



Digital China Holdings Limited

神州數碼控股有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 00861

2009/10 INTERIM
REPORT

神州数码





Digital China

辉煌盛世



02	Condensed Consolidated Income Statement
03	Condensed Consolidated Statement of Comprehensive Income
04	Condensed Consolidated Statement of Financial Position
05	Condensed Consolidated Statement of Cash Flows
06	Condensed Consolidated Statement of Changes in Equity
07	Notes to the Condensed Consolidated Interim Financial Statements
18	Management Discussion and Analysis

CONTENTS



23	Other Information
23	Interim Dividend
23	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
26	Share Option Scheme
27	Compliance with the Model Code
27	Audit Committee
27	Corporate Governance
28	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 2009 together with comparative figures for the corresponding period of the last financial year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 September 2009 (Unaudited) HK\$'000	Six months ended 30 September 2009 (Unaudited) HK\$'000	Three months ended 30 September 2008 (Unaudited) HK\$'000	Six months ended 30 September 2008 (Unaudited) HK\$'000
REVENUE	3	13,803,936	24,463,948	11,090,595	21,101,305
Cost of sales		(12,961,190)	(22,936,833)	(10,290,844)	(19,639,348)
Gross profit		842,746	1,527,115	799,751	1,461,957
Other income and gains	3	47,933	241,840	60,694	190,519
Selling and distribution costs		(456,555)	(872,086)	(458,282)	(855,706)
Administrative expenses		(87,111)	(176,039)	(94,753)	(178,527)
Other operating expenses, net		(112,161)	(172,800)	(118,137)	(259,373)
Total operating expenses	4	(655,827)	(1,220,925)	(671,172)	(1,293,606)
Finance costs		(30,089)	(55,735)	(46,693)	(87,511)
Share of profits and losses of:					
Jointly-controlled entities		(1,228)	2,050	(253)	447
Associates		488	(1,241)	1,794	4,240
PROFIT BEFORE TAX	5	204,023	493,104	144,121	276,046
Tax	6	(39,984)	(57,877)	(39,804)	(58,835)
PROFIT FOR THE PERIOD		164,039	435,227	104,317	217,211
Attributable to:					
Equity holders of the parent		149,590	411,714	129,444	243,478
Minority interests		14,449	23,513	(25,127)	(26,267)
		164,039	435,227	104,317	217,211
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7				
Basic			42.74 HK cents		25.30 HK cents
Diluted			N/A		N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	435,227	217,211
Other comprehensive income:		
Exchange differences on translation of foreign operations	-	8,199
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	-	8,199
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	435,227	225,410
Attributable to:		
Equity holders of the parent	411,714	251,821
Minority interests	23,513	(26,411)
	435,227	225,410

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 September 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		380,953	397,767
Investment properties		238,516	238,516
Prepaid land premiums		14,467	14,671
Intangible assets		3,527	4,233
Interests in jointly-controlled entities		6,477	6,201
Interests in associates		21,868	23,409
Available-for-sale investments		101,496	101,496
Deferred tax assets		15,987	24,176
Total non-current assets		783,291	810,469
CURRENT ASSETS			
Inventories		2,541,218	2,136,461
Trade and bills receivables	8	6,992,575	5,471,493
Prepayments, deposits and other receivables		1,438,185	1,366,277
Derivative financial instruments		21,031	27,097
Cash and bank balances		2,466,231	1,734,428
Total current assets		13,459,240	10,735,756
CURRENT LIABILITIES			
Trade and bills payables	9	6,971,920	4,697,703
Other payables and accruals		1,583,937	1,681,331
Tax payable		117,705	133,010
Interest-bearing bank borrowings		671,543	875,449
Total current liabilities		9,345,105	7,387,493
NET CURRENT ASSETS		4,114,135	3,348,263
TOTAL ASSETS LESS CURRENT LIABILITIES		4,897,426	4,158,732
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		650,600	701,516
Bond payable		226,296	226,296
Total non-current liabilities		876,896	927,812
NET ASSETS		4,020,530	3,230,920
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	10	102,004	96,239
Reserves		3,679,481	2,903,667
Proposed final dividend		–	140,030
Minority interests		3,781,485	3,139,936
		239,045	90,984
TOTAL EQUITY		4,020,530	3,230,920

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Net cash inflow from operating activities	568,091	13,642
Net cash outflow from investing activities	(19,698)	(46,958)
Net cash inflow from financing activities	183,410	213,493
Net increase in cash and cash equivalents	731,803	180,177
Cash and cash equivalents at the beginning of the period	1,734,428	998,454
Effects of foreign exchange rate changes, net	–	21,704
Cash and cash equivalents at the end of the period	2,466,231	1,200,335

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent										
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Employee	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	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
				share-based							
				compensation reserve (Unaudited) HK\$'000							
At 1 April 2009	96,239	617,803	735,795	8,451	98,004	123,038	1,320,576	140,030	3,139,936	90,984	3,230,920
Profit for the period and total comprehensive income	-	-	-	-	-	-	411,714	-	411,714	23,513	435,227
Issue of shares	5,765	361,235	-	-	-	-	-	-	367,000	-	367,000
Equity-settled share option arrangements	-	-	-	2,865	-	-	-	-	2,865	-	2,865
Capital contribution from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	124,548	124,548
Gain on deemed disposal of interest in a subsidiary	-	-	142,449	-	-	-	(142,449)	-	-	-	-
Final 2009 dividends	-	-	-	-	-	-	-	(140,030)	(140,030)	-	(140,030)
At 30 September 2009	102,004	979,038	878,244	11,316	98,004	123,038	1,589,841	-	3,781,485	239,045	4,020,530
At 1 April 2008	96,362	620,567	625,334	-	81,330	115,520	946,596	140,210	2,625,919	17,777	2,643,696
Profit/(loss) for the period	-	-	-	-	-	-	243,478	-	243,478	(26,267)	217,211
Other comprehensive income/(loss)	-	-	-	-	-	8,343	-	-	8,343	(144)	8,199
Total comprehensive income/(loss)	-	-	-	-	-	8,343	243,478	-	251,821	(26,411)	225,410
Repurchase and cancellation of shares	(123)	(2,764)	-	-	-	-	-	-	(2,887)	-	(2,887)
Equity-settled share option arrangements	-	-	-	3,532	-	-	-	-	3,532	-	3,532
Capital contribution from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	35,181	35,181
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	(6,822)	(6,822)
Final 2008 dividends	-	-	-	-	-	-	-	(140,210)	(140,210)	-	(140,210)
At 30 September 2008	96,239	617,803	625,334	3,532	81,330	123,863	1,190,074	-	2,738,175	19,725	2,757,900

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 2009 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In preparing the unaudited condensed consolidated interim financial 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 2009 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 affect the Group and has adopted the first time for the current period’s unaudited condensed consolidated interim financial statements:

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC) – Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) – Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC) – Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC) – Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC) – Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

* *Improvements to HKFRSs* contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

Except for HKFRS 8 and HKAS 1 (Revised) giving rise to new accounting policies and additional disclosure as further described below, the adoption of the new interpretations and amendments has had no significant effect on these condensed consolidated interim financial statements.

(a) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group’s major customers.

1. Basis of presentation (Continued)

(b) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements.

2. Operating segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has four reportable segments. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's reportable segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other reportable segments. Summary details of the reportable 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;
- (c) the "Supply Chain Services" segment engages in the provision of one-stop supply chain consultancy and execution services to IT and other high-value density products manufacturers and major accounts, including various processes of management over transportation logistics, transaction processing, financing and information data, as well as providing modular or tailor-made services; and
- (d) the "Services" segment engages in the provision of systems integration, application software development, consultancy and training, etc..

2. Operating segments (Continued)

The following table presents revenue and results for the Group's operating segments for the six months ended 30 September 2009 and 2008:

	Distribution		Systems		Supply Chain Services		Services		Consolidated	
	Six months ended 30 September									
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	11,149,144	9,705,918	6,518,568	6,407,472	4,686,003	2,428,089	2,110,233	2,559,826	24,463,948	21,101,305
Segment gross profit	474,494	444,351	584,097	591,467	150,293	93,680	318,231	332,459	1,527,115	1,461,957
Segment results	139,727	175,978	181,921	177,616	39,522	24,672	69,450	54,325	430,620	432,591
Interest income, unallocated revenue and gains									219,945	61,265
Unallocated expenses									(102,535)	(134,986)
Finance costs									(55,735)	(87,511)
Share of profits and losses of:										
Jointly-controlled entities	-	-	-	-	-	-	2,050	447	2,050	447
Associates	-	-	-	-	-	-	(1,241)	4,240	(1,241)	4,240
Profit before tax									493,104	276,046
Tax									(57,877)	(58,835)
Profit for the period									435,227	217,211

3. Revenue, other income and gains

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

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

	Six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Revenue	24,463,948	21,101,305
Other income		
Government grants	31,247	32,862
Bank interest income	7,040	6,661
Gross rental income	18,501	15,811
Others	7,878	7,945
	64,666	63,279
Gains		
Gain on derivative financial instruments:		
Realised gain	26,778	11,869
Unrealised gain	4,751	–
Gain on deemed disposal of interest in a subsidiary	142,449	–
Foreign exchange differences, net	1,489	108,584
Others	1,707	6,787
	177,174	127,240
	241,840	190,519

4. Total operating expenses

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

	Six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Selling expenses	125,431	129,624
Promotion and advertising expenses	67,148	100,355
Staff costs included in operating expenses (including directors' remuneration)	563,489	496,638
Other expenses	464,857	566,989
	1,220,925	1,293,606

5. Profit before tax

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

	Six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Cost of inventories sold	22,354,045	19,319,313
Depreciation	41,804	41,506
Amortisation of prepaid land premiums	204	204
Amortisation of intangible assets	706	703
Impairment of intangible assets	–	35,181
Provisions for and write-off of obsolete inventories	17,896	59,317
Impairment of trade receivables	85,459	90,495
(Gain)/loss on disposal of items of property, plant and equipment	(845)	1,041

6. Tax

	Six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Group:		
Current – Hong Kong	8,938	4,388
Current – The People's Republic of China ("PRC")	40,750	55,316
Deferred	8,189	(869)
Total tax charge for the period	57,877	58,835

- (a) During the six months ended 30 September 2009 and 2008, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.
- (b) 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 holidays and preferential tax rates.
- (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 2009 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 2009 and 2008. The share of tax charge attributable to the jointly-controlled entities of approximately HK\$230,000 (six months ended 30 September 2008: HK\$181,000) and the share of tax credit attributable to the associates of approximately HK\$245,000 (six months ended 30 September 2008: share of tax charge of approximately HK\$684,000) for the six months ended 30 September 2009 are included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates" respectively in the condensed consolidated income statement.

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

The calculation of basic earnings per share amount is based on the profit for the six months ended 30 September 2009 attributable to ordinary equity holders of the parent of approximately HK\$411,714,000 (six months ended 30 September 2008: HK\$243,478,000), and the weighted average of 963,335,614 (six months ended 30 September 2008: 962,481,559) ordinary shares in issue during the six months ended 30 September 2009.

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

For the six months ended 30 September 2009 and 2008, the outstanding share options had anti-dilutive effect on the basic earnings per share.

8. Trade and bills receivables

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

	At 30 September 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Within 30 days	4,144,609	2,230,866
31 to 60 days	850,870	1,145,323
61 to 90 days	381,510	734,548
91 to 180 days	734,824	819,115
Over 180 days	880,762	541,641
	6,992,575	5,471,493

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 and the jointly-controlled entities of the Group of approximately HK\$8,267,000 (31 March 2009: HK\$679,000) and HK\$1,537,000 (31 March 2009: HK\$412,000), 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 end of reporting period is as follows:

	At 30 September 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Within 30 days	4,039,175	2,724,953
31 to 60 days	2,381,941	1,060,975
61 to 90 days	319,398	453,751
Over 90 days	231,406	458,024
	6,971,920	4,697,703

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 the jointly-controlled entities of the Group of approximately HK\$371,988,000 (31 March 2009: HK\$921,000) and HK\$6,787,000 (31 March 2009: Nil), respectively.

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

10. Share capital

	At 30 September 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Authorised: 2,000,000,000 (31 March 2009: 2,000,000,000) ordinary shares of HK\$0.1 (31 March 2009: HK\$0.1) each	200,000	200,000
Issued and fully paid: 1,020,037,581 (31 March 2009: 962,380,581) ordinary shares of HK\$0.1 (31 March 2009: HK\$0.1) each	102,004	96,239

A summary of the movements of the Company's issued capital is as follows:

	Number of ordinary share in issue	Nominal value of ordinary share HK\$'000
At 1 April 2008	963,619,581	96,362
Repurchase and cancellation of shares	(1,229,000)	(123)
At 30 June 2008 and 31 March 2009	962,390,581	96,239
Issue of shares (<i>note</i>)	57,647,000	5,765
At 30 September 2009	1,020,037,581	102,004

Note:

In September 2009, the Company completed the issue of 57,647,000 new ordinary shares of the Company representing 5.65% of the then enlarged capital of the Company, at the net price of approximately HK\$6.37 per share. The net proceeds of the issue were approximately HK\$367 million. Further details of the transaction were set out in the announcement of the Company dated 16 September 2009.

11. Operating leases arrangements

(i) As lessor

At 30 September 2009, 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 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Within one year	30,094	28,887
In the second to fifth years, inclusive	11,505	23,108
	41,599	51,995

(ii) As lessee

At 30 September 2009, 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 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Within one year	92,429	101,534
In the second to fifth years, inclusive	83,917	75,685
After five years	6,040	7,360
	182,386	184,579

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	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Lenovo Group Limited and its subsidiaries, the associates of the Company's substantial shareholder:			
Sales of goods and provision of IT services by the Group	(i), (iii)	13,462	40,809
Purchases of goods by the Group	(ii)	1,384,738	914,113
GE Capital Mauritius Equity Investment, a substantial shareholder of DGT Information Systems Limited and its subsidiaries:			
Provision of IT services by the Group	(iii)	–	6,362
TIS Inc., a substantial shareholder of DGT Information Systems Limited, and its subsidiaries:			
Provision of IT services by the Group	(iii)	–	20,744
Digital China Golden Vista Company Limited and its subsidiaries, associates of the Group:			
Provision of IT services to the Group	(iii)	10,183	–
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), (iii)	–	1,080
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), (iii)	6,787	–
Digital China BB Limited†, a jointly-controlled entity of the Group:			
Sales of goods by the Group	(i)	2,339	1,467
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), (iii)	–	423

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

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 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 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 and the jointly-controlled entities as at the end of reporting period are included notes 8 and 9 to these unaudited condensed consolidated interim financial statements.
- (ii) At 30 September 2009, 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\$134,081,000 (31 March 2009: HK\$47,336,000).

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

	Six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Short term employee benefits	13,045	10,814
Post-employment benefits	61	75
Share-based payments	966	1,357
Total compensation paid to key management personnel	14,072	12,246

MANAGEMENT DISCUSSION AND ANALYSIS

The Group succeeded in attaining targets in major operating indicators set by the management for the first half of the year as it continued to implement its core strategy of focusing on services and enhancing business value. To capture opportunities arising from varied paces in recovery of different market segments amid generally improved economic sentiments in China, the Group's Management formulated appropriate guiding principles for its operations in a timely manner, with due emphasis on marketing management, swift business expansion and pre-emptive moves for market shares. Meanwhile, we remained vigilant on the management of cash flow and cash turnover and maintained effective fundamental management (such as cost management and risk management). For the six months ended 30 September 2009, the Group sustained overall business growth that considerably outperformed the market, while achieving balance in business growth and risk control underpinned a diminishing overall cost ratio and sound operating cash flow.

1.1 Turnover of the Group recovering at accelerated pace to considerably outperform the overall growth rate of China's IT market, underpinned by historical high for the second quarter

The Group recorded turnover of HK\$24,464 million for the six months ended 30 September 2009, an increase of 15.94% as compared to HK\$21,101 million for the corresponding period of last financial year, outperforming considerably the overall growth rate of China's IT market and maintaining dominant positions in its principal businesses. In particular, the Group reported turnover of HK\$13,804 million for the second quarter of the current financial year, representing a 24.47% growth over the corresponding period of last financial year and a historical high in turnover for any single quarterly period.

1.2 Marked improvements in profitability driven by effective overall cost management

The Group's profit attributable to shareholders of the parent (profit attributable to shareholders) for the six months ended 30 September 2009 grew 69.10% to approximately HK\$412 million, as compared to approximately HK\$243 million for the corresponding period of last financial year, thanks to effective cost management that brought down overall operating costs of the Group by 5.62% on a year-on-year basis. Basic earnings per share grew 68.93% to 42.74 HK cents, as compared to the corresponding period of last financial year.

1.3 Distribution business snatching up market shares in rapid growth

Turnover of the Group's Distribution business for the six months ended 30 September 2009 amounted to HK\$11,149 million, representing a 14.87% growth over the corresponding period of last financial year that outperformed the overall growth rate of China's IT distribution market, as the Group's Management implemented specific measures to grasp favorable business opportunities to expand market shares, based on agile assessments over the changes of China's retail market. In particular, the Distribution business reported turnover of HK\$6,296 million for the second quarter of the current financial year, representing growth of 25.52% year-on-year or 29.71% quarter-on-quarter.

1.4 Sound operating cash flows and continuous improvements in efficiency of cash turnover driven by stringent risk management measures

For the six months ended 30 September 2009, the Group continued to report sound cash flow, with overall net cash inflow from operating activities amounting to approximately HK\$568 million, as compared to net operating cash inflow of approximately HK\$14 million for the corresponding period of last financial year. This was attributable primarily to continuous improvements in the Group's cash turnover efficiency, achieved through measures to control cash flow such as comprehensive inventory management, close coordination between purchases and sales, as well as management over revenue collection. The Group's cash turnover cycle for the six months ended 30 September 2009 was 19.20 days, which was significantly lower by 6.58 days as compared to the corresponding period of last financial year. Our cash turnover cycle for the second quarter of the current financial year was reduced to 15.98 days, which was well below the average level for our industry peers.

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

Swift expansion to snatch up market shares supported by effective, market-specific strategies

Turnover of the Group's Distribution business for the six months ended 30 September 2009 amounted to HK\$11,149 million, representing a 14.87% growth over the corresponding period of last financial year that outperformed the market for the same segment.

New businesses were expanding rapidly as we continued to broaden our regional network and channel development

Our Distribution business delivered outstanding performance during the six months ended 30 September 2009 in terms of new business expansion in the consumer and commercial business sectors, providing solid support for business growth in the current quarter. Subsequent to the appointment as a Class A Distributor for China Mobile during the first quarter, the Company signed up national partnership with China Unicom during the second quarter in relation to its WO-3G business, with special emphasis on the iPhone. This deal completed our coverage of China's big-three telecommunications carriers (China Mobile, China Unicom and China Telecom) as a nationwide service provider. Moreover, our Distribution business also made significant inroads in soliciting new markets for our products, as we entered into deals with leading domestic IT manufacturers such as Founder and Tongfang during the first half of the current financial year to become an important partner of such IT manufacturers, in addition to being the leading partner of foreign manufacturers in China. As at 30 September 2009, turnover contributions from tiers 4–6 cities increased by 59% as compared to the corresponding period of last financial year as the number of effective channels for the Group's Distribution business grew 40% year-on-year, underpinned by the opening of Digital China's over 300 "@PORT" franchise retail outlets countrywide.

Rapid growth sustained in the notebooks, PC servers and consumer IT products

For the six months ended 30 September 2009, turnover for these three principal business lines of the Group's Distribution business grew by 51.78%, 41.02% and 22.49%, respectively.

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

Surviving the doldrums to attain growth in an adverse market

Turnover of the Group's Systems business for the six months ended 30 September 2009 grew 1.73% to approximately HK\$6,519 million as compared to the corresponding period of last financial year, which was driven by a 8.92% turnover growth for the second quarter to approximately HK\$3,409 million that had the effect of boosting the overall recovery of the Systems business for the current financial year. The Group survived the doldrums of a subdued corporate market and severe economic conditions in general during the first quarter of the current financial year, thanks to proactive initiatives adopted by the Group's Management to realign its strategies, streamline internal business structures and identify new customer demands in answer to the challenge. As a result, we were able to report turnover growth for the second quarter against adverse market conditions, which was well above the overall growth rate of the market for the same sector.

Opening up regional markets in answer to challenges and upgrading solution capabilities to keep abreast of customer requirements

Our Systems business continued to analyse and differentiate the regional markets as various innovative approaches were employed to tap regional customers in the energy and telecommunications sectors. For the six months ended 30 September 2009, our regional customer business grew by 41.34% as compared to the corresponding period of last financial year. We also endeavoured to improve our ability to provide solutions that address the needs of our customers. In this connection, we have made groundbreaking progress in the building of city contingency systems and the development of smart network solutions.

Rapid growth in storage products and Unix servers through collaborated efforts with manufacturers

For the six months ended 30 September 2009, contributions from storage products and Unix servers to the turnover of the Group's Systems business grew by 39.41% and 14.14%, respectively, as compared to the corresponding period of last financial year.

2.3 Supply Chain Services Business (with a primary focus on the High-tech Industries Market) ***Ongoing rapid growth providing strong support for our overall results***

Our Supply Chain Services business sustained rapid growth during the six months ended 30 September 2009 to provide strong support for the Group's overall business growth, with segment turnover growing 92.99% to approximately HK\$4,686 million as compared to the corresponding period of last financial year. Turnover from the Fulfillment business (FA business) reported growth of 103.12% over the corresponding period of last financial year, while turnover from mega Chain Electronic Stores (CES) grew 72.86% on the back of business model innovations, process re-engineering, introduction of new products and expanded scope for partnerships. Turnover contributions from the logistics and maintenance services within the Supply Chain Services business were also improving following initiatives in internal capacity building, process streamlining and re-structuring.

2.4 Services Business (with a primary focus on the Industry Market)

Profitability on the rise with focus on software and services business planning

The Group's Services business was focused on customer value enhancement during the current financial year, as we emphasised software and services while seeking to reduce the weighting of unsophisticated, hardware-related businesses. While turnover of the Group's Services business for the six months ended 30 September 2009 decreased by 17.56% year-on-year to approximately HK\$2,110 million, turnover from the software and services businesses was steadily on the rise to account for an increasing percentage share. Profitability of the Services business was growing as an overall gross profit margin of 15.08% was reported for the six months ended 30 September 2009, which was significantly higher as compared to 12.99% for the corresponding period of last financial year.

Successful launch of solutions backed by growing strengths in software R&D

The Group's software solution business reported encouraging progress in the three major sectors. In the financial sector, a deal was signed with Xuchang Commercial Bank in the second quarter in respect of Model Bank Express, a core business system application software and related services, following the successful launch of the new-generation core banking system for Qilu Bank in the first quarter of the current financial year. In the telecommunications sector, we made aggressive moves to increase our market shares as providers for China Telecom and China Unicom, while maintaining our existing business with China Mobile. In this connection, deals in respect of Beijing Unicom 3G support system and Xinjiang Unicom BSS project were concluded during the financial year. In the government sector, the Group won the bid for two consultancy projects in connection with the Phase III financial and taxation system project of the State Administration of Taxation in August, paving the way for further involvements in the Phase III financial and taxation system project and reinforcing our leadership in the State tax sector. The Group also won government projects in Miyun District of Beijing and Wuxi of Jiangsu Province, following the successful launch of the Yangzhou Citizen Card in May.

Management Outlook

Business targets set by the Board of Directors have been duly attained as the Group delivered excellent results on the back of stable business growth during the first half of the year. As we are entering the latter half of the financial year, we will continue to persist in the strategic principles of being customer-focused and service-oriented, in a bid to enhance our profitability and add value for customers on a continuing basis. We intend to devise effective marketing strategies to address the varied paces in recovery of different market segments amid generally improved economic sentiments, with a view to expanding and snatching up market shares in all business segments as well as enhancing customer value. Meanwhile, we will continue to ensure stable business operation by maintaining sound operating cash flow and stringent management over trade receivables and inventory, monitoring any changes in economic indicators and market data, as well as exercising more vigorous staff management and labour cost control. The management believes that, as China's overall economic development remains in a positive trend, the Group will maintain outperforming growth for the full financial year on the back of its dominance in various segment customer groups and an effective risk control regime.

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\$14,242 million at 30 September 2009 which were financed by total liabilities of HK\$10,222 million, minority interests of HK\$239 million and equity attributable to equity holders of the parent of HK\$3,781 million. The Group's current ratio at 30 September 2009 was 1.44 as compared to 1.47 at 30 June 2009 and 1.45 at 31 March 2009.

During the six months ended 30 September 2009, capital expenditure of HK\$27 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 0.41 at 30 September 2009 as compared to 0.46 at 30 June 2009 and 0.57 at 31 March 2009. The computation of the said ratio was based on the total interest-bearing bank borrowings and bond payable of HK\$1,548 million (30 June 2009 and 31 March 2009: HK\$1,556 million and HK\$1,803 million respectively) and equity attributable to equity holders of the parent of HK\$3,781 million (30 June 2009 and 31 March 2009: HK\$3,404 million and HK\$3,140 million respectively).

At 30 September 2009, the denomination of the interest-bearing bank borrowings and bond payable of the Group was shown as follows:

	Denominated in United States dollars HK\$'000	Denominated in Renminbi HK\$'000	Denominated in Hong Kong dollars HK\$'000	Total HK\$'000
Current				
Interest-bearing bank borrowings, unsecured	155,008	50,916	442,989	648,913
Interest-bearing bank borrowings, secured	–	22,630	–	22,630
	155,008	73,546	442,989	671,543
Non-current				
Interest-bearing bank borrowings, unsecured	–	650,600	–	650,600
Bond payable	–	226,296	–	226,296
	–	876,896	–	876,896
Total	155,008	950,442	442,989	1,548,439

Included in the Group's current bank borrowings of approximately HK\$23 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\$19 million at 30 September 2009 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\$651 million respectively represented the term loans and are repayable from Year 2010 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\$226 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 issue 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 the 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 2009 amounted to HK\$12,299 million, of which HK\$1,143 million were in term loan facilities, HK\$9,531 million were in trade lines and HK\$1,625 million were in short-term and revolving money market facilities. At 30 September 2009, the facility drawn down was HK\$702 million in term loan facilities, HK\$3,779 million in trade lines and HK\$291 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 2009, the Group had approximately 9,300 (30 September 2008: approximately 8,500) 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 11.03% increase in staff costs to approximately HK\$745 million for the six months ended 30 September 2009 as compared to approximately HK\$671 million for the corresponding period of last financial year. In order to attract and retain a high calibre 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 2009 (for the six months ended 30 September 2008: Nil).

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

At 30 September 2009, 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 Issuers adopted by the Company (the "Model Code") were as follows:

Name of directors	Capacity	Interests in shares (Note 1)	Interests in underlying shares (Note 2)	Percentage of aggregate holding (%) (Note 3)
GUO Wei	Beneficial owner/ Interest of controlled corporation (Note 4)/ Interests of parties to concert group agreement (Note 5)	1,504,000/ 89,414,286/ 389,522,997	960,000	38.19
Andrew Y. YAN	Interest of controlled corporation (Note 6)/ Interests of parties to concert group agreement (Note 5)	187,111,744/ 389,522,997	–	38.19
LIN Yang	Beneficial owner	56,000	1,000,000	0.10

Notes:

- All of the interests disclosed herein represent long position in the shares of the Company.
- The share options held by Mr. GUO Wei and Mr. LIN Yang were granted on 21 May 2008 and are exercisable from 21 May 2009 to 20 May 2016 at an exercise price of HK\$5.89 per share for subscription of ordinary shares of the Company.
- The percentage of aggregate holding in shares was calculated on the basis of 1,020,037,581 shares of the Company in issue as at 30 September 2009.
- 89,414,286 shares of the Company were beneficially held by Kosalaki Investments Limited ("KIL"), incorporated in the British Virgin Islands (the "BVI") with limited liability, which is wholly-owned by Mr. GUO Wei, therefore, Mr. GUO Wei was deemed to be interested in such shares in which KIL was interested.
- A concert parties agreement dated 1 August 2007 entered into among the concert group, namely Sparkling Investment (BVI) Limited ("SIBL"), Charmway Trading Limited ("CTL"), Fine Elite Management Limited ("FEML"), KIL and Mr. GUO Wei.
- 187,111,744 shares of the Company were beneficially held by SIBL, which 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.

Save as disclosed above, at 30 September 2009, 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 or 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 2009, to the best knowledge of the Directors, 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 which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO:

Name	Capacity	Number of shares (Note 1)	Percentage of aggregate holding in shares (%) (Note 11)
Sparkling Investment (BVI) Limited (Note 2)	Beneficial owner/ Interests of parties to concert group agreement (Note 10)	187,111,744/ 389,522,997	38.19
SAIF III GP Capital Ltd. (Note 2)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	187,111,744/ 389,522,997	38.19
Charmway Trading Limited (Note 3)	Beneficial owner/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
Hony Capital Fund III, L.P. (Note 3)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
Hony Capital Fund III, G.P. L.P. (Note 3)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
Hony Capital Fund III, G.P. Limited (Note 3)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
Hony Capital Management III Limited (Note 3)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
John Huan ZHAO (Note 3)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	77,373,077/ 389,522,997	38.19
Fine Elite Management Limited (Note 4)	Beneficial owner/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19

Name	Capacity	Number of shares (Note 1)	Percentage of aggregate holding in shares (%) (Note 11)
IDG Technology Venture Investment III, LLC (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
IDG Technology Venture Investment III, L.P. (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
IDG-Accel China Growth Fund GP Associates Ltd. (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
IDG-Accel China Growth Fund Associates L.P. (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
IDG-Accel China Growth Fund L.P. (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
Patrick J. MCGOVERN (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
Quan ZHOU (Note 4)	Interest of a controlled corporation/ Interests of parties to concert group agreement (Note 10)	33,159,890/ 389,522,997	38.19
Kosalaki Investments Limited (Note 5)	Beneficial owner/ Interests of parties to concert group agreement (Note 10)	89,414,286/ 389,522,997	38.19
Legend Holdings Limited (Notes 6 & 7)	Beneficial owner/ Interest of a controlled corporation	15,013,077/ 141,368,642	15.33
Employees' Shareholding Society of Legend Holdings Limited (Notes 6 & 8)	Interests of controlled corporations	156,381,719	15.33
Allianz SE (Note 9)	Interests of controlled corporations	66,410,000	6.51

Notes:

- All of the interests disclosed herein represent long position in the shares of the Company.
- 187,111,744 shares of the Company were beneficially held by SIBL, which 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, director of the Company, through SAIF III GP Capital Ltd..
- 77,373,077 shares of the Company were beneficially held by CTL, which 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 and 45% indirectly by Legend Holdings Limited through Right Lane Limited.

4. 33,159,890 shares of the Company were beneficially held by FEML, 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, 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. 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. which is in turn controlled by Mr. Quan ZHOU and Mr. Patrick J. MCGOVERN. IDG-Accel China Investors L.P. is controlled by IDG-Accel China Investors Associates Ltd. which is in turn controlled by Mr. Quan ZHOU and Mr. Jim BREYER.
5. KIL, incorporated in the BVI with limited liability, is wholly-owned by Mr. GUO Wei.
6. 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.
7. 141,368,642 shares of the Company 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.
8. 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 of the Company in which Legend Holdings Limited was interested.
9. 66,410,000 shares of the Company were beneficially held by RCM Asia Pacific Limited. RCM Asia Pacific Limited was indirectly wholly-owned by Allianz SE.
10. A concert parties agreement dated 1 August 2007 entered into among the concert group, namely SIBL, CTL, FEML, KIL and Mr. GUO Wei.
11. The percentage of aggregate holding in shares was calculated on the basis of 1,020,037,581 shares of the Company in issue as at 30 September 2009.

Save as disclosed herein, as at 30 September 2009, the Company had not been notified by any persons who had interests or short positions in shares or underlying shares of the Company which were required to be 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 2009 and the options outstanding at the beginning and end of the period:

Grantee	Number of share options			Subscription price per share HK\$ (Note 2)	Date of grant	Exercisable period (Note 1)
	Outstanding as at 01/04/2009	Lapsed during the period	Outstanding as at 30/09/2009			
Directors						
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
Other employees	7,040,000	(500,000)	6,540,000	5.89	21/05/2008	21/05/2009-20/05/2016
In aggregate	9,000,000	(500,000)	8,500,000			

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 date 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 granted, exercised or cancelled under the Share Option Scheme during the period.

The fair value of equity-settled share options granted was estimated as at the respective dates of grant, using a binomial model, taking into account 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
Weighted average share price (HK\$)	5.89

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. 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 six months ended 30 September 2009, the Group recognised a share option expense of HK\$2,865,000 (six months ended 30 September 2008: HK\$3,532,000) in the income statement.

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 2009.

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 2009.

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 2009, 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 taking 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 enable the consistency between the setting up and the implementation of the business strategy and benefit the Group and the shareholders of the Company as a whole.

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 the Chairman of the Board or the Managing Director) are subject to retirement by rotation at each annual general meeting in accordance with the Bye-Laws of the Company 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 or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation. Therefore, Mr. GUO Wei, 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 this combination of the committee members can mostly conform to the needs of the Company and is best 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 2009, 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 and Chief Executive Officer

Hong Kong, 10 November 2009

Website: www.digitalchina.com.hk