



神州数码
Digital China

DIGITAL CHINA HOLDINGS LIMITED

(神州數碼控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 0861)

**ANNOUNCEMENT OF THE THIRD QUARTERLY RESULTS
FOR THE NINE MONTHS ENDED 31 DECEMBER 2007
AND
CHANGE OF PRESIDENT OF THE COMPANY**

FINANCIAL HIGHLIGHTS

- Turnover for the nine months ended 31 December 2007 increased by 39.11% over the corresponding period of last financial year to reach approximately HK\$26,409 million.
- Profit attributable to equity holders of the parent for the nine months ended 31 December 2007 was approximately HK\$335 million, an increase of 94.97% over the corresponding period of last financial year.

UNAUDITED CONSOLIDATED RESULTS

The board of directors (the “**Board**”) of Digital China Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the nine months ended 31 December 2007 together with comparative figures for the corresponding period of last financial year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended 31 December 2007 (Unaudited) HK\$'000	Nine months ended 31 December 2007 (Unaudited) HK\$'000	Three months ended 31 December 2006 (Unaudited) HK\$'000	Nine months ended 31 December 2006 (Unaudited) HK\$'000
Revenue	3	9,710,574	26,409,187	7,112,205	18,983,854
Cost of sales		<u>(9,019,077)</u>	<u>(24,621,476)</u>	<u>(6,613,399)</u>	<u>(17,656,500)</u>
Gross profit		691,497	1,787,711	498,806	1,327,354
Other income and gains	3	122,968	280,167	71,530	156,388
Selling and distribution costs		(441,050)	(1,129,694)	(300,842)	(791,801)
Administrative expenses		(85,946)	(232,515)	(64,270)	(203,562)
Other operating expenses, net		(36,271)	(209,726)	(60,451)	(174,058)
Total operating expenses	4	<u>(563,267)</u>	<u>(1,571,935)</u>	<u>(425,563)</u>	<u>(1,169,421)</u>
Finance costs		(60,083)	(151,133)	(36,782)	(109,314)
Share of profits and losses of:					
Jointly-controlled entities		1,852	2,920	(13,955)	(17,289)
Associates		<u>3,528</u>	<u>4,844</u>	<u>(2,093)</u>	<u>(4,389)</u>
Profit before tax	5	196,495	352,574	91,943	183,329
Tax	6	<u>(5,486)</u>	<u>(16,521)</u>	<u>(9,376)</u>	<u>(15,232)</u>
Profit for the period		<u>191,009</u>	<u>336,053</u>	<u>82,567</u>	<u>168,097</u>
Attributable to:					
Equity holders of the parent		188,165	335,445	80,508	172,050
Minority interests		<u>2,844</u>	<u>608</u>	<u>2,059</u>	<u>(3,953)</u>
		<u>191,009</u>	<u>336,053</u>	<u>82,567</u>	<u>168,097</u>
Earnings per share attributable to ordinary equity holders of the parent	7				
Basic (HK cents)			<u>37.18</u>		<u>19.76</u>
Diluted (HK cents)			<u>N/A</u>		<u>19.67</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		At 31 December 2007 (Unaudited) <i>HK\$'000</i>	At 31 March 2007 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		387,496	337,621
Investment properties		224,379	208,226
Prepaid land premiums		14,309	13,547
Intangible assets		7,639	19,087
Interests in jointly-controlled entities		11,693	3,644
Interests in associates		29,405	22,970
Available-for-sale investments		31,611	31,611
Deferred tax assets		18,833	25,038
Total non-current assets		<u>725,365</u>	<u>661,744</u>
CURRENT ASSETS			
Inventories		2,201,017	1,683,630
Trade and bills receivables	8	4,169,353	2,852,404
Prepayments, deposits and other receivables		1,346,108	957,146
Cash and bank balances		822,758	717,455
		<u>8,539,236</u>	<u>6,210,635</u>
Non-current asset classified as held for sale	9	-	12,681
Total current assets		<u>8,539,236</u>	<u>6,223,316</u>
CURRENT LIABILITIES			
Trade and bills payables	10	2,964,861	2,667,444
Other payables and accruals		1,660,913	975,330
Tax payable		37,023	31,807
Interest-bearing bank borrowings		907,629	633,536
Total current liabilities		<u>5,570,426</u>	<u>4,308,117</u>
NET CURRENT ASSETS		<u>2,968,810</u>	<u>1,915,199</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,694,175	2,576,943
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		917,138	603,697
Bond payable		213,288	-
Total non-current liabilities		<u>1,130,426</u>	<u>603,697</u>
NET ASSETS		<u>2,563,749</u>	<u>1,973,246</u>

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	At 31 December 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	96,362	87,404
Reserves	2,448,765	1,801,579
Proposed final dividend	-	72,370
	<u>2,545,127</u>	<u>1,961,353</u>
Minority interests	<u>18,622</u>	<u>11,893</u>
TOTAL EQUITY	<u>2,563,749</u>	<u>1,973,246</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Nine months ended 31 December	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	(435,424)	664,370
Net cash outflow from investing activities	(67,574)	(66,822)
Net cash inflow from financing activities	<u>548,928</u>	<u>122,910</u>
Net increase in cash and cash equivalents	45,930	720,458
Cash and cash equivalents at the beginning of the period	717,455	297,768
Effects of foreign exchange rate changes, net	<u>59,373</u>	<u>15,443</u>
Cash and cash equivalents at the end of the period	<u>822,758</u>	<u>1,033,669</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

These unaudited condensed consolidated financial statements for the nine months ended 31 December 2007 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 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 2007 had been consistently applied except in relation to the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which also include HKASs and Interpretations) that affect the Group and has adopted for the first time for the current period’s condensed consolidated financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The revised HKAS 1 affects the disclosures about qualitative information about the Group’s objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates major disclosure requirements of HKAS 32.

HK(IFRIC)-Int 8 addresses the application of HKFRS 2 to particular transactions in which the entity cannot identify specifically some or all of the goods or services received.

HK(IFRIC)-Int 9 addresses the application of HKAS 39 that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, and prohibits subsequent reassessment throughout the life of the contract except for exceptional circumstances.

HK(IFRIC)-Int 10 addresses the interaction between the requirements of HKAS 34 and the recognition of impairment losses on goodwill in HKAS 36 and certain financial assets in HKAS 39 and that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to an entity’s equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the instruments needed.

The adoption of the above new and revised HKFRSs has no material impact on the Group’s unaudited condensed consolidated financial statements.

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.

Primary reporting format - business segments

The following table presents revenue and results for the Group's business segments for the nine months ended 31 December 2007 and 2006:

	Distribution		Systems		Services		Consolidated	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	15,892,791	11,005,318	7,441,386	5,597,016	3,075,010	2,381,520	26,409,187	18,983,854
Segment gross profit	719,684	526,850	680,190	502,489	387,837	298,015	1,787,711	1,327,354
Segment results	240,406	214,973	180,999	148,202	(12,299)	(40,795)	409,106	322,380
Interest income, unallocated revenue and gains							239,262	136,976
Unallocated expenses							(152,425)	(145,035)
Finance costs							(151,133)	(109,314)
Share of profits and losses of:								
Jointly-controlled entities	-	-	-	-	2,920	(17,289)	2,920	(17,289)
Associates	-	-	-	-	4,844	(4,389)	4,844	(4,389)
Profit before tax							352,574	183,329
Tax							(16,521)	(15,232)
Profit for the period							336,053	168,097

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:

	Nine months ended 31 December	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue	26,409,187	18,983,854
<u>Other income</u>		
Government grants	47,388	23,711
Bank interest income	7,033	3,921
Gross rental income	21,808	27,818
Others	6,265	4,217
	82,494	59,667
<u>Gains</u>		
Gain on disposal of non-current asset classified as held for sale	2,495	-
Foreign exchange differences, net	188,604	96,721
Others	6,574	-
	197,673	96,721
	280,167	156,388

4. Total operating expenses

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

	Nine months ended 31 December	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Selling expenses	138,602	102,413
Promotion and advertising expenses	161,216	125,409
Staff costs included in operating expenses (including directors' remuneration)	722,304	476,968
Other expenses	549,813	464,631
	1,571,935	1,169,421

5. Profit before tax

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

	Nine months ended 31 December	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Cost of inventories sold	24,183,192	17,318,576
Depreciation	51,533	48,318
Amortisation of prepaid land premiums	278	263
Impairment of goodwill	-	28,566
Amortisation of intangible assets	3,431	3,949
Impairment of intangible assets	15,682	13,287
Provisions and write-off of obsolete inventories	23,048	21,175
Impairment and write-off of doubtful trade receivables	77,996	47,450
Impairment of available-for-sale investments	-	2,425
Loss on disposal of items of property, plant and equipment	2,856	1,192

6. Tax

	Nine months ended 31 December	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Group:		
Current – The People's Republic of China ("PRC")	8,747	14,449
Deferred	7,774	783
Total tax charge for the period	16,521	15,232

- (a) PRC corporate income tax represents tax charged on the estimated assessable profits arising in the PRC. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 33% except for certain PRC subsidiaries which are entitled to tax holiday and preferential tax rates.
- (b) No provision for Hong Kong profits tax has been made 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 nine months ended 31 December 2006 and 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 nine months ended 31 December 2006 and 2007. PRC corporate income tax has been provided at the rate of 33% on the estimated assessable profits of the jointly-controlled entities and associates in the PRC for the nine months ended 31 December 2006 and 2007. The share of tax charge attributable to the jointly-controlled entities of approximately HK\$Nil (nine months ended 31 December 2006: HK\$66,000) and the share of tax charge attributable to the associates of approximately HK\$387,000 (nine months ended 31 December 2006: share of tax credit of approximately HK\$317,000) for the nine months ended 31 December 2007 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.

On 16 March 2007, the National Peoples' Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which will become effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Detailed implementation and administrative requirements relating to the New CIT Law were announced in December 2007. The Group is in process of making an assessment of the impact of the New CIT Law on its operating results and financial positions of future periods.

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

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent for the nine months ended 31 December 2007 of approximately HK\$335,445,000 (nine months ended 31 December 2006: approximately HK\$172,050,000), and the weighted average of 902,253,221 (nine months ended 31 December 2006: 870,729,139) ordinary shares in issue during the nine months ended 31 December 2007.

No diluted earnings per share are presented for the nine months ended 31 December 2007 as there is no dilutive potential share in existence as at 31 December 2007.

The calculation of diluted earnings per share was based on the profit attributable to ordinary equity holders of the parent for the nine months ended 31 December 2006 of approximately HK\$172,050,000 and 874,661,571 ordinary shares, which was the weighted average of 870,729,139 ordinary shares in issue during the nine months ended 31 December 2006, and the weighted average of 3,932,432 ordinary shares deemed to have been issued at no consideration on the deemed exercise of all the outstanding share options during the nine months ended 31 December 2006.

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 31 December 2007 (Unaudited) <i>HK\$'000</i>	At 31 March 2007 (Audited) <i>HK\$'000</i>
Within 30 days	2,426,029	1,445,863
31 to 60 days	656,016	327,043
61 to 90 days	374,821	277,791
91 to 180 days	318,575	447,396
Over 180 days	393,912	354,311
	<u>4,169,353</u>	<u>2,852,404</u>

9. Non-current asset classified as held for sale

In January 2007, the Group has entered into a share transfer agreement with a third party to dispose of its entire interest in an associate, Nanjing Mercuries DC Financial Systems Ltd. The disposal has been completed in August 2007 and recorded a net gain of approximately HK\$2,495,000 (note 3).

10. 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 31 December 2007 (Unaudited) HK\$'000	At 31 March 2007 (Audited) HK\$'000
Within 30 days	1,353,127	1,400,964
31 to 60 days	1,033,576	876,647
61 to 90 days	381,398	212,180
Over 90 days	196,760	177,653
	<u>2,964,861</u>	<u>2,667,444</u>

DIVIDENDS

The Board does not recommend the payment of a dividend for the nine months ended 31 December 2007 (for the nine months ended 31 December 2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

1. For the nine months ended 31 December 2007, the overall performance of the Group was as follows: both the turnover and the profit recorded a significant growth; the Distribution business and the Systems business maintained a rapid steady increase and the Services business achieved an encouraging growth.

1.1 Leveraging on the swift development of the Chinese economy and IT market, the accumulated turnover of the Group for the first nine months of the financial year increased by 39.11% compared to the corresponding period of last financial year.

The turnover of the Group for the third quarter of the financial year was HK\$9,711 million, representing an increase of 36.53% from the corresponding period of last financial year, while that for the nine months ended 31 December 2007 amounted to HK\$26,409 million, representing an increase of 39.11% from HK\$18,984 million of the corresponding period of last financial year, outpacing the average industry growth.

1.2 Leveraging on the improvement on profitability resulting from the transformation to a more service-oriented business model, the profit attributable to the equity holders of the parent for the first nine months of the financial year rose sharply by 94.97% over the corresponding period of last financial year.

The profit attributable to the equity holders of the parent for the third quarter of the financial year was approximately HK\$188 million, representing an increase of 133.72% from the corresponding period of last financial year, while the profit attributable to the equity holders of the parent for the nine months ended 31 December 2007 amounted to approximately HK\$335 million, representing an increase of 94.97% from HK\$172 million of the corresponding period of last financial year. Basic earnings per share was 37.18 HK cents, representing an increase of 88.16% from the corresponding period of last financial year.

1.3 Benefited from the appreciation of Renminbi, the actual costs of procurement of the Group dropped.

The continuous appreciation of Renminbi had a positive effect over the decrease of the cost of procurement for the Group.

1.4 Leveraging on to the strategic transformation of the Group's "customer-focus and service-oriented" policy, the gross profit contributions from the Group's major business sectors for the first nine months of the financial year saw more significant increase.

The Group carried out a "customer-focus and service-oriented" strategic transformation for its three major businesses. As such, coupled with the positive effect of the appreciation of Renminbi on the cost of procurement, the actual amount of gross profit contributions of the Group's major businesses, together with its actual gross profit margin, recorded a significant increase in the first nine months of the financial year, compared to the corresponding period of last financial year.

Regarding the Group's clientele expansion effort, the number of effective channels for the Group's Distribution business, and the customer base of the Systems business and Services business for the nine months ended 31 December 2007 increased by 27.92%, 14.03% and 17.87% respectively compared to the corresponding period of last financial year. Moreover, two branch offices were established in Xinjiang and Harbin under Xian Digital China Limited and Shenyang Digital China Limited respectively. These two new establishments will benefit the development of the Group's businesses in the Northeast and Northwest regions of China.

1.5 Leveraging on a sound risk management system and procedure setup, risks were under proper control while the turnover experienced a significant increase.

For the nine months ended 31 December 2007, the overall cash turnover days of the Group was 26.94 days, basically maintaining the same level of the corresponding period of last financial year, of which, the turnover days of trade receivables and inventory reduced by 6.49 days and 2.30 days respectively compared to the corresponding period of last financial year.

2.1 Distribution business

The Distribution business of the Group continued to grow at a fast pace, outpacing the general growth rate, while sustained its competitive edges in the sector.

The turnover from the Group's Distribution business for the third quarter of the financial year was HK\$5,550 million, representing an increase of 40.27% from the corresponding period of last financial year, while the turnover from Distribution business for the nine months ended 31 December 2007 amounted to HK\$15,893 million, representing an increase of 44.41% from the corresponding period of last financial year, which were far exceeding the overall growth rate. The turnover of its major business sectors has achieved more significant growth. Turnovers of notebook computers, accessories, consumer IT products and PC servers increased by 76.70%, 55.94%, 40.96% and 38.28% respectively over the corresponding period of last financial year.

2.2 Systems business

The Systems business of the Group recorded a robust growth in its turnover and sustained the steady improvement in its profitability.

During the third quarter of the financial year, the turnover from the Group's Systems business reached HK\$2,796 million, representing an increase of 31.47% compared to the corresponding period of last financial year. The turnover for the nine months ended 31 December 2007 amounted to HK\$7,441 million, representing a rise of 32.95% compared to the corresponding period of last financial year. The turnovers from the four major sectors of the Group's Systems business, including networking products, storage products, UNIX servers and packaged software, recorded a significant growth of 42.40%, 38.96%, 29.83% and 16.52% respectively compared to the corresponding period of last financial year. The turnovers from IBM, Cisco and EMC businesses experienced a particularly apparent growth, driving the rapid growth of the overall Systems business.

2.3 Services business

The Services business of the Group recorded a remarkable overall performance, a significant growth in its turnover and, in particular, an increase in profitability.

The turnover from the Group's Services business for the third quarter of the financial year amounted to HK\$1,365 million, representing an increase of 32.66% from the corresponding period of last financial year. For the nine months ended 31 December 2007, the Group's Services business recorded a turnover of HK\$3,075 million, representing a surge of 29.12% from the corresponding period of last financial year.

The Group continued to enhance its management of key customers and achieved a significant increase in the number of newly concluded agreements in its major sectors.

For the nine months ended 31 December 2007, the Group's Services business achieved a substantial growth in signing contracts in respect of various major application software business sectors, observably growing more rapidly than the industry doing for the same sector. Among various sectors, the contracts value in financial software business sector increased over 174% as compared to the corresponding period of last financial year, achieving a breakthrough in expansion of both traditional customers and new customers. The contracts value in telecommunications software business sector increased over 45% as compared to the corresponding period of last financial year while we have been maintaining cordial relationship with our traditional customers. The contracts value in government software business sector raised 38% as compared to the corresponding period of last financial year, continuously enjoying a leading advantage in the business with its major customers.

Business scales of product support and IT outsourcing and maintenance services expanded rapidly, with significant enhancement in efficiency of infrastructure setup.

For the nine months ended 31 December 2007, the products support and IT outsourcing and maintenance services of the Group's Services business recorded an income of over HK\$244 million, representing an increase of 33% compared to the corresponding period of last financial year. The Group made stable progresses in its system structure of product support and IT outsourcing and maintenance services.

3. Outlook

For the first nine months of the financial year, the Group achieved excellent results and benefited from its effective building of a core management team. Looking ahead, although the Group will face increasing operating costs and expenses, an unfavorable factor arising from external policy changes such as the continuing increase of interest rate on Renminbi-denominated loans and the implementation of the new Labour Law (i.e. the "Labour Contracts Law of the People's Republic of China", which took effect on 1 January 2008), the management team is confident of maintaining a satisfactory growth in results and fulfilling its objective to achieve profitability for its Services business against the backdrop of macroeconomic stability.

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\$9,265 million at 31 December 2007 which were financed by total liabilities of HK\$6,701 million, minority interests of HK\$19 million and equity attributable to equity holders of the parent of HK\$2,545 million. The Group's current ratio at 31 December 2007 was 1.53 as compared to 1.44 at 30 September 2007, 1.48 at 30 June 2007 and 1.44 at 31 March 2007.

During the nine months ended 31 December 2007, capital expenditure of HK\$77 million were 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 0.80 at 31 December 2007 as compared to 0.71 at 30 September 2007, 0.78 at 30 June 2007 and 0.63 at 31 March 2007. The computation of the said ratio was based on the total amounts of interest-bearing borrowings and bond payable of HK\$2,038 million (30 September 2007, 30 June 2007 and 31 March 2007: HK\$1,546 million, HK\$1,596 million and HK\$1,237 million respectively) and equity attributable to equity holders of the parent of HK\$2,545 million (30 September 2007, 30 June 2007 and 31 March 2007: HK\$2,172 million, HK\$2,059 million and HK\$1,961 million respectively).

At 31 December 2007, the denomination of the interest-bearing borrowings and bond payable of the Group were shown as follows:

	Denominated in United States dollar HK\$'000	Denominated in Renminbi HK\$'000	Total HK\$'000
Current			
Interest-bearing bank borrowings, unsecured	715,671	159,965	875,636
Interest-bearing bank borrowings, secured	-	31,993	31,993
	715,671	191,958	907,629
Non-current			
Interest-bearing bank borrowings, unsecured	-	917,138	917,138
Bond payable	-	213,288	213,288
	-	1,130,426	1,130,426
Total	715,671	1,322,384	2,038,055

The Group's current borrowings of approximately HK\$32 million extended by a bank to a subsidiary of the Group, Beijing Si-Tech Information Technology Co., Ltd. ("**STQ**"), were secured by a property situated in the Mainland China with a value of approximately HK\$17 million at 31 December 2007 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. The Group's current bank borrowings and non-current bank borrowings of approximately HK\$53 million and HK\$917 million respectively represented the term loans which are repayable from Year 2008 to 2014.

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 bond to institutional and public investors in the PRC with an aggregate principal amount of RMB305 million. Pursuant to the agreement, the Group issued a RMB200 million (equivalent to approximately HK\$213 million) bond (the "**Bond**") for financing the development of IT services business. The Bond bears interest at the rate of 6.68% per annum 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 also undertaken joint and several liabilities in respect of the Guarantee Liabilities of ZGC Guaranty.

The Group's total available credit facilities at 31 December 2007 amounted to HK\$8,973 million, of which HK\$1,077 million were in term loan facilities, HK\$6,518 million were in trade lines and HK\$1,378 million were in short-term and revolving money market facilities. At 31 December 2007, the facility drawn down was HK\$970 million in term loan facilities, HK\$1,853 million in trade lines and HK\$646 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 31 December 2007, the Group had approximately 7,400 (31 December 2006: approximately 6,700) 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 49.48% increase in staff costs to approximately HK\$857 million for the nine months ended 31 December 2007 as compared with an approximate sum of approximately HK\$573 million for the corresponding period of 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 management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated financial statements of the Group for the nine months ended 31 December 2007.

CORPORATE GOVERNANCE

The Company has complied with the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the nine months ended 31 December 2007, except for the following deviations:

Code Provision A.2.1

This code provision 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.

As Mr. GUO Wei was appointed as the Chairman of the Group with effect from 19 December 2007, Mr. GUO becomes the Chairman and the Chief Executive Officer of the Group since then. Mr. GUO, who has extensive experience in business strategic development and management, is responsible for overseeing the businesses of the Group and the strategic development and management of the Group. The Board considers that holding the posts of the Chairman and the Chief Executive Officer by Mr. GUO will benefit the formulation and persistent implementation of the business strategy of the Group.

Code Provision A.4.1

This code provision stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

All Directors of the Company (including executive and non-executive Directors) were not appointed for any specific term. However, all Directors (save for Chairman or Managing Director) are subject to retirement by rotation at each annual general meeting in accordance with the Company's Bye-Laws and shall be eligible for re-election. The Board shall ensure all Directors (except the Chairman and Managing Director) shall be subject to retirement by rotation at least once every three years so as to accomplish the same purpose as a specific term of appointment.

Code Provision A.4.2

The second part of this code provision 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 Company's 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 provided that notwithstanding anything herein, the Chairman of the Board and the Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. The Board considers that Mr. GUO Wei, the Chairman and who is responsible for overseeing the businesses of the Group and the strategic development and management of the Group, whose extensive experience in business strategic development and management is essential to the Board. Stable leadership would contribute to the assurance of the effective functioning of the Board and the persistent development of the Group's business.

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

During the nine months ended 31 December 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CHANGE OF PRESIDENT OF THE COMPANY

Mr. GUO Wei is the Chairman, Chief Executive Officer and President of the Company. The Board has appointed Mr. LIN Yang, the existing Executive Director, as the President of the Company with effect from 1 April 2008. Since then, Mr. GUO Wei will be the Chairman and Chief Executive Officer of the Company.

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

Hong Kong, 27 February 2008

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

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

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)