



神州数码
Digital China

Leading Sm@rt City in China

Digital China Holdings Limited

神州數碼控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 00861

2013/14
Interim Report

SM@RT
CITY

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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 2013 together with comparative figures for the corresponding period of the last financial year as follows:

Condensed Consolidated Income Statement

		Three months ended 30 September 2013 (Unaudited) HK\$'000	Six months ended 30 September 2013 (Unaudited) HK\$'000	Three months ended 30 September 2012 (Unaudited) HK\$'000	Six months ended 30 September 2012 (Unaudited) HK\$'000
	Notes				
REVENUE	3	17,615,696	33,628,895	19,626,814	37,403,597
Cost of sales		(16,635,107)	(31,557,634)	(18,398,345)	(34,834,401)
Gross profit		980,589	2,071,261	1,228,469	2,569,196
Other income and gains	3	257,319	509,486	316,806	418,039
Selling and distribution expenses		(562,853)	(1,182,627)	(711,626)	(1,419,679)
Administrative expenses		(94,822)	(213,973)	(156,042)	(287,647)
Other expenses, net		(227,317)	(308,421)	(137,600)	(169,489)
Finance costs		(53,718)	(120,369)	(79,883)	(156,856)
Share of profits and losses of:					
Jointly-controlled entities		(7,025)	(8,121)	2,133	1,179
Associates		11,279	42,464	(14,263)	(10,274)
PROFIT BEFORE TAX	4	303,452	789,700	447,994	944,469
Income tax expense	5	(31,885)	(109,096)	(30,672)	(99,340)
PROFIT FOR THE PERIOD		271,567	680,604	417,322	845,129
Attributable to:					
Equity holders of the parent		272,122	633,016	340,461	741,072
Non-controlling interests		(555)	47,588	76,861	104,057
		271,567	680,604	417,322	845,129
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	6				
Basic			59.24 HK cents		69.39 HK cents
Diluted			58.49 HK cents		68.57 HK cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 September	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	680,604	845,129
OTHER COMPREHENSIVE INCOME		
Changes in fair value of available-for-sale investments	(31,231)	71,375
Exchange differences on translation of foreign operations	70,371	6,543
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	39,140	77,918
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	719,744	923,047
Attributable to:		
Equity holders of the parent	686,030	818,076
Non-controlling interests	33,714	104,971
	719,744	923,047

Condensed Consolidated Statement of Financial Position

	Notes	At 30 September 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,509,647	1,515,037
Investment properties		592,984	335,197
Prepaid land premiums		197,375	503,849
Goodwill		242,881	239,012
Other intangible assets		33,337	10,079
Investments in jointly-controlled entities		129,384	126,601
Investments in associates		945,835	681,976
Available-for-sale investments		440,805	473,952
Deferred tax assets		138,558	78,567
Total non-current assets		4,230,806	3,964,270
CURRENT ASSETS			
Inventories		5,529,023	5,793,742
Trade and bills receivables	7	11,622,301	10,324,760
Prepayments, deposits and other receivables		3,647,268	4,082,068
Derivative financial instruments		75,965	53,511
Cash and cash equivalents		3,901,247	4,189,519
Total current assets		24,775,804	24,443,600
CURRENT LIABILITIES			
Trade and bills payables	8	11,166,824	10,873,485
Other payables and accruals		2,811,120	3,041,381
Tax payable		309,572	306,462
Interest-bearing bank borrowings		3,052,628	2,765,891
Bond payable		—	37,023
Total current liabilities		17,340,144	17,024,242
NET CURRENT ASSETS		7,435,660	7,419,358
TOTAL ASSETS LESS CURRENT LIABILITIES		11,666,466	11,383,628

Condensed Consolidated Statement of Financial Position

	At 30 September 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	2,712,507	2,712,494
Total non-current liabilities	2,712,507	2,712,494
NET ASSETS	8,953,959	8,671,134
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	109,373	109,346
Reserves	7,932,337	7,302,560
Proposed final dividend	—	414,592
	8,041,710	7,826,498
Non-controlling interests	912,249	844,636
TOTAL EQUITY	8,953,959	8,671,134

Condensed Consolidated Statement of Cash Flows

	Six months ended 30 September	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	244,373	338,137
Net cash outflow from investing activities	(338,510)	(1,514,558)
Net cash inflow/(outflow) from financing activities	(248,934)	233,227
Net decrease in cash and cash equivalents	(343,071)	(943,194)
Cash and cash equivalents at the beginning of the period	4,189,519	4,253,966
Effects of foreign exchange rate changes, net	54,799	(1,195)
Cash and cash equivalents at the end of the period	3,901,247	3,309,577

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent												Non-controlling interests	Total equity											
	Issued share capital	Share premium account	Capital reserve	Employee share trust	Employee share-based compensation reserve	Available-for-sale investment revaluation reserve	Reserve funds	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total														
																(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
																HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2013	109,346	2,058,336	901,524	(359,914)	167,875	(20,426)	370,968	309,371	3,874,826	414,592	7,826,498	844,636	8,671,134												
Profit for the period	–	–	–	–	–	–	–	–	633,016	–	633,016	47,588	680,604												
Other comprehensive income for the period:																									
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	(22,212)	–	–	–	–	(22,212)	(9,019)	(31,231)												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	75,226	–	–	75,226	(4,855)	70,371												
Total comprehensive income for the period	–	–	–	–	–	(22,212)	–	75,226	633,016	–	686,030	33,714	719,744												
Exercise of share options	27	2,098	–	–	(506)	–	–	–	–	–	1,619	–	1,619												
Share-based compensation	–	–	–	–	(44,909)	–	–	–	–	–	(44,909)	–	(44,909)												
Contribution to employee share trust	–	–	–	(9,983)	–	–	–	–	–	–	(9,983)	–	(9,983)												
Capital contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	37,381	37,381												
Acquisition of non-controlling interests	–	–	(2,953)	–	–	–	–	–	–	–	(2,953)	1,047	(1,906)												
Disposal of investment in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(4,529)	(4,529)												
Final 2013 dividend	–	–	–	–	–	–	–	–	–	(414,592)	(414,592)	–	(414,592)												
At 30 September 2013	109,373	2,060,434	898,571	(369,897)	122,460	(42,638)	370,968	384,597	4,507,842	–	8,041,710	912,249	8,953,959												

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent												Non-controlling interests Total equity (Unaudited) HK\$'000	
	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			
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:														
Changes 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	

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 2013 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants. In preparing the unaudited condensed consolidated interim financial statements, the same basis of presentation, accounting policies and methods of computation as set out in the annual financial statements for the year ended 31 March 2013 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	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities Consolidated Financial Statements</i>
HKFRS 10	<i>Joint Arrangements</i>
HKFRS 11	<i>Disclosure of Interests in Other Entities</i>
HKFRS 12	<i>Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Transition Guidance</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	<i>Fair Value Measurement</i>
HKFRS 13	<i>Amendments to HKAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 1 Amendments	<i>Employee Benefits</i>
HKAS 19 (2011)	<i>Separate Financial Statements</i>
HKAS 27 (2011)	<i>Investments in Associates and Joint Ventures</i>
HKAS 28 (2011)	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
HK(IFRIC)-Int 20	<i>Amendments to a number of HKFRSs issued in June 2012</i>
Annual improvements 2009–2011 Cycle	

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

Notes to the 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 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 consultancy and execution services in logistics, business flow, capital flow and information flow; and
- (d) the "Services" segment, with a primary focus on the provision of urban information infrastructure and Sm@rt City services to the Industry market, focuses on the provision of urban information infrastructure and Sm@rt City services targeted at large-scale industry customers, offering products and services in 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 system integration and maintenance.

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 2013 and 2012:

	Distribution		Systems		Supply Chain Services		Services		Consolidated	
	Six months ended 30 September									
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	17,217,920	19,546,906	12,014,614	13,349,520	658,753	549,643	3,737,608	3,957,528	33,628,895	37,403,597
Segment gross profit	349,973	619,325	1,006,566	1,202,766	125,404	116,875	589,318	630,230	2,071,261	2,569,196
Segment results	64,857	145,484	485,022	620,747	42,260	26,607	133,344	310,895	725,483	1,103,733
Interest income, unallocated revenue and gains									197,708	142,491
Unallocated expenses									(47,465)	(135,804)
Finance costs									(120,369)	(156,856)
Share of profits and losses of:										
Jointly-controlled entities	—	—	—	—	—	—	(8,121)	1,179	(8,121)	1,179
Associates	—	—	—	—	—	—	42,464	(10,274)	42,464	(10,274)
Profit before tax									789,700	944,469
Income tax expense									(109,096)	(99,340)
Profit for the period									680,604	845,129

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, after allowances for goods returned and trade discounts and the value of services rendered to customers, net of business tax and government surcharges.

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

	Six months ended 30 September	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Other income		
Government grants	72,397	36,405
Interest income	31,851	36,118
Gross rental income	6,959	21,094
Dividend income from available-for-sale investments	2,683	—
Others	60,031	28,642
	173,921	122,259
Gains		
Gain on derivative financial instruments	69,311	49,468
Gain on disposal of investments in subsidiaries	13,637	230,914
Foreign exchange differences, net	236,028	9,006
Others	16,589	6,392
	335,565	295,780
	509,486	418,039

Notes to the Condensed Consolidated Interim Financial Statements

4. Profit before tax

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

	Six months ended 30 September	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Cost of inventories sold and services provided	30,580,031	33,998,472
Depreciation	83,129	77,692
Amortisation of prepaid land premiums	2,579	1,709
Amortisation of other intangible assets	3,930	315
Reversal of provisions for and write-off of obsolete inventories	(29,118)	(60,078)
Impairment of trade receivables	130,268	78,142
Impairment of investment in an associate	—	24,450
Loss on disposal of items of property, plant and equipment	4,352	3,118

5. Income tax expense

	Six months ended 30 September	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Group:		
Current — Hong Kong	63	515
Current — Mainland China	167,657	127,209
Deferred	(58,624)	(28,384)
Total tax charge for the period	109,096	99,340

- During the six months ended 30 September 2013 and 2012, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.
- Corporate income tax of The People's Republic of China ("PRC") represents tax charged on the estimated assessable profits arising in Mainland China. In general, the Group's subsidiaries operating in Mainland China are subject to the PRC corporate income tax rate of 25% except for certain subsidiaries which are entitled to preferential tax rates.
- The share of tax charge attributable to the jointly-controlled entities of approximately HK\$209,000 (six months ended 30 September 2012: HK\$314,000) and the share of tax charge attributable to the associates of approximately HK\$12,088,000 (six months ended 30 September 2012: HK\$9,836,000) 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

6. 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 2013 attributable to ordinary equity holders of the parent of approximately HK\$633,016,000 (six months ended 30 September 2012: HK\$741,072,000), and the weighted average of 1,068,590,319 (six months ended 30 September 2012: 1,067,908,166) ordinary shares in issue less shares held the restricted share award scheme during the six months ended 30 September 2013.

The calculation of diluted earnings per share amount for the six months ended 30 September 2013 is based on the profit for the six months ended 30 September 2013 attributable to ordinary equity holders of the parent of approximately HK\$633,016,000 (six months ended 30 September 2012: HK\$741,072,000) and the weighted average of 1,082,338,092 (six months ended 30 September 2012: 1,080,792,259) ordinary shares, which represented 1,068,590,319 (six months ended 30 September 2012: 1,067,908,166) ordinary shares in issue during the six months ended 30 September 2013, as used in the basic earnings per share calculation, and the weighted average of 13,747,773 (six months ended 30 September 2012: 12,884,093) 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.

7. 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 30 to 180 days. An aged analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment is as follows:

	At 30 September 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
Within 30 days	5,311,301	5,013,732
31 to 60 days	2,023,698	1,396,454
61 to 90 days	945,665	816,325
91 to 180 days	1,808,057	1,671,920
Over 180 days	1,533,580	1,426,329
	11,622,301	10,324,760

Included in the Group's trade and bills receivables are amounts due from associates and jointly-controlled entities of the Group of approximately HK\$1,613,000 (31 March 2013: HK\$1,772,000) and HK\$76,103,000 (31 March 2013: HK\$78,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

Notes to the Condensed Consolidated Interim Financial Statements

8. Trade and bills payables

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

	At 30 September 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
Within 30 days	4,876,751	5,981,589
31 to 60 days	2,369,223	1,992,868
61 to 90 days	1,804,332	1,247,136
Over 90 days	2,116,518	1,651,892
	11,166,824	10,873,485

Included in the Group's trade and bills payables are amounts due to associates of the Group of approximately HK\$906,000 (31 March 2013: HK\$1,446,000).

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

9. Operating leases arrangements

(i) As lessor

At 30 September 2013, 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 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
Within one year	10,911	10,460
In the second to fifth years, inclusive	10,974	11,999
	21,885	22,459

Notes to the Condensed Consolidated Interim Financial Statements

9. Operating leases arrangements (Continued)

(ii) As lessee

At 30 September 2013, 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 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
Within one year	88,690	107,451
In the second to fifth years, inclusive	72,274	89,161
	160,964	196,612

10. Commitments

In addition to the operating leases commitments detailed in note 9 above, the Group had the following capital commitments at the end of the reporting period:

	At 30 September 2013 (Unaudited) HK\$'000	At 31 March 2013 (Audited) HK\$'000
Contracted, but not provided for:		
Land and buildings	617,071	630,631
Capital contributions payable to a jointly-controlled entity	21,947	21,597
	639,018	652,228

Notes to the Condensed Consolidated Interim Financial Statements

11. 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	
		2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
DigiWin Software Co., Ltd.* and its subsidiaries, associates of the Group:			
Provision of IT services by the Group	(i)	2,760	2,986
PinHu Digital China BoHai Science & Technology Co., Ltd.*, an associate of the Group:			
Provision of IT services to the Group	(i)	1,271	3,672
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 Chengdu Sobey Science & Technology Company Limited*, a jointly-controlled entity of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	60,613	—
Jiangsu Intelligent Harbor City Investment Development Co., Ltd.*, a jointly-controlled entity of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	4,574	—
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 Technology Industry Investment Co., Ltd.* (“DCTII”) and its subsidiary, jointly-controlled entities of the Group:			
Interest income of the loan	(iii)	18,617	5,040

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.
- (iii) Interest income is charged with reference with the market interest rates.

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

Notes to the Condensed Consolidated Interim Financial Statements

11. Related party transactions (Continued)

(b) Outstanding balances with related parties:

- (i) Details of the Group's trade balances with the jointly-controlled entities and associates as at the end of the reporting period are included in notes 7 and 8 to these unaudited condensed consolidated interim financial statements.
- (ii) Included in the Group's prepayments, deposits and other receivables as at 30 September 2013 are (1) the loan of HK\$225,736,000 (31 March 2013: HK\$222,140,000) to a wholly-owned subsidiary of the Group's jointly-controlled entity, DCTII, which are secured by the entire interests of DCTII held by another joint venturer of DCTII, interest-bearing at a rate of 16.15% (31 March 2013: 16.15%) per annum and repayable within one year from the end of the reporting period; and (2) the loan of HK\$50,164,000 (31 March 2013: Nil) to a wholly-owned subsidiary of the Group's jointly-controlled entity, DCTII, which are unsecured, interest-bearing at a rate of 16.15% per annum and repayable within one year from the end of the reporting period.

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

	Six months ended 30 September	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Short term employee benefits	5,815	9,174
Post-employment benefits	69	62
Share-based compensation	1,142	6,560
Total compensation paid to key management personnel	7,026	15,796

Management Discussion and Analysis

The continuous slowdown in China's macro-economic growth since the 2012/13 financial year has resulted in unprecedented challenges for each IT sub-segment market and exerted obvious negative impacts on the Group's operations. Following meticulous analysis of market conditions, the Group management has devised an operating strategy focused on "Stabilizing Fundamentals, Adjusting Structures and Controlling Risks". While seeking to reinforcing leadership in our traditional strongholds, we also made proactive moves to adjust our business structure, strengthen the operation of high-value businesses and step up with our efforts to foster new niches for business growth in the emerging sectors. Meanwhile, the Group's leadership in Sm@rt City expertise was further fortified as it continued to enhance its "Sm@rt City" servicing capabilities with endeavours to broaden its business scope through cooperation at capital level.

1.1. Year-on-year decline in second-quarter revenue attributable to ongoing IT market doldrums and the rapidly changing profile of market competition.

During the financial year, competition was intensifying in an increasingly complicated IT market, where the profiles of products and competition were rapidly changing amid continued doldrums. Affected by such factors, the Group reported revenue of approximately HK\$33,629 million for the six months ended 30 September 2013, a decrease of 10.09% as compared to the corresponding period of last financial year. Overall gross profit margin for the first six months of the financial year declined to 6.16%, conceding 71 basis points as compared to the corresponding period of last financial year. For the six months ended 30 September 2013, profit attributable to equity holders amounted to approximately HK\$633 million, a decrease of 14.58% as compared to the corresponding period of last financial year. Basic earnings per share amounted to 59.24 HK cents, representing a 14.63% decrease over 69.39 HK cents reported for the corresponding period of last financial year. Excluding one-off gain arising from the disposal of a subsidiary, the profit attributable to equity holders for the second quarter of the current financial year actually increased by 22.20% as compared to the corresponding period of last financial year.

1.2. Implementation of Sm@rt City in signed-up cities driven by ongoing efforts to enhance servicing capabilities, complemented by endeavours to enrich Sm@rt City services via capital level cooperation.

The Group continued to enhance its Sm@rt City servicing capabilities to drive implementation at cities which had signed up for Sm@rt City. The final inspection of the Wujiang meat and vegetable circulation tracking system was completed during the second quarter, while the Foshan integrated citizen services platform has become a major channel of citizen services for the municipal Party committee and municipal government of Foshan. These developments have reinforced the Group's leadership in Sm@rt City expertise. Meanwhile, we continued to enrich the contents of our Sm@rt City business through cooperation at capital level and setting up a joint venture in Nanjing to operate the citizen card business. During the second quarter of the current financial year, the Group invested HK\$170 million to increase the shareholding of HC International, Inc. and became the latter's single largest shareholder. This investment will allow the Group to accumulate experience for the expansion of its Internet business, while facilitating future business cooperation between the two companies.

Management Discussion and Analysis

1.3. Sustaining leadership in each sub-segment market through proactive moves to adjust business structures and reinforce fundamental businesses in response to continuous market changes, while further improving business deployment by enhancing efforts to expand in emerging markets.

To address the austere and complicated conditions in the marketplace, the Group maintained its leadership in the traditional business segments thanks to persistent efforts in reinforcing its fundamentals with a strong focus on risk control. At the same time, the Group's business deployment was further improved with increased coverage of Mobile Internet products and e-commerce as well as expansion into new business sectors such as domestic brands, etc in close tandem with market trends.

1.4. Expenditure and operating expense ratio (total operating expenses as a percentage of total revenue) decreasing on the back of ongoing cost structure optimisation; coupled with satisfactory cash flow resulting from sound market judgments and stringent risk control policies.

The Group reported consistent reductions in expenditure following proactive measures in cost structure adjustment, stringent expenditure control and organisational optimisation. For the six months ended 30 September 2013, the Group's total operating expense was 9.15% lower than that for the corresponding period of last financial year. During the second quarter of the current financial year, selling and distribution expenses and administrative expenses decreased by 20.91% and 39.23%, respectively, as compared to the corresponding period of last financial year. For the six months ended 30 September 2013, the Group's trade receivables turnover days was 58.74 days, being 2.46 days longer as compared to the corresponding period of last financial year. The longer turnover period was attributable to the adjustments of the Company's business structure and the increase of businesses that have longer credit term. The progress of collecting receivables was also affected by complicated inspection and acceptance procedures owing to the diverse nature of certain projects. Taking into full account risks associated with market volatility, the Group implemented its risk management policy in a persistent manner. Net cash inflow from operating activities for the second quarter of the financial year amounted to approximately HK\$150 million, providing an effective protection for the stable operation of the Group's 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.

Year-on-year decline in revenue from the Distribution Business attributable to changing product profile in the consumer market marked by the continuous decline in demand for traditional products.

The IT Consumer Market remained in doldrums in the second quarter, marked by a further dwindled market for notebooks amid the accelerated transformation in the product profile. Affected by this development, revenue from the Distribution Business of the Group for the first half of the financial year amounted to approximately HK\$17,218 million, representing a decrease by 11.91% as compared to the corresponding period of last financial year. In particular, revenue from the notebook business (excluding CES channel) decreased by 19.31% as compared to the corresponding period of last financial year. Overall gross profit margin of the Distribution Business was lower as compared to the corresponding period of last financial year following proactive adjustment of the CES business. Gross profit margin declined to 2.03% in aggregate for the first half of the financial year.

Management Discussion and Analysis

Faster business structure adjustments, breakthroughs in emerging business sectors and ongoing progress in e-commerce coverage to secure new customers.

While securing our existing market shares in traditional products, we increased our efforts in the development of the mobile device business and achieved breakthroughs. Significant growth was reported for the sales of Microsoft's Surface Tablet and Apple products, contributing to an 85% year-on-year growth in the sales of our mobile device business (excluding CES sales) in the second quarter. Meanwhile, the Group was also identifying opportunities in the market of Taobao e-commerce customers, in addition to continuously strengthened strategic cooperation with core e-commerce customers such as Jingdong, Yixun and Suning.

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.

Year-on-year decline in Systems Business revenue attribute to a shrinking market for IT infrastructure facilities and changing competition profile.

During the current financial year, the domestic Enterprise Market for IT infrastructure facilities continued to decline and the rise of domestic brands threatened to impact the existing market profile. Slower or even negative growth for major international vendors also supports a less than optimistic market outlook. Affected by these factors, the Group's Systems Business reported revenue of approximately HK\$12,015 million for the six months ended 30 September 2013, a 10.00% decline as compared to the corresponding period of last financial year. Gross profit margin of the Systems Business was lower owing to escalating market competition, decreasing to 8.07% for the second quarter.

Securing leading position in each sub-segment market through persistent market-share management while enhancing expansion in domestic brands and grasping growth opportunities in sub-segment markets.

In response to complicated market conditions, the Group's Systems Business assured its leadership in market shares for core product lines thanks to persistent efforts in market-share management. In the meantime, the Group continued to enhance its expansion into the package software and domestic brands. In the second quarter, revenue from package software recorded a growth of 18% as compared to the corresponding period of last financial year. Rapid growth was also reported for our business in domestic brands, as represented by Huawei. Sales of Huawei products have increased by 33% in the second quarter as compared to the corresponding period of last financial year.

2.3 Services Business: primary focus on the Industry Market, offering products and services in 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 systems integration and maintenance.

Growth in the Services Business thanks to persistent drive of customer plans and ongoing market development efforts in the financial and government & corporations sub-sectors.

During the financial year, there was a trend of postponing IT procurement among industry customers amidst a macro-economic downturn. The Services Business reported stable growth with the effective support of the Group's persistent drive of customer plans and ongoing market development efforts in the financial and government & corporations sub-sectors, for which notable results have been achieved. For the six months ended 30 September 2013, the Services Business of the Group reported revenue of approximately HK\$3,738 million, a decline by 5.56% compared to the same

Management Discussion and Analysis

period of last financial year. Revenue for the second quarter of the financial year increased by 5.53%, while revenue generated from the financial sector increased by 5.11%, as we continued to roll out core system projects with large banks such as China Development Bank and sign up regional banks such as Jilin Bank, Anhui Rural Credit Union and Shaanxi Rural Credit Union as new customers. Revenue from the government & corporations sub-sectors grew by 39.33% and strengthened relationships were made in cooperation with strategic customers such as State Grid Corporation of China. Positive results have also been reported in the expansion of businesses with the local tax bureaus of Ningbo, Qingdao and Tianjin.

Strategic transformation in progress with steady growth in the proportion of pure Software and pure Services businesses and improved controllability of project delivery.

In persistent efforts to advance business transformation, the Group's Services Business continued to expand into businesses commanding high values and a high degree of stickiness, such as IT consultancy, industry application software and warranty services. Meanwhile, we were also fostering project management capabilities in response to market volatility and changes in customers' requirements to enhance the controllability of project delivery. The Services Business reported gross profit margin of 15.77% for the first two quarters of the financial year, which was stable as compared to the same period of last financial year.

2.4 Supply Chain Services Business: primary focus on the markets of Hi-tech Industries, Branded e-Commerce Platform Operators and Branded Services Providers, providing "one-stop" consultancy and execution in logistics, business flow, capital flow and information flow.

Substantial revenue growth for third-party logistics following major business development efforts to seize market opportunities.

The Group's Supply Chain Services Business seized opportunities arising from the rapid growth of the market for third-party logistics and made major moves to expand its logistics services business. Breakthroughs were achieved in the communications, automobile accessories and apparels sub-sectors, providing effective support for the substantial revenue growth of the Supply Chain Services Business. For the six months ended 30 September 2013, the Supply Chain Services Business of the Group reported overall revenue of approximately HK\$659 million, an increase by 19.85% compared to the same period of last financial year.

Positive results in customer development have achieved on the back of stronger ability to provide professional services and continuous optimization of business deployment.

Our Supply Chain Services Business reported improvements in operating efficiency and business deployment as it continued to enhance its capabilities in warehousing, transportation, delivery and maintenance services. In the logistics business, we won the centralised logistics procurement bid of China Mobile's terminal company, securing business in 14 provinces including Guangdong and Zhejiang. Our outsourcing business with BYD increased to 60,000 square metres in terms of storage gross floor area covered with the completion of logistics outsourcing swaps in cities like Shenzhen, Shanghai and Beijing. In the maintenance business, we started Microsoft Surface tablet maintenance services during the quarter under review, while signing up Xiaomi as customer. The maintenance cooperation with Yixun was also established. Meanwhile, our per-store profitability continued to improve with the number of profitable stores growing by 31% as compared to the same period of last financial year.

Management Discussion and Analysis

3. Management outlook

Having conducted a detailed analysis of the effect of market volatility, the Group's management is of the view that, given the enormous impact on the IT market of worsening macro-economic conditions in 2013, in short term, major customers will continue to downsize or postpone their purchases of IT equipment and the Group's operations will continue to be adversely affected as a result. In addition, due to the change of the financial year end date of the Company, the provision for employees' bonuses that was historically accounted for during the fourth quarter of the financial year will be made and recorded earlier in December, leading to an increase in the Group's expenditures as compared to the same period of last year. Based on the above reasons, the Group's management estimates that the net profits of the Group for the year 2013, being the nine-month period from 1 April 2013 to 31 December 2013, will substantially decrease as compared to the first three quarters of 2012, being the nine-month period from 1 April 2012 to 31 December 2012.

Against such complicated market conditions, the Group's management will review market developments and make necessary structural adjustments in line with new market trends and changes to accord with the long-term interests of the Company. At the same time, the Group will step up with the implementation of Sm@rt City in signed-up cities, while closely monitoring industry developments under the "Guidance for Facilitating the Healthy Development of Smart Cities" jointly prepared by 8 ministries and commissions to seize any opportunities for enriching its service contents that will benefit its overall objective of business transformation. The Management will also expedite the deployment of its Mobile Internet business and develop businesses with domestic brands in tandem with the changing profiles of the IT market, with the aim of mitigating the impact of market factors in order to assure sound business development and striving to enhance shareholders' value.

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\$29,007 million at 30 September 2013 which were financed by total liabilities of HK\$20,053 million, non-controlling interests of HK\$912 million and equity attributable to equity holders of the parent of HK\$8,042 million. The Group's current ratio at 30 September 2013 was 1.43 as compared to 1.48 at 30 June 2013 and 1.44 at 31 March 2013.

During the six months ended 30 September 2013, capital expenditure of HK\$318 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 0.72 at 30 September 2013 as compared to 0.66 at 30 June 2013 and 0.70 at 31 March 2013. The computation of the said ratio was based on the total interest-bearing bank borrowings of HK\$5,765 million (30 June 2013: HK\$5,417 million and 31 March 2013: HK\$5,515 million) and equity attributable to equity holders of the parent of HK\$8,042 million (30 June 2013: HK\$8,237 million and 31 March 2013: HK\$7,826 million).

Management Discussion and Analysis

At 30 September 2013, the denomination of the interest-bearing bank borrowings 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	1,652,657	6,046	1,393,925	3,052,628
Non-current				
Interest-bearing bank borrowings, unsecured	2,712,507	—	—	2,712,507
Total	4,365,164	6,046	1,393,925	5,765,135

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) as at 30 September 2013 represented the syndicated loan repayable in three years from the date of the drawdown and were guaranteed by the Company.

Included in the Group's current and non-current bank borrowings of approximately HK\$390 million and HK\$2,713 million respectively represented the term loans which are repayable from the years 2013 to 2015.

The Group's total available credit facilities at 30 September 2013 amounted to HK\$33,605 million, of which HK\$5,408 million were in term loan facilities, HK\$15,677 million were in trade lines and HK\$12,520 million were in short-term and revolving money market facilities. At 30 September 2013, the facility drawn down was HK\$3,753 million in term loan facilities, HK\$3,838 million in trade lines and HK\$1,167 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 2013, the Group had approximately 9,900 (30 September 2012: approximately 11,000) 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 decrease in the total number of staff to cope with its business requirements, the Group has recorded a 16.12% decrease in staff costs to approximately HK\$1,019 million for the six months ended 30 September 2013 as compared to approximately HK\$1,215 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 Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2013 (for the six months ended 30 September 2012: Nil).

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

At 30 September 2013, 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 Interests (%)
					(Note 10)	(Note 1)	(Note 11)
GUO Wei	Beneficial owner and interests of a controlled corporation	1,504,000	69,414,286 (Note 2)	960,000 (Note 3)	2,000,000 (Note 4)	73,878,286	6.76
Andrew Y. YAN	Interests of a controlled corporation	—	119,111,744 (Note 5)	—	—	119,111,744	10.92
LIN Yang	Beneficial owner	56,000	—	1,000,000 (Note 6)	1,000,000 (Note 7)	2,056,000	0.19
YAN Guorong	Beneficial owner	50,000	—	793,000 (Note 8)	1,000,000 (Note 9)	1,843,000	0.17

Notes:

- All of the interests disclosed herein represent long position in the shares of the Company.
- These 69,414,286 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.
- These 960,000 share options held by Mr. GUO Wei were granted on 21 May 2008. These share options are exercisable from 21 May 2009 to 20 May 2016 at an exercise price of HK\$5.89 per share for subscription of ordinary shares of the Company.
- 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. These share options are exercisable from 21 May 2009 to 20 May 2016 at an exercise price of HK\$5.89 per share for subscription of ordinary shares of the Company.
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. Out of these 793,000 share options in aggregate held by Mr. YAN Guorong,
 - i. 125,000 share options were granted on 21 May 2008. These share options are exercisable from 21 May 2009 to 20 May 2016 at an exercise price of HK\$5.89 per share for subscription of ordinary shares of the Company; and
 - ii. 668,000 share options were granted on 11 January 2011. These share options are exercisable from 11 January 2012 to 10 January 2019 at an exercise price of HK\$15.04 per share for subscription of ordinary shares of the Company.
9. These 1,000,000 RSUs held by Mr. YAN Guorong 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.
10. 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.
11. The approximate percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under Section 352 of the SFO.

Save as disclosed above, at 30 September 2013, 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 2013, 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 Interests (%) (Note 8)
Kosalaki Investments Limited (Note 2)	Beneficial owner	69,414,286	6.35
Sparkling Investment (BVI) Limited	Beneficial owner	119,111,744 (Note 3)	10.92
SAIF III GP Capital Ltd.	Interests of a controlled corporation	119,111,744 (Note 3)	10.92
Matthews International Capital Management, LLC	Investment Manager	87,811,000 (Note 4)	8.03
Allianz SE	Interests of controlled corporations	86,135,000 (Note 5)	7.88
JPMorgan Chase & Co.	Beneficial owner/Investment manager/ Custodian corporation/Approved lending agent	Long Position 66,224,474	Long Position 6.06
		Short Position 115,000	Short Position 0.01
		Lending Pool 63,287,183	Lending Pool 5.79
Legend Holdings Limited 聯想控股有限公司 (Note 6)	Beneficial owner/Interests of a controlled corporation	35,013,077/ 21,368,642 (Note 7)	5.16

Notes:

- All of the interests disclosed herein represent long position in the shares of the Company unless otherwise specified.
- KIL is controlled by Mr. GUO Wei who is a director of the Company and 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., 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.
- 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

5. Out of these 86,135,000 shares in aggregate, 81,028,000 shares were held by RCM Asia Pacific Ltd., 3,614,000 shares by Allianz Global Investors Taiwan Ltd., 485,000 shares by Allianz Global Investors Singapore Ltd., 520,000 shares by Allianz Global Investors Europe GmbH, 403,000 shares by Allianz Global Investors U.S. LLC and 85,000 shares by Allianz Global Investors Fund Management LLC. All of the aforementioned companies were indirectly controlled by Allianz SE.
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 21,368,642 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. The approximate percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under Section 336 of the SFO.

Save as disclosed above, at 30 September 2013, 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**”).

Since the adoption of the 2011 Share Option Scheme, no options were granted, lapsed and cancelled under the 2011 Share Option Scheme.

Other Information

The following table shows the movements in the share options under the 2002 Share Option Scheme during the six months ended 30 September 2013 and the options outstanding at the beginning and end of the period:

Grantee	Number of share options				Outstanding as at 30/09/2013	Subscription price per share HK\$ (Note 2)	Date of grant	Exercisable period (Note 1)
	Outstanding as at 01/04/2013	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
YAN Guorong	125,000	-	-	-	125,000	5.89	21/05/2008	21/05/2009-20/05/2016
YAN Guorong	668,000	-	-	-	668,000	15.04	11/01/2011	11/01/2012-10/01/2019
Other employees	2,992,000	-	-	(275,000)	2,717,000	5.89	21/05/2008	21/05/2009-20/05/2016
	4,077,000	-	(170,000)	-	3,907,000	15.04	11/01/2011	11/01/2012-10/01/2019
In aggregate	9,822,000	-	(170,000)	(275,000)	9,377,000			

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 respective dates 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 share options granted under the 2002 Share Option Scheme 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:	11 January 2011	21 May 2008
Dividend yield (%)	3.5 per annum	3.5 per annum
Expected volatility (%)	48 per annum	45 per annum
Historical volatility (%)	48 per annum	45 per annum
Risk-free interest rate (%)	2.1 per annum	2.6 per annum
Weighted average share price (HK\$ per share)	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.

Other Information

(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 2013, the Group recognised the reversal of share-based compensation expenses of HK\$44,909,000 (six months ended 30 September 2012: expenses of HK\$26,102,000) in the unaudited 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 2012/13 Annual Report of the Company are set out as below:

Mr. GUO Wei, the Chairman and the Executive Director of the Company, ceased to act as a director of SJI Inc., a company listed on The Nasdaq Securities Exchange Inc., with effect from 8 August 2013.

Mr. Andrew Y. YAN, a Non-executive Director of the Company, resigned as a Non-executive Director of MOBI Development Co., Ltd., a company listed on the Main Board of the Stock Exchange, with effect from 2 August 2013. Besides, Mr. YAN ceased to act as a director of Eternal Asia Supply Chain Management Ltd., a company listed on The Shenzhen Stock Exchange, with effect from 14 June 2013.

Mr. WONG Man Chung, Francis, an Independent Non-executive Director of the Company, was appointed as an Independent Non-executive Director, Chairman of Audit Committee, member of Remuneration Committee and member of Nomination Committee of Integrated Waste Solutions Group Holdings Limited, a company listed on the Main Board of the Stock Exchange, all with effect from 10 October 2013.

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 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 2013.

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 2013.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the “Corporate Governance Code and Corporate Governance Report” contained in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2013, except for the following deviations from certain code provisions with considered reasons as 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 of Directors 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.

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.

Other Information

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 relevant Directors have already been subject to the laws and regulations applicable to directors of a company listed on the Stock Exchange, 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 years and has proved to be effective. Therefore, the Board considers that the relevant 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 2013, 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 2013.

By Order of the Board

GUO Wei

Chairman

Hong Kong, 19 November 2013

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