



ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

FINANCIAL HIGHLIGHTS

- Turnover for the six months ended 30 September 2008 increased by 26.37% over the corresponding period of the last financial year to reach approximately HK\$21,101 million.
- Profit attributable to equity holders of the parent for the six months ended 30 September 2008 was approximately HK\$243 million, an increase of 65.32% over the corresponding period of the last financial year.

UNAUDITED CONSOLIDATED INTERIM RESULTS

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 2008 together with comparative figures for the corresponding period of the last financial year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended 30 September 2008 (Unaudited) HK\$'000	Six months ended 30 September 2008 (Unaudited) HK\$'000	Three months ended 30 September 2007 (Unaudited) HK\$'000	Six months ended 30 September 2007 (Unaudited) HK\$'000
	<i>Notes</i>				
Revenue	3	11,090,595	21,101,305	8,839,851	16,698,613
Cost of sales		<u>(10,290,844)</u>	<u>(19,639,348)</u>	<u>(8,240,643)</u>	<u>(15,602,399)</u>
Gross profit		799,751	1,461,957	599,208	1,096,214
Other income and gains	3	60,694	190,519	65,894	157,199
Selling and distribution costs		(458,282)	(855,706)	(379,252)	(688,644)
Administrative expenses		(94,753)	(178,527)	(75,963)	(146,569)
Other operating expenses, net		(118,137)	(259,373)	(81,252)	(173,455)
Total operating expenses	4	<u>(671,172)</u>	<u>(1,293,606)</u>	<u>(536,467)</u>	<u>(1,008,668)</u>
Finance costs		(46,693)	(87,511)	(51,611)	(91,050)
Share of profits and losses of:					
Jointly-controlled entities		(253)	447	2,223	1,068
Associates		<u>1,794</u>	<u>4,240</u>	<u>1,483</u>	<u>1,316</u>
Profit before tax	5	144,121	276,046	80,730	156,079
Tax	6	<u>(39,804)</u>	<u>(58,835)</u>	<u>1,379</u>	<u>(11,035)</u>
Profit for the period		<u>104,317</u>	<u>217,211</u>	<u>82,109</u>	<u>145,044</u>
Attributable to:					
Equity holders of the parent		129,444	243,478	82,007	147,280
Minority interests		<u>(25,127)</u>	<u>(26,267)</u>	<u>102</u>	<u>(2,236)</u>
		<u>104,317</u>	<u>217,211</u>	<u>82,109</u>	<u>145,044</u>
Earnings per share attributable to ordinary equity holders of the parent	7				
Basic			<u>25.30 HK cents</u>		<u>16.77 HK cents</u>
Diluted			<u>25.30 HK cents</u>		<u>16.42 HK cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 September 2008 (Unaudited) HK\$'000	At 31 March 2008 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		416,031	401,124
Investment properties		240,364	234,212
Prepaid land premiums		14,948	14,765
Intangible assets		4,963	5,526
Interests in jointly-controlled entities		5,392	7,894
Interests in associates		42,683	35,612
Available-for-sale investments		31,611	31,611
Deferred tax assets		20,860	19,480
Total non-current assets		776,852	750,224
CURRENT ASSETS			
Inventories		2,349,483	2,559,364
Trade and bills receivables	8	5,714,403	3,772,820
Prepayments, deposits and other receivables		1,276,627	1,233,629
Cash and bank balances		1,200,335	998,454
Total current assets		10,540,848	8,564,267
CURRENT LIABILITIES			
Trade and bills payables	9	4,691,853	3,334,519
Other payables and accruals		1,719,271	1,695,420
Tax payable		96,874	66,405
Interest-bearing bank borrowings		1,119,454	400,066
Total current liabilities		7,627,452	5,496,410
NET CURRENT ASSETS		2,913,396	3,067,857
TOTAL ASSETS LESS CURRENT LIABILITIES		3,690,248	3,818,081
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		704,946	952,803
Bond payable		227,402	221,582
Total non-current liabilities		932,348	1,174,385
NET ASSETS		2,757,900	2,643,696
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	10	96,239	96,362
Reserves		2,641,936	2,389,347
Proposed final dividend		-	140,210
		2,738,175	2,625,919
Minority interests		19,725	17,777
TOTAL EQUITY		2,757,900	2,643,696

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	13,642	(400,141)
Net cash outflow from investing activities	(46,958)	(48,529)
Net cash inflow from financing activities	213,493	189,142
Net increase/(decrease) in cash and cash equivalents	180,177	(259,528)
Cash and cash equivalents at the beginning of the period	998,454	717,455
Effects of foreign exchange rate changes, net	21,704	35,689
Cash and cash equivalents at the end of the period	1,200,335	493,616

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent										
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Employee share-based compensation reserve (Unaudited) HK\$'000	Reserve funds (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed final dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 April 2008	96,362	620,567	625,334	-	81,330	115,520	946,596	140,210	2,625,919	17,777	2,643,696
Exchange realignment and net gain recognised directly in equity for the period	-	-	-	-	-	8,344	-	-	8,344	(144)	8,200
Profit for the period	-	-	-	-	-	-	243,477	-	243,477	(26,267)	217,210
Total income and expense for the period	-	-	-	-	-	8,344	243,477	-	251,821	(26,411)	225,410
Repurchase of shares	(123)	(2,764)	-	-	-	-	-	-	(2,887)	-	(2,887)
Equity-settled share option arrangements	-	-	-	3,532	-	-	-	-	3,532	-	3,532
Capital injection from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	35,181	35,181
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	(6,822)	(6,822)
Final 2008 dividend	-	-	-	-	-	-	-	(140,210)	(140,210)	-	(140,210)
At 30 September 2008	96,239	617,803	625,334	3,532	81,330	123,864	1,190,073	-	2,738,175	19,725	2,757,900
At 1 April 2007	87,404	319,572	625,334	56,269	64,002	38,432	697,970	72,370	1,961,353	11,893	1,973,246
Exchange realignment and net gain recognised directly in equity for the period	-	-	-	-	-	43,228	-	-	43,228	-	43,228
Profit for the period	-	-	-	-	-	-	147,280	-	147,280	(2,236)	145,044
Total income and expense for the period	-	-	-	-	-	43,228	147,280	-	190,508	(2,236)	188,272
Exercise of share options	3,146	103,673	-	(16,000)	-	-	-	-	90,819	-	90,819
Equity-settled share option arrangements	-	-	-	1,482	-	-	-	-	1,482	-	1,482
Capital injection from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	6,457	6,457
Final 2007 dividend	-	-	-	-	-	-	-	(72,370)	(72,370)	-	(72,370)
At 30 September 2007	90,550	423,245	625,334	41,751	64,002	81,660	845,250	-	2,171,792	16,114	2,187,906

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of presentation

These unaudited condensed consolidated interim financial statements for the six months ended 30 September 2008 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 2008 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 has adopted the first time for the current period’s condensed consolidated interim financial statements. The adoption of these new and revised standards and interpretations has had no material effect on these unaudited condensed consolidated interim financial statements.

HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. This interpretation also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, this interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits* on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group has no defined benefit scheme, this interpretation is unlikely to have any financial impact on the Group.

2. Segment information

Summary details of the business segments are as follows:

- (a) the “Distribution” segment engages in the sale and distribution of general information technology (“IT”) products which consist of notebook computers, desktop computers, PC servers, data projectors, peripherals, accessories and consumer IT products;
- (b) the “Systems” segment engages in the sale and distribution of systems products which consist of Unix servers, networking products, storage products and packaged software, as well as the provision of related value-added services; and
- (c) the “Services” segment engages in the provision of systems integration, applications software development, consultancy and training, etc..

During the six months ended 30 September 2008, the Group considered it more appropriate to disclose certain gains and expenses in the segment results in order to better reflect the performance of each segment. Accordingly, the corresponding comparative amounts of the segment information have been revised to conform with the current period’s presentation.

Primary reporting format - business segments

The following table presents revenue and results for the Group's business segments for the six months ended 30 September 2008 and 2007:

	Distribution		Systems		Services		Consolidated	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) (Restated) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) (Restated) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) (Restated) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) (Restated) HK\$'000
Segment revenue:								
Sales to external customers	12,134,007	10,342,964	6,407,472	4,645,711	2,559,826	1,709,938	21,101,305	16,698,613
Segment gross profit	538,031	460,210	591,467	417,699	332,459	218,305	1,461,957	1,096,214
Segment results	200,650	171,169	177,616	164,411	54,325	(47,315)	432,591	288,265
Interest income, unallocated revenue and gains							61,265	33,869
Unallocated expenses							(134,986)	(77,389)
Finance costs							(87,511)	(91,050)
Share of profits and losses of:								
Jointly-controlled entities	-	-	-	-	447	1,068	447	1,068
Associates	-	-	-	-	4,240	1,316	4,240	1,316
Profit before tax							276,046	156,079
Tax							(58,835)	(11,035)
Profit for the period							217,211	145,044

Secondary reporting format - geographical segments

No geographical segment information is presented as over 90% of the Group's customers and operations are located in the Mainland of the People's Republic of China ("Mainland China").

3. Revenue, other income and gains

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

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

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue	21,101,305	16,698,613
<u>Other income</u>		
Government grants	32,862	33,977
Bank interest income	6,661	4,225
Gross rental income	15,811	14,102
Others	7,945	2,263
	63,279	54,567
<u>Gains</u>		
Gain on forward foreign exchange contracts and interest rate swap	11,869	-
Gain on disposal of non-current asset classified as held for sale	-	2,495
Foreign exchange differences, net	108,584	100,137
Others	6,787	-
	127,240	102,632
	190,519	157,199

4. Total operating expenses

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

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Selling expenses	129,624	88,013
Promotion and advertising expenses	100,355	104,919
Staff costs included in operating expenses (including directors' remuneration)	496,638	426,273
Other expenses	566,989	389,463
	1,293,606	1,008,668

5. Profit before tax

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

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	19,319,313	15,389,363
Depreciation	41,506	33,620
Amortisation of prepaid land premiums	204	183
Amortisation of intangible assets	703	2,989
Impairment of intangible assets	35,181	8,861
Provision for and write-off of obsolete inventories	59,317	18,056
Impairment of trade receivables	90,495	88,427
Loss on disposal of items of property, plant and equipment	1,041	2,327

6. Tax

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong	4,388	-
Current – The People's Republic of China ("PRC")	55,316	3,629
Deferred	(869)	7,406
Total tax charge for the period	58,835	11,035

- (a) PRC corporate income tax represents the tax charged on the estimated assessable profits arising in the Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to tax holiday and preferential tax rates.
- (b) During the six months ended 30 September 2008, Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax has been made for the six months ended 30 September 2007 as the Hong Kong subsidiaries of the Group had no estimated assessable profits arising in Hong Kong or had tax losses brought forward from prior years to set off assessable profits for the six months ended 30 September 2007.
- (c) No provision for Hong Kong profits tax has been made for the jointly-controlled entities and associates as the jointly-controlled entities and associates had no estimated assessable profits arising in Hong Kong for the six months ended 30 September 2007 and 2008. PRC corporate income tax has been provided at the applicable rates on the estimated assessable profits of the jointly-controlled entities and associates for the six months ended 30 September 2007 and 2008. The share of tax charge attributable to the jointly-controlled entities of approximately HK\$181,000 (six months ended 30 September 2007: Nil) and the share of tax charge attributable to the associates of approximately HK\$684,000 (six months ended 30 September 2007: approximately HK\$199,000) for the six months ended 30 September 2008 are included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates" respectively on the face of the condensed consolidated income statement.

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

The calculation of basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent for the six months ended 30 September 2008 of approximately HK\$243,478,000 (six months ended 30 September 2007: approximately HK\$147,280,000), and the weighted average of 962,481,559 (six months ended 30 September 2007: 878,338,177) ordinary shares in issue during the six months ended 30 September 2008.

The calculation of diluted earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent for the period and the weighted average number of ordinary shares in issue and assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares of the Company into ordinary shares.

For the six months ended 30 September 2008, the outstanding share option had anti-dilutive effect on the basic earnings per share. For the six months ended 30 September 2007, the calculation of diluted earnings per share amount was based on the profit attributable to ordinary equity holders of the parent for the six months ended 30 September 2007 of approximately HK\$147,280,000 and 897,200,467 ordinary shares, which represented the weighted average of 878,338,177 ordinary shares in issue during the six months ended 30 September 2007 and the weighted average of 18,862,290 ordinary shares deemed to have been issued at no consideration on the deemed exercise of all the outstanding share options during the six months ended 30 September 2007.

8. Trade and bills receivables

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

	At 30 September 2008 (Unaudited) HK\$'000	At 31 March 2008 (Audited) HK\$'000
Within 30 days	3,245,625	1,846,435
31 to 60 days	805,774	467,480
61 to 90 days	481,358	438,626
91 to 180 days	603,890	601,101
Over 180 days	577,756	419,178
	<u>5,714,403</u>	<u>3,772,820</u>

9. Trade and bills payables

An aged analysis of the Group's trade and bills payables as at the balance sheet date is as follows:

	At 30 September 2008 (Unaudited) HK\$'000	At 31 March 2008 (Audited) HK\$'000
Within 30 days	2,545,454	1,596,040
31 to 60 days	1,415,755	986,495
61 to 90 days	351,479	552,703
Over 90 days	379,165	199,281
	4,691,853	3,334,519

10. Share Capital

	At 30 September 2008 (Unaudited) HK\$'000	At 31 March 2008 (Audited) HK\$'000
Authorised: 2,000,000,000 (31 March 2008: 2,000,000,000) ordinary shares of HK\$0.1 each	200,000	200,000
Issued and fully paid: 962,390,581 (31 March 2008: 963,619,581) ordinary shares of HK\$0.1 each	96,239	96,362

During the six months ended 30 September 2008, the Company repurchased certain of its shares listed on The Stock Exchange of Hong Kong Limited. The shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium of the repurchase was charged against share premium.

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2008 (for the six months ended 30 September 2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Against slowing growth of the Chinese economy and the domestic IT market, the Group continued to implement the core strategy of service transformation and business value enhancement during the financial year to-date and major business indicators for the first half of the year were in line with management expectations. Overall business growth was sustained with excellent operating results. Profitability of our principal businesses continued to improve as the Services Business progressed to the stage of profit contribution. Meanwhile we were supported by sound operating cash flow, underpinning a balanced profile of business growth and risk control.

1.1 Sound turnover growth of the Group continued to outperform China's IT market

The Group recorded turnover of HK\$21,101 million for the six months ended 30 September 2008, an increase of 26.37% as compared to HK\$16,699 million for the corresponding period of last financial year, beating the overall growth rate of China's IT market. Our principal businesses continued to hold dominant positions in the market.

1.2 The Group continued to report marked improvement in overall profitability

Taking into account the effect of Renminbi appreciation on procurement costs, the Group's overall adjusted gross profit margin for the six months ended 30 September 2008 was 7.44%, up 0.28 percentage point from 7.16% for the corresponding period of last financial year.

Profit attributable to the equity holders of the parent (profit attributable to shareholders) amounted to approximately HK\$243 million, representing a 65.32% growth as compared to approximately HK\$147 million for the corresponding period of last financial year. Basic earnings per share grew 50.86% to 25.30 HK cents.

1.3 New benchmarks in profit contributions from the Services Business

For the three months ended 30 September 2008, the Services Business had reported profit for four quarterly periods in a row, confirming its progress into the stage of stable profit contribution. As shown in the segment results for the interim period of the 2008/09 financial year, the Services Business generated a profit of approximately HK\$54 million, representing an increase of HK\$101 million versus a loss of approximately HK\$47 million (restated) for the corresponding period of last financial year.

1.4 Noted improvement in operating cash flow and stabilized cash turnover thanks to ongoing risk control measures

The Group maintained stable operating cash flow for the six months ended 30 September 2008, net cash inflow from overall operating activities of the Group was approximately HK\$14 million, representing a big increase as compared to a net outflow of approximately HK\$400 million for the corresponding period of last financial year. In particular, net cash inflow from operating activities for the second quarter of the current financial year was approximately HK\$881 million, representing an increase of approximately HK\$668 million as compared to the corresponding period of last financial year. The improvement was attributable to enhanced cash flow control at Group level, stringent inventory management over the complete process of order-placement, sales and storage, which helped with linking the procurement process more closer to the sales process, as well as the increase in trade and bills payables.

The Group's cash turnover cycle for the six months ended 30 September 2008 was 25.78 days, which was slightly longer by 0.72 day as compared to the corresponding period of last financial year. The turnover day of trade receivables was increased by 3.4 days, while the inventory turnover day was increased by 0.42 day. The management is making focused efforts to deal with the issue of increasing the turnover days for trade receivables and proactive measures will be adopted to ensure healthy business growth through enhanced risk control and more efficient collection of payments.

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

Our Distribution Business achieved stable growth in overall business revenue thanks to effective market penetration through sales channels and sophisticated operational management

Turnover of the Group's Distribution Business for the six months ended 30 September 2008 amounted to approximately HK\$12,134 million, representing a 17.32% growth over the corresponding period of last financial year which was above the overall growth rate of the market.

Rewarding efforts in regional network expansion and sales channel development

As at 30 September 2008, effective sales channels of the Group increased by 9.98% as compared to 30 September 2007. Cities covered increased by 75.51% as compared to the corresponding period of last financial year. Turnovers from fourth-tier and fifth/sixth-tier cities also reported growth of 26.96% and 98.38%, respectively, as compared to the corresponding period of last financial year.

Rapid growth still sustained in notebooks, desktop computers, PC servers and accessories

Turnovers from these four major business sectors under the Group's Distribution Business for the six months ended 30 September 2008 reported growth of 28.55%, 7.20%, 11.03% and 29.47%, respectively, as compared to the corresponding period of last financial year.

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

Robust growth sustained in the Group's Systems Business

Turnover of the Group's Systems Business for the six months ended 30 September 2008 increased to approximately HK\$6,407 million, a 37.92% growth over the corresponding period of last financial year.

Innovative approaches for regional market expansion and enhanced capabilities for customer-oriented solutions

The Group continued to explore the regional markets for its Systems Business in a differentiating approach, attempting a variety of innovative marketing models to match the needs of customers. For the six months ended 30 September 2008, our regional customer business grew by 76.83% as compared to the corresponding period of last financial year. Meanwhile, our Systems Business continued to enhance its ability to deliver solutions by focusing on customers' needs. For the six months ended 30 September 2008, close to 33 new solutions were launched.

Buoyant growth in networking products, packaged software and storage products achieved with the benefit of sound cooperation with vendors and sales channels

Turnovers from networking products, packaged software and storage products under the Systems Business for the six months ended 30 September 2008 grew by 46.94%, 42.21% and 104.42%, respectively, comparing with the corresponding period of last financial year, as significant progress was reported in businesses with the likes of Cisco, Oracle, Microsoft and EMC to drive rapid overall growth of our Systems Business.

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

Profitability continued to improve in line with robust growth in turnover

Turnover of the Group's Services Business for the six months ended 30 September 2008 was approximately HK\$2,560 million, up by 49.70% as compared to the corresponding period of last financial year. In particular, turnover contributions from the banking sector and the telecommunications sector grew by 151.04% and 87.15%, respectively, significantly outpacing the average industry growth rates for these sectors. As shown in the segment results, the Services Business reported a gain of approximately HK\$54 million for the first half of the current financial year in growing profitability.

Advancement of the customer-oriented sales & marketing management system met with further progress for partnerships in major sectors

The contract value of the Group's Services Business for the second quarter of the current financial year was approximately HK\$1,271 million, up by 31.83% as compared to the corresponding period of last financial year. The contract value of the Group's Services Business for the six months ended 30 September 2008 was approximately HK\$2,783 million, up by 43.94% as compared to the corresponding period of last financial year. In the banking sector, further progress was made in our efforts to secure new customers among city banks. In the telecommunications sector, telecommunications and mobile service companies were signed up for core-business system projects. With the completion of infrastructure networks of new telecommunications carriers, massive opportunities in core-business systems and value-added maintenance services are expected.

Continued improvements in our research and development capabilities underpinned by successful launch of self-developed solutions

The Group's service businesses in providing solutions made inroads in the three major sectors. In the telecommunications sector, several major mobile service carriers were signed up for BOSS 3.0, a new-generation of core operating system. In the banking sector, contracts signed up for the development of inter-bank deposit and cashing systems for city credit unions have further enriched our range of solutions for the financial industry. In the government sector, contracts were signed up for the integrated servicing and business intelligence system for public transport, the Treasury Bureau budget management system and the grain reserve management information system as these solutions became ready for application with the conclusion of research and development.

Stable expansion of our PSOM business

Revenue from the products support and IT outsourcing and maintenance services (PSOM) under the Group's Services Business for the six months ended 30 September 2008 amounted to approximately HK\$263 million, up by 81.95% as compared to the corresponding period of last financial year. Meanwhile, with the launch of the "Proficient Service Package" (銳行服務) during the current financial year, a complete regime of IT services and products was formed on the back of services to existing telecommunications and banking customers, covering the six product lines of consultancy, maintenance and repair, outsourcing of operations, system testing, professional services and training. We have plans to market these services to the securities and government sectors in addition to our existing customer base.

Management outlook

The Group continued to report steady business growth and excellent results for the first half of the year as management expectations were duly fulfilled in a timely manner. In the second half of the year, the Group will continue to implement its strategic transformation to a "customer-focused and service-oriented" business approach to enhance profitability and customer-oriented business value. In response to challenges in the current economic and market environment, the Group will seek to ensure stable business operation by maintaining sound operating cash flow, stringent trade receivables and inventory management, close monitoring of the impact of Renminbi/U.S. Dollar exchange rate fluctuations as well as rigorous staffing management and labour cost control. The management remains confident that the Group will register outperforming growth for the current financial year given its leading edge in various customer sectors and effective risk control measures.

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\$11,318 million at 30 September 2008 which were financed by total liabilities of HK\$8,560 million, minority interests of HK\$20 million and equity attributable to equity holders of the parent of HK\$2,738 million. The Group's current ratio at 30 September 2008 was 1.38 as compared to 1.43 at 30 June 2008 and 1.56 at 31 March 2008.

During the six months ended 30 September 2008, capital expenditure of HK\$47 million was mainly incurred for the acquisition of office equipment and IT infrastructure facilities.

The aggregate borrowings as a ratio of equity attributable to equity holders of the parent was 0.75 at 30 September 2008 as compared to 1.15 at 30 June 2008 and 0.60 at 31 March 2008. The computation of the said ratio was based on the total interest-bearing borrowings and bond payable of HK\$2,052 million (30 June 2008 and 31 March 2008: HK\$3,161 million and HK\$1,574 million respectively) and equity attributable to equity holders of the parent of HK\$ 2,738 million (30 June 2008 and 31 March 2008: HK\$2,749 million and HK\$2,626 million respectively).

At 30 September 2008, the denomination of the interest-bearing borrowings and bond payable of the Group was shown as follows:

	Denominated in United States dollar HK\$'000	Denominated in Renminbi HK\$'000	Denominated in Hong Kong dollars HK\$'000	Total HK\$'000
Current				
Interest-bearing bank borrowings, unsecured	906,333	51,165	128,983	1,086,481
Interest-bearing bank borrowings, secured	-	32,973	-	32,973
	<u>906,333</u>	<u>84,138</u>	<u>128,983</u>	<u>1,119,454</u>
Non-current				
Interest-bearing bank borrowings, unsecured	-	704,946	-	704,946
Bond payable	-	227,402	-	227,402
	<u>-</u>	<u>932,348</u>	<u>-</u>	<u>932,348</u>
Total	<u>906,333</u>	<u>1,016,486</u>	<u>128,983</u>	<u>2,051,802</u>

Included in the Group's current borrowings of approximately HK\$33 million extended by a financial institution to a subsidiary of the Group, Beijing Digital China Si-Tech Information Technology Co., Ltd. ("STQ"), were secured by a property situated in the Mainland China with a value of approximately HK\$20 million at 30 September 2008 and 14,061,976 issued shares of STQ in favour of Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd. (the "Pledgee"), an independent third party, for securing a guarantee issued by such Pledgee on behalf of STQ. Included in the Group's current and non-current bank borrowings of approximately HK\$51 million and HK\$705 million respectively represented the term loans and are repayable from Year 2008 to 2013.

In December 2007, Digital China (China) Limited, a wholly-owned subsidiary of the Company and three independent third parties entered into an agreement with the underwriters to issue a bond to institutional and public investors in the Mainland China with an aggregate principal amount of RMB305 million. Pursuant to the agreement, the Group issued a RMB200 million (equivalent to approximately HK\$227 million) bond (the "Bond") for financing the development of IT services business. The Bond carries interest at a rate of 6.68% per annum, which is payable semi-annually and will mature in December 2010. For the purpose of the Bond, Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd. ("ZGC Guaranty"), an independent third party, has unconditionally and irrevocably undertaken joint and several guarantee liabilities in full (the "Guarantee Liabilities") in favour of Digital China (China) Limited. Concurrently, the China Development Bank has authorised its business department to undertake general guarantee liability in respect of the Guarantee Liabilities of ZGC Guaranty, and Digital China Software Limited, a wholly-owned subsidiary of the Company, has undertaken joint and several liabilities in respect of the Guarantee Liabilities of ZGC Guaranty.

The Group's total available credit facilities at 30 September 2008 amounted to HK\$9,282 million, of which HK\$1,148 million were in term loan facilities, HK\$6,188 million were in trade lines and HK\$1,946 million were in short-term and revolving money market facilities. At 30 September 2008, the facility drawn down was HK\$756 million in term loan facilities, HK\$1,951 million in trade lines and HK\$923 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 2008, the Group had approximately 8,500 (30 September 2007: approximately 7,300) full-time employees. The majority of these employees work in the PRC. The Group offers remuneration packages in line with industry practice. Employees' remuneration includes basic salaries and bonuses. With the increase in the total number of staff to cope with its business requirements, the Group has recorded a 31.57% increase in staff costs to approximately HK\$671 million for the six months ended 30 September 2008 as compared with an approximate sum of approximately HK\$510 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 options to staff based on the individual performance and the achievements of the Company's targets. The Group is committed to providing its staff with various in-house and external training and development programs.

AUDIT COMMITTEE

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 2008.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the "Code on Corporate Governance Practices" (the "**Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the six months ended 30 September 2008, except for the following deviations:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. GUO Wei has been taken up the dual role as Chairman and Chief Executive Officer of the Company since 19 December 2007. Mr. GUO has extensive experience in business strategic development and management and is responsible for overseeing the whole business, strategic development and management of the Group. The Board believes that the dual role of Mr. GUO will benefit the Group and the shareholders of the Company as a whole and enables the consistency between the setting up and the implementation of the business strategy.

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 Chairman or Managing Director) are subject to retirement by rotation at each annual general meeting in accordance with the Bye-Laws of the Company and shall be eligible for re-election. The Board considers that the retirement by rotation at each annual general meeting in accordance with the Bye-Laws of the Company has given the shareholders of the Company the right to approve continuation of the service of the directors.

The second part of 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 of the Company, 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 and the Managing Director shall not, whilst holding such office, be subject to retirement by rotation. Therefore, Mr. GUO Wei, Chairman of the Company, shall not be subject to retirement by rotation.

Code Provision B.1.1 stipulates that a majority of the members of the Remuneration Committee should be Independent Non-executive Directors. However, only half of the members of the Remuneration Committee are Independent Non-executive Directors. Since each of the committee members has extensive experience in setting up the remuneration policy for the directors and senior management, the Board considers that this combination of the committee members can mostly conform to the needs of the Company and is to the optimal efficiency for the operation of the Committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2008, the Company repurchased an aggregate of 1,229,000 ordinary shares at the consideration of the highest and lowest purchase prices of HK\$2.72 and HK\$2.18 per share respectively on the Stock Exchange and the aggregate consideration paid (including transaction costs) was approximately HK\$2,887,000. All of the repurchased shares had been cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2008.

By Order of the Board
Digital China Holdings Limited
(神州數碼控股有限公司*)
GUO Wei
Chairman and Chief Executive Officer

Hong Kong, 26 November 2008

As at the date of this announcement, the Board comprises ten directors namely:

Executive Directors: Mr. GUO Wei (Chairman and Chief Executive Officer) and Mr. LIN Yang (President)

Non-executive Directors: Mr. Andrew Y. YAN, Mr. TANG Xudong, Mr. CHEN Derek Zhiyong and Mr. LUO Hong

Independent Non-executive Directors: Mr. HU Zhao Guang, Professor WU Jinglian, Mr. WONG Man Chung, Francis and Mr. KWAN Ming Heung, Peter

Website: www.digitalchina.com.hk

** For identification purpose only*