



2007/08 Interim Report

Digital China Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 0861



CONTENTS

2	Condensed Consolidated Income Statement
3	Condensed Consolidated Balance Sheet
4	Condensed Consolidated Cash Flow Statement
5	Condensed Consolidated Statement of Changes in Equity
6	Notes to the Condensed Consolidated Interim Financial Statements
16	Management Discussion and Analysis
21	Audit Committee
22	Other Information
22	Interim Dividends
22	Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures
24	Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares
29	Share Option Schemes
31	Compliance with the Model Code
32	Corporate Governance
32	Purchase, Sale or Redemption of the Company's Listed Securities

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 2007 together with comparative figures for the corresponding period of last financial year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 September 2007 (Unaudited) HK\$'000	Six months ended 30 September 2007 (Unaudited) HK\$'000	Three months ended 30 September 2006 (Unaudited) HK\$'000	Six months ended 30 September 2006 (Unaudited) HK\$'000
Revenue	3	8,839,851	16,698,613	6,259,735	11,871,649
Cost of sales		(8,240,643)	(15,602,399)	(5,816,468)	(11,043,101)
Gross profit		599,208	1,096,214	443,267	828,548
Other income and gains	3	65,894	157,199	36,538	84,858
Selling and distribution costs		(379,252)	(688,644)	(267,724)	(490,959)
Administrative expenses		(75,963)	(146,569)	(71,622)	(139,292)
Other operating expenses, net		(81,252)	(173,455)	(56,886)	(113,607)
Total operating expenses	4	(536,467)	(1,008,668)	(396,232)	(743,858)
Finance costs		(51,611)	(91,050)	(42,296)	(72,532)
Share of profits and losses of:					
Jointly-controlled entities		2,223	1,068	(2,153)	(3,334)
Associates		1,483	1,316	(503)	(2,296)
Profit before tax	5	80,730	156,079	38,621	91,386
Tax	6	1,379	(11,035)	(4,436)	(5,856)
Profit for the period		82,109	145,044	34,185	85,530
Attributable to:					
Equity holders of the parent		82,007	147,280	36,652	91,542
Minority interests		102	(2,236)	(2,467)	(6,012)
		82,109	145,044	34,185	85,530
Earnings per share attributable to ordinary equity holders of the parent	7				
Basic (HK cents)			16.77		10.53
Diluted (HK cents)			16.42		10.48

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 September 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		377,192	337,621
Investment properties		218,779	208,226
Prepaid land premiums		14,045	13,547
Intangible assets		14,538	19,087
Interests in jointly-controlled entities		9,842	3,644
Interests in associates		25,876	22,970
Available-for-sale investments		31,611	31,611
Deferred tax assets		18,722	25,038
Total non-current assets		710,605	661,744
CURRENT ASSETS			
Inventories		2,144,701	1,683,630
Trade and bills receivables	8	4,024,542	2,852,404
Prepayments, deposits and other receivables		1,065,343	957,146
Cash and bank balances		493,616	717,455
Non-current asset classified as held for sale	9	7,728,202 -	6,210,635 12,681
Total current assets		7,728,202	6,223,316
CURRENT LIABILITIES			
Trade and bills payables	10	3,414,831	2,667,444
Other payables and accruals		1,258,230	975,330
Tax payable		31,630	31,807
Interest-bearing bank borrowings		651,960	633,536
Total current liabilities		5,356,651	4,308,117
NET CURRENT ASSETS		2,371,551	1,915,199
TOTAL ASSETS LESS CURRENT LIABILITIES		3,082,156	2,576,943
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		894,250	603,697
Total non-current liabilities		894,250	603,697
NET ASSETS		2,187,906	1,973,246
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		90,550	87,404
Reserves		2,081,242	1,801,579
Proposed final dividend		-	72,370
Minority interests		2,171,792 16,114	1,961,353 11,893
TOTAL EQUITY		2,187,906	1,973,246

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	(400,141)	482,329
Net cash outflow from investing activities	(48,529)	(48,279)
Net cash inflow/(outflow) from financing activities	189,142	(391,819)
Net increase/(decrease) in cash and cash equivalents	(259,528)	42,231
Cash and cash equivalents at the beginning of the period	717,455	297,768
Effects of foreign exchange rate changes, net	35,689	2,680
Cash and cash equivalents at the end of the period	493,616	342,679

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent									Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Employee share-based compensation 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		
At 1 April 2007	87,404	319,572	625,334	56,269	64,002	38,432	697,970	72,370	1,961,353	11,893	1,973,246
Exchange realignment and net gain recognised directly in equity for the period	-	-	-	-	-	43,228	-	-	43,228	-	43,228
Profit for the period	-	-	-	-	-	-	147,280	-	147,280	(2,236)	145,044
Total income and expense for the period	-	-	-	-	-	43,228	147,280	-	190,508	(2,236)	188,272
Exercise of share options	3,146	103,673	-	(16,000)	-	-	-	-	90,819	-	90,819
Equity-settled share option arrangements	-	-	-	1,482	-	-	-	-	1,482	-	1,482
Capital injection from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	6,457	6,457
Final 2007 dividend	-	-	-	-	-	-	-	(72,370)	(72,370)	-	(72,370)
At 30 September 2007	90,550	423,245	625,334	41,751	64,002	81,660	845,250	-	2,171,792	16,114	2,187,906
At 1 April 2006	86,693	305,334	625,334	50,458	53,762	6,434	572,151	86,693	1,786,859	19,009	1,805,868
Exchange realignment and net gain recognised directly in equity for the period	-	-	-	-	-	13,450	-	-	13,450	-	13,450
Profit for the period	-	-	-	-	-	-	91,542	-	91,542	(6,012)	85,530
Total income and expense for the period	-	-	-	-	-	13,450	91,542	-	104,992	(6,012)	98,980
Exercise of share options	452	8,466	-	-	-	-	-	-	8,918	-	8,918
Equity-settled share option arrangements	-	-	-	4,069	-	-	-	-	4,069	-	4,069
Final 2006 dividend	-	-	-	-	-	-	-	(86,693)	(86,693)	-	(86,693)
At 30 September 2006	87,145	313,800	625,334	54,527	53,762	19,884	663,693	-	1,818,145	12,997	1,831,142

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of presentation

These unaudited condensed consolidated interim financial statements for the six months ended 30 September 2007 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. In preparing the unaudited condensed consolidated interim financial statements, the same basis of presentation, accounting policies and methods of computation as set out in the annual financial statements for the year ended 31 March 2007 had been consistently applied except in relation to the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which also include HKASs and Interpretations) that affect the Group and has adopted the first time for the current period’s condensed consolidated interim financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions

The revised HKAS 1 affects the disclosures about qualitative information about the Group’s objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates major disclosure requirements of HKAS 32.

HK(IFRIC)-Int 8 addresses the application of HKFRS 2 to particular transactions in which the entity cannot identify specifically some or all of the goods or services received.

HK(IFRIC)-Int 9 addresses the application of HKAS 39 that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, and prohibits subsequent reassessment throughout the life of the contract except for exceptional circumstances.

HK(IFRIC)-Int 10 addresses the interaction between the requirements of HKAS 34 and the recognition of impairment losses on goodwill in HKAS 36 and certain financial assets in HKAS 39 and that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to an entity’s equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the instruments needed.

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

2. Segment information

Summary details of the business segments are as follows:

- (a) the "Distribution" segment engages in the sale and distribution of general information technology ("IT") products which consist of notebook computers, desktop computers, PC servers, data projectors, peripherals, accessories and consumer IT products;
- (b) the "Systems" segment engages in the sale and distribution of systems products which consist of Unix servers, networking products, storage products and packaged software, as well as the provision of related value-added services; and
- (c) the "Services" segment engages in the provision of systems integration, applications software development, consultancy and training, etc.

Primary reporting format - business segments

The following table presents revenue and results for the Group's business segments for the six months ended 30 September 2007 and 2006:

	Distribution		Systems		Services		Consolidated	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Six months ended 30 September								
Segment revenue:								
Sales to external customers	10,342,964	7,048,662	4,645,711	3,470,471	1,709,938	1,352,516	16,698,613	11,871,649
Segment gross profit	460,210	350,894	417,699	321,554	218,305	156,100	1,096,214	828,548
Segment results	160,681	153,817	110,925	104,923	(50,533)	(63,954)	221,073	194,786
Interest income, unallocated revenue and gains							134,006	73,068
Unallocated expenses							(110,334)	(98,306)
Finance costs							(91,050)	(72,532)
Share of profits and losses of:								
Jointly-controlled entities	-	-	-	-	1,068	(3,334)	1,068	(3,334)
Associates	-	-	-	-	1,316	(2,296)	1,316	(2,296)
Profit before tax							156,079	91,386
Tax							(11,035)	(5,856)
Profit for the period							145,044	85,530

Secondary reporting format - geographical segments

No geographical segment information is presented as over 90% of the Group's customers and operations are located in the Mainland of the People's Republic of China ("Mainland China").

3. Revenue, other income and gains

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

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

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Revenue	16,698,613	11,871,649
Other income		
Government grants	33,977	16,867
Bank interest income	4,225	2,362
Gross rental income	14,102	14,518
Others	2,263	3,325
	54,567	37,072
Gains		
Gain on disposal of non-current asset classified as held for sale	2,495	-
Foreign exchange differences, net	100,137	47,786
	102,632	47,786
	157,199	84,858

4. Total operating expenses

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

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Selling expenses	88,013	62,656
Promotion and advertising expenses	104,919	87,749
Staff costs included in operating expenses (including directors' remuneration)	426,273	290,729
Other expenses	389,463	302,724
	1,008,668	743,858

5. Profit before tax

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

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Cost of inventories sold	15,389,363	10,866,427
Depreciation	33,620	33,017
Amortisation of prepaid land premiums	183	176
Impairment of goodwill	-	28,566
Amortisation of intangible assets	2,989	2,101
Impairment of intangible assets	8,861	8,045
Provisions and write-off of obsolete inventories	18,056	5,660
Impairment and write-off of doubtful trade receivables	88,427	33,918
Impairment of available-for-sale investments	-	2,425
Loss on disposal of items of property, plant and equipment	2,327	896

6. Tax

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Group:		
Current - The People's Republic of China ("PRC")	3,629	5,124
Deferred	7,406	732
Total tax charge for the period	11,035	5,856

- (a) PRC corporate income tax represents tax charged on the estimated assessable profits arising in the PRC. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 33% except for certain PRC subsidiaries which are entitled to tax holiday and preferential tax rates.
- (b) No provision for Hong Kong profits tax has been made as the Hong Kong subsidiaries of the Group had no estimated assessable profits arising in Hong Kong or had tax losses brought forward from prior years to set off assessable profits for the six months ended 30 September 2006 and 2007.

6. Tax (Continued)

- (c) No provision for Hong Kong profits tax has been made for the jointly-controlled entities and associates as the jointly-controlled entities and associates had no estimated assessable profits arising in Hong Kong for the six months ended 30 September 2006 and 2007. PRC corporate income tax has been provided at the rate of 33% on the estimated assessable profits of the jointly-controlled entities and associates in the PRC for the six months ended 30 September 2006 and 2007. The share of tax charge attributable to the jointly-controlled entities of HK\$Nil (six months ended 30 September 2006: approximately HK\$15,000) and the share of tax charge attributable to the associates of approximately HK\$199,000 (six months ended 30 September 2006: share of tax credit of approximately HK\$187,000) for the six months ended 30 September 2007 are included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates" respectively on the face of the condensed consolidated income statement.

On 16 March 2007, the National Peoples' Congress approved the Corporate Income Tax Law of the People's Republic of China (the "**New CIT Law**"), which will become effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Detailed implementation and administrative requirements relating to the New CIT Law were announced in December 2007. The Group is in process of making an assessment of the impact of the New CIT Law on its operating results and financial positions of future periods.

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

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent for the six months ended 30 September 2007 of approximately HK\$147,280,000 (six months ended 30 September 2006: approximately HK\$91,542,000), and the weighted average of 878,338,177 (six months ended 30 September 2006: 869,606,731) ordinary shares in issue during the six months ended 30 September 2007.

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity holders of the parent for the six months ended 30 September 2007 of approximately HK\$147,280,000 (six months ended 30 September 2006: approximately HK\$91,542,000) and 897,200,467 (six months ended 30 September 2006: 873,236,826) ordinary shares, which was the weighted average of 878,338,177 (six months ended 30 September 2006: 869,606,731) ordinary shares in issue during the six months ended 30 September 2007, and the weighted average of 18,862,290 (six months ended 30 September 2006: 3,630,095) ordinary shares deemed to have been issued at no consideration on the deemed exercise of all the outstanding share options during the six months ended 30 September 2007.

8. Trade and bills receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 days to 180 days. An aged analysis of the Group's trade and bills receivables as at the balance sheet date and net of impairment is as follows:

	At 30 September 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
Within 30 days	2,305,867	1,445,863
31 to 60 days	523,431	327,043
61 to 90 days	343,696	277,791
91 to 180 days	368,087	447,396
Over 180 days	483,461	354,311
	4,024,542	2,852,404

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

Included in the Group's trade and bills receivables are amounts due from the associates of the Company's controlling shareholder of approximately HK\$1,828,000 (31 March 2007: HK\$543,000).

Included in the Group's trade and bills receivables are amounts due from the related companies of a subsidiary, namely DGT Information Systems Limited ("DGT"), a jointly-controlled entity and an associate of the Group of approximately HK\$2,816,000 (31 March 2007: HK\$5,040,000), HK\$10,000 (31 March 2007: Nil) and HK\$765,000 (31 March 2006: HK\$200,000), respectively.

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

9. Non-current asset classified as held for sale

In January 2007, the Group has entered into a share transfer agreement with a third party to dispose of its entire interest in an associate, Nanjing Mercuries DC Financial Systems Ltd. The disposal has been completed in August 2007 and recorded a net gain of approximately HK\$2,495,000 (note 3).

10. Trade and bills payables

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

	At 30 September 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
Within 30 days	1,829,205	1,400,964
31 to 60 days	980,672	876,647
61 to 90 days	327,996	212,180
Over 90 days	276,958	177,653
	3,414,831	2,667,444

The trade payables are non-interest-bearing and are generally settled for a period of 30 days to 180 days.

Included in the Group's trade and bills payables are amounts due to the associates of the Company's controlling shareholder of approximately HK\$241,826,000 (31 March 2007: HK\$112,398,000).

Included in the Group's trade and bills payables are amounts due to a related company of DGT, a jointly-controlled entity and an associate of the Group of approximately HK\$748,000 (31 March 2007: Nil), HK\$30,000 (31 March 2007: Nil) and HK\$Nil (31 March 2007: HK\$4,039,000), respectively.

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

11. Operating leases arrangements

(i) As lessor

At 30 September 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with the tenant of the Group's properties falling due as follows:

	At 30 September 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
Within one year	12,896	21,030
In the second to fifth years, inclusive	914	3,289
	13,810	24,319

11. Operating leases arrangements (Continued)

(ii) As lessee

At 30 September 2007, the Group had total future minimum lease payments under non-cancellable operating leases of office properties and warehouses falling due as follows:

	At 30 September 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
Within one year	52,069	40,238
In the second to fifth years, inclusive	52,470	47,035
After five years	7,266	8,595
	111,805	95,868

12. Commitments

The Group had the following capital commitments at the balance sheet date:

	At 30 September 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
Contracted, but not provided for:		
Capital contributions in:		
Associates	-	990
Jointly-controlled entities	-	5,130
	-	6,120

13. Related party transactions

(a) Transactions with related parties:

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

	Notes	Six months ended 30 September	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Lenovo Group Limited and its subsidiaries, the associates of the Company's controlling shareholder:			
Sale of goods by the Group	(i)	53,699	38,876
Purchases of goods by the Group	(ii)	612,029	576,307
Right Lane Limited, a wholly-owned subsidiary of the Company's controlling shareholder:			
Rental expenses paid by the Group	(iii)	180	180
GE Capital Mauritius Equity Investment, a shareholder of DGT, and its subsidiaries:			
Provision of IT services by the Group	(iv)	4,493	5,030
TIS Inc., a shareholder of DGT, and its subsidiaries:			
Provision of IT services by the Group	(iv)	11,809	9,214
Digital China Management Systems (BVI) Limited and its subsidiaries, associates of the Group:			
Sale of goods and provision of IT services by the Group	(i), (iv)	2,841	517
Purchases of goods by the Group and provision of IT services to the Group	(ii), (iv)	1,142	1,451
Nanjing Mercuries DC Financial Systems Ltd., an associate of the Group:			
Purchases of goods by the Group	(ii)	1,545	12,085
Beijing Digital China System Access Software Limited, a jointly-controlled entity of the Group:			
Purchase of goods by the Group and provision of IT services to the Group	(ii), (iv)	10,805	2,407
Suzhou Digital China JieTong Technology Co., Ltd., a jointly-controlled entity of the Group:			
Sale of goods by the Group	(i)	134	164

13. Related party transactions (Continued)

(a) Transactions with related parties: (Continued)

Notes:

- (i) The sales were made with reference to the listed prices and conditions offered to the major customers of the Group.
- (ii) The purchases were made at prices mutually agreed between the Group and the corresponding related parties with reference to the pricing policies of the Group.
- (iii) The rental expenses were determined at rates mutually agreed between the Group and the corresponding related parties based on the prevailing market reference.
- (iv) The prices for provision of IT services were determined at rates mutually agreed between the Group and the corresponding related parties.

(b) Outstanding balances with related parties:

- (i) Details of the Group's trade balances with the associates of the Company's controlling shareholder, jointly-controlled entities, associates and related companies of a subsidiary as at the balance sheet date are included notes 8 and 10 to these unaudited condensed consolidated interim financial statements.
- (ii) At 30 September 2007, the amounts due from the associates of the Company's controlling shareholder included in the Group's prepayments, deposits and other receivables of approximately HK\$50,451,000 (31 March 2007: HK\$28,278,000).

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

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Short term employee benefits	11,311	16,292
Post-employment benefits	54	48
Share-based payments	419	1,150
Total compensation paid to key management personnel	11,784	17,490

MANAGEMENT DISCUSSION AND ANALYSIS

1. For the 2007/08 financial year, the Group has established an operation and management strategy aimed at enhancing customer value and promoting service transformation. With the effective implementation of the strategy in the first half year, the Group has fully deployed all initiatives and has achieved outstanding operating results and a business growth outperforming that of the market. The Group has also achieved remarkable performance in business growth, customer-base expansion and operational management and other areas.

(1) Leveraging on the sound growth of the PRC IT market, the Group recorded a rapid growth in turnover, substantially outpacing the average industry growth. The turnover of the Group for the second quarter of the financial year increased by 41.22% compared to the corresponding period of last financial year. The Group recorded a turnover of HK\$16,699 million for the six months ended 30 September 2007, representing an increase of 40.66% compared to HK\$11,872 million of the corresponding period of last financial year, far exceeding the estimated growth rate of 16% of the PRC IT market according to a report provided by IDC in May 2007.

(2) Profit attributable to equity holders of the parent (profit attributable to shareholders) maintained its robust growth. The Group's profit attributable to equity holders of the parent for the second quarter of the financial year amounted to approximately HK\$82 million, representing an increase of 123.74% compared to the corresponding period of last financial year. The profit attributable to equity holders of the parent for the six months ended 30 September 2007 was approximately HK\$147 million, representing an increase of 60.89% compared to the corresponding period of last financial year. Basic earnings per share and diluted earnings per share were 16.77 HK cents and 16.42 HK cents respectively, representing an increase of 59.26% and 56.68% compared to the corresponding period of last financial year respectively.

(3) In the financial year, the Group put emphasis on healthy growth, with cash cycle recording satisfactory performance. For the six months ended 30 September 2007, the overall cash cycle of the Group was 25.06 days, representing a decrease of 1.04 days compared to the corresponding period of last financial year, while the turnover days of trade receivables decreased by 4.49 days. The net cash outflow from operating activities was approximately HK\$400 million, while net cash inflow from operating activities amounted to approximately HK\$482 million in the corresponding period of last financial year. This was mainly attributable to the temporary substantial increase of trade and bills receivables resulting from the rapid growth of the turnover from the Distribution business and Systems business of the Group for the six months ended 30 September 2007.

(4) As the overall operating expenses were well controlled, the operating expenses ratio (total operating expenses as a percentage of total turnover) was reduced. The Group maintained its control and management of expenses, while it was making continuous efforts in brand advertising and promotion as well as in research and development investment in IT services in the first half of the financial year. For the six months ended 30 September 2007, the overall operating expenses ratio of the Group was 6.04%, lower than the 6.27% for the corresponding period of last financial year.

(5) As regards the Distribution business in the financial year, the Group strengthened the expansion strategy on the FULFILLMENT and the large scale Chain Electronic Store (CES) sectors. In the first half of the financial year, both of the turnovers of these two business sectors recorded a growth rate of over 90% and a marked increase of their proportions in the overall business of the Group. The core advantage of the supply chain-based operations was further enhanced. However, these two sectors also exerted certain impact on the gross profit margin of the Group's overall business. The gross profit margin of the Group for the six months ended 30 September 2007 was 6.56%, slightly lower than that of the corresponding period of last financial year.

2. By seizing the opportunities of the healthy market growth for the development of all business sectors, the Group has not only recorded rapid growth in turnover, but also strengthened the business and management capabilities. As regards the Distribution and Systems business sectors, the Group proactively expanded in regional development and developed end-customer coverage, and continued to develop its channel network; As regards the Services business sector, the Group established a major account management system, enhanced sales and marketing capabilities and also strengthened the research and development and implementation of IT solution products. Meanwhile, the cultivation of the products support and IT outsourcing and maintenance services capability has also been enhanced.

2.1 Distribution business

The Distribution business of the Group achieved a rapid growth in the second quarter of the financial year, with its turnover increasing by 50.02% as compared with the corresponding period of last financial year. For the six months ended 30 September 2007, the turnover of the Distribution business was about HK\$10,343 million, up by approximately 46.74% compared to the corresponding period of last financial year, which was substantially higher than the growth rate of the overall market.

The turnover of its major business sectors has achieved rapid growth compared to the corresponding period of last financial year. Turnovers of notebook computers, accessories, consumer IT products and PC servers increased by 80.59%, 56.79%, 44.12% and 39.40% respectively. The businesses of HP, ACER and ASUS products experienced particularly rapid growth.

The expansion strategy of the business sectors of FULFILLMENT and the large scale CES has brought a rapid growth in turnover. The turnovers of these two business sectors increased by 89.96% and 101.77% respectively as compared with that of the corresponding period of last financial year. However, these two sectors also exerted certain impact on the gross profit margin of the Distribution business. The gross profit margin of the Group's Distribution business for the six months ended 30 September 2007 was 4.45%, slightly decreased from that of the corresponding period of last financial year.

The Group's Distribution business further developed the channel network by expanding the channel coverage vertically and horizontally. The number of effective channel partners of the Distribution business as at 30 September 2007 increased 31% as compared with that as at 30 September 2006. The first half of the financial year witnessed a particularly rapid growth of the coverage in third- and fourth-tier cities and the turnover in these cities: on the one hand, the outlets have covered third-tier cities, reaching 21 cities; the fourth-tier cities experienced a particularly rapid growth in the coverage, achieving a coverage of 70 cities in the first half of the financial year. On the other hand, the turnovers in the third- and fourth-tier cities also achieved a rapid growth, with an increase of 47% and 84% respectively over the corresponding period of last financial year.

2.2 Systems business

During the second quarter of the financial year, the Group's Systems business achieved a rapid growth, with its turnover increasing by 32.17% compared to the corresponding period of last financial year, accompanied by a moderate rise in gross profit margin. For the six months ended 30 September 2007, the turnover from the Group's Systems business reached about HK\$4,646 million, representing an increase of 33.86% compared to the corresponding period of last financial year, which well surpassed the growth rate of the overall market.

Cordial relationship with suppliers and channel partners boosted the rapid growth in turnover for all major business sectors of the Group's Systems business. Turnovers from networking products, storage products, UNIX servers and packaged software increased by 49.34%, 34.31%, 22.89% and 17.26% respectively compared to the corresponding period of last financial year. The growth rate of turnover from IBM, Cisco and EMC businesses experienced a particularly significant growth, driving the rapid growth of the overall Systems business.

The Group developed further its business with regional customers by leveraging on its relationship with channel partners. The Group's Systems business reinforced the expansion of regional channels during this financial year. Compared to 30 September 2006, the total number of channel partners as at 30 September 2007 increased by 13.70%. Meanwhile, during the first half of this financial year, the Group's Systems business hosted a regional channel expansion activity "Regional Solution Discovery Tour" (區域方案發現之旅), and a communication activity with its core partners with an theme of "Ten-year Cooperation, Boundless Communication" (十年如一·溝通無界). The Group also implemented a core channel manager system, established a channel information management system, actively reinforced the support to the channels, hosted regional industry customer forums and developed regional customers. All these initiatives have achieved good results and effectively boosted the growth of business.

The Group reinforced its product-based service capability through internal measures. The Group's Systems business continued to reinforce its service capability during this financial year. The turnover of the product-based services business of the Group's Systems business for the six months ended 30 September 2007 increased by 33.30% compared to the corresponding period of last financial year.

2.3 Services business

Turnover from the Group's Services business for the second quarter of the financial year amounted to approximately HK\$871 million, representing an increase of 18.93% from the corresponding period of last financial year. During the six months ended 30 September 2007, the Group's Services business recorded a turnover of approximately HK\$1,710 million, representing an increase of 26.43% from the corresponding period of last financial year, outperforming the average industry growth rate. Gross profit margin of the Services business for the second quarter of the financial year was 13.04%, an increase of 0.29% from the corresponding period of last financial year. The gross margin for the six months ended 30 September 2007 was 12.77%, an increase of 1.23% compared to the corresponding period of last financial year.

The software business sectors relating to finance, telecommunications and government registered significant growth. In the first half of the financial year, the contracts signed between the Group and the customers regarding banking applications increased significantly. While maintaining a sound cooperation relationship with traditional customers like China Construction Bank and Hua Xia Bank, the Group has successfully entered into agreements regarding core application system projects with a number of new customers in the banking industry, including Shenzhen Rural Commercial Bank, JP Morgan Chase Bank, Ji'Nan City Commercial Bank and Taiyuan City Commercial Bank. As regards the telecommunications software sector, the Group continued its cooperation with core customers including Sichuan Mobile, Shanxi Mobile, Heilongjiang Mobile and entered into agreements regarding a number of large projects with them. As regards government software business sector, the Group successfully entered into agreements regarding projects with Shandong Local Tax Bureau and Tianjin Local Tax Bureau as well as e-government project with Yangzhou Municipal Government.

The Group continued to reinforce and enhance the management of key customers. In the first half of the financial year, the Group established a centralized management of Group-level major account customers to better consolidate the resources, improve the services and share customer resources among all its departments. The promotion of the major account customer management provided strong support for the turnovers of different sectors and the contracts entered into by them.

Business scales of product support and IT outsourcing and maintenance services expanded rapidly and infrastructure setup led to obvious benefits. In the first half of the financial year, the products support and IT outsourcing and maintenance services of the Group's Services business concluded contracts valued over HK\$210 million, representing an increase of 40.00% from the corresponding period of last financial year. The Group made progresses in the infrastructure setup of products support and IT outsourcing and maintenance services system of the Group: over 20 professional servicing products were launched; the Group is able to provide on-site support within 2 hours for as many as 31 cities and basically achieves on-site support within 2 hours for all provincial cities of the provincial level.

Project management and research and development of solutions registered remarkable progress. For the six months ended 30 September 2007, Chengdu Software Development Centre maintained stable development and Xi'an Software Development Centre experienced a significant enhancement of its capability. With the CMMI Level 4 Certification obtained at the beginning of 2007, Xi'an Software Development Base continuously enhanced its project management and solutions capabilities.

3. Outlook

The management of the Group is pleased with its outstanding operating results in the first half of the financial year. In the second half of the financial year, the Group will effectively seize market opportunities to proactively promote its business and implement management work and continuously enhance its overall business values. The Group will also make every effort to ensure the successful achievement of its operating results objectives for the financial year.

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\$8,439 million at 30 September 2007 which were financed by total liabilities of HK\$6,251 million, minority interests of HK\$16 million and equity attributable to equity holders of the parent of HK\$2,172 million. The Group's current ratio at 30 September 2007 was 1.44 as compared to 1.48 at 30 June 2007 and 1.44 at 31 March 2007.

During the six months ended 30 September 2007, capital expenditure of HK\$58 million were mainly incurred for the acquisition of office equipment and IT infrastructure facilities.

The aggregate interest-bearing borrowings as a ratio of equity attributable to equity holders of the parent was 0.71 at 30 September 2007 as compared to 0.78 at 30 June 2007 and 0.63 at 31 March 2007. The computation of the said ratio was based on the total interest-bearing borrowings of HK\$1,546 million (30 June 2007 and 31 March 2007: HK\$1,596 million and HK\$1,237 million respectively) and equity attributable to equity holders of the parent of HK\$2,172 million (30 June 2007 and 31 March 2007: HK\$2,059 million and HK\$1,961 million respectively).

At 30 September 2007, 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	464,791	155,974	620,765
Interest-bearing bank borrowings, secured	-	31,195	31,195
	464,791	187,169	651,960
Non-current			
Interest-bearing bank borrowings, unsecured	-	894,250	894,250
Total	464,791	1,081,419	1,546,210

The Group's current borrowings of approximately HK\$31 million extended by a bank to a subsidiary of the Group, Beijing Si-Tech Information Technology Co., Ltd. ("**STQ**"), were secured by a property situated in the Mainland China with a value of approximately HK\$17 million at 30 September 2007 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 current bank borrowings and non-current bank borrowings of approximately HK\$52 million and HK\$894 million respectively represented the term loans which are repayable from Year 2008 to 2014.

The Group's total available credit facilities at 30 September 2007 amounted to HK\$8,294 million, of which HK\$1,050 million were in term loan facilities, HK\$6,452 million were in trade lines and HK\$792 million were in short-term and revolving money market facilities. At 30 September 2007, the facility drawn down was HK\$946 million in term loan facilities, HK\$2,608 million in trade lines and HK\$292 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 2007, the Group had approximately 7,300 (30 September 2006: approximately 6,700) 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 45.69% increase in staff costs to approximately HK\$510 million for the six months ended 30 September 2007 as compared with an approximate sum of approximately HK\$350 million for the corresponding 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 2007.

OTHER INFORMATION

Interim Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2007 (for the six months ended 30 September 2006: Nil).

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

At 30 September 2007, the interests and short positions, if any, of each director and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have taken under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") adopted by the Company (the "Model Code") were as follows:

(1) Interests and Short Positions of Directors and Chief Executive

Shares of HK\$0.10 each of the Company

Name of directors	Capacity	Interests in shares (Note 1)	Interests in underlying shares (Note 1)	Percentage of aggregate holding (%) (Note 3)
LI Qin	Beneficial owner	1,016,000	2,500,000	0.39
GUO Wei	Beneficial owner	904,000	10,600,000	1.27
	Controlled corporation	89,414,286	-	9.87
	Interest of person acting in concert	287,210,709	-	31.72
ZENG Maochao	Beneficial owner	808,000	-	0.09
	Interest of spouse (Note 2)	60,000	-	0.006
LIN Yang	Beneficial owner	3,535,000	800,000	0.48
HUA Zhinian	Beneficial owner	-	500,000	0.06

Notes:

- All the above interests in the shares and underlying shares of the Company were long positions. None of the directors and chief executive of the Company or their associates held any short positions in the shares or underlying shares of the Company at 30 September 2007. Interests in underlying shares of the Company represented share options granted to such directors and chief executive, further details of which are set out in the sub-section (2) headed "Directors' Rights to Acquire Shares" below.
- The 60,000 shares were owned by the spouse of Mr. ZENG Maochao.
- The percentages of aggregate holding were calculated on the basis of 905,495,581 shares of the Company in issue at 30 September 2007.

(2) Directors' Rights to Acquire Shares

Name of directors	Date of grant	Exercisable period	Subscription price per Share HK\$	Outstanding as at 30 September 2007
LI Qin	24/06/2004	24/06/2005-23/06/2012	2.068	2,500,000
GUO Wei	13/10/2003	13/10/2004-12/10/2011	2.750	5,000,000
	31/08/2001	31/08/2002-30/08/2009	1.976	2,800,000
	12/07/2001	12/07/2002-11/07/2009	3.180	2,800,000
LIN Yang	13/10/2003	13/10/2004-12/10/2011	2.750	625,000
	12/07/2001	12/07/2002-11/07/2009	3.180	175,000
HUA Zhinian	13/10/2003	13/10/2004-12/10/2011	2.750	500,000

Save as disclosed above, at 30 September 2007, none of the directors and chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

At 30 September 2007, the following persons, not being a director or chief executive of the Company, had the following interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

Name	Notes	Capacity	Long positions held in shares	Short positions held in shares	Percentage of aggregate holding of long/short positions in shares (%) (Note 9)
Legend Holdings Limited	1, 2	Beneficial owner/ Interest of a controlled corporation	274,633,072/ 141,368,642	-	45.94/-
Employees' Shareholding Society of Legend Holdings Limited	1, 3	Interest of controlled corporations	416,001,714	-	45.94/-
Sparkling Investment (BVI) Limited	4	Beneficial owner/ Interests of parties to concert group agreement	176,745,052/ 388,128,995	-	42.86/-
SAIF III GP Capital Ltd.	5	Interest of a controlled corporation/ Interests of parties to concert group agreement	176,745,052/ 388,128,995	-	42.86/-
Andrew Y. YAN	5	Interest of a controlled corporation/ Interests of parties to concert group agreement	176,745,052/ 388,128,995	-	42.86/-
Charmway Trading Limited	6	Beneficial owner/ Interests of parties to concert group agreement	77,325,960/ 388,128,995	-	42.86/-
Hony Capital Fund III, L.P.	6	Interest of a controlled corporation/ Interests of parties to concert group agreement	77,325,960/ 388,128,995	-	42.86/-
Hony Capital Fund III, G.P. L.P.	6	Interest of a controlled corporation/ Interests of parties to concert group agreement	77,325,960/ 388,128,995	-	42.86/-
Hony Capital Fund III, G.P. Limited	6	Interest of a controlled corporation/ Interests of parties to concert group agreement	77,325,960/ 388,128,995	-	42.86/-

Name	Notes	Capacity	Long positions held in shares	Short positions held in shares	Percentage of aggregate holding of long/short positions in shares (%) (Note 9)
Hony Capital Management III Limited	6	Interest of a controlled corporation/ Interests of parties to concert group agreement	77,325,960/ 388,128,995	-	42.86/-
John Huan ZHAO	6	Interest of a controlled corporation/ Interests of parties to concert group agreement	77,325,960/ 388,128,995	-	42.86/-
Fine Elite Management Limited	7	Beneficial owner/ Interests of parties to concert group agreement	33,139,697/ 388,128,995	-	42.86/-
IDG Technology Venture Investment III, LLC	7	Interest of a controlled corporation/ Interests of parties to concert group agreement	33,139,697/ 388,128,995	-	42.86/-
IDG-Accel China Growth Fund GP Associates Ltd.	7	Interest of a controlled corporation/ Interests of parties to concert group agreement	33,139,697/ 388,128,995	-	42.86/-
Patrick J. MCGOVERN	7	Interest of a controlled corporation/ Interests of parties to concert group agreement	33,139,697/ 388,128,995	-	42.86/-
Quan ZHOU	7	Interest of a controlled corporation/ Interests of parties to concert group agreement	33,139,697/ 388,128,995	-	42.86/-
Kosalaki Investments Limited	8	Beneficial owner/ Interests of parties to concert group agreement	89,414,286/ 388,128,995	-	42.86/-

Notes:

- The English names "Legend Holdings Limited" and "Employees' Shareholding Society of Legend Holdings Limited" are direct transliterations of their Chinese registered names "联想控股有限公司" and "联想控股有限公司职工持股会" respectively.
- 141,368,642 shares were held by Right Lane Limited, a wholly-owned subsidiary and a controlled corporation of Legend Holdings Limited, and therefore Legend Holdings Limited was deemed to be interested in such shares by virtue of the SFO.
- Employees' Shareholding Society of Legend Holdings Limited was the controlling shareholder of Legend Holdings Limited and was therefore deemed to be interested in the 416,001,714 shares in which Legend Holdings Limited was interested.

4. Sparkling Investment (BVI) Limited, incorporated in the BVI with limited liability, is wholly-owned by SAIF Partners III L.P.
5. SAIF III GP Capital Ltd. is controlled by Mr. Andrew Y. YAN.
6. Charmway Trading Limited, incorporated in the BVI with limited liability, is wholly-owned by Hony Capital Fund III, L.P.. Hony Capital Fund III, L.P. is controlled by Hony Capital Fund III, G.P. L.P. which is itself controlled by Hony Capital Fund III, G.P. Limited. Hony Capital Fund III, G.P. Limited is wholly-owned by Hony Capital Management III Limited. Hony Capital Management III Limited is owned as to 55% by Mr. John Huan ZHAO.
7. Fine Elite Management Limited, incorporated in the BVI with limited liability, which is jointly-owned by IDG Technology Venture Investment III, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P.. IDG Technology Venture Investment III, LLC is controlled by Mr. Quan ZHOU and Mr. Patrick J. MCGOVERN. IDG-Accel China Growth Fund GP Associates Ltd. is controlled by Mr. Quan ZHOU and Mr. Patrick J. MCGOVERN.
8. Kosalaki Investments Limited, incorporated in the BVI with limited liability, is wholly-owned by Mr. GUO Wei.
9. The percentages of aggregate holding of long/short positions in shares were calculated on the basis of 905,495,581 shares of the Company in issue at 30 September 2007.

Save as disclosed above, at 30 September 2007, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept under Section 336 of Part XV of the SFO.

On 30 October 2007, the Company issued a composite offer and response document (the “**Offer Document**”) relating to a mandatory unconditional cash offer for the shares of the Company and to cancel all outstanding share options of the Company (the “**Offers**”) jointly with the joint offerors of the Offers, namely, Sparkling Investment (BVI) Limited, Charmway Trading Limited and Fine Elite Management Limited. As at 27 October 2007, being the latest practicable date under the Offer Document, the following persons, not being a director or chief executive of the Company, had the following interests and short positions in shares and underlying shares of the Company as recorded in the Offer Document:

Name	Notes	Capacity	Long positions held in shares	Short positions held in shares	Percentage of aggregate holding of long/short positions in shares (%) (Note 9)
Legend Holdings Limited	1, 2	Beneficial owner/ Interest of a controlled corporation	15,013,077/ 141,368,642	-	16.69/-
Employees' Shareholding Society of Legend Holdings Limited	1, 3	Interest of controlled corporations	156,381,719	-	16.69/-
Sparkling Investment (BVI) Limited	4	Beneficial owner/ Interests pursuant to concert group agreement	176,745,052/ 388,128,995	-	41.42/-
SAIF III GP Capital Ltd.	5	Interest of a controlled corporation/ Interests pursuant to concert group agreement	176,745,052/ 388,128,995	-	41.42/-
Andrew Y. YAN	5	Interest of a controlled corporation/ Interests pursuant to concert group agreement	176,745,052/ 388,128,995	-	41.42/-
Charmway Trading Limited	6	Beneficial owner/ Interests pursuant to concert group agreement	77,325,960/ 388,128,995	-	41.42/-
Hony Capital Fund III, L.P.	6	Interest of a controlled corporation/ Interests pursuant to concert group agreement	77,325,960/ 388,128,995	-	41.42/-
Hony Capital Fund III, G.P. L.P.	6	Interest of a controlled corporation/ Interests pursuant to concert group agreement	77,325,960/ 388,128,995	-	41.42/-
Hony Capital Fund III, G.P. Limited	6	Interest of a controlled corporation/ Interests pursuant to concert group agreement	77,325,960/ 388,128,995	-	41.42/-
Hony Capital Management III Limited	6	Interest of a controlled corporation/ Interests pursuant to concert group agreement	77,325,960/ 388,128,995	-	41.42/-

Name	Notes	Capacity	Long positions held in shares	Short positions held in shares	Percentage of aggregate holding of long/short positions in shares (%) (Note 9)
John Huan ZHAO	6	Interest of a controlled corporation/ Interests pursuant to concert group agreement	77,325,960/ 388,128,995	-	41.42/-
Fine Elite Management Limited	7	Beneficial owner/ Interests pursuant to concert group agreement	33,139,697/ 388,128,995	-	41.42/-
IDG Technology Venture Investment III, LLC	7	Interest of a controlled corporation/ Interests pursuant to concert group agreement	33,139,697/ 388,128,995	-	41.42/-
IDG-Accel China Growth Fund GP Associates Ltd.	7	Interest of a controlled corporation/ Interests pursuant to concert group agreement	33,139,697/ 388,128,995	-	41.42/-
Patrick J. MCGOVERN	7	Interest of a controlled corporation/ Interests pursuant to concert group agreement	33,139,697/ 388,128,995	-	41.42/-
Quan ZHOU	7	Interest of a controlled corporation/ Interests pursuant to concert group agreement	33,139,697/ 388,128,995	-	41.42/-
Kosalaki Investments Limited	8	Beneficial owner/ Interests pursuant to concert group agreement	89,414,286/ 388,128,995	-	41.42/-

Notes:

- The English names "Legend Holdings Limited" and "Employees' Shareholding Society of Legend Holdings Limited" are direct transliterations of their Chinese registered names "聯想控股有限公司" and "聯想控股有限公司職工持股會" respectively.
- 141,368,642 shares were held by Right Lane Limited, a wholly-owned subsidiary and a controlled corporation of Legend Holdings Limited, and therefore Legend Holdings Limited was deemed to be interested in such shares by virtue of the SFO.
- Employees' Shareholding Society of Legend Holdings Limited was the controlling shareholder of Legend Holdings Limited and was therefore deemed to be interested in the 156,381,719 shares in which Legend Holdings Limited was interested.

4. Sparkling Investment (BVI) Limited, incorporated in the BVI with limited liability, is wholly-owned by SAIF Partners III L.P.
5. SAIF III GP Capital Ltd. is controlled by Mr. Andrew Y. YAN.
6. Charmway Trading Limited, incorporated in the BVI with limited liability, is wholly-owned by Hony Capital Fund III, L.P.. Hony Capital Fund III, L.P. is controlled by Hony Capital Fund III, G.P. L.P., which is itself controlled by Hony Capital Fund III, G.P. Limited. Hony Capital Fund III, G.P. Limited is wholly-owned by Hony Capital Management III Limited. Hony Capital Management III Limited is owned as to 55% by Mr. John Huan ZHAO.
7. Fine Elite Management Limited, incorporated in the BVI with limited liability, which is jointly-owned by IDG Technology Venture Investment III, L.P., IDG-Accel China Growth Fund L.P., IDG-Accel China Growth Fund-A L.P. and IDG-Accel China Investors L.P.. IDG Technology Venture Investment III, LLC, is controlled by Mr. Quan ZHOU and Mr. Patrick J. MCGOVERN. IDG-Accel China Growth Fund GP Associates Ltd. is controlled by Mr. Quan ZHOU and Mr. Patrick J. MCGOVERN.
8. Kosalaki Investments Limited, incorporated in the BVI with limited liability, is wholly-owned by Mr. GUO Wei.
9. The percentages of aggregate holding of long/short positions in shares were calculated on the basis of 937,053,581 shares of the Company in issue at 27 October 2007.

Save as disclosed above, at 27 October 2007, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept under Section 336 of Part XV of the SFO.

Share Option Schemes

The Company has two share option schemes in place. The Company adopted a share option scheme on 14 May 2001 (the “**2001 Share Option Scheme**”), the operation of which was terminated on 18 July 2002. Upon termination, no further options can be granted under the 2001 Share Option Scheme but the provisions of the 2001 Share Option Scheme remain in full force and effect in all other respects to govern all outstanding options granted thereunder prior to termination. The Company subsequently adopted a new share option scheme on 18 July 2002 (the “**2002 Share Option Scheme**”).

(i) 2001 Share Option Scheme

The following table shows the movements in share options under the 2001 Share Option Scheme during the six months ended 30 September 2007 and the options outstanding at the beginning and end of the period:

Grantee	Outstanding as at 01/04/2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30/09/2007	Subscription price per share HK\$ (Note 2)	Date of grant	Exercisable period (Note 1)
Directors								
GUO Wei	2,800,000	-	-	-	2,800,000	3.180	12/07/2001	12/07/2002-11/07/2009
	2,800,000	-	-	-	2,800,000	1.976	31/08/2001	31/08/2002-30/08/2009
LIN Yang	1,500,000	-	(1,325,000)	-	175,000	3.180	12/07/2001	12/07/2002-11/07/2009
	1,500,000	-	(1,500,000)	-	-	1.976	31/08/2001	31/08/2002-30/08/2009
HUA Zhinian	1,100,000	-	(1,100,000)	-	-	3.180	12/07/2001	12/07/2002-11/07/2009
	500,000	-	(500,000)	-	-	1.976	31/08/2001	31/08/2002-30/08/2009
Other employees	22,275,000	-	(7,962,000)	(1,838,000)	12,475,000	3.604	08/06/2001	08/06/2002-19/06/2009
	4,599,500	-	(2,559,500)	(85,000)	1,955,000	1.976	31/08/2001	31/08/2002-30/08/2009
In aggregate	37,074,500	-	(14,946,500)	(1,923,000)	20,205,000			

Notes:

- All options granted are subject to a vesting period of four years with 25% becoming exercisable on the first anniversary, 25% on the second anniversary, 25% on the third anniversary and 25% on the fourth anniversary of the respective dates of grant.
- The subscription price of the options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- No options were cancelled under the 2001 Share Option Scheme during the period.

(ii) 2002 Share Option Scheme

The following table shows the movements in share options under the 2002 Share Option Scheme during the six months ended 30 September 2007 and the options outstanding at the beginning and end of the period:

Grantee	Outstanding as at 01/04/2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30/09/2007	Subscription price per share HK\$ (Note 2)	Date of grant	Exercisable period (Note 1)
Directors								
LI Qin	2,500,000	-	-	-	2,500,000	2.068	24/06/2004	24/06/2005-23/06/2012
GUO Wei	5,000,000	-	-	-	5,000,000	2.750	13/10/2003	13/10/2004-12/10/2011
LIN Yang	2,500,000	-	(1,875,000)	-	625,000	2.750	13/10/2003	13/10/2004-12/10/2011
HUA Zhinian	2,000,000	-	(1,500,000)	-	500,000	2.750	13/10/2003	13/10/2004-12/10/2011
Other employees	42,873,000	-	(13,135,000)	(344,000)	29,394,000	2.750	13/10/2003	13/10/2004-12/10/2011
In aggregate	54,873,000	-	(16,510,000)	(344,000)	38,019,000			

Notes:

1. All options granted are subject to a vesting period of four years with 25% becoming exercisable on the first anniversary, 25% on the second anniversary, 25% on the third anniversary and 25% on the fourth anniversary of the respective dates of grant.
2. The subscription price of the options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
3. No options were cancelled under the 2002 Share Option Scheme during the period.

Compliance with the Model Code

The Company has adopted a code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 to the Listing Rules. Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the standard as set out in the Model Code throughout the six months ended 30 September 2007.

Corporate Governance

The Company has complied with the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2007, except for the following deviations:

Code Provision A.4.1

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

All Directors of the Company (including executive and non-executive Directors) were not appointed for any specific term. However, all Directors (save for Chairman or Managing Director) are subject to retirement by rotation at each annual general meeting in accordance with the Company's Bye-Laws and shall be eligible for re-election. The Board of Directors shall ensure all Directors (including the Chairman and Managing Director) shall be subject to retirement by rotation at least once every three years so as to accomplish the same purpose as a specific term of appointment.

Code Provision A.4.2

The second part of this Code Provision 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 Company's 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 provided that notwithstanding anything herein, the Chairman of the Board and the Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. In view of good corporate governance practices, the Chairman of the Company voluntarily retires from his office once every three years notwithstanding that he is not required to do so by the Bye-Laws.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 September 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board

GUO Wei

Chairman, President and Chief Executive Officer

Hong Kong, 19 December 2007

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