

Digital China Holdings Limited

神州數碼控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 00861



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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 June 2014 together with comparative figures for the corresponding period of the last financial year as follows:

Condensed Consolidated Statement of Profit or Loss

	Notes	Three months ended 30 June 2014 (Unaudited) HK\$'000	Six months ended 30 June 2014 (Unaudited) HK\$'000	Three months ended 30 June 2013 (Unaudited) HK\$'000	Six months ended 30 June 2013 (Unaudited) HK\$'000
REVENUE	3	15,428,561	31,973,013	16,013,199	32,838,587
Cost of sales		(14,316,772)	(29,837,776)	(14,922,527)	(30,489,445)
Gross profit		1,111,789	2,135,237	1,090,672	2,349,142
Other income and gains	3	140,161	278,793	252,167	424,148
Selling and distribution expenses		(619,072)	(1,161,084)	(619,774)	(1,376,397)
Administrative expenses		(117,413)	(235,401)	(119,151)	(350,070)
Other expenses, net		(157,700)	(364,213)	(81,104)	(170,249)
Finance costs		(71,308)	(121,014)	(66,651)	(136,740)
Share of profits and losses of:					
Joint ventures		(6,179)	(7,896)	(1,096)	5,687
Associates		33,395	34,090	31,185	31,005
PROFIT BEFORE TAX	4	313,673	558,512	486,248	776,526
Income tax expense	5	(58,584)	(95,840)	(77,211)	(179,564)
PROFIT FOR THE PERIOD		255,089	462,672	409,037	596,962
Attributable to:					
Equity holders of the parent		200,705	398,865	360,894	557,276
Non-controlling interests		54,384	63,807	48,143	39,686
		255,089	462,672	409,037	596,962
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	6				
Basic			37.36 HK cents		52.15 HK cents
Diluted			36.69 HK cents		51.43 HK cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	462,672	596,962
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale investments	(55,695)	(79,486)
Exchange differences on translation of foreign operations	(44,120)	48,794
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(99,815)	(30,692)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation	5,239	—
Income tax effect	(1,310)	—
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	3,929	—
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(95,886)	(30,692)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	366,786	566,270
Attributable to:		
Equity holders of the parent	330,867	560,327
Non-controlling interests	35,919	5,943
	366,786	566,270

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,320,356	1,505,445
Investment properties		1,160,290	755,383
Prepaid land premiums		141,780	196,498
Goodwill		241,699	243,670
Other intangible assets		33,773	36,566
Investments in joint ventures		419,718	163,275
Investments in associates		1,078,203	1,035,300
Available-for-sale investments		1,709,792	517,500
Deferred tax assets		195,008	194,916
Total non-current assets		6,300,619	4,648,553
CURRENT ASSETS			
Inventories		5,729,596	5,635,678
Properties under development		463,508	393,562
Trade and bills receivables	7	9,892,228	11,494,720
Prepayments, deposits and other receivables		2,957,217	3,617,912
Derivative financial instruments		62,728	113,378
Available-for-sale investments		499,195	301,959
Cash and cash equivalents		3,779,423	3,894,211
Total current assets		23,383,895	25,451,420
CURRENT LIABILITIES			
Trade and bills payables	8	9,551,388	11,092,793
Other payables and accruals		3,104,317	3,499,189
Tax payable		283,590	384,241
Interest-bearing bank borrowings		4,862,753	3,719,187
Total current liabilities		17,802,048	18,695,410
NET CURRENT ASSETS		5,581,847	6,756,010
TOTAL ASSETS LESS CURRENT LIABILITIES		11,882,466	11,404,563

Condensed Consolidated Statement of Financial Position

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	2,614,848	2,314,853
Deferred income	44,397	43,322
Total non-current liabilities	2,659,245	2,358,175
NET ASSETS	9,223,221	9,046,388
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	109,374	109,374
Reserves	7,751,274	7,426,466
Proposed final dividend	—	190,037
Non-controlling interests	7,860,648	7,725,877
	1,362,573	1,320,511
TOTAL EQUITY	9,223,221	9,046,388

Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Cash flows from operating activities		
Increase in inventories	(32,636)	(79,880)
Decrease in trade and bills receivables	1,566,032	715,648
Decrease in trade and bills payables	(1,541,405)	(1,237,544)
Decrease in other working capital and adjustments for non-cash transactions	627,011	550,625
Net cash flows from/(used in) operating activities	619,002	(51,151)
Cash flows from investing activities		
Purchases of items of property, plant and equipment	(90,497)	(113,827)
Additions to investment properties	(97,504)	(247,154)
Additions to properties under development	(42,253)	(252,685)
Additions to prepaid land premiums	—	(19,800)
Proceeds from disposal of items of property, plant and equipment	360	427
Additions to other intangible assets	(2,792)	(1,257)
Decrease in deposits for purchase of a land use right	—	157,152
Disposal of subsidiaries	—	108,773
Proceeds from disposal of a joint venture	2,294	—
Proceeds from disposal of available-for-sales investments	—	13,515
Dividends received from a joint venture	6,175	—
Investments in joint ventures	(280,797)	(20,025)
Investments in associates	—	(1,327)
Investments in available-for-sale investments	(1,445,224)	(37,485)
Decrease in other receivables	124,799	488,977
Net cash flows from/(used in) investing activities	(1,825,439)	75,284
Cash flows from financing activities		
Exercise of share options	—	294
New bank loans	5,591,937	5,171,983
Repayment of bank loans	(4,148,366)	(5,190,647)
Interest paid	(121,014)	(136,740)
Dividends paid	(190,037)	—
Acquisition of non-controlling interests	—	(1,146)
Contribution from non-controlling shareholders of subsidiaries	8,237	37,381
Net cash flows from/(used in) financing activities	1,140,757	(118,875)
Net decrease in cash and cash equivalents	(65,680)	(94,742)
Cash and cash equivalents at the beginning of the period	3,894,211	4,197,774
Effects of foreign exchange rate changes, net	(49,108)	35,668
Cash and cash equivalents at the end of the period	3,779,423	4,138,700

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent																									
	Issued share capital	Share premium account	Capital reserve	Employee share trust	Employee share-based compensation reserve	Asset revaluation reserve [#]	Available- for-sale investment reserve	Reserve funds	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Non- controlling													
													(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	Total	interests	Total equity
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000												
At 1 January 2014	109,374	2,060,433	1,114,551	(369,897)	132,685	–	(43,256)	457,056	392,265	3,682,629	190,037	7,725,877	1,320,511	9,046,388												
Profit for the period	–	–	–	–	–	–	–	–	–	398,865	–	398,865	63,807	462,672												
Other comprehensive income/(loss) for the period:																										
Changes in fair value of available- for-sale investments	–	–	–	–	–	–	(37,838)	–	–	–	–	(37,838)	(17,857)	(55,695)												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(34,089)	–	–	(34,089)	(10,031)	(44,120)												
Gains on property revaluation, net of tax	–	–	–	–	–	3,929	–	–	–	–	–	3,929	–	3,929												
Total comprehensive income/(loss) for the period	–	–	–	–	–	3,929	(37,838)	–	(34,089)	398,865	–	330,867	35,919	366,786												
Share-based compensation	–	–	–	–	19,347	–	–	–	–	–	–	19,347	–	19,347												
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	8,237	8,237												
Acquisition of non-controlling interests	–	–	(25,406)	–	–	–	–	–	–	–	–	(25,406)	(2,094)	(27,500)												
Final 2013 dividend	–	–	–	–	–	–	–	–	–	–	(190,037)	(190,037)	–	(190,037)												
At 30 June 2014	109,374	2,060,433*	1,089,145*	(369,897)*	152,032*	3,929*	(81,094)*	457,056*	358,176*	4,081,494*	–	7,860,648	1,362,573	9,223,221												

* These reserve accounts comprise the consolidated reserves of HK\$7,751,274,000 (31 December 2013: HK\$7,426,466,000) in the unaudited condensed consolidated statement of financial position.

The asset revaluation reserve arose from a change of use from owner-occupied properties to investment properties carried at fair value during the six months ended 30 June 2014.

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 January 2013	109,341	2,057,954	901,524	(359,914)	148,819	10,262	368,309	309,205	4,095,695	—	7,641,195	857,575	8,498,770													
Profit for the period	—	—	—	—	—	—	—	—	557,276	—	557,276	39,686	596,962													
Other comprehensive income/(loss) for the period:																										
Changes in fair value of an available-for-sale investment	—	—	—	—	—	(54,752)	—	—	—	—	(54,752)	(24,734)	(79,486)													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	57,803	—	—	—	57,803	(9,009)	48,794													
Total comprehensive income/(loss) for the period	—	—	—	—	—	(54,752)	57,803	557,276	—	—	560,327	5,943	566,270													
Exercise of share options	5	382	—	—	(93)	—	—	—	—	—	294	—	294													
Share-based compensation	—	—	—	—	38,062	—	—	—	—	—	38,062	—	38,062													
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)													
Proposed final 2012/13 dividend	—	—	—	—	—	—	—	—	(414,592)	414,592	—	—	—													
Transfer to reserve funds	—	—	—	—	—	—	2,659	—	(2,659)	—	—	—	—													
At 30 June 2013	109,346	2,058,336	898,571	(359,914)	186,788	(44,490)	370,968	367,008	4,235,720	414,592	8,236,925	901,946	9,138,871													

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 June 2014 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 nine months ended 31 December 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 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC) — Int 21	<i>Levies</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on the Group’s 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 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;

Notes to the Condensed Consolidated Interim Financial Statements

2. Operating segment information (Continued)

- (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.

The following table presents revenue and results for the Group’s operating segments for the six months ended 30 June 2014 and 2013:

	Distribution		Systems		Supply Chain Services		Non-services subtotal		Services		Consolidated	
	Six months ended 30 June											
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Segment revenue:												
Sales to external customers	17,487,009	17,015,779	9,874,514	11,089,380	961,356	674,717	28,342,879	28,779,876	3,630,134	4,058,711	31,973,013	32,838,587
Segment gross profit	587,111	512,367	820,586	1,079,175	135,270	127,179	1,542,967	1,718,721	592,270	630,421	2,135,237	2,349,142
Segment results	234,973	225,771	187,631	502,282	36,321	34,313	458,925	762,366	123,418	108,376	582,343	870,742
Interest income, other unallocated income and gains							169,016	216,653	10,345	5,104	179,361	221,757
Other unallocated expenses							(108,372)	(215,925)	–	–	(108,372)	(215,925)
Finance costs							(101,151)	(120,429)	(19,863)	(16,311)	(121,014)	(136,740)
Share of profits and losses of:												
Joint ventures							(10,084)	4,272	2,188	1,415	(7,896)	5,687
Associates							26,893	17,277	7,197	13,728	34,090	31,005
Profit before tax							435,227	664,214	123,285	112,312	558,512	776,526
Income tax expense							(100,328)	(164,235)	4,488	(15,329)	(95,840)	(179,564)
Profit for the period							334,899	499,979	127,773	96,983	462,672	596,962

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 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Other income		
Government grants	50,780	87,839
Interest income	37,274	54,619
Income from wealth management products	80,100	29,971
Gross rental income	8,975	5,443
Dividend income from an available-for-sale investment	7,280	—
Others	22,781	18,004
	207,190	195,876
Gains		
Fair value gains on investment properties	—	15,954
Gain on derivative financial instruments	40,245	57,128
Gain on disposal of a subsidiary	—	2,088
Gain on deemed disposal of the equity interest in an associate	25,602	—
Gain on partial disposal of the equity interest in an associate	921	—
Gain on disposal of a joint venture	580	—
Foreign exchange differences, net	—	144,894
Others	4,255	8,208
	71,603	228,272
	278,793	424,148

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 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Cost of inventories sold	28,883,508	29,640,449
Depreciation	81,594	83,057
Amortisation of prepaid land premiums	2,326	2,473
Amortisation of other intangible assets	5,331	2,288
Minimum lease payments under operating leases in respect of land and buildings	79,867	70,076
Reversal of provisions for and write-off of obsolete inventories	(61,282)	(13,938)
Impairment of trade receivables	36,460	72,416
Loss/(gain) on disposal of items of property, plant and equipment	1,468	(14,771)
Foreign exchange differences, net	111,913	(144,894)

5. Income tax expense

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Group:		
Current — Hong Kong	—	353
Current — Mainland China	98,992	214,534
Deferred	(3,152)	(35,323)
Total tax charge for the period	95,840	179,564

- (a) No provision for Hong Kong profits tax has been made for the Hong Kong subsidiaries for the six months ended 30 June 2014 as the Hong Kong subsidiaries had no estimated assessable profits arising in Hong Kong. During the six months ended 30 June 2013, Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.
- (b) 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.

Notes to the Condensed Consolidated Interim Financial Statements

5. Income tax expense (Continued)

- (c) The share of tax charge attributable to the joint ventures of approximately HK\$676,000 (six months ended 30 June 2013: HK\$152,000) and the share of tax charge attributable to the associates of approximately HK\$6,018,000 (six months ended 30 June 2013: HK\$2,623,000) are included in “Share of profits and losses of joint ventures” and “Share of profits and losses of associates”, respectively, in the unaudited condensed consolidated statement of profit or loss.

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

The calculation of the basic earnings per share amount is based on the profit for the six months ended 30 June 2014 attributable to ordinary equity holders of the parent of approximately HK\$398,865,000 (six months ended 30 June 2013: HK\$557,276,000), and the weighted average of 1,067,628,581 (six months ended 30 June 2013: 1,068,530,161) ordinary shares in issue less shares held the restricted share award scheme during the six months ended 30 June 2014.

The calculation of the diluted earnings per share amount for the six months ended 30 June 2014 is based on the profit for the six months ended 30 June 2014 attributable to ordinary equity holders of the parent of approximately HK\$398,865,000 (six months ended 30 June 2013: HK\$557,276,000) and the weighted average of 1,087,108,642 (six months ended 30 June 2013: 1,083,503,336) ordinary shares, which represented 1,067,628,581 (six months ended 30 June 2013: 1,068,530,161) ordinary shares in issue less shares held the restricted share award scheme during the six months ended 30 June 2014, as used in the basic earnings per share calculation, and the weighted average of 19,480,061 (six months ended 30 June 2013: 14,973,175) 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:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within 30 days	4,008,874	5,693,741
31 to 60 days	1,701,404	2,256,215
61 to 90 days	655,912	752,181
91 to 180 days	1,394,225	1,541,503
Over 180 days	2,131,813	1,251,080
	9,892,228	11,494,720

Notes to the Condensed Consolidated Interim Financial Statements

7. Trade and bills receivables (Continued)

Included in the Group's trade and bills receivables are amounts due from associates and joint ventures of the Group of approximately HK\$2,508,000 (31 December 2013: HK\$2,271,000) and HK\$39,683,000 (31 December 2013: HK\$43,346,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

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:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within 30 days	4,762,269	6,232,429
31 to 60 days	1,671,020	2,257,027
61 to 90 days	817,630	732,999
Over 90 days	2,300,469	1,870,338
	9,551,388	11,092,793

Included in the Group's trade and bills payables are amounts due to associates and a joint venture of the Group of approximately HK\$760,000 (31 December 2013: HK\$196,000) and HK\$45,375,000 (31 December 2013: HK\$35,963,000), respectively.

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 June 2014, 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:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within one year	15,436	10,946
In the second to fifth years, inclusive	26,191	8,616
	41,627	19,562

Notes to the Condensed Consolidated Interim Financial Statements

9. Operating leases arrangements (Continued)

(ii) As lessee

At 30 June 2014, the Group had total future minimum lease payments under non-cancellable operating leases of office properties and warehouses falling due as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within one year	116,786	97,696
In the second to fifth years, inclusive	65,251	81,515
	182,037	179,211

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:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Contracted, but not provided for:		
Land and buildings	547,568	567,977
Capital contributions payable to joint ventures	10,296	765,277
Capital contributions payable to associates	50,770	51,184
	608,634	1,384,438

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 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
DigiWin Software Co., Ltd.+ and its subsidiaries, associates of the Group:			
Provision of IT services by the Group	(i)	3,550	4,074
NingBo Digital China HongBo Information Technology Company Limited+, an associate of the Group:			
Provision of IT services to the Group	(i)	—	1,651
Digital China Chengdu Sobey Science & Technology Company Limited+, a joint venture of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	6,669	—
Purchase of goods by the Group	(iii)	4,933	—
Suzhou Digital China JieTong Technology Co., Ltd.+, a joint venture of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	4,927	—
Digital China-Octopus Information Systems Service Limited+, a joint venture of the Group:			
Provision of services to the Group	(i)	—	2,499
Digital China Technology Industry Investment Co., Ltd.+ (“DCTII”) and its subsidiary, joint ventures of the Group:			
Interest income of the loan	(iv)	17,330	19,006

Notes:

- (i) The prices for provision of IT services/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) The purchases were made at prices mutually agreed between the Group and the corresponding related parties.
- (iv) Interest income is calculated with reference to 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 joint ventures 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) At 30 June 2014, the amounts due to the associates included in the Group's other payables and accruals of approximately HK\$88,000 (31 December 2013: HK\$365,000). At 31 December 2013, the amounts due to the joint ventures included in the Group's other payables and accruals of approximately HK\$1,726,000.
- (iii) Included in the Group's prepayments, deposits and other receivables as at 30 June 2014 is (i) loans of HK\$99,839,000 (31 December 2013: Nil) to two joint ventures of the Group, which are unsecured, bear interest at rates from 6.35% to 9.50% (31 December 2013: Nil) per annum and are repayable within one year from the end of the reporting period; and (ii) a loan of HK\$99,839,000 (31 December 2013: HK\$226,469,000) to a wholly-owned subsidiary of the Group's joint venture, DCTII, which is secured by the entire interests of DCTII held by another joint venturer of DCTII, bears interest at a rate of 16.15% (31 December 2013: 16.15%) per annum and is repayable within one year from the end of the reporting period.

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

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Short term employee benefits	5,921	5,582
Post-employment benefits	72	76
Share-based compensation	3,032	6,324
Total compensation paid to key management personnel	9,025	11,982

Management Discussion and Analysis

In the first half of 2014, China's economy was stabilizing, some IT sub-segment markets showed signs of stabilization, yet with some degree of volatility and uncertainty while the market competition was more intense. Since establishment, the Group has undergone three different phases: from IT infrastructure services mainly based on channel business, to integrated IT services mainly based on application software development, to operation and management services focused mainly on the Sm@rt City. To cope with technological changes, customer demands and our own strategic development, the Group has made timely adjustments to the organisation structure and management model with effect from 1 January 2014, forming five principal business segments. This restructuring is strategically significant for the Group's development in the coming five to ten years. "Focus on strategies, Consolidate foundation, Transform and upgrade" as important measures at the Group level, are beneficial to the business' sustainable development, and lay a solid foundation for the business to get back on track and then return to the highway of growth.

1.1. The Distribution Business continued to record moderate growth; the Systems Business and the Services Business were still with relatively high volatility.

The Distribution Business has registered positive growth for the third consecutive quarter since the fourth quarter of last year, thanks to Consumer Market stabilization and progress of Omni-channel business model. The decline in the Systems Business narrowed down but the Systems Business remained volatile; The pace of sales of the Services Business lagged behind. As a result, the Group reported overall revenue of approximately HK\$31,973 million for the first half of the financial year (for the six months ended 30 June 2014, and hereafter), a decrease of 2.6% as compared to the corresponding period of last financial year; gross profit margin for the second quarter (for the three months ended 30 June 2014, and hereafter) was at 7.21% which was much higher compared to 6.19% for the first quarter (for the three months ended 31 March 2014, and hereafter) and affected by the first quarter, gross profit margin for the first half of the financial year was 6.68%, down 47 basis points as compared to the corresponding period of last financial year. For the first half of the financial year, profit attributable to equity holders amounted to approximately HK\$399 million, a decrease of 28.4% as compared to the corresponding period of last financial year, reflecting mainly foreign exchange losses resulting from change of RMB exchange rate; basic earnings per share amounted to 37.36 HK cents, representing a decrease of approximately 15 HK cents over 52.15 HK cents reported for the corresponding period of last financial year.

1.2. Further implementation of operating cost control and business mix optimization; Outstanding cash flow performance achieved through enhanced management.

Operating cost control, business mix optimization and cash flow management represented some of the Group's priorities as it faced uncertainties in the market. For the first half of the financial year, the Group's selling and distribution expenses, administrative expenses and total operating expenses decreased by 15.6%, 32.8% and 7.2%, respectively, as compared to the corresponding period of last financial year. Thanks to in-depth efforts in high-growth segments such as accessories, storage products, packaged software and Huawei business, revenue shortfalls caused by declining businesses have roughly been offset. With ongoing cash flow management, the Group reported net cash inflow from operating activities of approximately HK\$619 million for the first half of the financial year, providing strong support for the Group's stable business development.

Management Discussion and Analysis

1.3. Following the national policy guidance of “autonomous controllability”, the Group increases input; also, the Group seeks external growth opportunities via operation in the capital markets.

The rapid development of Cloud Services and the national policy guidance of “autonomous controllability” have provided the Group a significant opportunity for development. During the first half of the financial year, the Group’s Services Business entered into the “Alliance for the Promotion of Safe and Reliable Information System Applications” with several well-known domestic companies and established a joint laboratory to drive domestic production on the market and technology fronts. Our Sm@rt City business continued to advance steadily, with progress achieved in open platforms, news products and billing products. During the first half of the financial year, the Group entered into further Sm@rt City strategic cooperation agreements with five additional cities including Wuxi and Chengdu, bringing the total number of cities signed up for strategic cooperation to 24. Furthermore, capital market operations continued to serve as one of the breakthroughs for the Group, as we leveraged the independent access to the capital market provided by the Services Business and actively conducted capital market operations, identifying companies that have synergies, industry leadership and rapid growth as targets for acquisition. As at 30 June 2014, the Services Business was in preliminary negotiations with an independent third party for the acquisition of a majority stake in an agricultural IT services company.

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.

Growth for the Consumer IT Market continued to stabilize. The Group persisted in Omni-Channel coverage to drive positive revenue growth that outperformed the market and outperformed in principal product segments. By enhancing Omni-Channel coverage for its three major channels, the Group’s Distribution Business reported positive growth in overall revenue as it outperformed the market for principal products and the vendor for key brands. For the first half of the financial year, revenue of the Group’s Distribution Business amounted to approximately HK\$17,487 million, representing an increase by 2.8% as compared to the corresponding period of last financial year; gross profit margin of the Distribution Business was 3.36%, an improvement of 35 basis points as compared to the corresponding period of last financial year, thanks to ongoing development of channel capability. Analysed by product line (excluding CES channel), revenue growth of the Distribution Business was mainly driven by accessories, peripherals and consumer IT products, which reported revenue growth of 19.5%, 10.2% and 11.7% respectively, as compared the corresponding period of last financial year. While there was a decline in revenue from notebook computers as compared to the corresponding period of last financial year, it was basically in line with the market consensus.

Continued to drive Omni-Channel coverage, enhance capability in CES retail management and increase cooperation with e-commerce platforms while maintaining advantage in traditional channels. In the first half of the financial year, the e-commerce business captured growth opportunities in the market, reporting revenue growth of 15% as compared to the corresponding period of last financial year, being the fastest-growing segment and major growth driver in the Distribution Business. Meanwhile, revenue growth for traditional channels and CES outperformed the market. During the first half of the financial year, 270 new retail outlets were opened, as we continued to foster our ability in CES retail management and introduce more retail brand partners. On the back of sound cooperation in consumer products, we further cooperated with JD.com to explore new models for selling enterprise IT products on its POP platform. The online business conducted via Taobao and Tmall was growing in size and revenue for the first half of the year exceeded RMB100 million.

Management Discussion and Analysis

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.

The decline in the Systems Business was narrowing but the Systems Business remained volatile. During the first half of the financial year, the enterprise market showed signs of stabilisation but was yet to see full recovery. Confronted with intense competition in the market, the Group persisted in risk control and downsized businesses with uncertain prospects, and continued to strengthen the acquisition of business opportunities in sub-segments. Revenue of the Systems Business for the first half of the financial year decreased by 11.0% to approximately HK\$9,875 million, as compared to the corresponding period of last financial year. With increasingly intense competition in the market, gross profit margin for the Systems Business was 8.31%, lower than that in the corresponding period of last financial year. Improvement in gross profit margin is expected for the second half of the year.

Focusing on market share management, consolidating leadership in key product areas, actively developing domestic brands market, fostering new growth niche. Thanks to persistent efforts in market share management, the Group maintained dominant leading positions for principal product lines and stability in our fundamental business. In terms of sub-segment products, networking products, storage products and packaged software reported positive year-on-year growth for the first half of the financial year, of which the packaged software business grew by 15.4%. The servers business reported a 46.8% year-on-year decrease in revenue for the first half of the financial year as it conducted a downsizing practice to actively manage business risks, which was the main reason underlying the decline in revenue for the Systems Business as a whole. Meanwhile, the domestic brand business, represented by Huawei, reported rapid growth as the Group continued to increase its efforts in developing the domestic brands business. The preliminary product and geographic coverage for Huawei business was completed during the first half of the year. It has become a new growth niche in the Systems Business as revenue from Huawei products increased by 72% as compared to the corresponding period of last financial year.

2.3. Services Business: primary focus on the Industry clients, offering products and services in IT planning, IT system consultation, industry application software, solution design and implementation, outsourcing of IT system operation as well as systems integration and maintenance.

The Services Business was engaged in strategic transformation, with a focus on proprietary software, technical services and specialised financial equipment businesses, continuously optimizing business mix. With persistent implementation of the business strategy of “Controlling Risks, Ensuring Quality and Prudent Progress”, revenue from the Group’s Services Business for the first half of the financial year amounted to approximately HK\$3,630 million, representing a 10.6% decrease as compared to the corresponding period of last financial year, reflecting the impact of the 20.7% decrease in revenue from system integration business, even though revenue from technical services and specialised financial equipment business increased by 13.7% and 31.7% respectively, as compared to the corresponding period of last financial year. Gross profit margin of the Services Business for the first half of the financial year was 16.32%, 79 basis points higher as compared to the corresponding period of last financial year. The technical service business secured first contracts from China Financial Futures Exchange, Bank of Communications Financial Leasing and China Mobile Chongqing Company. The application software development business won the bids for the core system construction projects of Zhongyuan Bank and Yibin City Commercial Bank. The specialised financial equipment segment won the bid for a project of Ping An Bank, being our first contract with a joint-stock bank. The system integration business was prudent in customer and business selection, giving up projects with low margins or prolonged lead-time, and postponing certain big projects to the third quarter. To keep up with the trends of ‘Domestic Production’ and information security in the nation’s IT development, and to optimise its business deployment and strengthen its technology build-up, the Services Business entered into the “Alliance for the Promotion of Safe and Reliable Information

Management Discussion and Analysis

System Applications” with some well-known domestic companies and established a joint laboratory to drive domestic production on the market and technology fronts.

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

Continuously improve on business deployment, enhance servicing capabilities, and achieved notable growth of the Services Business in key industries and product sectors. For the first half of the financial year, the Supply Chain Services Business reported revenue of approximately HK\$981 million, an increase by 45.4% as compared to the same period of last financial year. Driven by the substantial growth in e-commerce supply-chain services, revenue for the Supply Chain Services Business for the second quarter of the financial year increased to approximately HK\$581 million, representing an 82.8% growth as compared to the same period of last financial year. The logistics services business reported a 43.9% growth in revenue for the first half of the financial year, as compared to the same period of last financial year. The customer base of our existing core sectors was strengthened. Regarding the centralised logistics service procurement project of China Mobile Terminal Company, we completed the transition of services at all provincial branch companies of China Mobile after six months of operation. In connection with emerging sectors and new customers, marketing was strengthened and breakthrough was achieved. Numerous industry leaders became our new customers, such as HIK Vision, dyrs.com.cn and Feifei.com. In terms of operation management, we fully leveraged our edge as a technology-based logistics company and applied advanced IT means to improve the quality of our operations on a continued basis. Leveraging on our proprietary management software, we implemented full process management over warehousing, transportation and delivery, and facilitated a trial enquiry function via WeChat, allowing customers to check the status of goods in transit. On the maintenance front, we were actively developing partners in new sectors such as tablets, Internet equipment and home appliances. Inhon tablets, Infocus handsets and 3M Air Cleaner were signed up for authorised maintenance services. In the meantime, we continued to improve our store profitability by exploring models of Internet marketing, in an endeavour to integrate online marketing with offline settlement in a new model for services sales.

3. Management Outlook

Looking forward to the second half of the financial year, the management is of the view that the stabilised macro-economic environment and the Government’s “Micro-stimulus” policies will be favourable to the IT market’s gradual recovery. The Group will optimise its key measures and strengthen the enforcement of such measures to achieve continuous growth for the Distribution Business, reverse the decline of the Systems Business and assure accomplishment of full-year targets by the Services Business. The Group will identify companies that have synergies, industry leadership and rapid growth as targets for acquisition and complete the strategic deployment for interested areas promptly through external growth opportunity and consolidation of relevant resources. In the meantime, the Group will increase its input in “autonomous controllability”, Cloud Services and Big Data in line with industry trends under the strategic guidance of the Sm@rt City. The Group will commit to deliver greater value to shareholders in the future through the incubation of new businesses.

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\$29,684 million at 30 June 2014 which were financed by total liabilities of HK\$20,461 million, non-controlling interests of HK\$1,362 million and equity attributable to equity holders of the parent of HK\$7,861 million. The Group's current ratio at 30 June 2014 was 1.31 as compared to 1.37 at 31 March 2014 and 1.36 at 31 December 2013.

During the six months ended 30 June 2014, capital expenditure of HK\$342 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 0.95 at 30 June 2014 as compared to 0.93 at 31 March 2014 and 0.78 at 31 December 2013. The computation of the said ratio was based on the total interest-bearing bank borrowings of HK\$7,478 million (31 March 2014: HK\$7,384 million and 31 December 2013: HK\$6,034 million) and equity attributable to equity holders of the parent of HK\$7,861 million (31 March 2014: HK\$7,926 million and 31 December 2013: HK\$7,726 million).

At 30 June 2014, the denomination of the interest-bearing bank borrowings of the Group was shown as follows:

	Denominated in United States dollars HK\$'000	Denominated in Hong Kong dollars HK\$'000	Total HK\$'000
Current			
Interest-bearing bank borrowings, unsecured	4,097,753	765,000	4,862,753
Non-current			
Interest-bearing bank borrowings, unsecured	2,314,848	300,000	2,614,848
Total	6,412,601	1,065,000	7,477,601

Management Discussion and Analysis

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 current bank borrowings of approximately HK\$1,163 million (equivalent to US\$150 million) as at 30 June 2014 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\$1,163 million and HK\$2,615 million respectively represented the term loans which are repayable from 2014 to 2016.

The Group's total available credit facilities at 30 June 2014 amounted to HK\$37,876 million, of which HK\$4,815 million were in term loan facilities, HK\$18,785 million were in trade lines and HK\$14,276 million were in short-term and revolving money market facilities. At 30 June 2014, the facility drawn down was HK\$4,427 million in term loan facilities, HK\$4,702 million in trade lines and HK\$2,086 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 June 2014, the Group had approximately 9,500 (30 June 2013: approximately 10,200) 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 an 11.22% decrease in staff costs to approximately HK\$1,064 million for the six months ended 30 June 2014 as compared to approximately HK\$1,199 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 June 2014 (six months ended 30 June 2013: Nil).

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

At 30 June 2014, 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 Director	Capacity	Personal Interests	Corporate Interests	Number of Outstanding Share Options	Number of RSUs Granted <i>(Note 10)</i>	Total <i>(Note 1)</i>	Approximate Percentage of Aggregate Interests (%) <i>(Note 11)</i>
GUO Wei	Beneficial owner and interests of a controlled corporation	1,504,000	69,414,286 <i>(Note 2)</i>	960,000 <i>(Note 3)</i>	2,000,000 <i>(Note 4)</i>	73,878,286	6.76
Andrew Y. YAN	Interests of a controlled corporation	—	119,111,744 <i>(Note 5)</i>	—	—	119,111,744	10.92
LIN Yang	Beneficial owner	56,000	—	1,000,000 <i>(Note 6)</i>	1,000,000 <i>(Note 7)</i>	2,056,000	0.19
YAN Guorong	Beneficial owner	50,000	—	793,000 <i>(Note 8)</i>	1,000,000 <i>(Note 9)</i>	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 or before 30 September 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 or before 30 September 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 or before 30 September 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 June 2014, 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 June 2014, 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 10)
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
JPMorgan Chase & Co.	Beneficial owner/Investment manager/ Custodian corporation/Approved lending agent	Long Position 98,363,156	Long Position 8.99
		Short Position 724,346	Short Position 0.06
		Lending Pool 95,254,550	Lending Pool 8.70
Templeton Global Advisors Limited	Investment Manager	91,407,250 (Note 4)	8.36
Allianz SE	Interests of controlled corporations	87,929,000 (Note 5)	8.04
Matthews International Capital Management, LLC	Investment Manager	86,230,000 (Note 6)	7.88
International Value Advisers, LLC	Investment Manager	68,947,000 (Note 7)	6.30
Legend Holdings Corporation 聯想控股股份有限公司 (Note 8)	Beneficial owner/Interests of a controlled corporation	35,013,077/ 21,368,642 (Note 9)	5.15

Other Information

Notes:

1. All of the interests disclosed herein represent long position in the shares of the Company unless otherwise specified.
2. KIL is controlled by Mr. GUO Wei who is a director of the Company and 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. Templeton Global Advisors Limited was interested in an aggregate of 91,407,250 shares by virtue of the SFO. Those interests were held in the capacity of investment manager.
5. Out of these 87,929,000 shares in aggregate, 85,225,000 shares were held by RCM Asia Pacific Ltd., 2,414,000 shares by Allianz Global Investors Taiwan Ltd., 185,000 shares by Allianz Global Investors Europe GmbH, and 105,000 shares by Allianz Global Investors Fund Management LLC. All of the aforementioned companies were indirectly controlled by Allianz SE.
6. Matthews International Capital Management, LLC was interested in an aggregate of 86,230,000 shares by virtue of the SFO. Those interests were held in the capacity of investment manager.
7. International Value Advisers, LLC was interested in an aggregate of 68,947,000 shares by virtue of the SFO. Those interests were held in the capacity of investment manager.
8. The English name is direct transliteration of its Chinese registered name.
9. 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 Corporation, and therefore Legend Holdings Corporation was deemed to be interested in such shares by virtue of the SFO.
10. 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 June 2014, 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.

Other Information

Share-Based Incentive Schemes

(A) Share Option Schemes

The Company operates two share option schemes. One of the share option schemes 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.

The following table shows the movements in the share options under the 2002 Share Option Scheme during the six months ended 30 June 2014 and the options outstanding at the beginning and end of the period:

Grantee	Number of share options				Outstanding as at 30/6/2014	Subscription price per share HK\$ (Note 2)	Date of grant	Exercisable period (Note 1)
	Outstanding as at 1/1/2014	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	2,717,000	—	—	—	2,717,000	5.89	21/05/2008	21/05/2009-20/05/2016
	3,847,000	—	(330,000)	—	3,517,000	15.04	11/01/2011	11/01/2012-10/01/2019
In aggregate	9,317,000	—	(330,000)	—	8,987,000			

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.

Other Information

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.

(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 the 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 June 2014, the Group recognised the share-based compensation expenses of HK\$19,347,000 (six months ended 30 June 2013: HK\$38,062,000) in the unaudited condensed consolidated statement of profit or loss.

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 on the Stock Exchange (the "Listing Rules") after the 2013 Annual Report of the Company are set out as below:

Name of Director	Details of Changes
GUO Wei	i) ceased to act as a Director of DigiWin Software Co., Ltd., a company listed on the ChiNext of The Shenzhen Stock Exchange, with effect from 20 May 2014
Andrew Y. YAN	i) appointed as: <ul style="list-style-type: none">– an Independent Non-executive Director of CPMC Holdings Limited, a company listed on the Main Board of the Stock Exchange, with effect from 17 March 2014– an Independent Non-executive Director of Cogobuy Group, a company listed on the Main Board of the Stock Exchange, with effect from 18 July 2014 ii) resigned as: <ul style="list-style-type: none">– an Independent Non-executive Director of China Mengniu Dairy Company Limited, a company listed on the Main Board of the Stock Exchange, with effect from 26 March 2014– a Director of China Digital TV Holding Co., Ltd., a company listed on The New York Stock Exchange, with effect from 29 April 2014– an Independent Director of Giant Interactive Group, Inc., a company listed on The New York Stock Exchange, with effect from 18 July 2014– the Founding Director of China Venture and Private Equity Association, with effect from 31 December 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 June 2014.

Review by Audit Committee

The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. WONG Man Chung, Francis (who is the Chairman of Audit Committee), Ms. NI Hong (Hope) and Mr. ONG Ka Lueng, Peter. 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 June 2014.

Other Information

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 June 2014, 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. Given the existing number of Directors of the Company, not less than one-third of the Directors are subject to retirement by rotation at each annual general meeting, by which each Director (other than the Chairman of the Board) will retire by rotation once every three years at the minimum.

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 relevant 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) the relevant Directors are well established in their professions and/or 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.

Other Information

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

During the six months ended 30 June 2014, 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 June 2014.

By Order of the Board

GUO Wei

Chairman

Hong Kong, 25 August 2014

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