<u>1,876,815</u>	<u>1,928,548</u>

## 5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Cost of inventories sold	33,998,472	30,955,221
Depreciation	77,692	65,140
Amortisation of prepaid land premiums	1,709	412
Amortisation of intangible assets	315	994
Provisions/(reversal of provisions) for and write-off of obsolete inventories	(60,078)	79,248
Impairment of trade receivables	78,142	120,684
Impairment of investment in an associate	24,450	-
Loss on disposal of items of property, plant and equipment	3,118	2,819

## 6. Income tax expense

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Group:		
Current – Hong Kong	515	-
Current – The People's Republic of China ("PRC")	127,209	141,965
Deferred	(28,384)	7,168
Total tax charge for the period	99,340	149,133

- (a) During the six months ended 30 September 2012, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax had been made for Hong Kong subsidiaries for the six months ended 30 September 2011 as the Hong Kong subsidiaries had no estimated assessable profits arising in Hong Kong.
- (b) PRC corporate income tax represents tax charged on the estimated assessable profits arising in Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to preferential tax rates.
- (c) The share of tax charge attributable to the jointly-controlled entities of approximately HK\$314,000 (six months ended 30 September 2011: HK\$279,000) and the share of tax charge attributable to the associates of approximately HK\$9,836,000 (six months ended 30 September 2011: HK\$9,730,000) are included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates", respectively, in the condensed consolidated income statement.

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

The calculation of basic earnings per share amount is based on the profit for the six months ended 30 September 2012 attributable to ordinary equity holders of the parent of approximately HK\$741,072,000 (six months ended 30 September 2011: HK\$665,320,000), and the weighted average of 1,067,908,166 (six months ended 30 September 2011: 1,073,025,286) ordinary shares in issue less shares held the restricted share award scheme during the six months ended 30 September 2012.

The calculation of diluted earnings per share amount for the six months ended 30 September 2012 is based on the profit for the six months ended 30 September 2012 attributable to ordinary equity holders of the parent of approximately HK\$741,072,000 (six months ended 30 September 2011: HK\$665,320,000) and the weighted average of 1,080,792,259 (six months ended 30 September 2011: 1,078,626,876) ordinary shares, which represented 1,067,908,166 (six months ended 30 September 2011: 1,073,025,286) ordinary shares in issue during the six months ended 30 September 2012, as used in the basic earnings per share calculation, and the weighted average of 12,884,093 (six months ended 30 September 2011: 5,601,590) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares related to the Group's share-based incentive schemes into ordinary shares.

## 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 end of the reporting period and net of impairment is as follows:

	At 30 September 2012 (Unaudited) HK\$'000	At 31 March 2012 (Audited) HK\$'000
Within 30 days	6,332,118	4,616,485
31 to 60 days	2,214,830	2,494,412
61 to 90 days	809,760	547,398
91 to 180 days	1,384,396	1,842,493
Over 180 days	1,862,319	1,286,639
	<u>12,603,423</u>	<u>10,787,427</u>

## 9. Trade and bills payables

An aged analysis of the Group's trade and bills payables as at the end of the reporting period is as follows:

	At 30 September 2012 (Unaudited) HK\$'000	At 31 March 2012 (Audited) HK\$'000
Within 30 days	5,907,553	5,829,962
31 to 60 days	2,956,525	3,303,573
61 to 90 days	2,202,189	1,104,136
Over 90 days	2,482,900	2,077,801
	<u>13,549,167</u>	<u>12,315,472</u>

## 10. Non-current asset classified as held for sale

During the period, the Group has entered into a share transfer agreement with a shareholder of a non-wholly owned subsidiary, Beijing Si-Tech Information Technology Co., Ltd. ("STQ"), to dispose in turn of its entire interest in STQ. At 30 September 2012, the 8.82% equity interest in STQ has not yet been transferred to the acquirer and presented as a non-current asset classified as held for sale.

## INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2012 (for the six months ended 30 September 2011: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

At the start of the 2012/13 financial year, the Group management called for "prudent progress, streamlined establishment with enhanced efficiency, and with a focus on Sm@rt City" as the guiding principle for the Group's business operation, in full anticipation of potential risks that market volatility might bring about. Under the direction of this principle, the Group formulated overall business development plans in tandem with the five strategic paths of the Sm@rt City and delivered positive results that assured stable growth against adverse market conditions; meanwhile, through a number of administrative measures aimed at optimizing business structure and improving organizational management to enhance efficiency, the Group assured growth in both turnover and profit for the first six months of this financial year despite an intensively competitive market environment.

### 1.1. Further refinement of customer development and strengthened efforts in efficiency-oriented organisational building assured growth in both turnover and profit.

The Group's business units countered the adverse impact of soft market demand and assured stable turnover growth by advancing their customer plans in a prudent pace, developing new customers while identifying new demands from existing customers. For the six months ended 30 September 2012, the Group reported turnover of approximately HK\$37,404 million, an increase of 9.57% as compared to approximately HK\$34,138 million for the corresponding period of last financial year. Turnover for the second quarter alone amounted to approximately HK\$19,627 million, a historical record high for quarterly results despite adverse market conditions. Meanwhile, profit attributable to equity holders of the parent for the first six months of the current financial year amounted to approximately HK\$741 million, a double-digit growth of 11.39% as compared to approximately HK\$665 million for the corresponding period of last financial year.

**1.2. Sound cash turnover and cash flow performance on the back of market judgment as well as stringent and effective risk control measures.**

Since the beginning of the current financial year, risk control and cash flow management have been made the priority tasks for the whole financial year by the Group management, having full regard for the risks associated with market volatility. Our efforts have paid off well to assure ongoing sound and stable business growth. The Group's net cash inflow from operating activities amounted to approximately HK\$338 million for the six months ended 30 September 2012 in sustained positive performance. Meanwhile, we remained at the industry's top levels in terms of working capital efficiency with further improvements, as represented by a cash turnover of 14.20 days for the period, being 1.35 days less than 15.55 days reported for the corresponding period of last financial year.

**1.3. Operating expense ratio (total operating expenses as a percentage of total revenue) continued to decrease under stringent execution of cost budget plans formulated at the beginning of the financial year and optimization of resource utilization.**

The Group's expense ratio for the six months ended 30 September 2012 was substantially lower at 5.02%, as compared to 5.65% reported for the corresponding period of last financial year, as we stringently implemented our cost management policy formulated at the beginning of the financial year in thorough implementation of the operating principle of "prudent progress and streamlined establishment with enhanced efficiency", while making vigorous efforts in inventory clearance and receivables collection to effectively control the obsolete inventories and trade receivables provisions.

**1.4. "Sm@rt City" business network provided a solid foundation for the ongoing sophistication of the Group's service-oriented transformation.**

As at 30 September 2012, the Group's Sm@rt City's national footprint has extended to 69 cities and we have signed strategic cooperation plans with 14 cities. The successful execution of Sm@rt City projects in numerous cities has provided a very positive showcasing effect on a national scale. The meat and vegetable source tracking system and the citizen card operating system, for example, have won the admiration and approval of many unsolicited cities as the key products of the Group's Sm@rt City business and offered significant assurance for the steady advancement of the Sm@rt City strategy. The strategic network building of the Sm@rt City provided our Group with an opportunity to optimise and realign the structure of its Services Business on a continued basis, and to increase the weighting of our software and services businesses with an emphasis on exploring the needs of government corporations and financial institutions while conducting in-depth exploration on the models of Sm@rt City operation, with a view to enhancing the overall value of our Services Business.

**2.1. Distribution Business:** primary focus on the SMB & Consumer Markets, engaging in the distribution of general IT products such as notebook computers, desktop computers, peripherals, accessories and consumer IT products.

**The Group secured stable development of its Distribution Business with year-on-year turnover growth despite notable slowdown in overall consumer market thanks to its strategy of detailed channel development.**

Against a notable slowdown in the overall demand from the consumer market since the beginning of the current financial year in line with the macroeconomic downturn, the Group effectively neutralised the impact of lower turnover from the notebook computers business due to a lacklustre market by consistently optimizing its channel structures to capitalize on the growth opportunities in CES and e-commerce businesses. The Group's Distribution Business reported turnover of approximately HK\$19,547 million for the six months ended 30 September 2012 for a 1.13% growth over the corresponding period of last financial year. In the meantime, the Group adopted more proactive measures to avert potential business risks through a variety of marketing initiatives to clear stock. As a result, the gross profit margin for the first six months of the current financial year declined to 3.17%, as compared to the corresponding period of last financial year.

**Enhancing coverage of CES and e-commerce channels to grab opportunities arising from retail format changes.**

Our CES management team continued to deepen its partnership with hypermarkets such as Suning with a view to enhancing cooperation with large chain stores; meanwhile, we were also making active efforts to broaden the scope of exposure of our products, seeking partnership opportunities for more new product lines in addition to existing ones. As a result, we reported a strong growth of 48.31% in turnover from our CES business for the first six months of the current financial year, as compared to the corresponding period of last financial year. Our e-commerce business reported exponential turnover growth over the corresponding period of last financial year with economies of scale in the making, as we built this business into another important source of revenue in addition to traditional channels and CES on the back of long-term working relationships with key e-commerce customers.

**Rapid growth sustained for the accessories segment and meanwhile making active preparations underway for multiple platforms competition in the Distribution Business.**

While sales of notebook computers further slowed down in line with weak demand, rapid turnover growth was sustained for other products, especially accessories, whose turnover for the first six months of the current financial year grew by 21.82% as compared to the corresponding period of last financial year. Gross profit margin was also improved thanks to the introduction of additional high-end product lines in hard disks and monitors. In the meantime, the Group has secured a solid foundation for the Distribution Business to achieve sound results in the second half of the financial year, as it has made active preparations and deployments in a bid to capture new growth opportunities driven by more diverse applications and lower prices in an emerging market landscape featuring multiple competing platforms, following the launch of Microsoft's new operating system.

**2.2. Systems Business:** primary focus on the Enterprise Market, offering value-added distribution of systems products such as servers, networking products, storage products and packaged software.

**Outperforming the industry with expanding market shares reflecting dominance in the Enterprise Market and value-added distribution segments.**

The Systems Business of the Group continued to report outperforming growth for the six months ended 30 September 2012 credit to effectively strengthened market share management. Turnover amounted to approximately HK\$13,350 million, an increase of 24.77% as compared to approximately HK\$10,699 million reported for the corresponding period of last financial year, while gross profit margin reported 9.01%. The Systems Business has provided strong support for the achievement of the Group's overall results for the first six months of the current financial year.

**Sound growth for key segments such as networking products and servers on firm grasp of Enterprise Market demand.**

The Group's Systems Business reported notable growth in the turnover from its major product lines as it capitalised on demands from the Enterprise Market through stringent execution of customer plans on the back of sophisticated market share management. As a result, the packaged software business and storage products business reported rapid growth of 36.15% and 35.33%, respectively, while the servers business and the networking products business reported growth of 32.66% and 25.13%, respectively, over the corresponding period of last financial year.

**Joint initiatives in new market segment development as part of our efforts to enhance strategic cooperation with major vendors.**

In view of the growing maturity of cloud computing technologies, the Group's Systems Business developed more sophisticated models for strategic cooperation with leading vendors in cloud computing such as Cisco, Oracle and IBM during the first six months of the current financial year. By integrating the strengths of our partners with those of our own, we have rolled out close cooperation from research and development, consultancy, pre-sale operations to sale. Apart from focusing on cloud computing data centre solutions by introducing leading-edge large-scale data centre products and solutions to meet the growing demand for cloud computing data centres, such cooperation initiatives also aimed to jointly explore the market for industry systems products in the financial, telecommunications and government sectors to enhance our strengths in these sectors.



**2.3. Services Business:** primary focus on the Industry Market, offering IT planning and IT systems consultation, design and implementation of industry application software and solutions, outsourcing of IT system operation and maintenance, as well as products and services in systems integration and maintenance.

**Stable development of the Services Business underpinned by rapid growth of financial and government corporation sectors.**

The Group assured stable growth in its Services Business as the management took the initiative to reallocate resources to address the complicated market situation, making the decision to dispose of its software business and focus on the government corporation sectors instead where it had traditionally been a market leader as well as the fast-growing banking sector. For the six months ended 30 September 2012, our Services Business reported turnover of approximately HK\$3,958 million, representing an increase of 12.25% as compared to approximately HK\$3,526 million for the corresponding period of last financial year. The financial and government corporation sectors reported robust growth rates of 71.18% and 38.91%, respectively.

**More projects streaming in for pure software as well as pure services and the transformation of Services Business continued to reach further depths.**

In the financial sector, we reported rapid growth in the emerging business known as “Financial Cloud Services,” signing up more than 40 small and medium size financial institutions as at 30 September 2012 for operational services. In addition, we also secured important projects such as the core banking systems of Bank of Qinghai, Bank of Cangzhou, Bank of Beijing and China Merchants Bank and Enterprise Service Bus of Fujian Nongxin, while maintaining software development and testing service contracts with existing customers such as China Construction Bank, contributing to a substantial year-on-year growth of over 50% in contract amount from the financial sector. In the government corporation sector, new customers signed up for software and services projects included Hebei Bureau of the State Administration of Taxation, Anhui Local Taxation Bureau, and Ningbo Local Taxation Bureau, Shenyang Local Taxation Bureau, Tianjin Municipal Trade Union.

**Steady progress of Sm@rt City with successful execution in various cities across the nation.**

After years of development efforts, the Group’s Sm@rt City national footprint has extended to 69 cities and we have signed strategic cooperation plans with 14 cities. For the first six months of the current financial year, contract signed for Sm@rt City solutions achieved a year-on-year growth of 52%. The Group continued to launch successful executions for numerous maturing business types in various cities across the nation. Further to growing sophistication of the operation of the meat and vegetable source tracking system since its introduction to Suzhou, Wujiang and Taicang, for example, the Group has recently added the cities of Changshu and Kunshan to its clientele for this system, signifying the Group’s full-scale development in the urban food safety sector to grasp more opportunities in food safety platform and source tracking system. Meanwhile, the citizen card business continued to enjoy stable development, underpinned by recently signed up projects such as citizen card operation services for Zhangjiagang and the Karamay citizen card project, etc.

**2.4. Supply Chain Services Business:** primary focus on the markets of Hi-tech Industries, Branded e-Commerce Platform Operators and Branded Service Providers, providing “one-stop” supply chain consultancy and execution in logistics, business flow, capital flow and information flow.

**Enhanced business value for Supply Chain Services thanks to proactive moves to optimize business structure.**

At the start of the current financial year, the Group’s Supply Chain Services Business took the initiative to adjust businesses commanding lower gross profit while actively develop new segments in the logistics business to snatch market shares. Meanwhile, the proportion of services increased substantially with the benefit of strong demand for maintenance services. As a result, our Supply Chain Services Business reported turnover of approximately HK\$550 million for the six months ended 30 September 2012. Gross profit margin improved by 3.56 percentage points to 21.26%, as compared to the corresponding period of last financial year.

### **Logistics business underpinned by active market development and vigorous efforts in e-commerce storage (B2C) business.**

As one of the core businesses of our Supply Chain Services, our logistics business has been making vigorous efforts to expand its B2C logistics business since the beginning of the current financial year in addition to ongoing expansion of its B2B logistics business, an area in which it claims a leading edge, seeking to capture opportunities in the growing B2C logistics market by leveraging fully its capabilities in storage, transportation and delivery developed over the years. For the six months ended 30 September 2012, the logistics business reported overall revenue of approximately HK\$206 million, representing a 59.09% growth as compared to the corresponding period of last financial year. In addition, the Group was also actively developing the e-commerce supply chain services, increasing cooperation with existing strategic partners while tapping new customers. Through business streamlining, we have also secured improvements in our gross profit margin.

### **Effective value enhancement of the service station business through efforts in service quality improvements and SME customer development, etc.**

Our service station business reported notable increase in the business volume of out-of-warranty services, as we continued to enhance quality management in respect of shop services and optimise the product categories of our out-of-warranty services in response to market demand and succeeded in encouraging the customers under warranty to purchase out-of-warranty products; meanwhile, we made strong efforts to develop the SME warranty business by expanding our SME customer service team. For the six months ended 30 September 2012, turnover generated from our service station business increased by 4.2% over the corresponding period of last financial year, while its gross profit margin was substantially increased by 4.05 percentage points, year-on-year.

### **3. Management Outlook**

In view of the complex market situation, the Company management will remain adhered to the principle of “prudent progress, streamlined establishment with enhanced efficiency, and with a focus on Sm@rt City” in the second half of the financial year, as they continue to closely monitor market developments in order to prepare itself for various challenges arising from the volatile market. The Group will reinforce our current business foundation and actively identify new niche for business growth in order to mitigate the impact of macro-environment conditions and changes in the IT market; in the meantime, the Group will also earnestly explore models for Sm@rt City operation, with the aim of forging pilot cities in the nearest future. While engaged in prudent business progress, the management will continue as always to strengthen risk control and operating cash flow management, perpetuate reforms of internal administrative mechanisms, optimise staff efficiency and enhance organisational effectiveness, with a view to assuring the accomplishment of pre-set business targets for greater shareholders’ value.

### **Capital Expenditure, Liquidity and Financial Resources**

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

The Group had total assets of HK\$28,916 million at 30 September 2012 which were financed by total liabilities of HK\$20,872 million, non-controlling interests of HK\$803 million and equity attributable to equity holders of the parent of HK\$7,241 million. The Group’s current ratio at 30 September 2012 was 1.31 as compared to 1.39 at 30 June 2012 and 1.36 at 31 March 2012.

During the six months ended 30 September 2012, capital expenditure of HK\$217 million was mainly incurred for the acquisition of properties, office equipment and IT infrastructure facilities.

The aggregate borrowings as a ratio of equity attributable to equity holders of the parent was 0.66 at 30 September 2012 as compared to 0.61 at 30 June 2012 and 0.59 at 31 March 2012. The computation of the said ratio was based on the total interest-bearing bank borrowings and bond payable of HK\$4,764 million (30 June 2012: HK\$4,413 million and 31 March 2012: HK\$4,053 million) and equity attributable to equity holders of the parent of HK\$7,241 million (30 June 2012: HK\$7,252 million and 31 March 2012: HK\$6,821 million).

At 30 September 2012, the denomination of the interest-bearing bank borrowings and bond payable of the Group was shown as follows:

	<b>Denominated in United States dollars HK\$'000</b>	<b>Denominated in Renminbi HK\$'000</b>	<b>Denominated in Hong Kong dollars HK\$'000</b>	<b>Total HK\$'000</b>
<b>Current</b>				
Interest-bearing bank borrowings, unsecured	1,855,750	81,907	1,212,323	3,149,980
Interest-bearing bank borrowings, secured	-	24,450	-	24,450
Bond payable	-	36,675	-	36,675
	<u>1,855,750</u>	<u>143,032</u>	<u>1,212,323</u>	<u>3,211,105</u>
<b>Non-current</b>				
Interest-bearing bank borrowings, unsecured	<u>1,162,500</u>	<u>-</u>	<u>390,000</u>	<u>1,552,500</u>
Total	<u><u>3,018,250</u></u>	<u><u>143,032</u></u>	<u><u>1,602,323</u></u>	<u><u>4,763,605</u></u>

Included in the Group's current bank borrowings of approximately HK\$24 million extended by a financial institution to a subsidiary of the Group, Digital China Jinxin Technology Co., Ltd. ("**Beijing Jinxin**"), were secured by fixtures and office equipment with a value of approximately HK\$25 million at 30 September 2012 in favour of Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd., an independent third party, for securing a guarantee issued by such Pledgee on behalf of Beijing Jinxin.

During the year ended 31 March 2012, a subsidiary of the Group, Digital China Technology Limited, entered into a facility agreement with a syndicate of banks for a three-year loan facility of US\$150 million for the purpose of financing general working capital of the Group. Included in the Group's non-current bank borrowings of approximately HK\$1,163 million (equivalent to US\$150 million) represented the syndicated loan repayable in three years from the date of the drawdown and were guaranteed by the Company.

Included in the Group's current and non-current bank borrowings of approximately HK\$836 million and HK\$1,553 million respectively represented the term loans which are repayable from Year 2013 to 2014.

In September 2010, the Group completed the acquisition of the remaining 89.56% equity interest in Beijing Jinxin Technology Co., Ltd. (now named as "Digital China Jinxin Technology Co., Ltd.") from independent third parties (the "**Acquisition**"). Beijing Jinxin was owned as to 10.44% by the Group prior to the Acquisition and subsequent to which, it became a wholly-owned subsidiary of the Group. In August 2010, i.e., before the Acquisition, Beijing Jinxin and twelve other companies being independent third parties of the Group (collectively referred as the "**Issuers**") issued "2010 Collective Bonds of Zhongguancun High-tech SME" ("**2010 Bonds**") to institutional and public investors in Mainland China through the Shenzhen Stock Exchange. The aggregate principal amount of the 2010 Bonds is RMB383 million, of which Beijing Jinxin accounts for RMB30 million (equivalent to approximately HK\$37 million). The fund raised by Beijing Jinxin will be applied to the development of its ATM network construction project. The 2010 Bonds which carry interest at a rate of 5.18% per annum, will mature in August 2016, and are unconditionally and irrevocably guaranteed in full with joint liabilities by Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd., an independent third party, from the first to third year of the issuance ("**ZGC Guarantee**"). At the same time, ZGC Guarantee is guaranteed by Beijing SMEs Credits Re-guarantee Co., Ltd., and also guaranteed by Beijing Jinxin for the principal amount of the 2010 Bonds it accounted for (i.e., RMB30 million). The Investors' Put Option and the Issuers' Full Redemption Option in respect of the 2010 Bonds may be exercised under the following circumstances: if the Issuers can provide a guarantor with good reputation before the conclusion of the interest period in the third year of the issuance of the 2010 Bonds, investors may opt to hold the 2010 Bonds in full or in part and/or exercise the Investors' Put Option to sell the 2010 Bonds back to the Issuers within five working days from the publication of the announcement in respect of information regarding the continuing guarantee; and if the Issuers cannot provide a guarantor with good reputation before the conclusion of the interest period in the third year of the issuance of the 2010 Bonds, the

Issuers shall redeem the 2010 Bonds in full.

The Group's total available credit facilities at 30 September 2012 amounted to HK\$28,158 million, of which HK\$2,825 million were in term loan facilities, HK\$18,055 million were in trade lines and HK\$7,278 million were in short-term and revolving money market facilities. At 30 September 2012, the facility drawn down was HK\$1,553 million in term loan facilities, HK\$6,515 million in trade lines and HK\$2,059 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 2012, the Group had approximately 11,000 (30 September 2011: approximately 12,000) 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 6.26% increase in staff costs to approximately HK\$1,215 million for the six months ended 30 September 2012 as compared to approximately HK\$1,144 million for the corresponding period of the last financial year. In order to attract and retain a high caliber of capable and motivated workforce, the Company offers share-based incentive schemes 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 currently comprises three Independent Non-executive Directors, namely Mr. HU Zhaoguang (who is the Chairman of Audit Committee), Mr. WONG Man Chung, Francis and Ms. NI Hong (Hope). The Audit Committee has reviewed with the senior management of the Company their respective findings, the accounting principles and practices adopted by the Group, legal and regulatory compliance and discussed auditing, internal control, risk management 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 2012.

## **CORPORATE GOVERNANCE**

The Company has complied with all the code provisions as set out in the "Corporate Governance Code" contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") throughout the six months ended 30 September 2012, except for the following deviations from certain code provisions with considered reasons are given below:

*Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.*

All of the Non-executive Directors of the Company were not appointed for any specific term. Since all Directors (save for the Chairman of the Board or the Managing Director) are subject to retirement by rotation at each annual general meeting in accordance with the bye-laws of the Company (the "**Bye-Laws**") and shall be eligible for re-election. The Board considers that the retirement by rotation at each annual general meeting in accordance with the Bye-Laws has given the shareholders of the Company the right to approve the continuation of the service of the Directors.

*Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.*

Under the Bye-Laws, at each annual general meeting one-third of the Directors for the time being or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office, the Chairman of the Board or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation. Therefore, Mr. GUO Wei, the Chairman of the Board, shall not be subject to retirement by rotation.

*Code Provision A.5.1 stipulates that company should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.*

The Company does not establish a Nomination Committee at present. The Company considers that the setting up of a Nomination Committee may not be necessary as the Board has the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as addition to the Board according to the Bye-Laws, therefore, the Board has been able to assume the responsibilities of a Nomination Committee. The Board will identify and assess whether the candidate has the balanced composition of skills and experience appropriate for the requirements of the businesses of the Company and suitably qualified to become board members.

*Code Provision D.1.4 stipulates that directors should clearly understand delegation arrangements in place. Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.*

The Company has not entered into any written letters of appointment with its Non-executive Director or any Independent Non-executive Directors. However, the Board recognizes that (i) the above-mentioned Directors have already been subject to the laws and regulations applicable to directors of a company listed on The Stock Exchange of Hong Kong Limited, including the Listing Rules as well as the fiduciary duties to act in the best interests of the Company and its shareholders; (ii) all of them are well established in their professions and have held directorships in other listed companies; and (iii) the current arrangement has been adopted by the Company for several years and has approved to be effective. Therefore, the Board considers that the above-mentioned Directors are able to carry out their duties in a responsible and effective manner under the current arrangement.

## **COMPLIANCE WITH THE MODEL CODE**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct of the Company for Directors’ securities transactions. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2012.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the six months ended 30 September 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules throughout the six months ended 30 September 2012.

By Order of the Board  
**Digital China Holdings Limited**  
(神州數碼控股有限公司\*)  
**GUO Wei**  
*Chairman*

Hong Kong, 20 November 2012

As at the date of this announcement, the Board comprises seven Directors namely:

Executive Directors: Mr. GUO Wei (Chairman) and Mr. LIN Yang (Chief Executive Officer)

Non-executive Director: Mr. Andrew Y. YAN

Independent Non-executive Directors: Mr. HU Zhaoguang, Mr. WONG Man Chung, Francis, Ms. NI Hong (Hope) and Mr. ONG Ka Lueng, Peter

Website: [www.digitalchina.com.hk](http://www.digitalchina.com.hk)

*\* For identification purpose only*