



神州数码  
Digital China

Digital China Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 00861

08/09  
Interim Report



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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 2008 together with comparative figures for the corresponding period of the last financial year as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

|  | Notes | Three months ended<br>30 September<br>2008<br>(Unaudited)<br>HK\$'000 | Six months ended<br>30 September<br>2008<br>(Unaudited)<br>HK\$'000 | Three months ended<br>30 September<br>2007<br>(Unaudited)<br>HK\$'000 | Six months ended<br>30 September<br>2007<br>(Unaudited)<br>HK\$'000 |
|--|-------|---|---|---|---|
| Revenue  | 3     | <b>11,090,595</b>   | <b>21,101,305</b>   | 8,839,851   | 16,698,613  |
| Cost of sales  |       | <b>(10,290,844)</b>   | <b>(19,639,348)</b>   | (8,240,643)   | (15,602,399)  |
| Gross profit   |       | <b>799,751</b>  | <b>1,461,957</b>  | 599,208   | 1,096,214   |
| Other income and gains   | 3     | <b>60,694</b>   | <b>190,519</b>  | 65,894  | 157,199   |
| Selling and distribution costs   |       | <b>(458,282)</b>  | <b>(855,706)</b>  | (379,252)   | (688,644)   |
| Administrative expenses  |       | <b>(94,753)</b>   | <b>(178,527)</b>  | (75,963)  | (146,569)   |
| Other operating expenses, net  |       | <b>(118,137)</b>  | <b>(259,373)</b>  | (81,252)  | (173,455)   |
| Total operating expenses   | 4     | <b>(671,172)</b>  | <b>(1,293,606)</b>  | (536,467)   | (1,008,668)   |
| Finance costs  |       | <b>(46,693)</b>   | <b>(87,511)</b>   | (51,611)  | (91,050)  |
| Share of profits and losses of:  |       |   |   |   |   |
| Jointly-controlled entities  |       | <b>(253)</b>  | <b>447</b>  | 2,223   | 1,068   |
| Associates   |       | <b>1,794</b>  | <b>4,240</b>  | 1,483   | 1,316   |
| Profit before tax  | 5     | <b>144,121</b>  | <b>276,046</b>  | 80,730  | 156,079   |
| Tax  | 6     | <b>(39,804)</b>   | <b>(58,835)</b>   | 1,379   | (11,035)  |
| Profit for the period  |       | <b>104,317</b>  | <b>217,211</b>  | 82,109  | 145,044   |
| Attributable to:   |       |   |   |   |   |
| Equity holders of the parent   |       | <b>129,444</b>  | <b>243,478</b>  | 82,007  | 147,280   |
| Minority interests   |       | <b>(25,127)</b>   | <b>(26,267)</b>   | 102   | (2,236)   |
|  |       | <b>104,317</b>  | <b>217,211</b>  | 82,109  | 145,044   |
| Earnings per share attributable to ordinary equity holders of the parent | 7     |   |   |   |   |
| Basic (HK cents)   |       |   | <b>25.30</b>  |   | 16.77   |
| Diluted (HK cents)   |       |   | <b>25.30</b>  |   | 16.42   |

## CONDENSED CONSOLIDATED BALANCE SHEET

|  | Notes | At<br>30 September<br>2008<br>(Unaudited)<br>HK\$'000 | At<br>31 March<br>2008<br>(Audited)<br>HK\$'000 |
|--|-------|---|---|
| <b>NON-CURRENT ASSETS</b>                                  |       |   |   |
| Property, plant and equipment                              |       | 416,031   | 401,124   |
| Investment properties                                      |       | 240,364   | 234,212   |
| Prepaid land premiums                                      |       | 14,948  | 14,765  |
| Intangible assets  |       | 4,963   | 5,526   |
| Interests in jointly-controlled entities                   |       | 5,392   | 7,894   |
| Interests in associates                                    |       | 42,683  | 35,612  |
| Available-for-sale equity investments                      |       | 31,611  | 31,611  |
| Deferred tax assets  |       | 20,860  | 19,480  |
| Total non-current assets                                   |       | 776,852   | 750,224   |
| <b>CURRENT ASSETS</b>                                      |       |   |   |
| Inventories  |       | 2,349,483   | 2,559,364                                       |
| Trade and bills receivables                                | 8     | 5,714,403   | 3,772,820                                       |
| Prepayments, deposits and other receivables                |       | 1,276,627   | 1,233,629                                       |
| Cash and bank balances                                     |       | 1,200,335   | 998,454   |
| Total current assets                                       |       | 10,540,848  | 8,564,267                                       |
| <b>CURRENT LIABILITIES</b>                                 |       |   |   |
| Trade and bills payables                                   | 9     | 4,691,853   | 3,334,519                                       |
| Other payables and accruals                                |       | 1,719,271   | 1,695,420                                       |
| Tax payable  |       | 96,874  | 66,405  |
| Interest-bearing bank borrowings                           |       | 1,119,454   | 400,066   |
| Total current liabilities                                  |       | 7,627,452   | 5,496,410                                       |
| <b>NET CURRENT ASSETS</b>                                  |       | <b>2,913,396</b>                                      | <b>3,067,857</b>                                |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>               |       | <b>3,690,248</b>                                      | <b>3,818,081</b>                                |
| <b>NON-CURRENT LIABILITIES</b>                             |       |   |   |
| Interest-bearing bank borrowings                           |       | 704,946   | 952,803   |
| Bond payable   |       | 227,402   | 221,582   |
| Total non-current liabilities                              |       | 932,348   | 1,174,385                                       |
| <b>NET ASSETS</b>  |       | <b>2,757,900</b>                                      | <b>2,643,696</b>                                |
| <b>EQUITY</b>  |       |   |   |
| <b>Equity attributable to equity holders of the parent</b> |       |   |   |
| Issued capital   | 10    | 96,239  | 96,362  |
| Reserves   |       | 2,641,936   | 2,389,347                                       |
| Proposed final dividend                                    |       | -   | 140,210   |
| <b>Minority interests</b>                                  |       | <b>19,725</b>   | <b>17,777</b>                                   |
| <b>TOTAL EQUITY</b>  |       | <b>2,757,900</b>                                      | <b>2,643,696</b>                                |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

|  | Six months ended 30 September   |                                 |
|--|---------------------------------|---------------------------------|
|  | 2008<br>(Unaudited)<br>HK\$'000 | 2007<br>(Unaudited)<br>HK\$'000 |
| Net cash inflow/(outflow) from operating activities      | 13,642                          | (400,141)                       |
| Net cash outflow from investing activities               | (46,958)                        | (48,529)                        |
| Net cash inflow from financing activities                | 213,493                         | 189,142                         |
| Net increase/(decrease) in cash and cash equivalents     | 180,177                         | (259,528)                       |
| Cash and cash equivalents at the beginning of the period | 998,454                         | 717,455                         |
| Effects of foreign exchange rate changes, net            | 21,704                          | 35,689                          |
| Cash and cash equivalents at the end of the period       | 1,200,335                       | 493,616                         |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|  | Attributable to equity holders of the parent          |  |   |  |   |   |  |  |                                  |  |   |
|--|---|--|---|--|---|---|--|--|----------------------------------|--|---|
|  | Issued<br>share<br>capital<br>(Unaudited)<br>HK\$'000 | Share<br>premium<br>account<br>(Unaudited)<br>HK\$'000 | Capital<br>reserve<br>(Unaudited)<br>HK\$'000 | Employee   | Reserve<br>funds<br>(Unaudited)<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>(Unaudited)<br>HK\$'000 | Retained<br>profits<br>(Unaudited)<br>HK\$'000 | Proposed<br>final<br>dividend<br>(Unaudited)<br>HK\$'000 | Total<br>(Unaudited)<br>HK\$'000 | Minority<br>interests<br>(Unaudited)<br>HK\$'000 | Total equity<br>(Unaudited)<br>HK\$'000 |
|  |   |  |   | share-based  |   |   |  |  |                                  |  |   |
|  |   |  |   | compensation<br>reserve<br>(Unaudited)<br>HK\$'000 |   |   |  |  |                                  |  |   |
| <b>At 1 April 2008</b>   | <b>96,362</b>   | <b>620,567</b>   | <b>625,334</b>                                | <b>-</b>   | <b>81,330</b>                               | <b>115,520</b>  | <b>946,596</b>                                 | <b>140,210</b>   | <b>2,625,919</b>                 | <b>17,777</b>                                    | <b>2,643,696</b>                        |
| Exchange realignment and net gain recognised directly in equity for the period | -   | -  | -   | -  | -   | 8,344   | -  | -  | 8,344                            | (144)  | 8,200                                   |
| Profit for the period  | -   | -  | -   | -  | -   | -   | 243,477  | -  | 243,477                          | (26,267)   | 217,210                                 |
| <b>Total income and expense for the period</b>                                 | <b>-</b>  | <b>-</b>   | <b>-</b>                                      | <b>-</b>   | <b>-</b>                                    | <b>8,344</b>  | <b>243,477</b>                                 | <b>-</b>   | <b>251,821</b>                   | <b>(26,411)</b>                                  | <b>225,410</b>                          |
| Repurchase of shares   | (123)   | (2,764)  | -   | -  | -   | -   | -  | -  | (2,887)                          | -  | (2,887)                                 |
| Equity-settled share option arrangements                                       | -   | -  | -   | 3,532  | -   | -   | -  | -  | 3,532                            | -  | 3,532                                   |
| Capital injection from minority shareholders of a subsidiary                   | -   | -  | -   | -  | -   | -   | -  | -  | -                                | 35,181   | 35,181                                  |
| Acquisition of minority interests  | -   | -  | -   | -  | -   | -   | -  | -  | -                                | (6,822)  | (6,822)                                 |
| Final 2008 dividend  | -   | -  | -   | -  | -   | -   | -  | (140,210)  | (140,210)                        | -  | (140,210)                               |
| <b>At 30 September 2008</b>  | <b>96,239</b>   | <b>617,803</b>   | <b>625,334</b>                                | <b>3,532</b>                                       | <b>81,330</b>                               | <b>123,864</b>  | <b>1,190,073</b>                               | <b>-</b>   | <b>2,738,175</b>                 | <b>19,725</b>                                    | <b>2,757,900</b>                        |
| <b>At 1 April 2007</b>   | <b>87,404</b>   | <b>319,572</b>   | <b>625,334</b>                                | <b>56,269</b>                                      | <b>64,002</b>                               | <b>38,432</b>   | <b>697,970</b>                                 | <b>72,370</b>  | <b>1,961,353</b>                 | <b>11,893</b>                                    | <b>1,973,246</b>                        |
| 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                                 |
| <b>Total income and expense for the period</b>                                 | <b>-</b>  | <b>-</b>   | <b>-</b>                                      | <b>-</b>   | <b>-</b>                                    | <b>43,228</b>   | <b>147,280</b>                                 | <b>-</b>   | <b>190,508</b>                   | <b>(2,236)</b>                                   | <b>188,272</b>                          |
| 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)                                |
| <b>At 30 September 2007</b>  | <b>90,550</b>   | <b>423,245</b>   | <b>625,334</b>                                | <b>41,751</b>                                      | <b>64,002</b>                               | <b>81,660</b>   | <b>845,250</b>                                 | <b>-</b>   | <b>2,171,792</b>                 | <b>16,114</b>                                    | <b>2,187,906</b>                        |

## 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 2008 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 2008 had been consistently applied except in relation to the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) that has adopted the first time for the current period’s condensed consolidated interim financial statements. The adoption of these new and revised standards and interpretations has had no material effect on these unaudited condensed consolidated interim financial statements.

|                  |  |
|------------------|--|
| HK(IFRIC)-Int 12 | Service Concession Arrangements  |
| HK(IFRIC)-Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. This interpretation also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, this interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits* on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group has no defined benefit scheme, this interpretation is unlikely to have any financial impact on the Group.

### 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..

During the six months ended 30 September 2008, the Group considered it more appropriate to disclose certain gains and expenses in the segment results in order to better reflect the performance of each segment. Accordingly, the corresponding comparative amounts of the segment information have been revised to conform with the current period’s presentation.



## 2. Segment information (Continued)

### 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 2008 and 2007:

|   | Distribution                    |   | Systems                         |   | Services                        |   | Consolidated                    |   |
|---|---------------------------------|---|---------------------------------|---|---------------------------------|---|---------------------------------|---|
|   | Six months ended 30 September   |   |                                 |   |                                 |   |                                 |   |
|   | 2008<br>(Unaudited)<br>HK\$'000 | 2007<br>(Unaudited)<br>(Restated)<br>HK\$'000 | 2008<br>(Unaudited)<br>HK\$'000 | 2007<br>(Unaudited)<br>(Restated)<br>HK\$'000 | 2008<br>(Unaudited)<br>HK\$'000 | 2007<br>(Unaudited)<br>(Restated)<br>HK\$'000 | 2008<br>(Unaudited)<br>HK\$'000 | 2007<br>(Unaudited)<br>(Restated)<br>HK\$'000 |
| Segment revenue:                                  |                                 |   |                                 |   |                                 |   |                                 |   |
| Sales to external customers                       | <b>12,134,007</b>               | 10,342,964                                    | <b>6,407,472</b>                | 4,645,711                                     | <b>2,559,826</b>                | 1,709,938                                     | <b>21,101,305</b>               | 16,698,613                                    |
| Segment gross profit                              | <b>538,031</b>                  | 460,210                                       | <b>591,467</b>                  | 417,699                                       | <b>332,459</b>                  | 218,305                                       | <b>1,461,957</b>                | 1,096,214                                     |
| Segment results                                   | <b>200,650</b>                  | 171,169                                       | <b>177,616</b>                  | 164,411                                       | <b>54,325</b>                   | (47,315)                                      | <b>432,591</b>                  | 288,265                                       |
| Interest income, unallocated revenue<br>and gains |                                 |   |                                 |   |                                 |   | <b>61,265</b>                   | 33,869  |
| Unallocated expenses                              |                                 |   |                                 |   |                                 |   | <b>(134,986)</b>                | (77,389)                                      |
| Finance costs                                     |                                 |   |                                 |   |                                 |   | <b>(87,511)</b>                 | (91,050)                                      |
| Share of profits and losses of:                   |                                 |   |                                 |   |                                 |   |                                 |   |
| Jointly-controlled entities                       | -                               | -   | -                               | -   | <b>447</b>                      | 1,068   | <b>447</b>                      | 1,068   |
| Associates  | -                               | -   | -                               | -   | <b>4,240</b>                    | 1,316   | <b>4,240</b>                    | 1,316   |
| Profit before tax                                 |                                 |   |                                 |   |                                 |   | <b>276,046</b>                  | 156,079                                       |
| Tax   |                                 |   |                                 |   |                                 |   | <b>(58,835)</b>                 | (11,035)                                      |
| Profit for the period                             |                                 |   |                                 |   |                                 |   | <b>217,211</b>                  | 145,044                                       |

### 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:

|   | <b>Six months ended 30 September</b>     |                                 |
|---|--|---------------------------------|
|   | <b>2008<br/>(Unaudited)<br/>HK\$'000</b> | 2007<br>(Unaudited)<br>HK\$'000 |
| Revenue   | <b>21,101,305</b>                        | 16,698,613                      |
| <b>Other income</b>   |  |                                 |
| Government grants   | <b>32,862</b>                            | 33,977                          |
| Bank interest income  | <b>6,661</b>                             | 4,225                           |
| Gross rental income   | <b>15,811</b>                            | 14,102                          |
| Others  | <b>7,945</b>                             | 2,263                           |
|   | <b>63,279</b>                            | 54,567                          |
| <b>Gains</b>  |  |                                 |
| Gain on forward foreign exchange contracts and interest rate swap | <b>11,869</b>                            | –                               |
| Gain on disposal of non-current asset classified as held for sale | –  | 2,495                           |
| Foreign exchange differences, net                                 | <b>108,584</b>                           | 100,137                         |
| Others  | <b>6,787</b>                             | –                               |
|   | <b>127,240</b>                           | 102,632                         |
|   | <b>190,519</b>                           | 157,199                         |

**4. Total operating expenses**

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

|  | <b>Six months ended 30 September</b>     |                                 |
|--|--|---------------------------------|
|  | <b>2008<br/>(Unaudited)<br/>HK\$'000</b> | 2007<br>(Unaudited)<br>HK\$'000 |
| Selling expenses   | <b>129,624</b>                           | 88,013                          |
| Promotion and advertising expenses   | <b>100,355</b>                           | 104,919                         |
| Staff costs included in operating expenses (including directors' remuneration) | <b>496,638</b>                           | 426,273                         |
| Other expenses   | <b>566,989</b>                           | 389,463                         |
|  | <b>1,293,606</b>                         | 1,008,668                       |

## 5. Profit before tax

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

|  | Six months ended 30 September   |                                 |
|--|---------------------------------|---------------------------------|
|  | 2008<br>(Unaudited)<br>HK\$'000 | 2007<br>(Unaudited)<br>HK\$'000 |
| Cost of inventories sold                                   | 19,319,313                      | 15,389,363                      |
| Depreciation   | 41,506                          | 33,620                          |
| Amortisation of prepaid land premiums                      | 204                             | 183                             |
| Amortisation of intangible assets                          | 703                             | 2,989                           |
| Impairment of intangible assets                            | 35,181                          | 8,861                           |
| Provision for and write-off of obsolete inventories        | 59,317                          | 18,056                          |
| Impairment of trade receivables                            | 90,495                          | 88,427                          |
| Loss on disposal of items of property, plant and equipment | 1,041                           | 2,327                           |

## 6. Tax

|  | Six months ended 30 September   |                                 |
|--|---------------------------------|---------------------------------|
|  | 2008<br>(Unaudited)<br>HK\$'000 | 2007<br>(Unaudited)<br>HK\$'000 |
| Group:   |                                 |                                 |
| Current – Hong Kong                              | 4,388                           | –                               |
| Current – The People's Republic of China ("PRC") | 55,316                          | 3,629                           |
| Deferred   | (869)                           | 7,406                           |
| Total tax charge for the period                  | 58,835                          | 11,035                          |

- (a) PRC corporate income tax represents the tax charged on the estimated assessable profits arising in the 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 tax holiday and preferential tax rates.
- (b) During the six months ended 30 September 2008, Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax has been made for the six months ended 30 September 2007 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 2007.
- (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 2007 and 2008. PRC corporate income tax has been provided at the applicable rates on the estimated assessable profits of the jointly-controlled entities and associates for the six months ended 30 September 2007 and 2008. The share of tax charge attributable to the jointly-controlled entities of approximately HK\$181,000 (six months ended 30 September 2007: Nil) and the share of tax charge attributable to the associates of approximately HK\$684,000 (six months ended 30 September 2007: approximately HK\$199,000) for the six months ended 30 September 2008 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.

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

The calculation of basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent for the six months ended 30 September 2008 of approximately HK\$243,478,000 (six months ended 30 September 2007: approximately HK\$147,280,000), and the weighted average of 962,481,559 (six months ended 30 September 2007: 878,338,177) ordinary shares in issue during the six months ended 30 September 2008.

The calculation of diluted earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent for the period and the weighted average number of ordinary shares in issue and assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares of the Company into ordinary shares.

For the six months ended 30 September 2008, the outstanding share options had anti-dilutive effect on the basic earnings per share. For the six months ended 30 September 2007, the calculation of diluted earnings per share amount was 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 and 897,200,467 ordinary shares, which represented the weighted average of 878,338,177 ordinary shares in issue during the six months ended 30 September 2007 and the weighted average of 18,862,290 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:

|                | <b>At<br/>30 September<br/>2008<br/>(Unaudited)<br/>HK\$'000</b> | <b>At<br/>31 March<br/>2008<br/>(Audited)<br/>HK\$'000</b> |
|----------------|--|--|
| Within 30 days | <b>3,245,625</b>   | 1,846,435  |
| 31 to 60 days  | <b>805,774</b>   | 467,480  |
| 61 to 90 days  | <b>481,358</b>   | 438,626  |
| 91 to 180 days | <b>603,890</b>   | 601,101  |
| Over 180 days  | <b>577,756</b>   | 419,178  |
|                | <b>5,714,403</b>   | 3,772,820  |

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 substantial shareholder of approximately HK\$1,399,000 (31 March 2008: HK\$1,881,000).

Included in the Group's trade and bills receivables are amounts due from the related companies of a subsidiary of the Group, namely DGT Information Systems Limited ("DGT"), the jointly-controlled entities of the Group and the associates of the Group of approximately HK\$5,686,000 (31 March 2008: HK\$4,587,000), HK\$1,551,000 (31 March 2008: HK\$1,609,000) and HK\$917,000 (31 March 2008: HK\$123,000), respectively.

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

## 9. 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<br>30 September<br>2008<br>(Unaudited)<br>HK\$'000 | At<br>31 March<br>2008<br>(Audited)<br>HK\$'000 |
|----------------|---|---|
| Within 30 days | 2,545,454   | 1,596,040                                       |
| 31 to 60 days  | 1,415,755   | 986,495   |
| 61 to 90 days  | 351,479   | 552,703   |
| Over 90 days   | 379,165   | 199,281   |
|                | <b>4,691,853</b>                                      | 3,334,519                                       |

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

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

Included in the Group's trade and bills payables are amounts due to the associates of the Company's substantial shareholder and a jointly-controlled entity of the Group of approximately HK\$352,543,000 (31 March 2008: HK\$47,166,000) and HK\$146,000 (31 March 2008: HK\$342,000), respectively.

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

## 10. Share Capital

|   | At<br>30 September<br>2008<br>(Unaudited)<br>HK\$'000 | At<br>31 March<br>2008<br>(Audited)<br>HK\$'000 |
|---|---|---|
| Authorised:<br>2,000,000,000 (31 March 2008: 2,000,000,000) ordinary shares of<br>HK\$0.1 each        | <b>200,000</b>  | 200,000   |
| Issued and fully paid:<br>962,390,581 (31 March 2008: 963,619,581) ordinary shares of<br>HK\$0.1 each | <b>96,239</b>   | 96,362  |

During the six months ended 30 September 2008, the Company repurchased certain of its shares listed on The Stock Exchange of Hong Kong Limited. The shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium of the repurchase was charged against share premium.

**11. Operating leases arrangements****(i) As lessor**

At 30 September 2008, 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:

|   | <b>At<br/>30 September<br/>2008<br/>(Unaudited)<br/>HK\$'000</b> | <b>At<br/>31 March<br/>2008<br/>(Audited)<br/>HK\$'000</b> |
|---|--|--|
| Within one year                         | <b>26,485</b>  | 24,684   |
| In the second to fifth years, inclusive | <b>12,111</b>  | 18,236   |
|   | <b>38,596</b>  | 42,920   |

**(ii) As lessee**

At 30 September 2008, the Group had total future minimum lease payments under non-cancellable operating leases of office properties and warehouses falling due as follows:

|   | <b>At<br/>30 September<br/>2008<br/>(Unaudited)<br/>HK\$'000</b> | <b>At<br/>31 March<br/>2008<br/>(Audited)<br/>HK\$'000</b> |
|---|--|--|
| Within one year                         | <b>90,323</b>  | 95,097   |
| In the second to fifth years, inclusive | <b>80,914</b>  | 96,364   |
| After five years                        | <b>4,440</b>   | 5,961  |
|   | <b>175,677</b>   | 197,422  |

## 12. 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   |                                 |
|---|------------|---------------------------------|---------------------------------|
|   |            | 2008<br>(Unaudited)<br>HK\$'000 | 2007<br>(Unaudited)<br>HK\$'000 |
| Lenovo Group Limited and its subsidiaries, the associates of the Company's substantial/controlling shareholder: |            |                                 |                                 |
| Sales of goods by the Group   | (i)        | <b>40,809</b>                   | 53,699                          |
| Purchases of goods by the Group   | (ii)       | <b>914,113</b>                  | 612,029                         |
| Right Lane Limited, a wholly-owned subsidiary of the Company's substantial/controlling shareholder:             |            |                                 |                                 |
| Rental expenses paid by the Group   | (iii)      | –                               | 180                             |
| GE Capital Mauritius Equity Investment, a substantial shareholder of DGT and its subsidiaries:                  |            |                                 |                                 |
| Provision of IT services by the Group   | (iv)       | <b>6,362</b>                    | 4,493                           |
| TIS Inc., a substantial shareholder of DGT, and its subsidiaries:   |            |                                 |                                 |
| Provision of IT services by the Group   | (iv)       | <b>20,744</b>                   | 11,809                          |
| Digital China Management Systems (BVI) Limited and its subsidiaries, associates of the Group:                   |            |                                 |                                 |
| Sales of goods and provision of IT services by the Group  | (i), (iv)  | <b>1,080</b>                    | 2,841                           |
| Purchases of goods by the Group and provision of IT services to the Group                                       | (ii), (iv) | –                               | 1,142                           |
| Nanjing Mercuries DC Financial Systems Ltd.†, an associate of the Group:  |            |                                 |                                 |
| Purchases of goods by the Group   | (ii)       | –                               | 1,545                           |
| Beijing Digital China System Access Software Limited†, a jointly-controlled entity of the Group:                |            |                                 |                                 |
| Purchases of goods by the Group and provision of IT services to the Group                                       | (ii), (iv) | –                               | 10,805                          |
| Suzhou Digital China JieTong Technology Co., Ltd.†, a jointly-controlled entity of the Group:                   |            |                                 |                                 |
| Sales of goods and provision of IT services by the Group  | (i), (iv)  | <b>423</b>                      | 134                             |
| Digital China BB Limited†, a jointly-controlled entity of the Group:  |            |                                 |                                 |
| Sales of goods by the Group   | (i)        | <b>1,467</b>                    | –                               |

† The English name of these companies are direct transliteration of their Chinese registered name.

**12. 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 related party 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.

The related party transactions with the associates of the Company's substantial/controlling shareholder and the minority shareholders of the Group's subsidiary also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**(b) Outstanding balances with related parties:**

- (i) Details of the Group's trade balances with the associates of the Company's substantial shareholder, jointly-controlled entities, associates and related companies of a subsidiary as at the balance sheet date are included notes 8 and 9 to these unaudited condensed consolidated interim financial statements.
- (ii) At 30 September 2008, the amount due from the associates of the Company's substantial shareholder included in the Group's prepayments, deposits and other receivables of approximately HK\$104,470,000 (31 March 2008: HK\$46,215,000).

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

|  | <b>Six months ended 30 September</b>     |                                 |
|--|--|---------------------------------|
|  | <b>2008<br/>(Unaudited)<br/>HK\$'000</b> | 2007<br>(Unaudited)<br>HK\$'000 |
| Short term employee benefits                               | <b>10,814</b>                            | 11,311                          |
| Post-employment benefits                                   | <b>75</b>                                | 54                              |
| Share-based payments                                       | <b>1,357</b>                             | 419                             |
| <b>Total compensation paid to key management personnel</b> | <b>12,246</b>                            | 11,784                          |



## MANAGEMENT DISCUSSION AND ANALYSIS

**Against slowing growth of the Chinese economy and the domestic IT market, the Group continued to implement the core strategy of service transformation and business value enhancement during the financial year to-date and major business indicators for the first half of the year were in line with management expectations. Overall business growth was sustained with excellent operating results. Profitability of our principal businesses continued to improve as the Services Business progressed to the stage of profit contribution. Meanwhile we were supported by sound operating cash flow, underpinning a balanced profile of business growth and risk control.**

### 1.1 Sound turnover growth of the Group continued to outperform China's IT market

The Group recorded turnover of HK\$21,101 million for the six months ended 30 September 2008, an increase of 26.37% as compared to HK\$16,699 million for the corresponding period of last financial year, beating the overall growth rate of China's IT market. Our principal businesses continued to hold dominant positions in the market.

### 1.2 The Group continued to report marked improvement in overall profitability

Taking into account the effect of Renminbi appreciation on procurement costs, the Group's overall adjusted gross profit margin for the six months ended 30 September 2008 was 7.44%, up 0.28 percentage point from 7.16% for the corresponding period of last financial year.

Profit attributable to the equity holders of the parent (profit attributable to shareholders) amounted to approximately HK\$243 million, representing a 65.32% growth as compared to approximately HK\$147 million for the corresponding period of last financial year. Basic earnings per share grew 50.86% to 25.30 HK cents.

### 1.3 New benchmarks in profit contributions from the Services Business

For the three months ended 30 September 2008, the Services Business had reported profit for four quarterly periods in a row, confirming its progress into the stage of stable profit contribution. As shown in the segment results for the interim period of the 2008/09 financial year, the Services Business generated a profit of approximately HK\$54 million, representing an increase of HK\$101 million versus a loss of approximately HK\$47 million (restated) for the corresponding period of last financial year.

### 1.4 Noted improvement in operating cash flow and stabilized cash turnover thanks to ongoing risk control measures

The Group maintained stable operating cash flow for the six months ended 30 September 2008, net cash inflow from overall operating activities of the Group was approximately HK\$14 million, representing a big increase as compared to a net outflow of approximately HK\$400 million for the corresponding period of last financial year. In particular, net cash inflow from operating activities for the second quarter of the current financial year was approximately HK\$881 million, representing an increase of approximately HK\$668 million as compared to the corresponding period of last financial year. The improvement was attributable to enhanced cash flow control at Group level, stringent inventory management over the complete process of order-placement, sales and storage, which helped with linking the procurement process more closer to the sales process, as well as the increase in trade and bills payables.

The Group's cash turnover cycle for the six months ended 30 September 2008 was 25.78 days, which was slightly longer by 0.72 day as compared to the corresponding period of last financial year. The turnover day of trade receivables was increased by 3.4 days, while the inventory turnover day was increased by 0.42 day. The management is making focused efforts to deal with the issue of increasing the turnover days for trade receivables and proactive measures will be adopted to ensure healthy business growth through enhanced risk control and more efficient collection of payments.

## **2.1 Distribution Business (with a primary focus on the SMB & Consumer Markets)**

**Our Distribution Business achieved stable growth in overall business revenue thanks to effective market penetration through sales channels and sophisticated operational management**

Turnover of the Group's Distribution Business for the six months ended 30 September 2008 amounted to approximately HK\$12,134 million, representing a 17.32% growth over the corresponding period of last financial year which was above the overall growth rate of the market.

### **Rewarding efforts in regional network expansion and sales channel development**

As at 30 September 2008, effective sales channels of the Group increased by 9.98% as compared to 30 September 2007. Cities covered increased by 75.51% as compared to the corresponding period of last financial year. Turnovers from fourth-tier and fifth/sixth-tier cities also reported growth of 26.96% and 98.38%, respectively, as compared to the corresponding period of last financial year.

### **Rapid growth still sustained in notebooks, desktop computers, PC servers and accessories**

Turnovers from these four major business sectors under the Group's Distribution Business for the six months ended 30 September 2008 reported growth of 28.55%, 7.20%, 11.03% and 29.47%, respectively, as compared to the corresponding period of last financial year.

## **2.2 Systems Business (with a primary focus on the Enterprise Market)**

**Robust growth sustained in the Group's Systems Business**

Turnover of the Group's Systems Business for the six months ended 30 September 2008 increased to approximately HK\$6,407 million, a 37.92% growth over the corresponding period of last financial year.

### **Innovative approaches for regional market expansion and enhanced capabilities for customer-oriented solutions**

The Group continued to explore the regional markets for its Systems Business in a differentiating approach, attempting a variety of innovative marketing models to match the needs of customers. For the six months ended 30 September 2008, our regional customer business grew by 76.83% as compared to the corresponding period of last financial year. Meanwhile, our Systems Business continued to enhance its ability to deliver solutions by focusing on customers' needs. For the six months ended 30 September 2008, close to 33 new solutions were launched.

### **Buoyant growth in networking products, packaged software and storage products achieved with the benefit of sound cooperation with vendors and sales channels**

Turnovers from networking products, packaged software and storage products under the Systems Business for the six months ended 30 September 2008 grew by 46.94%, 42.21% and 104.42%, respectively, comparing with the corresponding period of last financial year, as significant progress was reported in businesses with the likes of Cisco, Oracle, Microsoft and EMC to drive rapid overall growth of our Systems Business.

## **2.3 Services Business (with a primary focus on the Industry Market)**

**Profitability continued to improve in line with robust growth in turnover**

Turnover of the Group's Services Business for the six months ended 30 September 2008 was approximately HK\$2,560 million, up by 49.70% as compared to the corresponding period of last financial year. In particular, turnover contributions from the banking sector and the telecommunications sector grew by 151.04% and 87.15%, respectively, significantly outpacing the average industry growth rates for these sectors. As shown in the segment results, the Services Business reported a gain of approximately HK\$54 million for the first half of the current financial year in growing profitability.

### **Advancement of the customer-oriented sales & marketing management system met with further progress for partnerships in major sectors**

The contract value of the Group's Services Business for the second quarter of the current financial year was approximately HK\$1,271 million, up by 31.83% as compared to the corresponding period of last financial year. The contract value of the Group's Services Business for the six months ended 30 September 2008 was approximately HK\$2,783 million, up by 43.94% as compared to the corresponding period of last financial year. In the banking sector, further progress was made in our efforts to secure new customers among city banks. In the telecommunications sector, telecommunications and mobile service companies were signed up for core-business system projects. With the completion of infrastructure networks of new telecommunications carriers, massive opportunities in core-business systems and value-added maintenance services are expected.

### **Continued improvements in our research and development capabilities underpinned by successful launch of self-developed solutions**

The Group's service businesses in providing solutions made inroads in the three major sectors. In the telecommunications sector, several major mobile service carriers were signed up for BOSS 3.0, a new-generation of core operating system. In the banking sector, contracts signed up for the development of inter-bank deposit and cashing systems for city credit unions have further enriched our range of solutions for the financial industry. In the government sector, contracts were signed up for the integrated servicing and business intelligence system for public transport, the Treasury Bureau budget management system and the grain reserve management information system as these solutions became ready for application with the conclusion of research and development.

### **Stable expansion of our PSOM business**

Revenue from the products support and IT outsourcing and maintenance services (PSOM) under the Group's Services Business for the six months ended 30 September 2008 amounted to approximately HK\$263 million, up by 81.95% as compared to the corresponding period of last financial year. Meanwhile, with the launch of the "Proficient Service Package" (銳行服務) during the current financial year, a complete regime of IT services and products was formed on the back of services to existing telecommunications and banking customers, covering the six product lines of consultancy, maintenance and repair, outsourcing of operations, system testing, professional services and training. We have plans to market these services to the securities and government sectors in addition to our existing customer base.

## **Management Outlook**

The Group continued to report steady business growth and excellent results for the first half of the year as management expectations were duly fulfilled in a timely manner. In the second half of the year, the Group will continue to implement its strategic transformation to a "customer-focused and service-oriented" business approach to enhance profitability and customer-oriented business value. In response to challenges in the current economic and market environment, the Group will seek to ensure stable business operation by maintaining sound operating cash flow, stringent trade receivables and inventory management, close monitoring of the impact of Renminbi/U.S. Dollar exchange rate fluctuations as well as rigorous staffing management and labour cost control. The management remains confident that the Group will register outperforming growth for the current financial year given its leading edge in various customer sectors and effective risk control measures.

## 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\$11,318 million at 30 September 2008 which were financed by total liabilities of HK\$8,560 million, minority interests of HK\$20 million and equity attributable to equity holders of the parent of HK\$2,738 million. The Group's current ratio at 30 September 2008 was 1.38 as compared to 1.43 at 30 June 2008 and 1.56 at 31 March 2008.

During the six months ended 30 September 2008, capital expenditure of HK\$47 million was mainly incurred for the acquisition of office equipment and IT infrastructure facilities.

The aggregate borrowings as a ratio of equity attributable to equity holders of the parent was 0.75 at 30 September 2008 as compared to 1.15 at 30 June 2008 and 0.60 at 31 March 2008. The computation of the said ratio was based on the total interest-bearing borrowings and bond payable of HK\$2,052 million (30 June 2008 and 31 March 2008: HK\$3,161 million and HK\$1,574 million respectively) and equity attributable to equity holders of the parent of HK\$2,738 million (30 June 2008 and 31 March 2008: HK\$2,749 million and HK\$2,626 million respectively).

At 30 September 2008, the denomination of the interest-bearing borrowings and bond payable of the Group was shown as follows:

|   | <b>Denominated<br/>in United<br/>States dollar<br/>HK\$'000</b> | <b>Denominated<br/>in Renminbi<br/>HK\$'000</b> | <b>Denominated<br/>in Hong Kong<br/>dollars<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
|---|---|---|--|---------------------------|
| <b>Current</b>                              |   |   |  |                           |
| Interest-bearing bank borrowings, unsecured | 906,333   | 51,165  | 128,983  | 1,086,481                 |
| Interest-bearing bank borrowings, secured   | –   | 32,973  | –  | 32,973                    |
|   | 906,333   | 84,138  | 128,983  | 1,119,454                 |
| <b>Non-current</b>                          |   |   |  |                           |
| Interest-bearing bank borrowings, unsecured | –   | 704,946   | –  | 704,946                   |
| Bond payable                                | –   | 227,402   | –  | 227,402                   |
|   | –   | 932,348   | –  | 932,348                   |
| <b>Total</b>                                | 906,333   | 1,016,486                                       | 128,983  | 2,051,802                 |

Included in the Group's current borrowings of approximately HK\$33 million extended by a financial institution to a subsidiary of the Group, Beijing Digital China Si-Tech Information Technology Co., Ltd. ("**STQ**"), were secured by a property situated in the Mainland China with a value of approximately HK\$20 million at 30 September 2008 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. Included in the Group's current and non-current bank borrowings of approximately HK\$51 million and HK\$705 million respectively represented the term loans and are repayable from Year 2008 to 2013.

In December 2007, Digital China (China) Limited, a wholly-owned subsidiary of the Company, and three independent third parties entered into an agreement with the underwriters to issue a bond to institutional and public investors in the Mainland China with an aggregate principal amount of RMB305 million. Pursuant to the agreement, the Group issued a RMB200 million (equivalent to approximately HK\$227 million) bond (the **"Bond"**) for financing the development of IT services business. The Bond carries interest at a rate of 6.68% per annum, which is payable semi-annually and will mature in December 2010. For the purpose of the Bond, Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd. (**"ZGC Guaranty"**), an independent third party, has unconditionally and irrevocably undertaken joint and several guarantee liabilities in full (the **"Guarantee Liabilities"**) in favour of Digital China (China) Limited. Concurrently, the China Development Bank has authorised its business department to undertake general guarantee liability in respect of the Guarantee Liabilities of ZGC Guaranty, and Digital China Software Limited, a wholly-owned subsidiary of the Company, has undertaken joint and several liabilities in respect of the Guarantee Liabilities of ZGC Guaranty.

The Group's total available credit facilities at 30 September 2008 amounted to HK\$9,282 million, of which HK\$1,148 million were in term loan facilities, HK\$6,188 million were in trade lines and HK\$1,946 million were in short-term and revolving money market facilities. At 30 September 2008, the facility drawn down was HK\$756 million in term loan facilities, HK\$1,951 million in trade lines and HK\$923 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 2008, the Group had approximately 8,500 (30 September 2007: approximately 7,300) full-time employees. The majority of these employees work in the PRC. The Group offers remuneration packages in line with industry practice. Employees' remuneration includes basic salaries and bonuses. With the increase in the total number of staff to cope with its business requirements, the Group has recorded a 31.57% increase in staff costs to approximately HK\$671 million for the six months ended 30 September 2008 as compared with an approximate sum of approximately HK\$510 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 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.

## OTHER INFORMATION

### Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2008 (six months ended 30 September 2007: Nil).

### Directors', Chief Executive's and Substantial Shareholders' Interests in Shares and Underlying Shares

At 30 September 2008, the following persons had the following interests in shares and underlying shares of the Company as recorded in the registers required to be kept by the Company under Sections 352 and 336 of Part XV of the Securities and Futures Ordinance (the "SFO"), or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") adopted by the Company:

| Name  | Capacity   | Number of shares and underlying shares<br>(Note 1) | Percentage of aggregate holding in shares (%)<br>(Note 13) |
|---|--|--|--|
| Sparkling Investment (BVI) Limited<br>(Note 2)  | Beneficial owner/<br>Interests of parties to concert group agreement (Note 12)                     | 176,745,052/<br>388,128,995                        | 40.33  |
| SAIF III GP Capital Ltd. (Note 2)               | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12) | 176,745,052/<br>388,128,995                        | 40.33  |
| Andrew Y. YAN* (Note 2)                         | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12) | 176,852,744/<br>389,263,997                        | 40.45  |
| Charmway Trading Limited (Note 3)               | Beneficial owner/<br>Interests of parties to concert group agreement (Note 12)                     | 77,325,960/<br>388,128,995                         | 40.33  |
| Hony Capital Fund III, L.P. (Note 3)            | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12) | 77,325,960/<br>388,128,995                         | 40.33  |
| Hony Capital Fund III, G.P. L.P.<br>(Note 3)    | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12) | 77,325,960/<br>388,128,995                         | 40.33  |
| Hony Capital Fund III, G.P. Limited<br>(Note 3) | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12) | 77,325,960/<br>388,128,995                         | 40.33  |

| Name  | Capacity  | Number of shares and underlying shares<br>(Note 1) | Percentage of aggregate holding in shares (%)<br>(Note 13) |
|---|---|--|--|
| Hony Capital Management III Limited<br>(Note 3)                             | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12)                      | 77,325,960/<br>388,128,995                         | 40.33  |
| John Huan ZHAO (Note 3)   | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12)                      | 77,325,960/<br>388,128,995                         | 40.33  |
| Fine Elite Management Limited<br>(Note 4)                                   | Beneficial owner/<br>Interests of parties to concert group agreement (Note 12)  | 33,139,697/<br>388,128,995                         | 40.33  |
| IDG Technology Venture Investment III, LLC (Note 4)                         | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12)                      | 33,139,697/<br>388,128,995                         | 40.33  |
| IDG-Accel China Growth Fund GP Associates Ltd. (Note 4)                     | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12)                      | 33,139,697/<br>388,128,995                         | 40.33  |
| Patrick J. MCGOVERN (Note 4)  | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12)                      | 33,139,697/<br>388,128,995                         | 40.33  |
| Quan ZHOU (Note 4)  | Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12)                      | 33,139,697/<br>388,128,995                         | 40.33  |
| Kosalaki Investments Limited (Note 5)                                       | Beneficial owner/<br>Interests of parties to concert group agreement (Note 12)  | 89,414,286/<br>388,128,995                         | 40.33  |
| GUO Wei* (Notes 5 & 6)  | Beneficial owner/<br>Interest of a controlled corporation/<br>Interests of parties to concert group agreement (Note 12) | 12,464,000/<br>89,414,286/<br>389,263,997          | 40.45  |
| Legend Holdings Limited<br>(Notes 7 & 8)                                    | Beneficial owner/<br>Interest of a controlled corporation   | 15,013,077/<br>141,368,642                         | 16.25  |
| Employees' Shareholding Society of Legend Holdings Limited<br>(Notes 7 & 9) | Interest of controlled corporations   | 156,381,719  | 16.25  |

| Name                        | Capacity                            | Number of<br>shares and<br>underlying shares<br><i>(Note 1)</i> | Percentage of<br>aggregate holding<br>in shares (%)<br><i>(Note 13)</i> |
|-----------------------------|-------------------------------------|---|---|
| Allianz SE <i>(Note 10)</i> | Interest of controlled corporations | 67,512,000  | 7.02  |
| LIN Yang* <i>(Note 11)</i>  | Beneficial owner                    | 1,056,000   | 0.11  |

Remark: \* – Directors

Notes:

- All of the interests disclosed herein represent long position in the shares of the Company.
- Sparkling Investment (BVI) Limited (“SIBL”) is wholly-owned by SAIF Partners III L.P.. SAIF Partners III L.P. is controlled by SAIF III GP L.P. which is controlled by Mr. Andrew Y. YAN through SAIF III GP Capital Ltd., therefore, Mr. Andrew Y. YAN was deemed to be interested in such shares in which SIBL was interested.
- Charmway Trading Limited (“CTL”), 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 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.
- Fine Elite Management Limited (“FEML”), 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, L.P. is controlled by IDG Technology Venture Investment III, LLC, which is in turn 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. Both IDG-Accel China Growth Fund L.P. and IDG-Accel China Growth Fund-A L.P. are controlled by IDG-Accel China Growth Fund Associates L.P. which is controlled by IDG-Accel China Growth Fund GP Associates Ltd. and is in turn controlled by Mr. Quan ZHOU and Mr. Patrick J. MCGOVERN.
- Kosalaki Investments Limited (“KIL”), incorporated in the BVI with limited liability, is wholly-owned by Mr. GUO Wei.
- Mr. GUO Wei beneficially owned 12,464,000 shares, of which as to 11,504,000 shares were interests in ordinary shares of the Company and as to 960,000 shares were interests in underlying shares of the Company. Further details of the underlying shares owned by Mr. GUO Wei are set out in section headed “Share Option Scheme” in this report.
- 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, 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.



10. 67,512,000 shares were beneficially held by RCM Asia Pacific Limited. RCM Asia Pacific Limited was indirectly wholly-owned by Allianz SE.
11. Mr. LIN Yang beneficially owned 1,056,000 shares, of which as to 56,000 shares were interests in ordinary shares of the Company and as to 1,000,000 shares were interests in underlying shares of the Company. Further details of the underlying shares owned by Mr. LIN Yang are set out in section headed "Share Option Scheme" in this report.
12. A concert group agreement dated 1 August 2007 entered into among the concert group, namely SIBL, CTL, FEML, KIL and Mr. GUO Wei.
13. The percentage of aggregate holding in shares was calculated on the basis of 962,390,581 shares of the Company in issue at 30 September 2008.

Save as disclosed herein, at 30 September 2008, 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 executives were taken or deemed to have taken under such provisions of the SFO), or which were 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.

Save as disclosed herein, at 30 September 2008, no other interests or short positions in 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 Scheme

The Company adopted a share option scheme on 18 July 2002 (the "Share Option Scheme").

The following table shows the movements in share options under the Share Option Scheme during the six months ended 30 September 2008 and the options outstanding at the beginning and end of the period:

| Grantee                | Number of Share Option       |                           |                              | Subscription price per share<br>HK\$<br>(Note 1) | Date of grant | Exercisable period<br>(Note 2) |
|------------------------|------------------------------|---------------------------|------------------------------|--|---------------|--------------------------------|
|                        | Outstanding as at 01/04/2008 | Granted during the period | Outstanding as at 30/09/2008 |  |               |                                |
| <b>Directors</b>       |                              |                           |                              |  |               |                                |
| GUO Wei                | –                            | 960,000                   | 960,000                      | 5.89   | 21/05/2008    | 21/05/2009-20/05/2016          |
| LIN Yang               | –                            | 1,000,000                 | 1,000,000                    | 5.89   | 21/05/2008    | 21/05/2009-20/05/2016          |
| <b>Other employees</b> |                              |                           |                              |  |               |                                |
|                        | –                            | 7,040,000                 | 7,040,000                    | 5.89   | 21/05/2008    | 21/05/2009-20/05/2016          |
| In aggregate           | –                            | 9,000,000                 | 9,000,000                    |  |               |                                |

*Notes:*

1. 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.
2. 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 date of grant.
3. No options were exercised, lapsed or cancelled under the Share Option Scheme during the period.

The fair value of equity-settled share options granted was estimated as at the date of grant, using a binomial model, taking into account of the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

|                                |                |
|--------------------------------|----------------|
| Dividend yield (%)             | 3.50 per annum |
| Expected volatility (%)        | 45 per annum   |
| Historical volatility (%)      | 45 per annum   |
| Risk-free interest rate (%)    | 2.60 per annum |
| Expected life of option (year) | 8              |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

During the six months ended 30 September 2008, HK\$3,532,000 (six months ended 30 September 2007: HK\$1,482,000) of equity-settled share option expenses was recognised in the income statement in respect of the share options granted.

### **Compliance with the Model Code**

The Company has adopted the Model Code contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its code of conduct of Company for Directors' securities transactions. Having made specific enquiry with the Directors, all 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 2008.

### **Audit Committee**

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 2008.

## Corporate Governance

The Company has complied with the code provisions set out in the “Code on Corporate Governance Practices” (the “Code”) as contained in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2008, except for the following deviations:

### Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. GUO Wei has been taken up the dual role as Chairman and Chief Executive Officer of the Company since 19 December 2007. Mr. GUO has extensive experience in business strategic development and management and is responsible for overseeing the whole business, strategic development and management of the Group. The Board believes that the dual role of Mr. GUO will benefit the Group and the shareholders of the Company as a whole and enables the consistency between the setting up and implementation of the business strategy.

### Code Provision A.4.1

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 Chairman or Managing Director) are subject to retirement by rotation at each annual general meeting in accordance with the Bye-Laws of the Company 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 of the Company has given the shareholders of the Company the right to approve the continuation of the service of the Directors.

### Code Provision A.4.2

The second part of 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 of the Company, 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 and the Managing Director shall not, whilst holding such office, be subject to retirement by rotation. Therefore, Mr. GUO Wei, being the Chairman of the Board, shall not be subject to retirement by rotation.

### Code Provision B.1.1

Code Provision B.1.1 stipulates that a majority of the members of the remuneration committee should be independent non-executive directors.

However, only half of the members of the Remuneration Committee are Independent Non-executive Directors. Since each of the committee members has extensive experience in setting up the remuneration policy for the Directors and senior management, the Board considers that the existing combination of the committee members can mostly conform to the needs of the Company and is also to the optimal efficiency for the operation of the Committee.

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

During the six months ended 30 September 2008, the Company repurchased an aggregate of 1,229,000 ordinary shares at the consideration of the highest and lowest purchase prices of HK\$2.72 and HK\$2.18 per share respectively on the Stock Exchange and the aggregate consideration paid (including transaction costs) was approximately HK\$2,887,000. All of the repurchased shares had been cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2008.

By Order of the Board

**GUO Wei**

*Chairman and Chief Executive Officer*

Hong Kong, 26 November 2008

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