Digital China Holdings Limited

神州數碼控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 00861

SM@RT CITY

2012/13

INTERIM REPORT

神州数码 Digital China | Leading Sm@rt City in China

Suite 2008, 20/F., Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
Tel +852 3416 8000 Fax +852 2805 5991 www.digitalchina.com.hk

Contents

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 2012 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 2012 (Unaudited) HK$'000**	**Six months ended 30 September 2012 (Unaudited) HK$'000**	Three months ended 30 September 2011 (Unaudited) HK$'000	Six months ended 30 September 2011 (Unaudited) HK$'000
REVENUE	3	**19,626,814**	**37,403,597**	18,099,893	34,137,847
Cost of sales		**(18,398,345)**	**(34,834,401)**	(16,763,558)	(31,577,521)
Gross profit		**1,228,469**	**2,569,196**	1,336,335	2,560,326
Other income and gains	3	**316,806**	**418,039**	230,754	381,656
Selling and distribution costs		**(711,626)**	**(1,419,679)**	(759,605)	(1,366,100)
Administrative expenses		**(156,042)**	**(287,647)**	(144,081)	(264,941)
Other operating expenses, net		**(137,600)**	**(169,489)**	(163,925)	(297,507)
Total operating expenses	4	**(1,005,268)**	**(1,876,815)**	(1,067,611)	(1,928,548)
Finance costs		**(79,883)**	**(156,856)**	(63,898)	(162,134)
Share of profits and losses of:					
Jointly-controlled entities		**2,133**	**1,179**	(268)	(409)
Associates		**(14,263)**	**(10,274)**	8,647	14,833
PROFIT BEFORE TAX	5	**447,994**	**944,469**	443,959	865,724
Income tax expense	6	**(30,672)**	**(99,340)**	(112,879)	(149,133)
PROFIT FOR THE PERIOD		**417,322**	**845,129**	331,080	716,591
Attributable to:					
Equity holders of the parent		**340,461**	**741,072**	308,150	665,320
Non-controlling interests		**76,861**	**104,057**	22,930	51,271
		417,322	**845,129**	331,080	716,591
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7				
Basic			**69.39 HK cents**		62.00 HK cents
Diluted			**68.57 HK cents**		61.68 HK cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**845,129**	716,591
OTHER COMPREHENSIVE INCOME:		
Change in fair value of an available-for-sale investment	**71,375**	5,382
Exchange differences on translation of foreign operations	**6,543**	69,502
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**77,918**	74,884
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**923,047**	791,475
Attributable to:		
Equity holders of the parent	**818,076**	721,516
Non-controlling interests	**104,971**	69,959
	923,047	791,475

Condensed Consolidated Statement of Financial Position

	Notes	At 30 September 2012 (Unaudited) HK$'000	At 31 March 2012 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,372,202**	1,236,475
Investment properties		**211,078**	305,005
Prepaid land premiums		**189,062**	163,215
Goodwill		**236,762**	236,377
Intangible assets		**7,176**	4,591
Investments in jointly-controlled entities		**79,850**	33,224
Investments in associates		**683,892**	780,739
Available-for-sale investments		**557,231**	214,321
Deposit paid for acquisition of land use right		**157,152**	—
Deferred tax assets		**60,570**	32,135
Total non-current assets		**3,554,975**	3,006,082
CURRENT ASSETS			
Inventories		**4,737,215**	5,154,490
Trade and bills receivables	8	**12,603,423**	10,787,427
Prepayments, deposits and other receivables		**4,451,091**	3,527,378
Derivative financial instruments		**61,934**	92,440
Financial assets at fair value through profit or loss		**185,819**	—
Cash and cash equivalents		**3,309,577**	4,253,966
		25,349,059	23,815,701
Non-current asset classified as held for sale	10	**12,467**	—
Total current assets		**25,361,526**	23,815,701
CURRENT LIABILITIES			
Trade and bills payables	9	**13,549,167**	12,315,472
Other payables and accruals		**2,363,876**	2,728,849
Tax payable		**195,470**	201,525
Interest-bearing bank borrowings		**3,174,430**	2,323,895
Bond payable		**36,675**	—
Total current liabilities		**19,319,618**	17,569,741
NET CURRENT ASSETS		**6,041,908**	6,245,960
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,596,883**	9,252,042

Condensed Consolidated Statement of Financial Position

	Notes	At 30 September 2012 (Unaudited) HK$'000	At 31 March 2012 (Audited) HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**1,552,500**	1,692,000
Bond payable		**—**	36,615
Total non-current liabilities		**1,552,500**	1,728,615
NET ASSETS		**8,044,383**	7,523,427
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**109,291**	109,273
Reserves		**7,132,057**	6,286,928
Proposed final dividend		**—**	424,986
		7,241,348	6,821,187
Non-controlling interests		**803,035**	702,240
TOTAL EQUITY		**8,044,383**	7,523,427

Condensed Consolidated Statement of Cash Flows

	Six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash inflow from operating activities	**338,137**	257,588
Net cash outflow from investing activities	**(1,514,558)**	(527,582)
Net cash inflow from financing activities	**233,227**	1,000,084
Net increase/(decrease) in cash and cash equivalents	**(943,194)**	730,090
Cash and cash equivalents at the beginning of the period	**4,253,966**	3,049,455
Effects of foreign exchange rate changes, net	**(1,195)**	38,673
Cash and cash equivalents at the end of the period	**3,309,577**	3,818,218

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 (Unaudited) HK$'000	Available-for-sale investment revaluation reserve (Unaudited) HK$'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 2012	109,273	2,052,706	901,639	(359,914)	104,279	26,904	263,373	268,297	3,029,644	424,986	6,821,187	702,240	7,523,427
Profit for the period	–	–	–	–	–	–	–	–	741,072	–	741,072	104,057	845,129
Other comprehensive income for the period:													
Change in fair value of an available-for-sale investment, net of tax	–	–	–	–	–	71,375	–	–	–	–	71,375	–	71,375
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	5,629	–	–	5,629	914	6,543
Total comprehensive income for the period	–	–	–	–	–	71,375	–	5,629	741,072	–	818,076	104,971	923,047
Exercise of share options	18	1,447	–	–	(381)	–	–	–	–	–	1,084	–	1,084
Share-based compensation	–	–	–	–	26,102	–	–	–	–	–	26,102	–	26,102
Capital contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	9,168	9,168
Disposal of investment in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(13,344)	(13,344)
Change in net asset of an associate	–	–	(115)	–	–	–	–	–	–	–	(115)	–	(115)
Final 2012 dividend	–	–	–	–	–	–	–	–	–	(424,986)	(424,986)	–	(424,986)
At 30 September 2012	109,291	2,054,153	901,524	(359,914)	130,000	98,279	263,373	273,926	3,770,716	–	7,241,348	803,035	8,044,383

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 (Unaudited) HK$'000	Available-for-sale investment revaluation reserve (Unaudited) HK$'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 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

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 2012 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 2012 had been consistently applied except in relation to the following 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 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfer of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of these 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, peripherals, accessories and consumer IT products;

(b) the "Systems" segment, with a primary focus on the Enterprise market, focuses on meeting the IT demand from the urban information infrastructure construction, as well as the enterprise market 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 servers, networking products, storage products and packaged software;

(c) the "Supply Chain Services" segment, with a primary focus on the Hi-tech Industries, Branded e-Commerce Platform Operators and Branded Service Providers, is targeted at manufacturers of IT and other high-value density products manufacturers and industry customers, branded 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; 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 made certain adjustments to its business classification at the start of this financial year, the main details of which are as follows:

(1) A sub-segment of the "Supply Chain Services Segment" will be devoted to the provision of professional supply chain management services including one-stop logistics and maintenance services, to hi-tech corporate customers and industry customers; another sub-segment will provide purchasing services to chain electronic stores (CES) for terminal products such as PC, notebook, smart devices, digital products, where CES is deemed as a retail format and an effective complement to the Distribution Segment which aims at a comprehensive coverage of all business formats. Therefore, this sub-segment has been reallocated to the Distribution Segment. In order to provide a more appropriate presentation for the Group's operating segment information, the Group reallocated this sub-segment from the "Supply Chain Services Segment" to the "Distribution Segment" at the start of this financial year and the relevant results for the corresponding period of last financial year have been restated accordingly; and

(2) A sub-segment of the "Distribution Segment" will continue to focus on full channel coverage for all retail formats for IT products and devices, developing and supplying IT products and solutions of broader variety and higher value to consumer and SMB customers. Another sub-segment in the original Distribution Segment, covering products such as PC, servers, will become an important part of IT infrastructure building in line with the development of cloud computing, which will be more compatible with the business positioning of the Systems Segment, which aims to become a supplier of IT infrastructure products and solutions. Therefore, this sub-segment has been reallocated to the Systems Segment. In order to provide a more appropriate presentation for the Group's operating segment information, the Group reallocated this sub-segment from the "Distribution Segment" to the "Systems Segment" at the start of this financial year and the relevant results for the corresponding period of last financial year have been restated accordingly.

Notes to the Condensed Consolidated Interim Financial Statements

2. Operating segment information (Continued)

The following table presents revenue and results for the Group's operating segments for the six months ended 30 September 2012 and 2011:

	Distribution		Systems		Supply Chain Services		Services		Consolidated	
	Six months ended 30 September									
	2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000 (Restated)	**2012 (Unaudited) HK$'000**	2011 (Unaudited) HK$'000 (Restated)	**2012 (Unaudited) HK$'000**	2011 (Unaudited) HK$'000 (Restated)	**2012 (Unaudited) HK$'000**	2011 (Unaudited) HK$'000	**2012 (Unaudited) HK$'000**	2011 (Unaudited) HK$'000
Segment revenue:										
Sales to external customers	**19,546,906**	19,329,208	**13,349,520**	10,699,324	**549,643**	583,769	**3,957,528**	3,525,546	**37,403,597**	34,137,847
Segment gross profit	**619,325**	860,230	**1,202,766**	1,007,226	**116,875**	103,346	**630,230**	589,524	**2,569,196**	2,560,326
Segment results	**145,484**	289,768	**620,747**	517,727	**26,607**	17,230	**310,895**	138,408	**1,103,733**	963,133
Interest income, unallocated revenue and gains									**142,491**	130,442
Unallocated expenses									**(135,804)**	(80,141)
Finance costs									**(156,856)**	(162,134)
Share of profits and losses of:										
Jointly-controlled entities	**–**	–	**–**	–	**–**	–	**1,179**	(409)	**1,179**	(409)
Associates	**–**	–	**–**	–	**–**	–	**(10,274)**	14,833	**(10,274)**	14,833
Profit before tax									**944,469**	865,724
Income tax expense									**(99,340)**	(149,133)
Profit for the period									**845,129**	716,591

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	
	2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
Other income		
Government grants	**36,405**	24,389
Interest income	**36,118**	20,852
Imputed interest income on other receivables	**—**	31,680
Gross rental income	**21,094**	18,751
Dividend income from available-for-sale investments	**—**	37
Others	**28,642**	13,728
	122,259	109,437
Gains		
Gain on derivative financial instruments	**49,468**	69,097
Gain on disposal of investment in a subsidiary	**230,914**	—
Foreign exchange differences, net	**9,006**	200,417
Others	**6,392**	2,705
	295,780	272,219
	418,039	381,656

4. Total operating expenses

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

	Six months ended 30 September	
	2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
Selling expenses	**178,064**	187,355
Promotion and advertising expenses	**144,426**	108,253
Staff costs included in operating expenses (including directors' remuneration)	**957,878**	887,824
Other expenses	**596,447**	745,116
	1,876,815	1,928,548

Notes to the Condensed Consolidated Interim Financial Statements

5. Profit before tax

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

	Six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**33,998,472**	30,955,221
Depreciation	**77,692**	65,140
Amortisation of prepaid land premiums	**1,709**	412
Amortisation of intangible assets	**315**	994
Provisions/(reversal of provisions) for and write-off of obsolete inventories	**(60,078)**	79,248
Impairment of trade receivables	**78,142**	120,684
Impairment of investment in an associate	**24,450**	—
Loss on disposal of items of property, plant and equipment	**3,118**	2,819

6. Income tax expense

	Six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Group:		
Current — Hong Kong	**515**	—
Current — The People's Republic of China ("**PRC**")	**127,209**	141,965
Deferred	**(28,384)**	7,168
Total tax charge for the period	**99,340**	149,133

(a) During the six months ended 30 September 2012, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax had been made for Hong Kong subsidiaries for the six months ended 30 September 2011 as the Hong Kong subsidiaries had no estimated assessable profits arising in Hong Kong.

(b) PRC corporate income tax represents tax charged on the estimated assessable profits arising in 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$314,000 (six months ended 30 September 2011: HK$279,000) and the share of tax charge attributable to the associates of approximately HK$9,836,000 (six months ended 30 September 2011: HK$9,730,000) 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 2012 attributable to ordinary equity holders of the parent of approximately HK$741,072,000 (six months ended 30 September 2011: HK$665,320,000), and the weighted average of 1,067,908,166 (six months ended 30 September 2011: 1,073,025,286) ordinary shares in issue less shares held the restricted share award scheme during the six months ended 30 September 2012.

The calculation of diluted earnings per share amount for the six months ended 30 September 2012 is based on the profit for the six months ended 30 September 2012 attributable to ordinary equity holders of the parent of approximately HK$741,072,000 (six months ended 30 September 2011: HK$665,320,000) and the weighted average of 1,080,792,259 (six months ended 30 September 2011: 1,078,626,876) ordinary shares, which represented 1,067,908,166 (six months ended 30 September 2011: 1,073,025,286) ordinary shares in issue during the six months ended 30 September 2012, as used in the basic earnings per share calculation, and the weighted average of 12,884,093 (six months ended 30 September 2011: 5,601,590) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares related to the Group's share-based incentive schemes into ordinary shares.

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 2012 (Unaudited) HK$'000	At 31 March 2012 (Audited) HK$'000
Within 30 days	**6,332,118**	4,616,485
31 to 60 days	**2,214,830**	2,494,412
61 to 90 days	**809,760**	547,398
91 to 180 days	**1,384,396**	1,842,493
Over 180 days	**1,862,319**	1,286,639
	12,603,423	10,787,427

Included in the Group's trade and bills receivables are amounts due from an associate of the Group of approximately HK$999,000 (31 March 2012: HK$772,000).

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 2012 (Unaudited) HK$'000	At 31 March 2012 (Audited) HK$'000
Within 30 days	**5,907,553**	5,829,962
31 to 60 days	**2,956,525**	3,303,573
61 to 90 days	**2,202,189**	1,104,136
Over 90 days	**2,482,900**	2,077,801
	13,549,167	12,315,472

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

Included in the Group's trade and bills payables are amounts due to associates of the Group of approximately HK$1,719,000 (31 March 2012: HK$1,839,000).

10. Non-current asset classified as held for sale

During the period, the Group has entered into a share transfer agreement with a shareholder of a non-wholly owned subsidiary, Beijing Si-Tech Information Technology Co., Ltd. ("**STQ**"), to dispose in turn of its entire interest in STQ. At 30 September 2012, the 8.82% equity interest in STQ has not yet been transferred to the acquirer and presented as a non-current asset classified as held for sale.

11. Operating leases arrangements

(i) As lessor

At 30 September 2012, 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 2012 (Unaudited) HK$'000	At 31 March 2012 (Audited) HK$'000
Within one year	**10,229**	1,898
In the second to fifth years, inclusive	**14,658**	—
	24,887	1,898

Notes to the Condensed Consolidated Interim Financial Statements

11. Operating leases arrangements (Continued)

(ii) As lessee

At 30 September 2012, 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 2012 (Unaudited) HK$'000	At 31 March 2012 (Audited) HK$'000
Within one year	**117,491**	137,101
In the second to fifth years, inclusive	**84,832**	114,100
After five years	**—**	712
	202,323	251,913

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 2012 (Unaudited) HK$'000	At 31 March 2012 (Audited) HK$'000
Contracted, but not provided for:		
Land and buildings	**202,454**	76,863

Notes to the Condensed Consolidated Interim Financial Statements

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 2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
DigiWin Software Co., Ltd.+ and its subsidiaries, associates of the Group:			
Provision of IT services by the Group	(i)	**2,986**	5,879
PinHu Digital China BoHai Science & Technology Co., Ltd.+, an associate of the Group:			
Provision of IT services to the Group	(i)	**3,672**	2,870
NingBo Digital China HongBo Information Technology Company Limited+, an associate of the Group:			
Provision of IT services to the Group	(i)	**1,339**	—
Digital China-Octopus Information Systems Service Limited+, a jointly-controlled entity of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	**1,628**	—
Digital China BB Limited+, a jointly-controlled entity of the Group:			
Sales of goods by the Group	(ii)	**—**	754

Notes:

(i) The prices for provision of IT services were determined at rates mutually agreed between the Group and the corresponding related parties.

(ii) The sales were made with reference to the listed prices and conditions offered to the major customers of the Group.

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

Notes to the Condensed Consolidated Interim Financial Statements

13. Related party transactions (Continued)

(b) Outstanding balances with related parties:

(i) Details of the Group's trade balances with the associates as at the end of the reporting period are included in notes 8 and 9 to these unaudited condensed consolidated interim financial statements.

(ii) At 30 September 2012, the loan to the jointly-controlled entity, in relation to the loan of approximately HK$281,174,000 (ie. RMB230,000,000) granted to the jointly-controlled entity during the six months ended 30 September 2012, included in the Group's prepayments, deposits and other receivables was approximately HK$281,174,000. Interest income of approximately HK$5,040,000 arose form the aforementioned loan to the jointly-controlled entity, which are unsecured and bear interest at a rate of 16.15% per annum.

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

	Six months ended 30 September	
	2012 (Unaudited) HK$'000	2011 (Unaudited) HK$'000
Short term employee benefits	**9,174**	9,627
Post-employment benefits	**62**	83
Share-based compensation	**6,560**	7,717
Total compensation paid to key management personnel	**15,796**	17,427

Management Discussion and Analysis

At the start of the 2012/13 financial year, the Group management called for "prudent progress, streamlined establishment with enhanced efficiency, and with a focus on Sm@rt City" as the guiding principle for the Group's business operation, in full anticipation of potential risks that market volatility might bring about. Under the direction of this principle, the Group formulated overall business development plans in tandem with the five strategic paths of the Sm@rt City and delivered positive results that assured stable growth against adverse market conditions; meanwhile, through a number of administrative measures aimed at optimizing business structure and improving organizational management to enhance efficiency, the Group assured growth in both turnover and profit for the first six months of this financial year despite an intensively competitive market environment.

1.1. Further refinement of customer development and strengthened efforts in efficiency-oriented organisational building assured growth in both turnover and profit.

The Group's business units countered the adverse impact of soft market demand and assured stable turnover growth by advancing their customer plans in a prudent pace, developing new customers while identifying new demands from existing customers. For the six months ended 30 September 2012, the Group reported turnover of approximately HK$37,404 million, an increase of 9.57% as compared to approximately HK$34,138 million for the corresponding period of last financial year. Turnover for the second quarter alone amounted to approximately HK$19,627 million, a historical record high for quarterly results despite adverse market conditions. Meanwhile, profit attributable to equity holders of the parent for the first six months of the current financial year amounted to approximately HK$741 million, a double-digit growth of 11.39% as compared to approximately HK$665 million for the corresponding period of last financial year.

1.2. Sound cash turnover and cash flow performance on the back of market judgment as well as stringent and effective risk control measures.

Since the beginning of the current financial year, risk control and cash flow management have been made the priority tasks for the whole financial year by the Group management, having full regard for the risks associated with market volatility. Our efforts have paid off well to assure ongoing sound and stable business growth. The Group's net cash inflow from operating activities amounted to approximately HK$338 million for the six months ended 30 September 2012 in sustained positive performance. Meanwhile, we remained at the industry's top levels in terms of working capital efficiency with further improvements, as represented by a cash turnover of 14.20 days for the period, being 1.35 days less than 15.55 days reported for the corresponding period of last financial year.

1.3. Operating expense ratio (total operating expenses as a percentage of total revenue) continued to decrease under stringent execution of cost budget plans formulated at the beginning of the financial year and optimization of resource utilization.

The Group's expense ratio for the six months ended 30 September 2012 was substantially lower at 5.02%, as compared to 5.65% reported for the corresponding period of last financial year, as we stringently implemented our cost management policy formulated at the beginning of the financial year in thorough implementation of the operating principle of "prudent progress and streamlined establishment with enhanced efficiency", while making vigorous efforts in inventory clearance and receivables collection to effectively control the obsolete inventories and trade receivables provisions.

Management Discussion and Analysis

1.4. "Sm@rt City" business network provided a solid foundation for the ongoing sophistication of the Group's service-oriented transformation.

As at 30 September 2012, the Group's Sm@rt City's national footprint has extended to 69 cities and we have signed strategic cooperation plans with 14 cities. The successful execution of Sm@rt City projects in numerous cities has provided a very positive showcasing effect on a national scale. The meat and vegetable source tracking system and the citizen card operating system, for example, have won the admiration and approval of many unsolicited cities as the key products of the Group's Sm@rt City business and offered significant assurance for the steady advancement of the Sm@rt City strategy. The strategic network building of the Sm@rt City provided our Group with an opportunity to optimise and realign the structure of its Services Business on a continued basis, and to increase the weighting of our software and services businesses with an emphasis on exploring the needs of government corporations and financial institutions while conducting in-depth exploration on the models of Sm@rt City operation, with a view to enhancing the overall value of our Services Business.

2.1. Distribution Business: primary focus on the SMB & Consumer Markets, engaging in the distribution of general IT products such as notebook computers, desktop computers, peripherals, accessories and consumer IT products.

The Group secured stable development of its Distribution Business with year-on-year turnover growth despite notable slowdown in overall consumer market thanks to its strategy of detailed channel development.

Against a notable slowdown in the overall demand from the consumer market since the beginning of the current financial year in line with the macroeconomic downturn, the Group effectively neutralised the impact of lower turnover from the notebook computers business due to a lacklustre market by consistently optimizing its channel structures to capitalize on the growth opportunities in CES and e-commerce businesses. The Group's Distribution Business reported turnover of approximately HK$19,547 million for the six months ended 30 September 2012 for an 1.13% growth over the corresponding period of last financial year. In the meantime, the Group adopted more proactive measures to avert potential business risks through a variety of marketing initiatives to clear stock. As a result, the gross profit margin for the first six months of the current financial year declined to 3.17%, as compared to the corresponding period of last financial year.

Enhancing coverage of CES and e-commerce channels to grab opportunities arising from retail format changes.

Our CES management team continued to deepen its partnership with hypermarkets such as Suning with a view to enhancing cooperation with large chain stores; meanwhile, we were also making active efforts to broaden the scope of exposure of our products, seeking partnership opportunities for more new product lines in addition to existing ones. As a result, we reported a strong growth of 48.31% in turnover from our CES business for the first six months of the current financial year, as compared to the corresponding period of last financial year. Our e-commerce business reported exponential turnover growth over the corresponding period of last financial year with economies of scale in the making, as we built this business into another important source of revenue in addition to traditional channels and CES on the back of long-term working relationships with key e-commerce customers.

Management Discussion and Analysis

Rapid growth sustained for the accessories segment and meanwhile making active preparations underway for multiple platforms competition in the Distribution Business.

While sales of notebook computers further slowed down in line with weak demand, rapid turnover growth was sustained for other products, especially accessories, whose turnover for the first six months of the current financial year grew by 21.82% as compared to the corresponding period of last financial year. Gross profit margin was also improved thanks to the introduction of additional high-end product lines in hard disks and monitors. In the meantime, the Group has secured a solid foundation for the Distribution Business to achieve sound results in the second half of the financial year, as it has made active preparations and deployments in a bid to capture new growth opportunities driven by more diverse applications and lower prices in an emerging market landscape featuring multiple competing platforms, following the launch of Microsoft's new operating system.

2.2. Systems Business: primary focus on the Enterprise Market, offering value-added distribution of systems products such as servers, networking products, storage products and packaged software.

Outperforming the industry with expanding market shares reflecting dominance in the Enterprise Market and value-added distribution segments.

The Systems Business of the Group continued to report outperforming growth for the six months ended 30 September 2012 credit to effectively strengthened market share management. Turnover amounted to approximately HK$13,350 million, an increase of 24.77% as compared to approximately HK$10,699 million reported for the corresponding period of last financial year, while gross profit margin reported 9.01%. The Systems Business has provided strong support for the achievement of the Group's overall results for the first six months of the current financial year.

Sound growth for key segments such as networking products and servers on firm grasp of Enterprise Market demand.

The Group's Systems Business reported notable growth in the turnover from its major product lines as it capitalised on demands from the Enterprise Market through stringent execution of customer plans on the back of sophisticated market share management. As a result, the packaged software business and storage products business reported rapid growth of 36.15% and 35.33%, respectively, while the servers business and the networking products business reported growth of 32.66% and 25.13%, respectively, over the corresponding period of last financial year.

Joint initiatives in new market segment development as part of our efforts to enhance strategic cooperation with major vendors.

In view of the growing maturity of cloud computing technologies, the Group's Systems Business developed more sophisticated models for strategic cooperation with leading vendors in cloud computing such as Cisco, Oracle and IBM during the first six months of the current financial year. By integrating the strengths of our partners with those of our own, we have rolled out close cooperation from research and development, consultancy, pre-sale operations to sale. Apart from focusing on cloud computing data centre solutions by introducing leading-edge large-scale data centre products and solutions to meet the growing demand for cloud computing data centres, such cooperation initiatives also aimed to jointly explore the market for industry systems products in the financial, telecommunications and government sectors to enhance our strengths in these sectors.

Management Discussion and Analysis

2.3. Services Business: primary focus on the Industry Market, 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.

Stable development of the Services Business underpinned by rapid growth of financial and government corporation sectors.

The Group assured stable growth in its Services Business as the management took the initiative to reallocate resources to address the complicated market situation, making the decision to dispose of its Telecom software business and focus on the government corporation sectors instead where it had traditionally been a market leader as well as the fast-growing banking sector. For the six months ended 30 September 2012, our Services Business reported turnover of approximately HK$3,958 million, representing an increase of 12.25% as compared to approximately HK$3,526 million for the corresponding period of last financial year. The financial and government corporation sectors reported robust growth rates of 71.18% and 38.91%, respectively.

More projects streaming in for pure software as well as pure services and the transformation of Services Business continued to reach further depths.

In the financial sector, we reported rapid growth in the emerging business known as "Financial Cloud Services," signing up more than 40 small and medium size financial institutions as at 30 September 2012 for operational services. In addition, we also secured important projects such as the core banking systems of Bank of Qinghai, Bank of Cangzhou, Bank of Beijing and China Merchants Bank and Enterprise Service Bus of Fujian Nongxin, while maintaining software development and testing service contracts with existing customers such as China Construction Bank, contributing to a substantial year-on-year growth of over 50% in contract amount from the financial sector. In the government corporation sector, new customers signed up for software and services projects included Hebei Bureau of the State Administration of Taxation, Anhui Local Taxation Bureau, and Ningbo Local Taxation Bureau, Shenyang Local Taxation Bureau, Tianjin Municipal Trade Union.

Steady progress of Sm@rt City with successful execution in various cities across the nation.

After years of development efforts, the Group's Sm@rt City national footprint has extended to 69 cities and we have signed strategic cooperation plans with 14 cities. For the first six months of the current financial year, contract signed for Sm@rt City solutions achieved a year-on-year growth of 52%. The Group continued to launch successful executions for numerous maturing business types in various cities across the nation. Further to growing sophistication of the operation of the meat and vegetable source tracking system since its introduction to Suzhou, Wujiang and Taicang, for example, the Group has recently added the cities of Changshu and Kunshan to its clientele for this system, signifying the Group's full-scale development in the urban food safety sector to grasp more opportunities in food safety platform and source tracking system. Meanwhile, the citizen card business continued to enjoy stable development, underpinned by recently signed up projects such as citizen card operation services for Zhangjiagang and the Karamay citizen card project, etc.

Management Discussion and Analysis

2.4. Supply Chain Services Business: primary focus on the markets of Hi-tech Industries, Branded 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.

Enhanced business value for Supply Chain Services thanks to proactive moves to optimize business structure.

At the start of the current financial year, the Group's Supply Chain Services Business took the initiative to adjust businesses commanding lower gross profit while actively develop new segments in the logistics business to snatch market shares. Meanwhile, the proportion of services increased substantially with the benefit of strong demand for maintenance services. As a result, our Supply Chain Services Business reported turnover of approximately HK$550 million for the six months ended 30 September 2012. Gross profit margin improved by 3.56 percentage points to 21.26%, as compared to the corresponding period of last financial year.

Logistics business underpinned by active market development and vigorous efforts in e-commerce storage (B2C) business.

As one of the core businesses of our Supply Chain Services, our logistics business has been making vigorous efforts to expand its B2C logistics business since the beginning of the current financial year in addition to ongoing expansion of its B2B logistics business, an area in which it claims a leading edge, seeking to capture opportunities in the growing B2C logistics market by leveraging fully its capabilities in storage, transportation and delivery developed over the years. For the six months ended 30 September 2012, the logistics business reported overall revenue of approximately HK$206 million, representing a 59.09% growth as compared to the corresponding period of last financial year. In addition, the Group was also actively developing the e-commerce supply chain services, increasing cooperation with existing strategic partners while tapping new customers. Through business streamlining, we have also secured improvements in our gross profit margin.

Effective value enhancement of the service station business through efforts in service quality improvements and SME customer development, etc.

Our service station business reported notable increase in the business volume of out-of-warranty services, as we continued to enhance quality management in respect of shop services and optimise the product categories of our out-of-warranty services in response to market demand and succeeded in encouraging the customers under warranty to purchase out-of-warranty products; meanwhile, we made strong efforts to develop the SME warranty business by expanding our SME customer service team. For the six months ended 30 September 2012, turnover generated from our service station business increased by 4.2% over the corresponding period of last financial year, while its gross profit margin was substantially increased by 4.05 percentage points, year-on-year.

3. Management Outlook

In view of the complex market situation, the Company management will remain adhered to the principle of "prudent progress, streamlined establishment with enhanced efficiency, and with a focus on Sm@rt City" in the second half of the financial year, as they continue to closely monitor market developments in order to prepare itself for various challenges arising from the volatile market. The Group will reinforce our current business foundation and actively identify new niche for business growth in order to mitigate the impact of macro-environment conditions and changes in the IT market; in the meantime, the Group will also earnestly explore models for Sm@rt City operation, with the aim of forging pilot cities in the nearest future. While engaged in prudent business progress, the management will continue as always to strengthen risk control and operating cash flow management, perpetuate reforms of internal administrative mechanisms, optimise staff efficiency and enhance organisational effectiveness, with a view to assuring the accomplishment of pre-set business targets for greater shareholders' value.

Management Discussion and Analysis

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$28,916 million at 30 September 2012 which were financed by total liabilities of HK$20,872 million, non-controlling interests of HK$803 million and equity attributable to equity holders of the parent of HK$7,241 million. The Group's current ratio at 30 September 2012 was 1.31 as compared to 1.39 at 30 June 2012 and 1.36 at 31 March 2012.

During the six months ended 30 September 2012, capital expenditure of HK$217 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 0.66 at 30 September 2012 as compared to 0.61 at 30 June 2012 and 0.59 at 31 March 2012. The computation of the said ratio was based on the total interest-bearing bank borrowings and bond payable of HK$4,764 million (30 June 2012: HK$4,413 million and 31 March 2012: HK$4,053 million) and equity attributable to equity holders of the parent of HK$7,241 million (30 June 2012: HK$7,252 million and 31 March 2012: HK$6,821 million).

At 30 September 2012, 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	1,855,750	81,907	1,212,323	3,149,980
Interest-bearing bank borrowings, secured	—	24,450	—	24,450
Bond payable	—	36,675	—	36,675
	1,855,750	143,032	1,212,323	3,211,105
Non-current				
Interest-bearing bank borrowings, unsecured	1,162,500	—	390,000	1,552,500
Total	3,018,250	143,032	1,602,323	4,763,605

Included in the Group's current bank borrowings of approximately HK$24 million extended by a financial institution to a subsidiary of the Group, Digital China Jinxin Technology Co., Ltd. ("**Beijing Jinxin**"), were secured by fixtures and office equipment with a value of approximately HK$25 million at 30 September 2012 in favour of Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd., an independent third party, for securing a guarantee issued by such Pledgee on behalf of Beijing Jinxin.

During the year ended 31 March 2012, a subsidiary of the Group, Digital China Technology Limited, entered into a facility agreement with a syndicate of banks for a three-year loan facility of US$150 million for the purpose of financing general working capital of the Group. Included in the Group's non-current bank borrowings of approximately HK$1,163 million (equivalent to US$150 million) represented the syndicated loan repayable in three years from the date of the drawdown and were guaranteed by the Company.

Management Discussion and Analysis

Included in the Group's current and non-current bank borrowings of approximately HK$836 million and HK$1,553 million respectively represented the term loans which are repayable from Year 2013 to 2014.

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.") 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 the 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$37 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 the 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 the continuing guarantee; and if the Issuers cannot provide a guarantor with good reputation before the conclusion of the 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 2012 amounted to HK$28,158 million, of which HK$2,825 million were in term loan facilities, HK$18,055 million were in trade lines and HK$7,278 million were in short-term and revolving money market facilities. At 30 September 2012, the facility drawn down was HK$1,553 million in term loan facilities, HK$6,515 million in trade lines and HK$2,059 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 2012, the Group had approximately 11,000 (30 September 2011: approximately 12,000) 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 6.26% increase in staff costs to approximately HK$1,215 million for the six months ended 30 September 2012 as compared to approximately HK$1,144 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 2012 (for the six months ended 30 September 2011: Nil).

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

At 30 September 2012, 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 *(Note 8)*	Total *(Note 1)*	Approximate Percentage of Aggregate Shareholding (%) *(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	14.08
Andrew Y. YAN	Interests of controlled corporations	—	119,111,744 *(Note 5)*	—	—	119,111,744	10.90
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.

Other Information

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., and SAIF III GP, L.P. is indirectly controlled by Mr. Andrew Y. YAN through SAIF III GP Capital Ltd., therefore, Mr. Andrew Y. YAN was deemed to be interested in such shares in which SIBL was interested.

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 1,092,915,581 shares of the Company in issue as at 30 September 2012.

Save as disclosed above, at 30 September 2012, 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 2012, 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 8)*
Kosalaki Investments Limited *(Note 2)*	Beneficial owner	149,414,286	13.67
Sparkling Investment (BVI) Limited	Beneficial owner	119,111,744 *(Note 3)*	10.90
SAIF III GP Capital Ltd.	Interest of a controlled corporation	119,111,744 *(Note 3)*	10.90
Allianz SE	Interest of a controlled corporation	99,093,000 *(Note 4)*	9.07
Matthews International Capital Management, LLC	Investment manager	87,811,000 *(Note 5)*	8.03
Legend Holdings Limited *(Note 6)*	Beneficial owner/ Interest of a controlled corporation	15,013,077/ 41,368,642 *(Note 7)*	5.16

Notes:

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

2. KIL is controlled by Mr. GUO Wei, a director of the Company, of which Mr. GUO Wei is also a director of KIL.

3. 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., and SAIF III GP, L.P. is indirectly controlled by Mr. Andrew Y. YAN through SAIF III GP Capital Ltd., therefore, Mr. Andrew Y. YAN was deemed to be interested in such shares in which SIBL was interested.

4. These 99,093,000 shares in aggregate were held by RCM Asia Pacific Ltd. of 43,786,000 shares, Allianz Global Investors Taiwan Ltd. of 3,578,000 shares, Allianz Global Investors Singapore Ltd. of 485,000 shares, Allianz Global Investors Hong Kong Ltd. of 1,672,000 shares, Allianz Global Investors (UK) Ltd. of 901,000 shares, Allianz Global Investors Kapitalanlagegesellschaft mbH of 4,273,000 shares, Allianz Global Investors Luxembourg S.A. of 30,669,000 shares, Allianz Global Investors Ireland Ltd. of 10,223,000 shares, RCM (UK) Ltd. of 1,157,000 shares, RCM Capital Management LLC of 2,251,000 shares and Allianz Global Investors Fund Management LLC of 98,000 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 87,811,000 shares by virtue of the SFO. Those interests were held in the capacity of investment manager.

Other Information

6. The English name "Legend Holdings Limited" is direct transliterations of its Chinese registered name "聯想控股有限公司".

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. This percentage was calculated on the basis of 1,092,915,581 shares of the Company in issue as at 30 September 2012.

Save as disclosed above, at 30 September 2012, 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, one of the share option scheme was adopted on 18 July 2002 (the "**2002 Share Option Scheme**") and the other 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 2012.

The following table shows the movements in the share options under the 2002 Share Option Scheme during the six months ended 30 September 2012 and the options outstanding at the beginning and end of the period:

	Number of share options							
Grantee	Outstanding as at 01/04/2012	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding as at 30/09/2012	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	3,844,000	—	—	(179,000)	3,665,000	5.89	21/05/2008	21/05/2009 -20/05/2016
	4,949,000	—	(92,000)	(2,000)	4,855,000	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	12,753,000	—	(2,092,000)	(181,000)	10,480,000			

Other Information

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.

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
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 2012, the Group recognised share-based compensation expenses of HK$26,102,000 (six months ended 30 September 2011: HK$35,002,000) in the unaudited condensed consolidated income statement.

Other Information

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 2011/12 Annual Report of the Company are set out as below:

Mr. HU Zhaoguang, an Independent Non-executive Director of the Company, has been appointed as independent non-executive director, chairman of remuneration committee and members of audit committee and nomination committee of China Ground Source Energy Limited (a company listed on the Growth Enterprise Market of the Stock Exchange), all with effect from 30 July 2012.

Compliance with the Model Code

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as its code of conduct of the Company for Directors' securities transactions. Having made specific enquiry with the Directors, all of 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 2012.

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 2012.

Corporate Governance

The Company has complied with all the code provisions as set out in the "Corporate Governance Code" contained in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2012, 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.

Other Information

***Code Provision A.5.1** stipulates that company should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.*

The Company does not establish a Nomination Committee at present. The Company considers that the setting up of a Nomination Committee may not be necessary as the Board has the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as addition to the Board according to the Bye-Laws, therefore, the Board has been able to assume the responsibilities of a Nomination Committee. The Board will identify and assess whether the candidate has the balanced composition of skills and experience appropriate for the requirements of the businesses of the Company and suitably qualified to become board members.

***Code Provision D.1.4** stipulates that directors should clearly understand delegation arrangements in place. Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.*

The Company has not entered into any written letters of appointment with its Non-executive Director or any Independent Non-executive Directors. However, the Board recognizes that (i) the above-mentioned Directors have already been subject to the laws and regulations applicable to directors of a company listed on The Stock Exchange of Hong Kong Limited, including the Listing Rules as well as the fiduciary duties to act in the best interests of the Company and its shareholders; (ii) all of them are well established in their professions and have held directorships in other listed companies; and (iii) the current arrangement has been adopted by the Company for several years and has approved to be effective. Therefore, the Board considers that the above-mentioned Directors are able to carry out their duties in a responsible and effective manner under the current arrangement.

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

During the six months ended 30 September 2012, 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 Company has maintained a sufficient public float as required under the Listing Rules throughout the six months ended 30 September 2012.

By Order of the Board
GUO Wei
Chairman

Hong Kong, 20 November 2012

Website: www.digitalchina.com.hk