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Digital China Holdings Limited
神州數碼控股有限公司

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

2010/11
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 2010 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 2010 (Unaudited) HK$'000**	**Six months ended 30 September 2010 (Unaudited) HK$'000**	Three months ended 30 September 2009 (Unaudited) HK$'000	Six months ended 30 September 2009 (Unaudited) HK$'000
REVENUE	3	**14,550,251**	**27,559,755**	13,803,936	24,463,948
Cost of sales		**(13,611,972)**	**(25,792,290)**	(12,961,190)	(22,936,833)
Gross profit		**938,279**	**1,767,465**	842,746	1,527,115
Other income and gains	3	**148,320**	**267,022**	47,933	241,840
Selling and distribution costs		**(544,715)**	**(952,101)**	(456,555)	(872,086)
Administrative expenses		**(113,318)**	**(192,315)**	(87,111)	(176,039)
Other operating expenses, net		**(56,090)**	**(165,992)**	(112,161)	(172,800)
Total operating expenses	4	**(714,123)**	**(1,310,408)**	(655,827)	(1,220,925)
Finance costs		**(55,732)**	**(90,808)**	(30,089)	(55,735)
Share of profits and losses of:					
Jointly-controlled entities		**651**	**1,395**	(1,228)	2,050
Associates		**12,069**	**12,361**	488	(1,241)
PROFIT BEFORE TAX	5	**329,464**	**647,027**	204,023	493,104
Income tax expense	6	**(70,107)**	**(96,664)**	(39,984)	(57,877)
PROFIT FOR THE PERIOD		**259,357**	**550,363**	164,039	435,227
Attributable to:					
Equity holders of the parent		**246,513**	**536,941**	149,590	411,714
Non-controlling interests		**12,844**	**13,422**	14,449	23,513
		259,357	**550,363**	164,039	435,227
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7				
Basic			**52.60 HK cents**		42.74 HK cents
Diluted			**52.39 HK cents**		N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
PROFIT FOR THE PERIOD	**550,363**	435,227
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation of foreign operations	**29,532**	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**29,532**	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**579,895**	435,227
Attributable to:		
Equity holders of the parent	**559,787**	411,714
Non-controlling interests	**20,108**	23,513
	579,895	435,227

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**610,447**	374,260
Investment properties		**241,901**	285,472
Prepaid land premiums		**61,367**	53,072
Goodwill		**223,252**	—
Intangible assets		**4,292**	2,822
Interests in jointly-controlled entities		**2,668**	3,785
Interests in associates		**655,365**	265,173
Available-for-sale investments		**29,823**	101,496
Other receivables	8	**349,111**	332,849
Deferred tax assets		**34,508**	49,118
Total non-current assets		**2,212,734**	1,468,047
CURRENT ASSETS			
Inventories		**3,528,760**	3,368,487
Trade and bills receivables	9	**8,304,116**	6,411,961
Prepayments, deposits and other receivables		**1,634,953**	1,633,760
Derivative financial instruments		**28,392**	15,508
Cash and cash equivalents		**3,462,399**	2,772,026
Total current assets		**16,958,620**	14,201,742
CURRENT LIABILITIES			
Trade and bills payables	10	**9,160,643**	7,209,673
Other payables and accruals		**2,485,817**	1,850,178
Derivative financial instruments		**2,877**	6,456
Tax payable		**152,953**	207,492
Interest-bearing bank borrowings		**817,239**	455,711
Bond payable		**230,548**	226,296
Total current liabilities		**12,850,077**	9,955,806
NET CURRENT ASSETS		**4,108,543**	4,245,936
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,321,277**	5,713,983
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**1,284,335**	1,040,600
Bond payable		**34,582**	—
Total non-current liabilities		**1,318,917**	1,040,600
NET ASSETS		**5,002,360**	4,673,383
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**102,096**	102,077
Reserves		**4,385,858**	3,810,246
Proposed final dividend		**—**	288,505
		4,487,954	4,200,828
Non-controlling interests		**514,406**	472,555
TOTAL EQUITY		**5,002,360**	4,673,383

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash inflow from operating activities	**579,412**	568,091
Net cash outflow from investing activities	**(356,700)**	(19,698)
Net cash inflow from financing activities	**436,316**	183,410
Net increase in cash and cash equivalents	**659,028**	731,803
Cash and cash equivalents at the beginning of the period	**2,772,026**	1,734,428
Effects of foreign exchange rate changes, net	**31,345**	—
Cash and cash equivalents at the end of the period	**3,462,399**	2,466,231

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent										
	Issued share capital (Unaudited) HK$'000	Share premium account (Unaudited) HK$'000	Capital reserve (Unaudited) HK$'000	Employee share-based compensation reserve (Unaudited) HK$'000	Reserve funds (Unaudited) HK$'000	Exchange fluctuation reserve (Unaudited) HK$'000	Retained profits (Unaudited) HK$'000	Proposed final dividend (Unaudited) HK$'000	Total (Unaudited) HK$'000	Non-controlling interests (Unaudited) HK$'000	Total equity (Unaudited) HK$'000
At 1 April 2010	**102,077**	**984,342**	**878,244**	**11,950**	**146,888**	**123,785**	**1,665,037**	**288,505**	**4,200,828**	**472,555**	**4,673,383**
Profit for the period and total comprehensive income	**–**	**–**	**–**	**–**	**–**	**22,846**	**536,941**	**–**	**559,787**	**20,108**	**579,895**
Exercise of share options	**19**	**1,589**	**–**	**(460)**	**–**	**–**	**–**	**–**	**1,148**	**–**	**1,148**
Equity-settled share option arrangements	**–**	**–**	**–**	**1,392**	**–**	**–**	**–**	**–**	**1,392**	**–**	**1,392**
Capital contribution from minority shareholders of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19,871**	**19,871**
Acquisition of interest in a subsidiary	**–**	**–**	**13,304**	**–**	**–**	**–**	**–**	**–**	**13,304**	**3,025**	**16,329**
Acquisition of minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,153)**	**(1,153)**
Final 2010 dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(288,505)**	**(288,505)**	**–**	**(288,505)**
At 30 September 2010	**102,096**	**985,931**	**891,548**	**12,882**	**146,888**	**146,631**	**2,201,978**	**–**	**4,487,954**	**514,406**	**5,002,360**
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

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 2010 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 2010 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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
HK(IFRIC) — Int 17	*Distributions of Non-cash Assets to Owners*
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*
HK Interpretation 4 (Revised in December 2009)	*Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases*

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

2. Operating segment information

For management purposes, 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 operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other reportable segments. Particulars of the Group's four reportable operating segments are summarised as follows:

(a) the "Distribution" segment 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;

2. Operating segment information (Continued)

(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 offering IT planning and IT systems consultation, design and implementation of industry application software and solutions, outsourcing of IT system operation and maintenance, provision of systems integration, consultancy and training, etc.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the profit for the period of each reportable operating segment, which is measured consistently with the Group's profit for the period.

A restructuring had undergone in one of the business units, the Teleco Accounts Team, which transformed the business of distribution of systems products to the provision of systems integration and consultation services since the previous financial year. During the current year, the Group carried out an organisational restructuring by incorporating the Teleco Accounts Team of the Systems Business into the Information Technology Services Group with an aim of strengthening the service transformation and centralising the management of businesses, and targeting at the telecommunications industry's customers. Moreover, during the current year, upon the consideration of the more well-prepared transformation, the Group reclassified the results of this business unit from the "Systems" segment into the "Services" segment and restated the related results of the previous financial year in order to provide a more appropriate presentation for the operating segment information.

The following table presents revenue and results for the Group's operating segments for the six months ended 30 September 2010 and 2009:

	Distribution		Systems		Supply Chain Services		Services		Consolidated	
	Six months ended 30 September									
	2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000	**2010 (Unaudited) HK$'000**	2009 (Unaudited) HK$'000 (Restated)	**2010 (Unaudited) HK$'000**	2009 (Unaudited) HK$'000	**2010 (Unaudited) HK$'000**	2009 (Unaudited) HK$'000 (Restated)	**2010 (Unaudited) HK$'000**	2009 (Unaudited) HK$'000
Segment revenue:										
Sales to external customers	**13,268,981**	11,149,144	**6,467,788**	5,856,737	**5,174,242**	4,686,003	**2,648,744**	2,772,064	**27,559,755**	24,463,948
Segment gross profit	**573,906**	474,494	**603,332**	539,582	**204,743**	150,293	**385,484**	362,746	**1,767,465**	1,527,115
Segment results	**198,587**	139,727	**260,985**	158,871	**45,509**	39,522	**113,490**	92,500	**618,571**	430,620
Interest income, unallocated revenue and gains									**152,208**	219,945
Unallocated expenses									**(46,700)**	(102,535)
Finance costs									**(90,808)**	(55,735)
Share of profits and losses of:										
Jointly-controlled entities	**–**	–	**–**	–	**–**	–	**1,395**	2,050	**1,395**	2,050
Associates	**–**	–	**–**	–	**–**	–	**12,361**	(1,241)	**12,361**	(1,241)
Profit before tax									**647,027**	493,104
Income tax expense									**(96,664)**	(57,877)
Profit for the period									**550,363**	435,227

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	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue	**27,559,755**	24,463,948
Other income		
Government grants	**25,827**	31,247
Bank interest income	**7,763**	7,040
Imputed interest income on other receivables	**9,948**	—
Gross rental income	**16,702**	18,501
Others	**22,759**	7,878
	82,999	64,666
Gains		
Gain on derivative financial instruments:		
Realised gain	**77,999**	26,778
Unrealised gain	**22,200**	4,751
Gain on deemed disposal of interest in a subsidiary	**—**	142,449
Foreign exchange differences, net	**83,444**	1,489
Others	**380**	1,707
	184,023	177,174
	267,022	241,840

4. Total operating expenses

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

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Selling expenses	**136,179**	125,431
Promotion and advertising expenses	**70,893**	67,148
Staff costs included in operating expenses (including directors' remuneration)	**611,612**	563,489
Other expenses	**491,724**	464,857
	1,310,408	1,220,925

5. Profit before tax

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

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**25,298,289**	22,354,045
Depreciation	**43,783**	41,804
Amortisation of prepaid land premiums	**249**	204
Amortisation of intangible assets	**711**	706
Provisions for and write-off of obsolete inventories	**59,471**	17,896
Impairment of trade receivables	**8,912**	85,459
Loss/(gain) on disposal of items of property, plant and equipment	**1,321**	(845)
Fair value loss on investment properties	**58**	—

6. Income tax expense

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Group:		
Current — Hong Kong	**1,029**	8,938
Current — The People's Republic of China ("**PRC**")	**80,077**	40,750
Deferred	**15,558**	8,189
Total tax charge for the period	**96,664**	57,877

(a) During the six months ended 30 September 2010 and 2009, 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 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 2010 and 2009. 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 2010 and 2009. The share of tax charge attributable to the jointly-controlled entities of approximately HK$251,000 (six months ended 30 September 2009: HK$230,000) and the share of tax charge attributable to the associates of approximately HK$3,279,000 (six months ended 30 September 2009: share of tax credit of approximately HK$245,000) for the six months ended 30 September 2010 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 2010 attributable to ordinary equity holders of the parent of approximately HK$536,941,000 (six months ended 30 September 2009: HK$411,714,000), and the weighted average of 1,020,858,466 (six months ended 30 September 2009: 963,335,614) ordinary shares in issue during the six months ended 30 September 2010.

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.

The calculation of diluted earnings per share amount for the six months ended 30 September 2010 was based on the profit for the six months ended 30 September 2010 attributable to ordinary equity holders of the parent of approximately HK$536,941,000 and 1,024,903,862 ordinary shares, which represented the weighted average of 1,020,858,466 ordinary shares in issue during the six months ended 30 September 2010, and the weighted average of 4,045,396 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 2010.

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

8. Other receivables

The balance represented the outstanding cash consideration due from Beijing Digital China Information Technology Academe Co. Ltd. ("**Beijing DCITACL**") in respect of its acquisition of the Group's 19.51% equity interest in DCITS during the prior year. Beijing DCITACL is a related party of the Company, in which Mr. GUO Wei, the Chairman and the Chief Executive Officer of the Company, has beneficial interest in this company. Further details of the acquisition are set out in the Company's circular dated 6 October 2009.

Pursuant to the disclosure requirement of Section 161B of Hong Kong Companies Ordinance, the maximum amount outstanding during the six months ended 30 September 2010 amounted to HK$349,111,000.

9. 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 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Within 30 days	**4,622,362**	3,366,585
31 to 60 days	**1,100,816**	548,099
61 to 90 days	**493,701**	794,480
91 to 180 days	**907,661**	875,980
Over 180 days	**1,179,576**	826,817
	8,304,116	6,411,961

9. Trade and bills receivables (Continued)

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 entity of the Group of approximately HK$43,469,000 (31 March 2010: HK$1,329,000) and HK$328,000 (31 March 2010: HK$296,000), respectively.

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

10. 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 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Within 30 days	**4,482,490**	3,939,790
31 to 60 days	**3,045,644**	2,040,302
61 to 90 days	**928,988**	501,732
Over 90 days	**703,521**	727,849
	9,160,643	7,209,673

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 of approximately HK$546,916,000 (31 March 2010: HK$511,815,000).

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

11. Operating leases arrangements

(i) As lessor

At 30 September 2010, 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 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Within one year	**11,991**	24,365
In the second to fifth years, inclusive	**—**	98
	11,991	24,463

(ii) As lessee

At 30 September 2010, 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 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Within one year	**93,134**	96,371
In the second to fifth years, inclusive	**82,033**	125,800
After five years	**3,784**	14,484
	178,951	236,655

12. Commitments

In addition to the operating leases commitments detailed in note 11 above, the Group had the following capital commitments at the end of the reporting period:

	At 30 September 2010 (Unaudited) HK$'000	At 31 March 2010 (Audited) HK$'000
Contracted, but not provided for:		
Land and buildings	**63,413**	—

13. Related party transactions

(a) Transactions with related parties:

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

	Notes	Six months ended 30 September 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'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)	**75,226**	13,462
Purchases of goods by the Group	(ii)	**1,853,230**	1,384,738
Digital China Golden Vista Company Limited and its subsidiaries, associates of the Group:			
Provision of IT services to the Group	(iii)	**–**	10,183
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)	**427**	2,339

\+ The English names of these companies are direct transliterations of their Chinese registered names.

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 constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

13. Related party transactions (Continued)

(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 9 and 10 to these unaudited condensed consolidated interim financial statements.

(ii) At 30 September 2010, 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$94,281,000 (31 March 2010: HK$171,621,000).

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

	Six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short term employee benefits	**10,638**	13,045
Post-employment benefits	**50**	61
Equity-settled share option expenses	**450**	966
Total compensation paid to key management personnel	**11,138**	14,072

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued rolling out further customer-oriented marketing campaigns and made meticulous efforts in pursuing opportunities in regional markets during the current financial year, as it continued to advance its core strategies of service-oriented transformation and business value enhancement. Our prestigious market position was further enhanced, while management projections for all indicators were met. For the six months ended 30 September 2010:

- **The Group sustained continuous growth in turnover, with record-high three-month turnover of approximately HK$14,550 million for the second quarter of the current financial year;**

- **The Group reported notable improvements in profitability for all principal business segments, represented by an overall gross profit margin of 6.45% for the second quarter of the current financial year, which was 34 percentage points higher as compared to 6.11% of the corresponding period of last financial year;**

- **The Group reported substantial growth again with an overall operating profit of approximately HK$529 million, an increase of 96.64% over the corresponding period of last financial year;**

- **Turnover contributions from software and services as a percentage of the overall turnover of the Group's Services Business increased to 56% as major improvements were achieved in its business structure, driving the overall gross margin of the Services Business for the second quarter of the current financial year to 16.48% in substantial enhancement of its profitability. Meanwhile, positive results were reported for our initiatives in the "Sm@rt City" Project, with preparations commencing in 47 cities;**

- **The overall operating expenses ratio of the Group was controlled at 4.75% as the Group continued to implement stringent cost management measures. Net cash inflow from operating activities of approximately HK$579 million reflected efforts in operating risk control and assured healthy and stable growth of our business.**

1.1 The Group reported record-high three-month turnover for the second quarter of the current financial year following a rebound in market growth rate for the corresponding period of last financial year, as it continued to pursue active market expansion

For the six months ended 30 September 2010, the Group recorded turnover of approximately HK$27,560 million, representing a 12.65% growth as compared to approximately HK$24,464 million for the corresponding period of last financial year. In particular, the Group reported record-high three-month turnover of approximately HK$14,550 million for the second quarter of the current financial year, following a rebound in market growth rate for the corresponding period of last financial year. The competitive advantage of its principal business has been further reinforced and extended as a result.

1.2 Sustaining strong operating profit growth with emphasis on business value enhancement

The Group's overall gross profit margin for the six months ended 30 September 2010 was 6.41%, which was 17 percentage points higher than 6.24% of the corresponding period of last financial year. In particular, the Group reported an overall gross profit margin 6.45% for the second quarter of the current financial year, which was 34 percentage points higher than 6.11% of the corresponding period of last financial year. We continued to see substantial gains in overall profitability, underpinned by strong growth in operating profit to approximately HK$529 million for the current financial year, 96.64% up from approximately HK$269 million for the corresponding period of last financial year.

Profit attributable to equity holders of the parent for the six months ended 30 September 2010 amounted to approximately HK$537 million, a 30.42% growth as compared to the corresponding period of last financial year. In particular, the Group reported a 64.79% year-on-year growth in profit attributable to equity holders of the parent for the second quarter of the current financial year. Basic earnings per share were 52.60 HK cents, representing a 23.07% growth up from 42.74 HK cents over the corresponding period of last financial year.

1.3 Breakthroughs in the Services Business structure and ongoing improvements in profitability reported as full-swing efforts were made to take business transformation to greater depths

During the current financial year, the Services Business has been focused on software and services, the turnover contribution of which has increased to account for 56% of the total turnover of the Services Business. This major improvement has contributed to the ongoing enhancement of the overall profitability of the Services Business, underpinned by the significant growth of its overall gross profit margin to 16.48% for the second quarter of the current financial year, as compared to 13.43% for the corresponding period of last financial year.

1.4 Strongest cash turnover among peers on substantial growth in net cash inflow from operating activities thanks to proactive and efficient risk management

With the benefit of its persistence in stringent risk management and cash flow control, the Group continued to report sound cash flow with net cash inflow from overall operating activities amounting to approximately HK$579 million for the six months ended 30 September 2010. Meanwhile, the Group continued to claim leadership among its peers in terms of cash turnover, as it reported a cash turnover cycle of 15.36 days for the six months ended 30 September 2010, significantly shortened by 3.84 days as compared to the corresponding period of last financial year.

1.5 Notable effectiveness of overall operating expenses control evidenced by significantly lower operating expenses ratio (total operating expenses as a percentage of total turnover)

The overall operating expenses ratio of the Group for the six months ended 30 September 2010 was controlled at 4.75%, substantially lower than 4.99% reported for the corresponding period of last financial year, as the Group continued to implement stringent cost management policies. The Group will continue to enhance its efforts in this area, as the management and control of overall operating expenses will be particularly crucial in view of the volatile nature of current market conditions.

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

The Group's Distribution Business is primarily focused on meeting the demand for IT products and solutions from SMB and consumer markets.

Prestigious market position in Distribution Business further reinforced with improvements in profitability

Turnover from the Group's Distribution Business for the six months ended 30 September 2010 grew 19.01%, as compared to the corresponding period of last financial year, to approximately HK$13,269 million, representing a higher growth rate than average market level for the segment that further reinforced and strengthened the Group's prestigious market position. Gross profit margin for the second quarter of the current financial year was particularly strong at 4.50%, a substantial improvement from 3.84% for the corresponding period of last financial year that effectively boosted the overall profitability of the Distribution Business.

Further enhancement of competitive edge through continued exploration of distribution channels to extend the outreach and depth of regional coverage

The Group's competitive edge in 4-6th tier cities in connection with its Distribution Business has been further reinforced with over 570 Digital China "@PORT" franchise retail outlets operating in China as at 30 September 2010, representing an 82.10% growth as compared to 313 outlets as at the end of the corresponding period of last financial year.

Overall rapid growth in Distribution Business driven by sustained strong growth in consumer IT products and PC servers

Thanks to a balanced portfolio covering a full range of products that addressed the requirements of manufacturers actively seeking expansion, turnover contributions from consumer IT products and PC servers, two major business segments of the Group's Distribution Business, grew by 39.26% and 32.81%, respectively, for the six months ended 30 September 2010 as compared to the corresponding period of last financial year, providing the driving force for overall business growth and positioning the Group for capturing additional market shares.

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

The Group's Systems Business of value-added distribution is primarily focused on meeting the IT demand from the enterprise market. Since 2007, we have been making direct sales to regional customers to enhance direct control over our business in the enterprise market.

Fortified market position, sharpened competition edge and enhanced profitability

Leveraging the gradually improving sentiments in the enterprise market, we moved swiftly to adjust our strategy for the Systems Business to uncover further demands from customers. For the six months ended 30 September 2010, the Group's Systems Business reported turnover of approximately HK$6,468 million, a 10.43% growth as compared to the corresponding period of last financial year. Gross profit margin also improved to 9.33%, as compared to 9.21% for the corresponding period of last financial year.

Ongoing rapid growth in regional customer markets as we continued with persistent implementation of the customer-oriented strategy

With persistent implementation of a customer-oriented strategy for its Systems Business, the Group's efforts uncover further demands from quality customers, identify new customers while assuring stable development of its existing business and continuously optimize its business deployment were rewarded with notable results. For the six months ended 30 September 2010, our regional customer business reported year-on-year growth of 55.83%, auguring well for the full-year growth of the Systems Business.

2.3 Supply Chain Services Business (with a primary focus on the Hi-tech Industries Market)

The Group's Supply Chain Services Business is primarily targeted at manufacturers of IT and other value-intensive manufacturers and industry customers, providing "one-stop" supply-chain consultancy and execution.

Positive growth trend continued following exceptionally rapid growth for the previous comparable period while profitability was also improved on the back of optimized business structure

For the six months ended 30 September 2010, the Group's Supply Chain Services Business reported turnover of approximately HK$5,174 million, a 10.42% growth as compared to the corresponding period of last financial year. Meanwhile, its gross profit margin improved significantly to 3.96%, up from 3.21% for the corresponding period of last financial year.

Turnover from Chain Electronic Stores (CES) business grew by 68.69% as compared to the corresponding period of last financial year. In addition, the Group topped the list of CES IT suppliers and became the largest IT supplier for Suning and Gome during the second quarter of the current financial year. As a value-added service for the supply chain, the Maintenance Service Business expanded rapidly since 2009. By 30 September 2010, there were over 500 service stations across the nation and revenue from maintenance services for the period under review increased by 34.40% as compared to the corresponding period of last financial year on the back of close to 200,000 maintenance orders received, which was equivalent to the total number of orders received for the previous year. In addition, we signed up a number of new customers for our third-party logistics business, for which ongoing efforts to enhance inherent capabilities and core competitiveness were being made. For the six months ended 30 September 2010, turnover grew by over 70% as compared to the corresponding period of last financial year, providing a solid foundation for enhancing the profitability of the Supply Chain Services Business as a whole.

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

The Group's Services Business is targeted at large-scale industry customers, offering IT planning and IT systems consultation, design and implementation of industry application software and solutions, outsourcing of IT system operation and maintenance, as well as products and services in systems integration and maintenance.

Significant gains in profitability driven by major improvements in turnover contributions from software and services

As the Group continued to implement its transformation strategy in greater depths, its efforts were focused on increasing turnover contributions from software and services in connection as a percentage of gross turnover from the Services Business. Major improvements in business structure were achieved during the six months ended 30 September 2010, as turnover contributions from software and services accounted for 56% of the overall turnover of the Services Business, driving the overall gross profit margin of the Services Business up to 14.55%, as compared to 13.09% for the corresponding period of last financial year. Gross profit margin for the second quarter of the current financial year was significantly higher at 16.48%, as compared to 13.43% for the corresponding period of last financial year, effectively contributing to notable improvements in the overall profitability of the Services Business.

Value of service contracts continued to surge while our brand influence in the services segment was enhanced with the capturing of numerous awards

For the six months ended 30 September 2010, the value of service contracts signed increased by 37% as compared to the corresponding period of last financial year, including a 40% growth in proprietary services as compared to the corresponding period of last financial year which further reinforced and strengthened its leadership as a service supplier. According to the statistics of IDC, the Group has ranked No.1 among domestic IT service providers for consecutive years on the back of its expertise in industry application solutions and services products, as well as its ability to deliver standardized and efficient services. We have also received numerous certifications of qualifications awarded by government authorities, apart from broad recognition in the industry. After being named a "Deputy Leading Team of All Teams for the National IT Service Standard Work Group" and a "Leading Team for the Operations and Maintenance Expertise Group" in the previous financial year, the Group's brand influence in the services segment was further enhanced with the receipt of the "2009–2010 Most Satisfactory IT Service Management Solution for State-invested Enterprises Award," "Innovation Award for the Commercialization of Communications Information Technology (IT) Services in China 2010" and "Golden Award of Satisfaction 2010 for IT Operation Services" during the second quarter of the current financial year.

Positive results reported for the "Sm@rt City" Project thanks to forward-looking strategic planning

Subsequent to the launch of "Sm@rt City" Project Solution Version 1.0 in 2009, Version 3.0 was launched during the second quarter of the current financial year on the back of ongoing study of customer requirements. In addition to existing functions of citizen cards, data exchange, integrated tax collection and customs logistics, the latest version introduced solutions for regional hygiene, smart tourism and information security. By forming the blueprint of a "Sm@rt City" Project most adapted to urbanization in China, the product put the Group in a commanding position in the industry and embodied pioneering concepts well received by customers. The Group's nationwide influence was further increased with preparations for the project underway in 47 cities across the country as at 30 September 2010. Following successes in Yangzhou, Wuxi and Zhangjiagang in the previous financial year, the "Citizen Card" Project landed in Zhenjiang during the second quarter of the current financial year with the signing of the "Zhenjiang Citizen Card Full Integration and Application Engineering Project", which is set to become another landmark triumph for the Group's strategy to focus on the "Sm@rt City" Project.

Competitive edge further strengthened with fast overall expansion of the software solution business capitalizing on market opportunities

The Group's efforts to further tap the taxation sector received a major boost when it won the tender for "Local Taxation Collection and Administration Core System" Project in Hainan Project on the back of its vast experience in the taxation sector, superior solutions, comprehensive service systems and proven track record in national taxation systems. In the financial sector, we maintained our leading edge in the core system building for domestic banks as we won the tender for the new-generation core business system of Bank of Chengdu and gained further inroad in our business development with certain regional banks during the second quarter of the current financial year. As regarding the telecommunications sector, we were awarded the CRM project of a provincial branch of China Mobile and the ODS project of China Telecom, despite wide uncertainties in the telecommunications market. Abundant opportunities for core business systems and value-added operation and maintenance services will be in the pipeline when telecommunications carriers complete their construction of infrastructure networks and the integration of three networks becomes imminent.

Management outlook

The Group achieved healthy and stable growth in the first half of the year, attaining all benchmark indicators for business performance undertaken to the board of directors as scheduled and securing smooth progress for its key projects. For the second half of the current financial year, the Group will continue to procure enhancements in profitability and business value by persisting in the strategy of business transformation. Urbanization will become a major driving force for China's economic growth as the nation continued to advance the process. In view of this, the Group will step up with its strategic planning for the "Sm@rt City" Project and build a comprehensive marketing and management system in connection therewith, so that the project will become a key driver for the Group's future business growth. In addition, our future development will also benefit from the gradual recovery and expansion of China's foreign trade in tandem with the 12th Five Year Plan, given the anticipated appreciation of Renminbi's currency value. The management believes that the business value of the Company will be further enhanced with the full implementation of its "Sm@rt City" strategy at all business levels, laying a solid foundation for the delivery of its objectives for the full year.

Capital Expenditure, Liquidity and Financial Resources

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

The Group had total assets of HK$19,171 million at 30 September 2010 which were financed by total liabilities of HK$14,169 million, non-controlling interests of HK$514 million and equity attributable to equity holders of the parent of HK$4,488 million. The Group's current ratio at 30 September 2010 was 1.32 as compared to 1.41 at 30 June 2010 and 1.43 at 31 March 2010 (1.45 at 31 March 2009 and 1.56 at 31 March 2008).

During the six months ended 30 September 2010, capital expenditure of HK$50 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 0.53 at 30 September 2010 as compared to 0.50 at 30 June 2010 and 0.41 at 31 March 2010 (0.57 at 31 March 2009 and 0.60 at 31 March 2008). The computation of the said ratio was based on the total interest-bearing bank borrowings and bonds payables of HK$2,367 million (30 June 2010: HK$2,229 million, 31 March 2010: HK$1,723 million, 31 March 2009: HK$1,803 million and 31 March 2008: HK$1,574 million) and equity attributable to equity holders of the parent of HK$4,488 million (30 June 2010: HK$4,501 million, 31 March 2010: HK$4,201 million, 31 March 2009: HK$3,140 million and 31 March 2008: HK$2,626 million).

The aggregate borrowings as a ratio of total assets was 0.12 at 30 September 2010 as compared to 0.14 at 30 June 2010 and 0.11 at 31 March 2010 (0.16 at 31 March 2009 and 0.17 at 31 March 2008). The computation of the said ratio was based on the total interest-bearing bank borrowings and bonds payables of HK$2,367 million (30 June 2010: HK$2,229 million, 31 March 2010: HK$1,723 million, 31 March 2009: HK$1,803 million and 31 March 2008: HK$1,574 million) and total assets of HK$19,171 million (30 June 2010: HK$16,429 million, 31 March 2010: HK$15,670 million, 31 March 2009: HK$11,546 million and 31 March 2008: HK$9,314 million).

At 30 September 2010, the denomination of the interest-bearing bank borrowings and bonds payables of the Group was shown as follows:

	Denominated in Renminbi HK$'000	Denominated in Hong Kong dollars HK$'000	Total HK$'000
Current			
Interest-bearing bank borrowings, unsecured	113,632	660,956	774,588
Interest-bearing bank borrowings, secured	42,651	—	42,651
Bond payable	230,548	—	230,548
	386,831	660,956	1,047,787
Non-current			
Interest-bearing bank borrowings, unsecured	634,335	650,000	1,284,335
Bond payable	34,582	—	34,582
	668,917	650,000	1,318,917
Total	1,055,748	1,310,956	2,366,704

Included in the Group's current bank borrowings of approximately HK$43 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$23 million at 30 September 2010 and 22,290,980 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$52 million and HK$634 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$231 million) bond (the "**2007 Bond**") for financing the development of IT services business. The 2007 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 2007 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.

In September 2010, the Group completed the acquisition of the remaining 89.56% equity interest in Beijing Jinxin Technology Co., Ltd. ("**Beijing Jinxin**") from independent third parties (the "**Acquisition**"). Beijing Jinxin was owned as to 10.44% by the Group prior to the Acquisition and subsequent to which, it became a wholly-owned subsidiary of the Group. In August 2010, i.e. before the Acquisition, Beijing Jinxin and twelve other companies being independent third parties of the Group (collectively referred as the "**Issuers**") issued "2010 Collective Bonds of Zhongguancun High-tech SME" ("**2010 Bonds**") to institutional and public investors in Mainland China through Shenzhen Stock Exchange. The aggregate principal amount of the 2010 Bonds is RMB383 million, of which Beijing Jinxin accounts for RMB30 million (equivalent to approximately HK$35 million). The fund raised by Beijing Jinxin will be applied to the development of its ATM network construction project. The 2010 Bonds which carry interest at a rate of 5.18% per annum, will mature in August 2016, and are unconditionally and irrevocably guaranteed in full with joint liabilities by Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd., an independent third party, from the first to third year of the issuance ("**ZGC Guarantee**"). At the same time, ZGC Guarantee is guaranteed by Beijing SMEs Credits Re-guarantee Co., Ltd., and also guaranteed by Beijing Jinxin for the principal amount of the 2010 Bonds it accounted for (i.e. RMB30 million). The Investors' Put Option and the Issuers' Full Redemption Option in respect of the 2010 Bonds may be exercised under the following circumstances: if the Issuers can provide a guarantor with good reputation before the conclusion of interest period in the third year of the issuance of the 2010 Bonds, investors may opt to hold the 2010 Bonds in full or in part and/or exercise the Investors' Put Option to sell the 2010 Bonds back to the Issuers within five working days from the publication of the announcement in respect of information regarding continuing guarantee; and if the Issuers cannot provide a guarantor with good reputation before the conclusion of interest period in the third year of the issuance of the 2010 Bonds, the Issuers shall redeem the 2010 Bonds in full.

The Group's total available credit facilities at 30 September 2010 amounted to HK$16,636 million, of which HK$2,237 million were in term loan facilities, HK$13,458 million were in trade lines and HK$941 million were in short-term and revolving money market facilities. At 30 September 2010, the facility drawn down was HK$1,336 million in term loan facilities, HK$5,394 million in trade lines and HK$104 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 2010, the Group had approximately 10,000 (30 September 2009: approximately 9,300) 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 on 8.65% increase in staff costs to approximately HK$809 million for the six months ended 30 September 2010 as compared to approximately HK$745 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 2010 (for the six months ended 30 September 2009: Nil).

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

At 30 September 2010, the interests and short positions 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**	**Personal Interest**	**Corporate Interest**	**Number of outstanding share options**	**Total** *(Note 1)*	**Approximate percentage of aggregate shareholding (%)** *(Note 6)*
GUO Wei	Beneficial owner and Interest of controlled corporation	1,504,000	189,414,286 *(Note 2)*	960,000 *(Note 3)*	191,878,286	18.79
Andrew Y. YAN	Interest of controlled corporation	—	139,111,744 *(Note 4)*	—	139,111,744	13.63
LIN Yang	Beneficial owner	56,000	—	1,000,000 *(Note 5)*	1,056,000	0.10

Notes:

1. All of the interests disclosed herein represent long position in the shares of the Company.

2. These 189,414,286 shares of the Company were beneficially held by Kosalaki Investments Limited ("**KIL**"), of which Mr. GUO Wei is the controlling shareholder and also a director of KIL, therefore, Mr. GUO Wei was deemed to be interested in such shares in which KIL was interested.

3. These 960,000 share options held by Mr. GUO Wei 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.

4. These 139,111,744 shares of the Company were beneficially held by Sparkling Investment (BVI) Limited ("**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 who is also a director of SIBL through SAIF III GP Capital Ltd., therefore, Mr. Andrew Y. YAN was deemed to be interested in such shares in which SIBL was interested.

5. These 1,000,000 share options held by 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.

6. This percentage was calculated on the basis of 1,020,962,581 shares of the Company in issue as at 30 September 2010.

Save as disclosed above, at 30 September 2010, 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 2010, 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)*	**Approximate percentage of aggregate shareholding (%)** *(Note 10)*
Sparkling Investment (BVI) Limited	Beneficial owner	139,111,744 *(Note 2)*	13.63
SAIF III GP Capital Ltd.	Interest of a controlled corporation	139,111,744 *(Note 2)*	13.63
Charmway Trading Limited	Beneficial owner	52,373,077 *(Note 3)*	5.13
Hony Capital Fund III, L.P.	Interest of a controlled corporation	52,373,077 *(Note 3)*	5.13
Hony Capital Fund III, G.P. L.P.	Interest of a controlled corporation	52,373,077 *(Note 3)*	5.13
Hony Capital Fund III, G.P. Limited	Interest of a controlled corporation	52,373,077 *(Note 3)*	5.13
Hony Capital Management III Limited	Interest of a controlled corporation	52,373,077 *(Note 3)*	5.13
John Huan ZHAO	Interest of a controlled corporation	52,373,077 *(Note 3)*	5.13
Kosalaki Investments Limited *(Note 4)*	Beneficial owner	189,414,286	18.55

Name	Capacity	Number of shares *(Note 1)*	Approximate percentage of aggregate shareholding (%) *(Note 10)*
Legend Holdings Limited *(Note 5)*	Beneficial owner/ Interest of a controlled corporation	15,013,077/ 41,368,642 *(Note 6)*	5.52
Employees' Shareholding Society of Legend Holdings Limited *(Note 5)*	Interests of controlled corporations	56,381,719 *(Note 7)*	5.52
FMR LLC	Investment manager	61,154,000 *(Note 8)*	5.99
Allianz SE	Interests of controlled corporations	51,584,000 *(Note 9)*	5.05

Notes:

1. All of the interests disclosed herein represent long position in the shares of the Company.

2. These 139,111,744 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, a director of the Company, through SAIF III GP Capital Ltd.

3. These 52,373,077 shares of the Company were beneficially held by Charmway Trading Limited ("**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. KIL is controlled by Mr. GUO Wei, a director of the Company, of which Mr. GUO Wei is also a director of KIL.

5. 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.

6. These 41,368,642 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.

7. Employees' Shareholding Society of Legend Holdings Limited was the controlling shareholder of Legend Holdings Limited and was therefore deemed to be interested in the 56,381,719 shares of the Company in which Legend Holdings Limited was interested.

8. FMR LLC was deemed to be interested in an aggregate of 61,154,000 shares by virtue of the SFO. Those interests comprised deemed interests in 55,554,300 shares and 5,599,700 shares held by Fidelity Management & Research Company and Fidelity Management Trust Company, Pyramis Global Advisors LLC respectively.

9. These 51,584,000 shares in aggregate were held by RCM Asia Pacific Limited of 20,298,000 shares, Allianz Global Investors Taiwan Ltd. of 2,433,000 shares, Allianz Global Investors Luxembourg S.A. of 18,340,000 shares and Allianz Global Investors Ireland Ltd. of 10,513,000 shares. All of them were indirectly controlled by Allianz SE.

10. This percentage was calculated on the basis of 1,020,962,581 shares of the Company in issue as at 30 September 2010.

Save as disclosed above, at 30 September 2010, 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 disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or 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 2010 and the options outstanding at the beginning and end of the period:

	Number of share options					
Grantee	**Outstanding as at 01/04/2010**	**Exercised during the period**	**Outstanding as at 30/09/2010**	**Subscription price per share** HK$ *(Note 2)*	**Date of grant**	**Exercisable period** *(Note 1)*
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	5,810,000	(195,000)	5,615,000	5.89	21/05/2008	21/05/2009–20/05/2016
In aggregate	7,770,000	(195,000)	7,575,000			

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 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, lapsed and cancelled under the Share Option Scheme during the six months ended 30 September 2010.

The fair value of equity-settled share options granted was estimated as at the date 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.

No other feature of the options granted was incorporated into the measurement of fair value.

During six months ended 30 September 2010, the Group recognised a share option expense of HK$1,392,000 (six months ended 30 September 2009: HK$2,865,000) in the income statement.

Disclosure of Directors' Information Pursuant to Rule 13.51B(1) of the Listing Rules

Changes in the information of Directors required to be disclosed under Rule 13.51B(1) of the Rules Governing the Listing of Securities in the Stock Exchange (the "**Listing Rules**") since the date of the 2009/10 Annual Report of the Company are set out as below:

Mr. Andrew Y. YAN, a Non-executive Director of the Company, was appointed as a Non-executive Director and a member of each of the Remuneration and Nomination Committee and the Strategy and Development Committee of China Huiyuan Juice Group Limited, a company listed on the Stock Exchange, with effect from 28 July 2010.

Professor WU Jinglian has retired and resigned as an Independent Non-executive Director of the Company and also ceased to act as a member of the Audit Committee with effect from 29 September 2010 at the conclusion of the annual general meeting of the Company held on 29 September 2010 (the "**2010 AGM**").

Mr. TANG Xudong has retired and resigned as a Non-executive Director of the Company with effect from 29 September 2010 at the conclusion of the 2010 AGM of the Company.

Mr. SHENG Gang has retired and resigned as a Non-executive Director of the Company with effect from 29 September 2010 at the conclusion of the 2010 AGM of the Company.

Mr. QIU Zhongwei has retired and resigned as a Non-executive Director and also ceased to act as a member of the Remuneration Committee of the Company with effect from 29 September 2010 at the conclusion of the 2010 AGM of the Company.

Mr. KWAN Ming Heung, Peter has retired and resigned as an Independent Non-executive Director and also ceased to act as a member of the Audit Committee and Remuneration Committee of the Company with effect from 29 September 2010 at the conclusion of the 2010 AGM of the Company.

Ms. NI Hong (Hope) was appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company with effect from 29 September 2010 immediately following the conclusion of the 2010 AGM of the Company.

Mr. ONG Ka Lueng, Peter was appointed as an Independent Non-executive Director and a member of the Remuneration Committee of the Company with effect from 29 September 2010 immediately following the conclusion of the 2010 AGM of the Company.

Compliance with the Model Code

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as its own 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 2010.

Audit Committee

The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. HU Zhaoguang (who is the Chairman of Audit Committee), Mr. WONG Man Chung, Francis and Ms. NI Hong (Hope). The Audit Committee has reviewed with the senior management of the Company their respective findings, the accounting principles and practices adopted by the Group, legal and regulatory compliance and discussed auditing, internal control, risk management and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2010.

Corporate Governance

The Company has complied with all the code provisions as set out in the "Code on Corporate Governance Practices" contained in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2010, except for the following deviations from certain code provisions with considered reasons are given below:

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

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

Code Provision A.4.2 *stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.*

Ms. NI Hong (Hope) and Mr. ONG Ka Lueng, Peter were appointed as the Independent Non-executive Directors of the Company on 29 September 2010 by the Board while the 2010 AGM of the Company was also held on the same date. Due to the fact that Ms. NI and Mr. ONG were appointed immediately after the conclusion of the 2010 AGM, they will therefore be subject to re-election by shareholders only at the next general meeting of the Company.

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

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

Prior to the 2010 AGM of the Company held on 29 September 2010, the Remuneration Committee of the Company has four members and only half of them were Independent Non-executive Directors. However, following the retirement of Mr. QIU Zhongwei as a Non-executive Director and Mr. KWAN Ming Heung, Peter as an Independent Non-executive Director of the Company, and both of them also ceased to act as members of the Remuneration Committee of the Company at the conclusion of the 2010 AGM, Mr. ONG Ka Lueng, Peter was appointed as an Independent Non-executive Director and a member of the Remuneration Committee of the Company immediately following the conclusion of the 2010 AGM. Since then, the Remuneration Committee has three members and the majority of them are Independent Non-executive Directors.

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

During the six months ended 30 September 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules throughout the six months ended 30 September 2010.

By Order of the Board
GUO Wei
Chairman and Chief Executive Officer

Hong Kong, 9 November 2010

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