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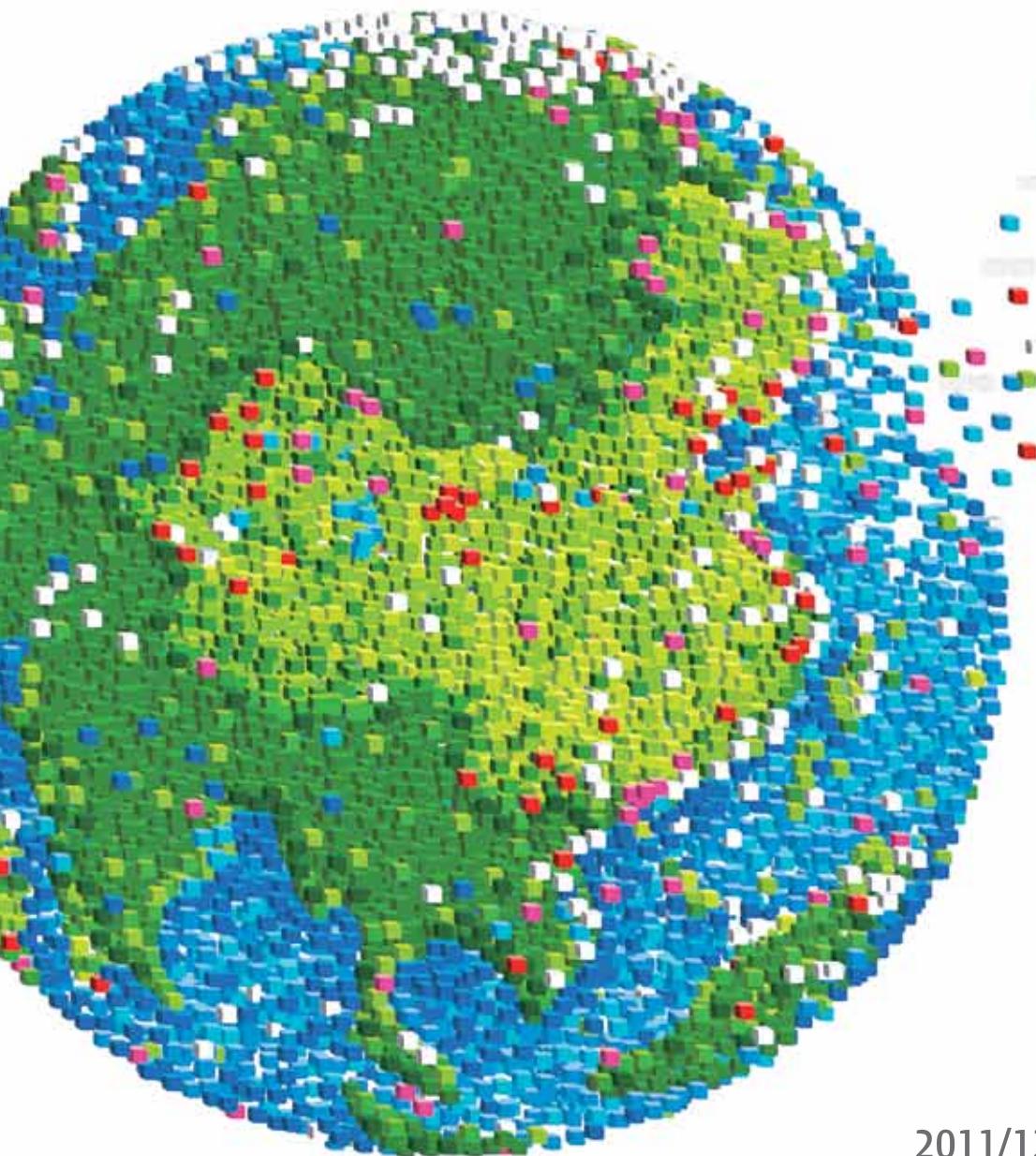
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Digital China Holdings Limited

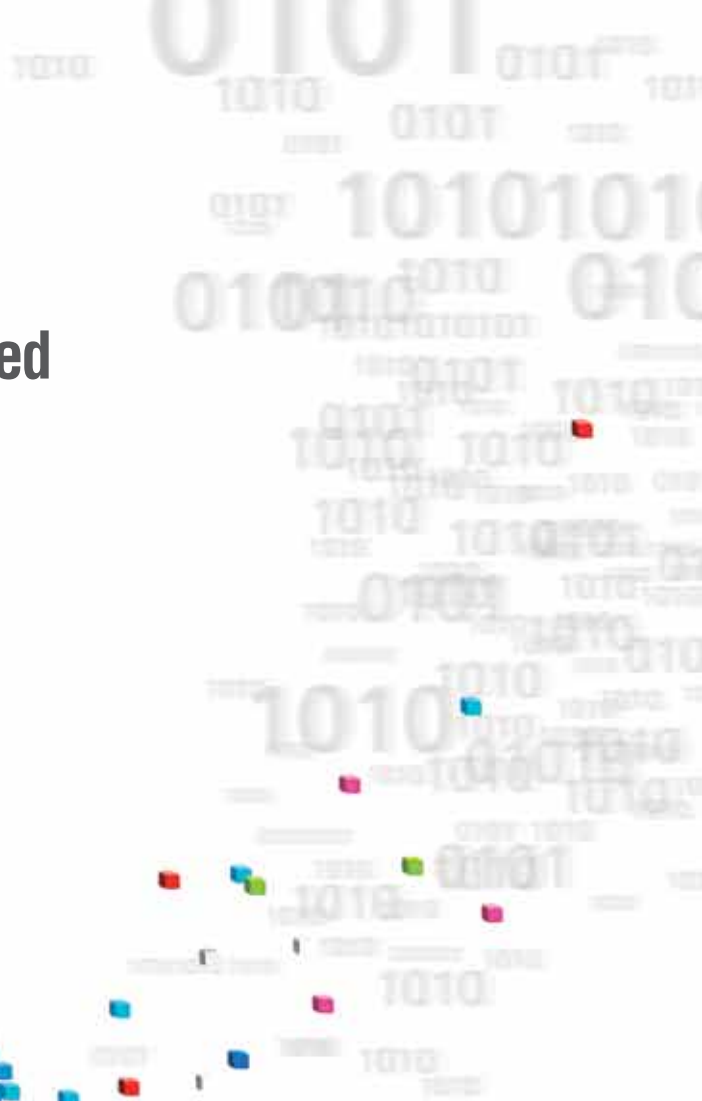
神州數碼控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 00861



2011/12
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 2011 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 2011 (Unaudited) HK\$'000	Six months ended 30 September 2011 (Unaudited) HK\$'000	Three months ended 30 September 2010 (Unaudited) HK\$'000	Six months ended 30 September 2010 (Unaudited) HK\$'000
REVENUE	3	18,099,893	34,137,847	14,550,251	27,559,755
Cost of sales		(16,763,558)	(31,577,521)	(13,611,972)	(25,792,290)
Gross profit		1,336,335	2,560,326	938,279	1,767,465
Other income and gains	3	230,754	381,656	148,320	267,022
Selling and distribution costs		(759,605)	(1,366,100)	(544,715)	(952,101)
Administrative expenses		(144,081)	(264,941)	(113,318)	(192,315)
Other operating expenses, net		(163,925)	(297,507)	(56,090)	(165,992)
Total operating expenses	4	(1,067,611)	(1,928,548)	(714,123)	(1,310,408)
Finance costs		(63,898)	(162,134)	(55,732)	(90,808)
Share of profits and losses of:					
Jointly-controlled entities		(268)	(409)	651	1,395
Associates		8,647	14,833	12,069	12,361
PROFIT BEFORE TAX	5	443,959	865,724	329,464	647,027
Income tax expense	6	(112,879)	(149,133)	(70,107)	(96,664)
PROFIT FOR THE PERIOD		331,080	716,591	259,357	550,363
Attributable to:					
Equity holders of the parent		308,150	665,320	246,513	536,941
Non-controlling interests		22,930	51,271	12,844	13,422
		331,080	716,591	259,357	550,363
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7				
Basic			62.00 HK cents		52.60 HK cents
Diluted			61.68 HK cents		52.39 HK cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	716,591	550,363
OTHER COMPREHENSIVE INCOME:		
Change in fair value of an available-for-sale investment	5,382	—
Exchange differences on translation of foreign operations	69,502	29,532
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	74,884	29,532
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	791,475	579,895
Attributable to:		
Equity holders of the parent	721,516	559,787
Non-controlling interests	69,959	20,108
	791,475	579,895

Condensed Consolidated Statement of Financial Position

	Notes	At 30 September 2011 (Unaudited) HK\$'000	At 31 March 2011 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,074,469	697,812
Investment properties		272,394	265,581
Prepaid land premiums		109,177	85,409
Goodwill		234,466	228,601
Intangible assets		5,131	3,439
Investments in jointly-controlled entities		39,280	33,322
Investments in associates		687,103	675,337
Available-for-sale investments		87,693	1,596
Other receivables		—	353,559
Deposits paid for acquisition of property and land use right		—	184,280
Deferred tax assets		34,122	40,263
Total non-current assets		2,543,835	2,569,199
CURRENT ASSETS			
Inventories		4,212,056	4,145,298
Trade and bills receivables	8	10,416,469	8,323,230
Prepayments, deposits and other receivables		3,653,281	1,838,190
Derivative financial instruments		8,414	20,203
Cash and cash equivalents		3,818,218	3,049,455
Total current assets		22,108,438	17,376,376
CURRENT LIABILITIES			
Trade and bills payables	9	11,434,120	8,842,950
Other payables and accruals		2,471,087	2,401,391
Tax payable		204,773	161,434
Interest-bearing bank borrowings		2,897,593	651,980
Total current liabilities		17,007,573	12,057,755
NET CURRENT ASSETS		5,100,865	5,318,621
TOTAL ASSETS LESS CURRENT LIABILITIES		7,644,700	7,887,820
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		882,800	1,281,576
Bond payable		36,319	35,411
Total non-current liabilities		919,119	1,316,987
NET ASSETS		6,725,581	6,570,833
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		109,211	109,121
Reserves		6,005,599	5,571,959
Proposed final dividend		—	351,916
		6,114,810	6,032,996
Non-controlling interests		610,771	537,837
TOTAL EQUITY		6,725,581	6,570,833

Condensed Consolidated Statement of Cash Flows

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Net cash inflow from operating activities	257,588	579,412
Net cash outflow from investing activities	(527,582)	(356,700)
Net cash inflow from financing activities	1,000,084	436,316
Net increase in cash and cash equivalents	730,090	659,028
Cash and cash equivalents at the beginning of the period	3,049,455	2,772,026
Effects of foreign exchange rate changes, net	38,673	31,345
Cash and cash equivalents at the end of the period	3,818,218	3,462,399

Condensed Consolidated Statement of Changes in Equity

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

	Attributable to equity holders of the parent												
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Employee share trust (Unaudited) HK\$'000	Employee share-based compensation reserve		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
					Employee	Available- for-sale investment reserve							
					(Unaudited) HK\$'000	(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	–	–	–	–	–	–	536,941	–	536,941	13,422	550,363		
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations	–	–	–	–	–	–	22,846	–	22,846	6,686	29,532		
Total comprehensive income for the period	–	–	–	–	–	–	22,846	536,941	559,787	20,108	579,895		
Exercise of share options	19	1,589	–	(460)	–	–	–	–	1,148	–	1,148		
Share-based compensation	–	–	–	1,392	–	–	–	–	1,392	–	1,392		
Capital contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	19,871	19,871		
Acquisition of investment in a subsidiary	–	–	13,304	–	–	–	–	–	13,304	3,025	16,329		
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	(1,153)	(1,153)		
Final 2010 dividend	–	–	–	–	–	–	–	(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		

Notes to the Condensed Consolidated Interim Financial Statements

1. Basis of preparation

These unaudited condensed consolidated interim financial statements for the six months ended 30 September 2011 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 2011 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 Amendments	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemptions from Comparative HKFRS 7 Disclosure for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
Improvement to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

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, target customer segments and the products and services they provide. Each of the Group’s reportable operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other reportable segments. Particulars of the Group’s four reportable operating segments are summarised as follows:

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

Notes to the Condensed Consolidated Interim Financial Statements

2. Operating segment information (Continued)

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

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

The Group started to make adjustments to parts of the businesses of the Supply Chain Services Business in the previous financial year. Parts of the operations of the Supply Chain Services Business will continue to focus on the hi-tech industries and the industry market by providing one-stop supply chain consultancy and execution services, while others will, in tandem with adjustments to our business strategy, shift to a distributor focus on the sale of general IT products, instead of providing one-stop supply chain consultancy and execution services to the hi-tech industries. In order to provide a more appropriate presentation for the operating segment information, the Group reclassified the results of the Fulfillment business (FA business) from the “Supply Chain Services” segment into the “Distribution” segment and restated the related results of the comparative financial period.

The following table presents revenue and results for the Group’s operating segments for the six months ended 30 September 2011 and 2010:

	Distribution		Systems		Supply Chain Services Six months ended 30 September		Services		Consolidated	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000 (Restated)	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000 (Restated)	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	18,447,277	16,005,436	8,107,629	6,467,788	4,057,395	2,437,787	3,525,546	2,648,744	34,137,847	27,559,755
Segment gross profit	889,378	664,944	844,976	603,332	236,448	113,705	589,524	385,484	2,560,326	1,767,465
Segment results	345,623	220,194	425,438	260,985	53,664	23,902	138,408	113,490	963,133	618,571
Interest income, unallocated revenue and gains									130,442	152,208
Unallocated expenses									(80,141)	(46,700)
Finance costs									(162,134)	(90,808)
Share of profits and losses of:										
Jointly-controlled entities	—	—	—	—	—	—	(409)	1,395	(409)	1,395
Associates	—	—	—	—	—	—	14,833	12,361	14,833	12,361
Profit before tax									865,724	647,027
Income tax expense									(149,133)	(96,664)
Profit for the period									716,591	550,363

Notes to the Condensed Consolidated Interim Financial Statements

3. Revenue, other income and gains

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

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

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Other income		
Government grants	24,389	25,827
Bank interest income	20,852	7,763
Imputed interest income on other receivables	31,680	9,948
Gross rental income	18,751	16,702
Dividend income from an available-for-sale investment	37	—
Others	13,728	22,759
	109,437	82,999
Gains		
Gain on derivative financial instruments	69,097	100,199
Foreign exchange differences, net	200,417	83,444
Others	2,705	380
	272,219	184,023
	381,656	267,022

4. Total operating expenses

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

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Selling expenses	187,355	136,179
Promotion and advertising expenses	108,253	70,893
Staff costs included in operating expenses (including directors' remuneration)	887,824	611,612
Other expenses	745,116	491,724
	1,928,548	1,310,408

Notes to the Condensed Consolidated Interim Financial Statements

5. Profit before tax

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

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Cost of inventories sold	30,955,221	25,298,289
Depreciation	65,140	43,783
Amortisation of prepaid land premiums	412	249
Amortisation of intangible assets	994	711
Provisions for and write-off of obsolete inventories	79,248	59,471
Impairment of trade receivables	120,684	8,912
Loss on disposal of items of property, plant and equipment	2,819	1,321
Fair value loss on investment properties	—	58

6. Income tax expense

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Group:		
Current — Hong Kong	—	1,029
Current — The People's Republic of China ("PRC")	141,965	80,077
Deferred	7,168	15,558
Total tax charge for the period	149,133	96,664

- (a) No provision for Hong Kong profits tax has been made for Hong Kong subsidiaries for the six months ended 30 September 2011 as the Hong Kong subsidiaries had no estimated assessable profit arising in Hong Kong. During the six months ended 30 September 2010, Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.
- (b) PRC corporate income tax represents 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) The share of tax charge attributable to the jointly-controlled entities of approximately HK\$279,000 (six months ended 30 September 2010: HK\$251,000) and the share of tax charge attributable to the associates of approximately HK\$9,730,000 (six months ended 30 September 2010: HK\$3,279,000) are included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates", respectively, in the condensed consolidated income statement.

Notes to the Condensed Consolidated Interim Financial Statements

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 2011 attributable to ordinary equity holders of the parent of approximately HK\$665,320,000 (six months ended 30 September 2010: HK\$536,941,000), and the weighted average of 1,073,025,286 (six months ended 30 September 2010: 1,020,858,466) ordinary shares in issue during the six months ended 30 September 2011.

The calculation of diluted earnings per share amount is based on the profit for the six months ended 30 September 2011 attributable to ordinary equity holders of the parent of approximately HK\$665,320,000 (six months ended 30 September 2010: HK\$536,941,000) and 1,078,626,876 (six months ended 30 September 2010: 1,024,903,862) ordinary shares, which represents the weighted average of 1,073,025,286 (six months ended 30 September 2010: 1,020,858,466) ordinary shares in issue during the six months ended 30 September 2011, and the weighted average of 5,601,590 (six months ended 30 September 2010: 4,045,396) ordinary shares deemed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares relating to the Group's share-based incentive schemes into ordinary shares during the six months ended 30 September 2011.

8. Trade and bills receivables

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

	At 30 September 2011 (Unaudited) HK\$'000	At 31 March 2011 (Audited) HK\$'000
Within 30 days	5,280,575	4,035,574
31 to 60 days	1,569,399	1,106,189
61 to 90 days	1,051,267	711,071
91 to 180 days	1,166,676	1,435,201
Over 180 days	1,348,552	1,035,195
	10,416,469	8,323,230

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 jointly-controlled entities and associates of the Group of approximately HK\$421,000 (31 March 2011: HK\$1,572,000) and HK\$2,157,000 (31 March 2011: HK\$233,000), respectively.

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

Notes to the Condensed Consolidated Interim Financial Statements

9. Trade and bills payables

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

	At 30 September 2011 (Unaudited) HK\$'000	At 31 March 2011 (Audited) HK\$'000
Within 30 days	5,503,172	4,189,636
31 to 60 days	2,956,937	2,122,394
61 to 90 days	1,660,392	1,160,812
Over 90 days	1,313,619	1,370,108
	11,434,120	8,842,950

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 approximately to their fair values.

Included in the Group's trade and bills payables are amounts due to a jointly-controlled entity and associates of the Group of approximately HK\$6,000 (31 March 2011: HK\$794,000) and HK\$263,000 (31 March 2011: HK\$118,000), respectively.

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

10. Operating leases arrangements

(i) As lessor

At 30 September 2011, 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 2011 (Unaudited) HK\$'000	At 31 March 2011 (Audited) HK\$'000
Within one year	16,924	27,739

Notes to the Condensed Consolidated Interim Financial Statements

10. Operating leases arrangements (Continued)

(ii) As lessee

At 30 September 2011, 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 2011 (Unaudited) HK\$'000	At 31 March 2011 (Audited) HK\$'000
Within one year	105,652	114,601
In the second to fifth years, inclusive	95,709	62,469
After five years	1,524	2,393
	202,885	179,463

11. Commitments

In addition to the operating leases commitments detailed in note 10 above, the Group had the following capital commitments at the end of the reporting period:

	At 30 September 2011 (Unaudited) HK\$'000	At 31 March 2011 (Audited) HK\$'000
Contracted, but not provided for: Land and buildings	68,460	151,149

Notes to the Condensed Consolidated Interim Financial Statements

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	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Lenovo Group Limited (“ Lenovo ”) 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
Purchases of goods by the Group	(ii)	—	1,853,230
DigiWin Software Co., Ltd.+ and its subsidiaries, associates of the Group:			
Provision of IT services by the Group	(iii)	5,879	—
PinHu Digital China BoHai Science & Technology Co., Ltd.+, an associate of the Group:			
Provision of IT services to the Group	(iii)	2,870	—
Digital China BB Limited+, a jointly-controlled entity of the Group:			
Sales of goods by the Group	(i)	754	427

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.
- * Legend Holdings Limited (“**Legend**”) was a connected person of the Company by virtue of being a substantial shareholder of the Company. Lenovo is an associate of Legend by virtue of Legend being its controlling shareholder. However, Legend ceased to be a substantial shareholder of the Company and therefore Legend and its respective associates ceased to be connected persons of the Company under the Rules Governing the Listing of Securities in The Stock Exchange of Hong Kong Limited since 22 November 2010.
- + The English names of these companies are direct transliterations of their Chinese registered names.

Notes to the Condensed Consolidated Interim Financial Statements

12. Related party transactions (Continued)

(b) Outstanding balances with related parties:

Details of the Group's trade balances with the jointly-controlled entities and the associates as at the end of the reporting period are included notes 8 and 9 to these unaudited condensed consolidated interim financial statements.

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

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Short term employee benefits	9,627	10,638
Post-employment benefits	83	50
Share-based compensation	7,717	450
Total compensation paid to key management personnel	17,427	11,138

Management Discussion and Analysis

At the onset of the 2011/12 financial year, Digital China welcomed the commencement year of its strategic transformation to “Sm@rt City”, as well as the launch of comprehensive business planning for its third five-year period. To ensure the successful roll-out of the third five-year plan and to safeguard the Group’s businesses for smooth growth amid a volatile market environment, the Group formulated an articulate strategy at the beginning of the financial year: “driving growth, speeding up transformation and making a concentrate effort to build Sm@rt City”, which was designed to accommodate expected market conditions and the business development objectives set for the current financial year. Guided by our strategic goal, the Group devised business expansion and transformation plans in tandem with the five strategic paths of “Sm@rt City”, which provided a clear direction in our drive towards business value enhancement for all segments. The business planning has been well-executed and rewarded with sound deliverables. During the six months ended 30 September 2011:

1.1. Thanks to the formulation of forward-looking strategic goals and the execution of effective business planning, our Group achieved outperforming growth in a volatile environment on the back of sound business planning in customer-end businesses, gaining new market shares and consolidating our market leadership

For the six months ended 30 September 2011, the Group recorded turnover of approximately HK\$34,138 million, representing a 23.87% growth as compared to approximately HK\$27,560 million for the corresponding period of the 2010 financial year. In particular, the Group reported a record high turnover of approximately HK\$18,100 million for the second quarter, representing a year-on-year growth of 24.40%.

1.2. The Group’s overall gross profit margin benefitted from new business development and customer value enhancement facilitated by the strategy of transformation, as it continued to sustain growth in profit attributable to equity holders of the parent

The Group’s overall gross profit margin for the first six months of the current financial year was 7.50%, which was 1.09 percentage points higher than 6.41% of the corresponding period of last financial year, reflecting further enhancements in business value. Total gross profit amounted to HK\$2,560 million, a 44.86% growth over HK\$1,767 million reported for the first six months of the previous financial year. Our principal businesses showed ongoing growth in the profitability as profit attributable to equity holders of the parent for the interim period of the 2011/12 financial year increased to HK\$665 million, a 23.91% growth as compared to approximately HK\$537 million for the corresponding period of last financial year. Basic earnings per share amounted to 62.00 HK cents, which was 17.87% higher as compared to 52.60 HK cents for the corresponding period of last financial year.

1.3. Sound cash flow performance thanks to effective management on the back of accurate market judgments and full leveraging of our economies of scale to cope with a macro-economic environment restrained by tightened fiscal policies

For the six months ended 30 September 2011, the Group continued to report sound cash flow with net cash inflow from overall operating activities amounting to approximately HK\$258 million. Meanwhile, the stability of the Group’s operations was underpinned by its cash turnover of 15.55 days for the six months ended 30 September 2011, which was largely unchanged from 15.36 days reported for the corresponding period of last financial year.

Management Discussion and Analysis

1.4. The roll-out of “Sm@rt City” was implemented according to plans under the articulate strategy of “making a concentrate effort to build Sm@rt City”, with generally satisfactory sign-ups and ongoing improvements to solutions

As promotion campaigns focused on our position as the “Leader in China’s Sm@rt City” continued to gain momentum, our customer base was expanding under the “Sm@rt City” strategy with the inclusion of new projects such as the Cloud services development and demonstration project for Sm@rt City service and the project of integrated applications of Citizen Card in Chancheng, Foshan, Guangdong, core informatization projects of the Electronic Customs Clearance System in Jiangsu Province, the regional healthcare information platform of Yangzhou, the meat and vegetable circulation tracking system of Suzhou, the data center construction and application software development for Trade Exhibition Center of Zhongguancun, as well as the citizen card project of Lanzhou. These projects formed a solid customer base for our future development and provided a positive start to the regional implementations of our five strategic paths.

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

Our Distribution Business is primarily focused on meeting the demand for IT products and solutions from SMB and consumer markets. We also develop businesses in new mobile internet devices and their applications under the “Sm@rt City” strategy.

Sustaining rapid growth by actively probing opportunities arising from the demand for PC servers and peripherals as well as consumer IT products in the SMB & Consumer Markets

Turnover from the Group’s Distribution Business for the six months ended 30 September 2011 grew 15.26%, as compared to the corresponding period of last financial year, to approximately HK\$18,447 million. Gross profit margin was 4.82%, a substantial improvement from 4.15% for the corresponding period of last financial year.

The Group reported stable growth in the sales of notebook and desktop computers despite growing competition in the notebook market and the pressure of declining average selling price. Gross profit margin was significantly improved as compared to the corresponding period of last financial year, while market shares in general and in the segment of major manufacturers remained stable.

Driven by the growth in market demand, our business in consumer IT products made significant gains in turnover and gross profit margin, underpinning strongly the turnover growth and gross profit improvements of our Distribution Business.

In the meantime, our Distribution Business stepped up with its efforts for the SMB Market and investigated the demand for standardised solutions in the market during the first six months of the current financial year in pursuit of stronger growth. Revenue growth for PC servers became an important contributor to overall revenue growth as we seized opportunities in markets where the substitution effect of PC servers as a replacement for other Unix server effect was strong.

Initiatives on reaching out to retail customers represented a key task under the “Sm@rt City” strategy; sound growth in revenue and retail network underlining ongoing development of a regime for directly-controlled retail end

The Group’s leading edge in the new markets was further consolidated with the opening of 119 new Digital China “@PORT” franchise retail outlets and concession counters during the reporting period to bring the total number of “@PORT” outlets and counters to 745 as at 30 September 2011, contributing to a 68% growth in the business scale of our retail end as a whole in comparison to the corresponding period of last financial year.

■ Management Discussion and Analysis

Initial success reported for “mobile internet” devices and applications, one of the five strategic paths of “Sm@rt City”

The official roll-out of the strategic paths for “smart device and mobile solutions” of “Sm@rt City” strategy took place during the six months ended 30 September 2011 and initial deliverables were reported. Growth in the mobile solution business was particularly strong, making solid contributions to the gross profit growth of our Distribution Business.

2.2. Systems Business (with a primary focus on the Industry and Enterprise Markets)

Our Systems Business seeks to meet IT demand arising from the construction of urban information infrastructure as well as clients from the industry and enterprise market by way providing value-added distribution. We also make direct sales to regional customers to enhance first-hand understanding of the needs of the enterprise market.

Market development focused on demand for enterprise IT deployment and infrastructure under the guidance of the “Sm@rt City” strategy, aiming to enlarge market shares and outperform industry by leveraging our strong ability to add value

Since the beginning of the current financial year, our Systems Business has been focusing its marketing efforts on enterprise IT deployment and the demand for infrastructure under the guidance of the “Sm@rt City” strategic paths. We continued to gain new shares in both the end-user market and with the principal manufacturing partners. Turnover for the first six months of the current financial year grew 25.35%, year-on-year, to HK\$8,108 million, which consolidated our leading edge in the segment of value-added distribution. Turnover growth for storage products and packaged software was driven by the data processing requirements of corporate customers. Meanwhile, the substantial increase in the gross profit margin for this sector was also attributable to the ability of our Systems Business to add value through its technical qualities.

General improvements in the gross profit margin of our Systems Business after vigorous moves to expand our solutions business

During the first six months of the current financial year, our Systems Business delivered remarkable results through its solution business planning, reporting strong revenue growth exceeding 30% for businesses in all of the three types of solutions offered by us: communications, video conference and security. Gross profit margin remained stable despite rapid revenue growth, offering strong support for the gross profit margin improvements for the business as a whole.

Regional customer development remained a focus for the Systems Business

Ongoing regional customer development remained a focus for our Systems Business. For the first six months of the current financial year, the number of scalable clients has significant increase as compared to last financial year, thanks to efforts to sign up new customers in key sectors such as telecommunications, government, finance and manufacturing.

2.3. Supply Chain Services Business (with a primary focus on the markets of Hi-tech Industries, Branded e-Commerce and Online Service Providers and Platform Operators)

Our Supply Chain Services Business is primarily targeted at manufacturers of IT and other high-value density products manufacturers and industry customers, e-commerce platform operators and branded service providers, providing “one-stop” supply-chain consultancy and execution in logistics, business flow, capital flow and information flow through various means, including the creation of e-commerce logistic parks.

Strong revenue growth for CES business driven by market demand

For the six months ended 30 September 2011, the Group’s Supply Chain Services Business reported turnover of approximately HK\$4,057 million, a 66.44% growth as compared to the corresponding period of last financial year.

As an integral part of the Supply Chain Services Business, the Chain Electronic Stores (CES) business continued to strengthen its customer development efforts, with a view to establishing its presence in chain stores other than Gome and Suning. Meanwhile, it also sought to enrich its product offerings by vigorously introducing new products and components that commanded a higher gross profit margin. Excellent results were delivered as growth was reported in both turnover and gross profit margin for the interim period of the current financial year.

Strong efforts to develop e-commerce, logistics and service station businesses as “Sm@rt City synergy businesses” to drive improvements in overall gross profit margin

For the six months ended 30 September 2011, the e-commerce business of the Supply Chain Services Business recorded a 79% growth in revenue, underpinned by notable progress in customer development. Meanwhile, turnover generated from our logistics business doubled also as the segment enjoyed substantial growth on the back of the rapid increase in demand for such services. The performance of out of warranty services within our Service Station Business was also outstanding. These solid performances combined to offer support for improvements in gross profit margin.

2.4. Services Business (with a primary focus on the provision of industry software, urban information infrastructure and “Sm@rt City” operation services to the Industry Market)

Our Services Business is primarily focused on meeting the demand of large-scale industry customers for industry software, information infrastructure facilities and “Sm@rt City” operation services, 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.

Management Discussion and Analysis

Substantial turnover growth for industry application software and infrastructure services, one of the five strategic paths of “Sm@rt City” and ongoing improvements in gross profit margin for key sectors

For the six months ended 30 September 2011, the Group reported turnover of approximately HK\$3,526 million for its Services Business, a 33.10% growth as compared to approximately HK\$2,649 million for the corresponding period of last financial year reflecting mainly the cumulative effects of the “customer-focused and service-oriented” strategic transformation commencing five years ago and also the stimulus of the “Sm@rt City” strategy introduced since the beginning of the current financial year.

Analysed by sector, we reported revenue growth of 58.17%, 49.04% and 17.01% from the financial, government and telecommunications sectors, respectively. In particular, we made breakthroughs and extended our outreach in core banking software and infrastructure services in the financial sector, contributing to significant gains in gross profit margin.

Business value enhancements underpinned by sustained growth in the information infrastructure services of “Sm@rt City”

For the six months ended 30 September 2011, the Group sustained growth in its Self-branded Services Business, gaining inroads to the government-corporation sector on top of its existing dominance in the government, investment fund, insurance and banking sectors. Our Self-branded Services Business registered turnover growth of 27%, year-on-year, and a solid gross profit margin that contributed to the improvement of the gross profit margin of our Services Business as a whole.

Smooth roll-out of “Sm@rt City” along two major rail lines and three major economic regions with start-ups planned for key areas

As the regional implementation of our “Sm@rt City” strategy continued to gain momentum, projects are being rolled out in major districts along two major rail lines (the Beijing-Shanghai Line and the Beijing-Guangzhou Line) and three key economic regions (the Bohai Rim Development Region, the Yangtze River Delta Economic Region and the Pearl River Delta Economic Region). Following the research, development and demonstrative construction project for the Cloud services development and demonstration project for Sm@rt City service and the project of integrated applications of Citizen Card in Chancheng District, Foshan, the regional healthcare information platform of Yangzhou, the first phase of the meat and vegetable circulation tracking system of Suzhou and the integrated citizen card application of Chancheng District, Foshan were also signed up and implemented during the reporting period. We also signed up and started a number of government projects, such as the data center construction and application software development for Trade Exhibition Center of Zhongguancun and the core information projects of the Electronic Customs Clearance System in Jiangsu Province (including software development and service agreement and related software/hardware procurement and integration contracts), which expanded our portfolio of “Sm@rt City” projects and enriched the variety of our solutions. These projects have enhanced our strengths in general as the “China’s Sm@rt City expert” and provided a solid foundation for the “Sm@rt City” operation services.

3. Management outlook

The management has been savouring the challenges and opportunities of the crucial 2011 financial year right from the start, as 2011 marked the first year of the implementation of China's 12th five-year plan of macro-economic development, as well as a year in which China's urbanisation process would be gaining strong momentum. Our Group overcame market volatilities during the first six months of the current financial year, with sound results delivered, business targets accomplished and undertakings to the Board fulfilled under the guidance of the "Sm@rt City" strategy. The management is confident of the Group's performance for the remaining six months of the financial year. While uncertainties in the macro-economic environment remain, the management believes that further technological development in the Mobile Internet, the Internet of Things and Cloud Computing will form a solid basis for the development of the "Sm@rt City" and provide useful leads to the business roll-out plans of Digital China. The Group will continue to follow the five strategic paths of "Sm@rt City" and refine its development strategies for the five years ahead, enhancing local implementation and ongoing management to provide a firm foundation for future business development. Meanwhile, we made significant progress in the building of our Group's marketing management regime during the first half of the current financial year. We also assured the fulfillment of our strategies and business goals through the construction of effective internal information systems. In view of the challenges that might potentially arise in the wake of the government's macro-economic control measures, the Group will ensure sound and secure business development by adopting more stringent and effective management measures and closely monitoring market movements and related risk indicators. In the coming six months, the management will keep close tracking of market conditions and make flexible adjustments to its strategies in a timely manner to seize business opportunities presented by the peak procurement season before the close of the calendar year. We will continue to seek new market shares and extend our lead, in a bid to reward shareholders with growth in results.

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\$24,652 million at 30 September 2011 which were financed by total liabilities of HK\$17,926 million, non-controlling interests of HK\$611 million and equity attributable to equity holders of the parent of HK\$6,115 million. The Group's current ratio at 30 September 2011 was 1.30 as compared to 1.40 at 30 June 2011 and 1.44 at 31 March 2011.

During the six months ended 30 September 2011, capital expenditure of HK\$236 million was mainly incurred for the acquisition of properties, office equipment and IT infrastructure facilities.

The aggregate borrowings as a ratio of equity attributable to equity holders of the parent was 0.62 at 30 September 2011 as compared to 0.50 at 30 June 2011 and 0.33 at 31 March 2011. The computation of the said ratio was based on the total interest-bearing bank borrowings and bond payable of HK\$3,817 million (30 June 2011: HK\$3,053 million and 31 March 2011: HK\$1,969 million) and equity attributable to equity holders of the parent of HK\$6,115 million (30 June 2011: HK\$6,105 million and 31 March 2011: HK\$6,033 million).

Management Discussion and Analysis

At 30 September 2011, 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	1,516,185	540,649	759,646	2,816,480
Interest-bearing bank borrowings, secured	—	81,113	—	81,113
	1,516,185	621,762	759,646	2,897,593
Non-current				
Interest-bearing bank borrowings, unsecured	232,800	—	650,000	882,800
Bond payable	—	36,319	—	36,319
	232,800	36,319	650,000	919,119
Total	1,748,985	658,081	1,409,646	3,816,712

Included in the Group's current bank borrowing of approximately HK\$81 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 Mainland China with a value of approximately HK\$27 million at 30 September 2011 and 8,229,004 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\$12 million and HK\$883 million respectively represented the term loans and are repayable from Year 2011 to 2013.

In September 2010, the Group completed the acquisition of the remaining 89.56% equity interest in Beijing Jinxin Technology Co., Ltd. (now named as "Digital China Jinxin Technology Co., Ltd.") ("**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\$36 million). The fund raised by Beijing Jinxin was 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.

Management Discussion and Analysis

The Group's total available credit facilities at 30 September 2011 amounted to HK\$18,016 million, of which HK\$1,307 million were in term loan facilities, HK\$14,032 million were in trade lines and HK\$2,677 million were in short-term and revolving money market facilities. At 30 September 2011, the facility drawn down was HK\$895 million in term loan facilities, HK\$6,938 million in trade lines and HK\$1,168 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 2011, the Group had approximately 12,000 (30 September 2010: approximately 10,000) full-time employees. The majority of these employees work in the PRC. The Group offers remuneration packages in line with industry practice. Employees' remuneration includes basic salaries and bonuses. With the increase in the total number of staff to cope with its business requirements, the Group has recorded a 41.33% increase in staff costs to approximately HK\$1,144 million for the six months ended 30 September 2011 as compared to approximately HK\$809 million for the corresponding period of the last financial year. In order to attract and retain a high caliber of capable and motivated workforce, the Company offers share-based incentive schemes to staff based on the individual performance and the achievements of the Company's targets. The Group is committed to providing its staff with various in-house and external training and development programs.

Other Information

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2011 (for the six months ended 30 September 2010: Nil).

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

At 30 September 2011, 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	Number of RSUs granted	Total	Approximate percentage of aggregate shareholding (%)
					(Note 8)	(Note 1)	(Note 9)
GUO Wei	Beneficial owner and Interest of a controlled corporation	1,504,000	149,414,286 (Note 2)	960,000 (Note 3)	2,000,000 (Note 4)	153,878,286	14.09
Andrew Y. YAN	Interests of controlled corporations	—	119,111,744 (Note 5)	—	—	119,111,744	10.91
LIN Yang	Beneficial owner	56,000	—	1,000,000 (Note 6)	1,000,000 (Note 7)	2,056,000	0.19

Notes:

1. All of the interests disclosed herein represent long position in the shares of the Company.
2. These 149,414,286 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. The exercisable period of these share options is from 21 May 2009 to 20 May 2016, during which can be exercised at an exercise price of HK\$5.89 per share for subscription of ordinary shares of the Company.

4. These 2,000,000 restricted share units (“**RSUs**”) held by Mr. GUO Wei were granted on 13 April 2011 under the restricted share award scheme (“**RSA Scheme**”) of the Company, which will be vested on 1 August 2014 subject to fulfillment of certain performance targets.
5. These 119,111,744 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.
6. These 1,000,000 share options held by Mr. LIN Yang were granted on 21 May 2008. The exercisable period of these share options is from 21 May 2009 to 20 May 2016, during which can be exercised at an exercise price of HK\$5.89 per share for subscription of ordinary shares of the Company.
7. These 1,000,000 RSUs held by Mr. LIN Yang were granted on 13 April 2011 under the RSA Scheme of the Company, which will be vested on 1 August 2014 subject to fulfillment of certain performance targets.
8. Each RSU granted under the RSA Scheme of the Company adopted on 28 March 2011 represents one ordinary share of the Company and will be held by the trustee until vesting in accordance with the provisions of the RSA Scheme.
9. This percentage was calculated on the basis of 1,092,110,581 shares of the Company in issue as at 30 September 2011.

Save as disclosed above, at 30 September 2011, 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.

Other Information

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

At 30 September 2011, 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 9)
Kosalaki Investments Limited (Note 2)	Beneficial owner	149,414,286	13.68
Sparkling Investment (BVI) Limited	Beneficial owner	119,111,744 (Note 3)	10.91
SAIF III GP Capital Ltd.	Interest of a controlled corporation	119,111,744 (Note 3)	10.91
Allianz SE	Interests of controlled corporations	77,500,000 (Note 4)	7.10
Matthews International Capital Management, LLC	Investment manager	77,120,000 (Note 5)	7.06
Legend Holdings Limited (Note 6)	Beneficial owner/Interest of a controlled corporation	15,013,077/ 41,368,642 (Note 7)	5.16
Beijing Lian Chi Zhi Yuan Management Consulting Center (Note 6)	Interests of controlled corporations	56,381,719 (Note 8)	5.16
Beijing Lian Chi Zhi Tung Management Consulting Ltd. (Note 6)	Interests of controlled corporations	56,381,719 (Note 8)	5.16

Notes:

- All of the interests disclosed herein represent long position in the shares of the Company.
- KIL is controlled by Mr. GUO Wei, a director of the Company, of which Mr. GUO Wei is also a director of KIL.
- These 119,111,744 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 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.

4. These 77,500,000 shares in aggregate were held by RCM Asia Pacific Ltd. of 27,937,000 shares, Allianz Global Investors Taiwan Ltd. of 4,143,000 shares, Allianz Global Investors Luxembourg S.A. of 27,692,000 shares, Allianz Global Investors Ireland Ltd. of 10,206,000 shares, Allianz Global Investors Kapitalanlagegesellschaft mbH of 4,236,000 shares, RCM (UK) Ltd. of 1,214,000 shares, Allianz Global Investors (UK) Ltd. of 901,000 shares, RCM Capital Management LLC of 1,086,000 shares and Allianz Global Investors Fund Management LLC of 85,000 shares. All of them were indirectly controlled by Allianz SE.
5. Matthews International Capital Management, LLC was deemed to be interested in an aggregate of 77,120,000 shares by virtue of the SFO. Those interests were held in the capacity of investment manager.
6. The English names “Legend Holdings Limited”, “Beijing Lian Chi Zhi Yuan Management Consulting Center” and “Beijing Lian Chi Zhi Tung Management Consulting Ltd.” are direct transliterations of their Chinese registered names “聯想控股有限公司”, “北京聯持志遠管理諮詢中心” and “北京聯持志同管理諮詢有限公司”, respectively.
7. 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.
8. Beijing Lian Chi Zhi Yuan Management Consulting Center and Beijing Lian Chi Zhi Tung Management Consulting Ltd. were the controlling shareholders of Legend Holdings Limited, and therefore all of them were deemed to be interested in 56,381,719 shares of the Company in which Legend Holdings Limited was interested.
9. This percentage was calculated on the basis of 1,092,110,581 shares of the Company in issue as at 30 September 2011.

Save as disclosed above, at 30 September 2011, 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-based Incentive Schemes

(A) Share Option Schemes

The Company operates two share option schemes. The old share option scheme was adopted on 18 July 2002 (the “**2002 Share Option Scheme**”) and the new share option scheme was adopted on 15 August 2011 (the “**2011 Share Option Scheme**”).

No options were granted, lapsed and cancelled under the 2011 Share Option Scheme during the six months ended 30 September 2011.

Other Information

The following table shows the movements in share options under the 2002 Share Option Scheme during the six months ended 30 September 2011 and the options outstanding at the beginning and end of the period:

Grantee	Number of share options				Outstanding as at 30/09/2011	Subscription price per share HK\$ (Note 2)	Date of grant	Exercisable period (Note 1)
	Outstanding as at 01/04/2011	Granted during the period	Lapsed during the period	Exercised during the period				
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	5,365,000	—	—	(898,000)	4,467,000	5.89	21/05/2008	21/05/2009 -20/05/2016
	5,000,000	—	(35,000)	—	4,965,000	15.04	11/01/2011	11/01/2012 -10/01/2019
	—	2,000,000	—	—	2,000,000	13.288	15/06/2011	15/06/2012 -14/06/2019
In aggregate	12,325,000	2,000,000	(35,000)	(898,000)	13,392,000			

Notes:

- All options granted are subject to a vesting period of four years with 25% becoming exercisable on the first anniversary, 25% on the second anniversary, 25% on the third anniversary and 25% on the fourth anniversary of the date of grant.
- The subscription price of the options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair values of equity-settled share options granted were estimated as at the 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:

Granted on:	15 June 2011	11 January 2011	21 May 2008
Dividend yield (%)	3.5 per annum	3.5 per annum	3.5 per annum
Expected volatility (%)	47 per annum	48 per annum	45 per annum
Historical volatility (%)	47 per annum	48 per annum	45 per annum
Risk-free interest rate (%)	1.8 per annum	2.1 per annum	2.6 per annum
Expected life of option (year)	8	8	8
Weighted average share price (HK\$ per share)	13.06	14.98	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.

(B) Restricted Share Award Scheme

The Company's RSA Scheme was adopted on 28 March 2011 for the purpose of rewarding and motivating, among others, directors (including executive and non-executive) and employees of the Company and its subsidiaries (the "**Participants**") with the shares of the Company. The RSA Scheme is intended to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of the Group and the Company's shares by aligning their interests with those of the shareholders of the Company.

Pursuant to the RSA Scheme, existing shares of the Company will be purchased by the trustee of the RSA Scheme from the market out of cash contributed by the Group and be held in trust for the relevant Participants until such shares are vested with the relevant Participants in accordance with the provisions of the RSA Scheme. The shares of the Company granted under the RSA Scheme and held by the trustee until vesting are referred to as RSUs and each RSU shall represent one ordinary share of the Company.

During the six months ended 30 September 2011, a total number of 24,929,000 RSUs were granted to the Participants, of which 3,000,000 RSUs were granted to the Directors of the Company. Details of which were set out under the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

During the six months ended 30 September 2011, the Group recognised share-based compensation expenses of HK\$35,002,000 (six months ended 30 September 2010: HK\$1,392,000) in the condensed consolidated 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 2010/11 Annual Report of the Company are set out as below:

Mr. GUO Wei, the Executive Director and Chairman of the Company, has been re-designated from an independent non-executive director to a non-executive director of HC International, Inc. (a company listed on the GEM Board of the Stock Exchange) with effect from 10 June 2011.

Mr. Andrew Y. YAN, a Non-executive Director of the Company, was appointed as a non-executive director of eSun Holdings Limited (a company listed on the Main Board of the Stock Exchange) with effect from 1 September 2011.

Ms. NI Hong (Hope), an Independent Non-executive Director of the Company, was appointed as a non-executive director of ChinaCast Education Corporation (a company listed on NASDAQ: CAST) ("**ChinaCast**") and also act as member of the nominating and corporate governance committee and the compensation committee of ChinaCast, all with effect from 3 October 2011.

The director emolument per annum for Mr. Andrew Y. YAN, a Non-executive Director of the Company was set at HK\$300,000 and the director emolument per annum for each of the Independent Non-executive Directors, being Mr. HU Zhaoguang, Mr. WONG Man Chung, Francis, Ms. NI Hong (Hope) and Mr. ONG Ka Lueng, Peter were renewed to HK\$300,000, respectively, all with effect from 1 July 2011. Their emoluments were determined by reference to the remuneration benchmark in the market.

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 2011.

Other Information

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 2011.

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 2011, except for the following deviations from certain code provisions with considered reasons are given below:

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

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

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

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

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

During the six months ended 30 September 2011, 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 2011.

By Order of the Board

GUO Wei

Chairman

Hong Kong, 15 November 2011

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