

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **ANNOUNCEMENT OF THE FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30 JUNE 2009**

### **FINANCIAL HIGHLIGHTS**

- Turnover for the three months ended 30 June 2009 increased by 6.49% over the corresponding period of last financial year to reach approximately HK\$10,660 million.
- Profit attributable to equity holders of the parent for the three months ended 30 June 2009 was approximately HK\$262 million, an increase of 129.86% 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 three months ended 30 June 2009 together with comparative figures for the corresponding period of last financial year as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>Three months ended 30 June</b>	
		<b>2009</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>
<b>REVENUE</b>	3	<b>10,660,012</b>	10,010,710
Cost of sales		<u><b>(9,975,643)</b></u>	<u>(9,348,504)</u>
Gross profit		<b>684,369</b>	662,206
Other income and gains	3	<b>193,907</b>	129,825
Selling and distribution costs		<b>(415,531)</b>	(397,424)
Administrative expenses		<b>(88,928)</b>	(83,774)
Other operating expenses, net		<b>(60,639)</b>	(141,236)
Total operating expenses	4	<u><b>(565,098)</b></u>	<u>(622,434)</u>
Finance costs		<b>(25,646)</b>	(40,818)
Share of profits and losses of:			
Jointly-controlled entities		<b>3,278</b>	700
Associates		<b>(1,729)</b>	2,446
<b>PROFIT BEFORE TAX</b>	5	<b>289,081</b>	131,925
Tax	6	<u><b>(17,893)</b></u>	<u>(19,031)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>271,188</b></u>	<u>112,894</u>
Attributable to:			
Equity holders of the parent		<b>262,124</b>	114,034
Minority interests		<u><b>9,064</b></u>	<u>(1,140)</u>
		<u><b>271,188</b></u>	<u>112,894</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	7		
Basic		<u><b>27.24 HK cents</b></u>	<u>11.83 HK cents</u>
Diluted		<u><b>N/A</b></u>	<u>N/A</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<b>PROFIT FOR THE PERIOD</b>	<b>271,188</b>	112,894
Other comprehensive income:		
Exchange differences on translation of foreign operations	<u>-</u>	<u>8,107</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<u>-</u>	<u>8,107</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b><u>271,188</u></b>	<b><u>121,001</u></b>
Attributable to:		
Equity holders of the parent	<b>262,124</b>	122,285
Minority interests	<u>9,064</u>	<u>(1,284)</u>
	<b><u>271,188</u></b>	<b><u>121,001</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		384,110	397,767
Investment properties		238,516	238,516
Prepaid land premiums		14,569	14,671
Intangible assets		3,880	4,233
Interests in jointly-controlled entities		9,479	6,201
Interests in associates		21,680	23,409
Available-for-sale investments		101,496	101,496
Deferred tax assets		26,562	24,176
Total non-current assets		800,292	810,469
<b>CURRENT ASSETS</b>			
Inventories		2,311,890	2,136,461
Trade and bills receivables	8	5,920,946	5,471,493
Prepayments, deposits and other receivables		1,263,591	1,366,277
Derivative financial instruments		25,864	27,097
Cash and bank balances		2,086,309	1,734,428
Total current assets		11,608,600	10,735,756
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	5,624,776	4,697,703
Other payables and accruals		1,500,666	1,681,331
Tax payable		98,857	133,010
Interest-bearing bank borrowings		679,093	875,449
Total current liabilities		7,903,392	7,387,493
<b>NET CURRENT ASSETS</b>		3,705,208	3,348,263
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		4,505,500	4,158,732
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		650,600	701,516
Bond payable		226,296	226,296
Total non-current liabilities		876,896	927,812
<b>NET ASSETS</b>		3,628,604	3,230,920
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital		96,239	96,239
Reserves		3,167,739	2,903,667
Proposed final dividend		140,030	140,030
		3,404,008	3,139,936
Minority interests		224,596	90,984
<b>TOTAL EQUITY</b>		3,628,604	3,230,920

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Three months ended 30 June	
	2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	<b>360,598</b>	(867,726)
Net cash outflow from investing activities	<b>(2,795)</b>	(11,937)
Net cash inflow/(outflow) from financing activities	<b>(5,922)</b>	1,514,097
Net increase in cash and cash equivalents	<b>351,881</b>	634,434
Cash and cash equivalents at the beginning of the period	<b>1,734,428</b>	998,454
Effects of foreign exchange rate changes, net	-	19,551
Cash and cash equivalents at the end of the period	<b><u>2,086,309</u></b>	<b><u>1,652,439</u></b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of presentation

These unaudited condensed consolidated financial statements for the three months ended 30 June 2009 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 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 2009 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 financial statements:

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs\** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

\* *Improvements to HKFRSs* contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

Except for HKFRS 8 and HKAS 1 (Revised) giving rise to new accounting policies and additional disclosure as further described below, the adoption of the new interpretations and amendments has had no significant effect on these condensed consolidated financial statements.

(a) **HKFRS 8 *Operating Segments***

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

(b) **HKAS 1 (Revised) *Presentation of Financial Statements***

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements.

## **2. Operating segments**

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group has four reportable segments. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's reportable 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. Summary details of the reportable 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;
- (c) the "Supply Chain Services" segment engages in the provision of one-stop supply chain consultancy and execution services to IT and other high-value density products manufacturers and major accounts, including various processes of management over transportation logistics, transaction processing, financing and information data, as well as providing modular or tailor-made services; and
- (d) the "Services" segment engages in the provision of systems integration, application software development, consultancy and training, etc..

The following table presents revenue and results for the Group's operating segments for the three months ended 30 June 2009 and 2008:

	Distribution		Systems		Supply Chain Services Three months ended 30 June		Services		Consolidated	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
<b>Segment revenue:</b>										
Sales to external customers	<b>4,853,604</b>	4,690,279	<b>3,109,675</b>	3,277,752	<b>1,843,480</b>	770,494	<b>853,253</b>	1,272,185	<b>10,660,012</b>	10,010,710
<b>Segment gross profit</b>	<b>232,667</b>	196,243	<b>255,055</b>	271,047	<b>67,158</b>	38,781	<b>129,489</b>	156,135	<b>684,369</b>	662,206
<b>Segment results</b>	<b>68,382</b>	74,884	<b>81,746</b>	82,398	<b>22,948</b>	16,547	<b>4,916</b>	27,269	<b>177,992</b>	201,098
Interest income, unallocated revenue and gains									<b>186,531</b>	16,222
Unallocated expenses									<b>(51,345)</b>	(47,723)
Finance costs									<b>(25,646)</b>	(40,818)
Share of profits and losses of:										
Jointly-controlled entities	-	-	-	-	-	-	<b>3,278</b>	700	<b>3,278</b>	700
Associates	-	-	-	-	-	-	<b>(1,729)</b>	2,446	<b>(1,729)</b>	2,446
Profit before tax									<b>289,081</b>	131,925
Tax									<b>(17,893)</b>	(19,031)
Profit for the period									<b>271,188</b>	112,894

### 3. Revenue, other income and gains

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

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

	Three months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Revenue	<b>10,660,012</b>	10,010,710
<u>Other income</u>		
Government grants	16,744	8,821
Bank interest income	4,056	2,729
Gross rental income	9,237	7,954
Others	5,737	4,012
	<b>35,774</b>	23,516
<u>Gains</u>		
Gain on derivative financial instruments:		
Realised gain	12,465	-
Unrealised gain	2,680	-
Gain on deemed disposal of interest in a subsidiary	142,449	-
Foreign exchange differences, net	539	103,738
Others	-	2,571
	<b>158,133</b>	106,309
	<b>193,907</b>	129,825

### 4. Total operating expenses

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

	Three months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Selling expenses	59,563	52,119
Promotion and advertising expenses	26,798	58,418
Staff costs included in operating expenses (including directors' remuneration)	283,721	244,682
Other expenses	195,016	267,215
	<b>565,098</b>	622,434

## 5. Profit before tax

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

	Three months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Cost of inventories sold	9,726,858	9,203,769
Depreciation	20,805	20,442
Amortisation of prepaid land premiums	102	101
Amortisation of intangible assets	353	349
Provisions for and write-off of obsolete inventories	11,209	18,556
Impairment of trade receivables	14,099	75,578
Loss/(gain) on disposal of items of property, plant and equipment	(1,980)	231

## 6. Tax

	Three months ended 30 June	
	2009 (Unaudited) 2009 HK\$'000	2008 (Unaudited) 2008 HK\$'000
Group:		
Current – Hong Kong	409	1,591
Current – The People's Republic of China ("PRC")	19,870	18,454
Deferred	(2,386)	(1,014)
Total tax charge for the year	17,893	19,031

- (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 holidays and preferential tax rates.
- (b) During the three months ended 30 June 2009 and 2008, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.
- (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 three months ended 30 June 2009 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 three months ended 30 June 2009 and 2008. The share of tax charge attributable to the jointly-controlled entities of approximately HK\$142,000 (three months ended 30 June 2008: HK\$87,000) and the share of tax credit attributable to the associates of approximately HK\$245,000 (three months ended 30 June 2008: share of tax charge of approximately HK\$13,000) for the three months ended 30 June 2009 are included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates" respectively in the condensed consolidated income statement.

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

The calculation of basic earnings per share amount is based on the profit for the three months ended 30 June 2009 attributable to ordinary equity holders of the parent of approximately HK\$262,124,000 (three months ended 30 June 2008: HK\$114,034,000), and the weighted average of 962,390,581 (three months ended 30 June 2008: 963,619,581) ordinary shares in issue during the three months ended 30 June 2009.

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

For the three months ended 30 June 2009 and 2008, the outstanding share options had anti-dilutive effect on the basic earnings per share.

## 8. Trade and bills receivables

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

	At 30 June 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Within 30 days	2,750,772	2,230,866
31 to 60 days	825,416	1,145,323
61 to 90 days	601,711	734,548
91 to 180 days	896,420	819,115
Over 180 days	846,627	541,641
	<u>5,920,946</u>	<u>5,471,493</u>

## 9. Trade and bills payables

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

	At 30 June 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
Within 30 days	4,038,911	2,724,953
31 to 60 days	868,677	1,060,975
61 to 90 days	228,821	453,751
Over 90 days	488,367	458,024
	<u>5,624,776</u>	<u>4,697,703</u>

## DIVIDENDS

The Board does not recommend the payment of a dividend for the three months ended 30 June 2009 (for the three months ended 30 June 2008: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

**1. The Group sustained a positive growth trend during the first quarter of the current financial year underpinned by enlarged market shares and re-assured market dominance, despite continued severity in the macro-economic landscape of year 2009 and other uncertainties in the market. The Group persisted in the implementation of its “customer-focused and service-oriented” strategy as a means to enhance its core competitive strengths and add value for customers. In tandem with this strategy, FY2009/10 was designated as the “Year of Strategic Marketing” and our organisational structure was adjusted accordingly. For the three months ended 30 June 2009, the Group reported stable business operations with solid growth in both turnover and profit, substantial increase in net cash inflow from operating activities and a declining ratio of the overall operating expenses and smooth progress in all key operations, paving the way for the attainment of its operating and management targets for the current financial year.**

**1.1 The Group’s turnover continued to report outperforming growth despite a strong comparative base bolstered by the Olympics effect of last financial year**

The Group recorded turnover of HK\$10,660 million for the three months ended 30 June 2009, an increase of 6.49% as compared to HK\$10,011 million for the corresponding period of last financial year, beating the 0.8% average growth rate of China’s IT market for the same period according to IDC data and maintaining dominant positions in its principal businesses.

**1.2 Substantial growth in profit attributable to shareholders of the parent (profit attributable to shareholders) sustained**

The Group continued to report significant improvement in overall profitability on the back of ongoing enhancements in business values. For the three months ended 30 June 2009, profit attributable to shareholders of the parent amounted to approximately HK\$262 million, representing a 129.86% growth as compared to HK\$114 million for the corresponding period of last financial year. Basic earnings per share grew 130.26% to 27.24 HK cents, comparing to the 11.83 HK cents reported for the same period of last financial year.

**1.3 Continued profitability in the Services business as strategic transformation gained pace; new Supply Chain Services sparking into glow as another important segment of the Group’s major business**

The overall gross profit margin of the Group’s Services business for the three months ended 30 June 2009 was 15.18%, improving significantly as compared with 12.27% for the corresponding period of last financial year. Meanwhile, the Services business reported profitability for the seventh quarter in a row, with turnover from the Software and Services business reporting a year-on-year growth of 27.05%.

In a move to keep closely abreast of customer requirements and market developments, a realigned organisational structure came into effect synchronously with the new financial year. In essence, a new business unit engaged in Supply Chain Services was formed on the basis of the existing Distribution business. The new business unit was dedicated to the implementation aspect of Supply Chain Services, such as the provision of consultation and execution services in relation to one-stop supply chain, comprising logistics, business flow, capital flow and information flow. Targeting IT corporations, major account customers in vertical market segments, and other high-value products manufacturers, the unit will offer modular supply chain management products and customised services specific for different segments. The Supply Chain Services business had reported year-on-year turnover growth of 139.26% at HK\$1,843 million for the three months ended 30 June 2009 as compared with HK\$770 million for the corresponding period of last financial year.

**1.4 Ongoing improvements in operating cash flows and cash turnover were reported as the Group continued to implement pro-active risk control measures in response to market uncertainties, laying solid foundations for healthy and stable business growth**

The Group's cash turnover cycle for the three months ended 30 June 2009 was 22.40 days, which was about 10 days less as compared to the corresponding period of last financial year reflecting significant improvement in fund efficiency. There was also a significant improvement in operating cash flows, as the Group reported net cash inflow from operating activities of approximately HK\$361 million, as compared to net cash outflow of approximately HK\$868 million for the corresponding period of last financial year.

**1.5 Effective cost control measures resulted in a declining ratio of operating expenses (total operating expenses as a percentage of total turnovers)**

The Group continued to stringently implement and improve its cost management policies, which led the overall operating expenses ratio for the three months ended 30 June 2009 lowered at 5.30% when compared with 6.22% for the corresponding period of last financial year.

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

**Maintained market leadership with improved profitability despite a difficult marketplace**

Turnover of the Group's Distribution business for the three months ended 30 June 2009 amounted to HK\$4,854 million, representing a 3.48% growth over the corresponding period of last financial year. Gross profit margin increased to 4.79%, versus 4.18% for the corresponding period of last financial year.

**Impressive growth for the notebooks sector**

Turnover from the notebooks sector for the three months ended 30 June 2009 recorded a year-on-year growth of 40.40% to HK\$1,822 million, as the Group's management employed relevant sales and marketing strategies in response to growing demand for notebooks from the retail market for personal IT products and enriched the Group's product offerings with new models.

**Penetrative moves in regional network expansion delivered significant results**

As at 30 June 2009, the Group claimed in-depth coverage of 460 cities. Turnover from fourth-to-sixth-tier cities reported growth of 44.38% as compared to the corresponding period of last financial year, laying solid foundations for reinforcing our market position and snatching up opportunities whenever they arise.

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

**Slower revenue growth for the Systems business reflected stronger comparative base of FY2008/09 bolstered by the Olympic Games which had some front-loaded effects**

Turnover of the Group's Systems business for the three months ended 30 June 2009 amounted to HK\$3,110 million, representing a decrease of 5.13% as compared to the corresponding period of last financial year. Yet, rapid growth was still reported for the main stream product lines, among which turnover from UNIX servers and storage products grew 22.06% and 19.47%, respectively, as compared to the corresponding period of last financial year.

**Sound growth on the back of continued expansion of the market for regional customers**

Revenue from regional clients sustained a growth rate of 31.63% against a volatile market as the Systems business continued to conduct in-depth analysis of the regional markets and persisted in the customer-focused strategy.

### **2.3 Supply Chain Services Business (with a primary focus on the High-tech Industries Market)**

#### **Aggressive expansion of the Supply Chain Services business as a new business unit of the Group**

Turnover of the Group's Supply Chain Services business for the three months ended 30 June 2009 amounted to HK\$1,843 million, representing a growth of 139.26% as compared to the corresponding period of last financial year and contributing strongly to the Group's attainment of its quarterly targets. Turnover from the Fulfillment business (FA business) recorded a year-on-year growth rate of 160.57% on the back of closer cooperation with partner manufacturers such as HP and Dell. Revenue from mega Chain Electronic Stores business (CES business) recorded a year-on-year growth rate of 99.06% as turnover efficiency was significantly improved with the launch of new products and the benefits of business model innovations and process re-engineering. Meanwhile, to assure healthy and sustainable growth for the third-party logistics business in the long run, efforts were made to enhance internal capabilities in a systematic manner, such as the forging of long-term competitiveness through process streamlining which aimed to lower cost ratios and increase customer satisfaction, and capabilities in staff training, freight-forwarding management and time effectiveness management for city transportation, etc have also been brought onto agenda.

### **2.4 Services Business (with a primary focus on the Industry Market)**

#### **The decline in turnover for the Services business also reflected the front-loaded comparative base of FY2008/09 bolstered by the Olympic Games effect, as well as internal re-alignments of the Services business during the current financial year to more focus on software and services.**

While turnover of the Group's Services business for the three months ended 30 June 2009 was HK\$853 million, representing a year-on-year decrease of 32.93%, nevertheless there was a substantial improvement in gross profit margin, which increased 23.72% to 15.18% versus 12.27% for the corresponding period of last financial year.

#### **Steady improvements in application software solution execution**

In the financial sector, the successful launch of the new-generation core banking system for Qilu Bank marked a new milestone in the Group's business with regional commercial banks and paved the way for tapping other regional banks. Breakthroughs were reported for our full-consolidated telecommunications systems with the all-in-one system for Shanxi Telecom and the business support system for Shaanxi Telecom going on-live. In the government sector, the successful launch of the Yangzhou Citizen Card, which consolidated social welfare, community services, public transport fares, utilities payments and small-amount financial settlements all under one card, represented a pioneer move for domestic government authorities at the municipal level.

#### **Significant growth in contract values of service solutions and contributions to the IT standardisation initiatives of the State while driving transformation**

Contract values of service solutions for the three months ended 30 June 2009 grew approximately 55% over the corresponding period of last financial year. Meanwhile, our Infrastructure Services Strategic Business Unit (SBU) was appointed as a deputy group leader of the task force team for IT services standards established by the Software Service Industry Division of the Ministry of Industry and Information Technology. The SBU will endeavour to make contributions to the standardisation and maturity of China's IT services industry by participating in the research and formation of IT services standards.

### **3. Management Outlook**

**The management is of the view that the Group has attained designated targets for management objectives, business performance and risk indicators for the three months ended 30 June 2009, against a range of uncertainties in the marketplace. Given continuous signs of economic recovery in China, the management will closely monitor market changes and seek to enhance the Group's market leadership when the right opportunities arise. Meanwhile, we will continue to focus on controlling operational risks, maintaining sound cash flows and exercising stringent cost management. The strategy of transforming to a fully service-oriented business continues to be an important focus. While FY2009/10 will remain a year of opportunities and challenges, the management is confident that the operating targets set for the current financial year will be achieved in outperforming growth to create greater value for shareholders.**

## 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\$12,409 million at 30 June 2009 which were financed by total liabilities of HK\$8,780 million, minority interests of HK\$225 million and equity attributable to equity holders of the parent of HK\$3,404 million. The Group's current ratio at 30 June 2009 was 1.47 as compared to 1.45 at 31 March 2009.

During the three months ended 30 June 2009, capital expenditure of HK\$8 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 0.46 at 30 June 2009 as compared to 0.57 at 31 March 2009. The computation of the said ratio was based on the total interest-bearing bank borrowings and bond payable of HK\$1,556 million (31 March 2009: HK\$1,803 million) and equity attributable to equity holders of the parent of HK\$3,404 million (31 March 2009: HK\$3,140 million).

At 30 June 2009, the denomination of the interest-bearing bank borrowings and bond payable of the Group was shown as follows:

	<b>Denominated in Renminbi <i>HK\$'000</i></b>	<b>Denominated in Hong Kong dollars <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
<b>Current</b>			
Interest-bearing bank borrowings, unsecured	50,916	605,547	656,463
Interest-bearing bank borrowings, secured	22,630	-	22,630
	<u>73,546</u>	<u>605,547</u>	<u>679,093</u>
<b>Non-current</b>			
Interest-bearing bank borrowings, unsecured	650,600	-	650,600
Bond payable	226,296	-	226,296
	<u>876,896</u>	<u>-</u>	<u>876,896</u>
Total	<u>950,442</u>	<u>605,547</u>	<u>1,555,989</u>

Included in the Group's current bank borrowings of approximately HK\$23 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\$19 million at 30 June 2009 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\$651 million respectively represented the term loans and are repayable from Year 2010 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\$226 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 issue 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 the 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 June 2009 amounted to HK\$12,278 million, of which HK\$1,143 million were in term loan facilities, HK\$9,623 million were in trade lines and HK\$1,512 million were in short-term and revolving money market facilities. At 30 June 2009, the facility drawn down was HK\$702 million in term loan facilities, HK\$3,096 million in trade lines and HK\$23 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 2009, the Group had approximately 8,300 (30 June 2008: approximately 8,100) 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 19.97% increase in staff costs to approximately HK\$368 million for the three months ended 30 June 2009 as compared to approximately HK\$306 million for the corresponding period of last financial year. In order to attract and retain a high calibre 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 financial statements of the Group for the three months ended 30 June 2009.

## **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 throughout the three months ended 30 June 2009, except for the following deviations:

### **Code Provision A.2.1**

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 taking 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 enable the consistency between the setting up and the implementation of the business strategy and benefit the Group and the shareholders of the Company as a whole.

### **Code Provision A.4.1**

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 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 the continuation of the service of the Directors.

### **Code Provision A.4.2**

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 or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation. Therefore, Mr. GUO Wei, Chairman of the Board, shall not be subject to retirement by rotation.

### **Code Provision B.1.1**

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 three months ended 30 June 2009, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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 August 2009

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 and Mr. QIU Zhongwei

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

Website: [www.digitalchina.com.hk](http://www.digitalchina.com.hk)

*\* For identification purpose only*