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## **ANNOUNCEMENT OF THE THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2009**

### **FINANCIAL HIGHLIGHTS**

- Turnover for the nine months ended 31 December 2009 increased by 17.30% over the corresponding period of last financial year to reach approximately HK\$37,826 million.
- Profit attributable to equity holders of the parent for the nine months ended 31 December 2009 was approximately HK\$677 million, an increase of 33.75% 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 2009 together with comparative figures for the corresponding period of last financial year as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended 31 December 2009 (Unaudited) HK\$'000	Nine months ended 31 December 2009 (Unaudited) HK\$'000	Three months ended 31 December 2008 (Unaudited) HK\$'000	Nine months ended 31 December 2008 (Unaudited) HK\$'000
	<i>Notes</i>				
<b>REVENUE</b>	3	<b>13,362,388</b>	<b>37,826,336</b>	11,147,245	32,248,550
Cost of sales		<u>(12,453,924)</u>	<u>(35,390,757)</u>	<u>(10,373,976)</u>	<u>(30,013,324)</u>
Gross profit		<b>908,464</b>	<b>2,435,579</b>	773,269	2,235,226
Other income and gains	3	<b>226,915</b>	<b>468,755</b>	138,788	329,307
Selling and distribution costs		<b>(455,433)</b>	<b>(1,327,519)</b>	(492,314)	(1,348,020)
Administrative expenses		<b>(84,143)</b>	<b>(260,182)</b>	(101,045)	(279,572)
Other operating (expenses)/ income, net		<u>(153,369)</u>	<u>(326,169)</u>	11,364	<u>(248,009)</u>
Total operating expenses	4	<u>(692,945)</u>	<u>(1,913,870)</u>	<u>(581,995)</u>	<u>(1,875,601)</u>
Finance costs		<b>(36,821)</b>	<b>(92,556)</b>	(47,446)	(134,957)
Share of profits and losses of:					
Jointly-controlled entities		<b>26</b>	<b>2,076</b>	78	525
Associates		<u><b>928</b></u>	<u><b>(313)</b></u>	<u>6,189</u>	<u>10,429</u>
<b>PROFIT BEFORE TAX</b>	5	<b>406,567</b>	<b>899,671</b>	288,883	564,929
Tax	6	<u>(98,968)</u>	<u>(156,845)</u>	<u>(24,754)</u>	<u>(83,589)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>307,599</b></u>	<u><b>742,826</b></u>	<u>264,129</u>	<u>481,340</u>
Attributable to:					
Equity holders of the parent		<b>264,973</b>	<b>676,687</b>	262,458	505,936
Minority interests		<u><b>42,626</b></u>	<u><b>66,139</b></u>	<u>1,671</u>	<u>(24,596)</u>
		<u><b>307,599</b></u>	<u><b>742,826</b></u>	<u>264,129</u>	<u>481,340</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	7				
Basic			<u><b>68.89 HK cents</b></u>		<u>52.53 HK cents</u>
Diluted			<u><b>68.82 HK cents</b></u>		<u>N/A</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Nine months ended 31 December	
	2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
<b>PROFIT FOR THE PERIOD</b>	<b>742,826</b>	481,340
Other comprehensive income:		
Exchange differences on translation of foreign operations	<u>407</u>	<u>10,650</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b><u>407</u></b>	<b><u>10,650</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b><u><u>743,233</u></u></b>	<b><u><u>491,990</u></u></b>
Attributable to:		
Equity holders of the parent	<b>676,617</b>	516,730
Minority interests	<b><u>66,616</u></b>	<u>(24,740)</u>
	<b><u><u>743,233</u></u></b>	<b><u><u>491,990</u></u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		379,383	397,767
Investment properties		238,516	238,516
Prepaid land premiums		14,365	14,671
Intangible assets		3,174	4,233
Interests in jointly-controlled entities		6,503	6,201
Interests in associates		22,796	23,409
Available-for-sale investments		101,496	101,496
Other receivables		327,938	-
Deferred tax assets		45,773	24,176
Total non-current assets		1,139,944	810,469
<b>CURRENT ASSETS</b>			
Inventories		2,924,750	2,136,461
Trade and bills receivables	8	7,104,117	5,471,493
Prepayments, deposits and other receivables		1,889,463	1,366,277
Derivative financial instruments		17,200	27,097
Cash and bank balances		3,318,950	1,734,428
Total current assets		15,254,480	10,735,756
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	9	8,006,336	4,697,703
Other payables and accruals		1,795,942	1,681,331
Tax payable		236,066	133,010
Interest-bearing bank borrowings		935,321	875,449
Bond payable		226,296	-
Total current liabilities		11,199,961	7,387,493
<b>NET CURRENT ASSETS</b>		4,054,519	3,348,263
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		5,194,463	4,158,732
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		650,600	701,516
Bond payable		-	226,296
Total non-current liabilities		650,600	927,812
<b>NET ASSETS</b>		4,543,863	3,230,920
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	10	102,025	96,239
Reserves		3,946,649	2,903,667
Proposed final dividend		-	140,030
		4,048,674	3,139,936
<b>Minority interests</b>		495,189	90,984
<b>TOTAL EQUITY</b>		4,543,863	3,230,920

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine months ended 31 December	
	2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
Net cash inflow from operating activities	<b>1,125,984</b>	1,070,722
Net cash inflow/(outflow) from investing activities	<b>40,145</b>	(63,515)
Net cash inflow from financing activities	<b>418,393</b>	135,960
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<b>1,584,522</b>	1,143,167
Cash and cash equivalents at the beginning of the period	<b>1,734,428</b>	998,454
Effects of foreign exchange rate changes, net	<b>-</b>	20,254
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<b><u>3,318,950</u></b>	<b><u>2,161,875</u></b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of presentation

These unaudited condensed consolidated financial statements for the nine months ended 31 December 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 nine months ended 31 December 2009 and 2008:

	Distribution		Systems		Supply Chain Services Nine months ended 31 December		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>17,034,158</b>	14,526,961	<b>10,849,015</b>	10,072,870	<b>6,650,272</b>	3,545,369	<b>3,292,891</b>	4,103,350	<b>37,826,336</b>	32,248,550
<b>Segment gross profit</b>	<b>727,355</b>	635,618	<b>974,573</b>	928,910	<b>225,181</b>	146,766	<b>508,470</b>	523,932	<b>2,435,579</b>	2,235,226
<b>Segment results</b>	<b>187,581</b>	216,868	<b>316,891</b>	311,886	<b>61,459</b>	45,300	<b>187,559</b>	77,929	<b>753,490</b>	651,983
Interest income, unallocated revenue and gains									<b>380,154</b>	195,716
Unallocated expenses									<b>(143,180)</b>	(158,767)
Finance costs									<b>(92,556)</b>	(134,957)
Share of profits and losses of:										
Jointly-controlled entities	-	-	-	-	-	-	<b>2,076</b>	525	<b>2,076</b>	525
Associates	-	-	-	-	-	-	<b>(313)</b>	10,429	<b>(313)</b>	10,429
Profit before tax									<b>899,671</b>	564,929
Tax									<b>(156,845)</b>	(83,589)
Profit for the period									<b>742,826</b>	481,340

### 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:

	Nine months ended 31 December	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue	<b>37,826,336</b>	32,248,550
<u>Other income</u>		
Government grants	41,194	45,222
Bank interest income	10,303	9,159
Gross rental income	27,255	23,786
Others	15,234	13,206
	<b>93,986</b>	91,373
<u>Gains</u>		
Gain on derivative financial instruments:		
Realised gain	50,507	19,964
Unrealised gain	4,034	-
Gain on deemed disposal of interest in a subsidiary	142,449	110,461
Gain on partial disposal of interest in a subsidiary	118,217	-
Gain on disposal of interests in subsidiaries	57,746	-
Foreign exchange differences, net	20	100,722
Others	1,796	6,787
	<b>374,769</b>	237,934
	<b>468,755</b>	329,307

### 4. Total operating expenses

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

	Nine months ended 31 December	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Selling expenses	181,845	182,248
Promotion and advertising expenses	87,540	121,525
Staff costs included in operating expenses (including directors' remuneration)	878,983	843,985
Other expenses	765,502	727,843
	<b>1,913,870</b>	1,875,601

## 5. Profit before tax

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

	Nine months ended 31 December	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Cost of inventories sold	34,460,468	29,363,403
Depreciation	62,180	62,560
Amortisation of prepaid land premiums	306	306
Impairment of goodwill	-	6,406
Amortisation of intangible assets	1,059	1,052
Impairment of intangible assets	-	35,181
Provisions for and write-off of obsolete inventories	73,127	54,073
Impairment of trade receivables	151,182	49,577
(Gain)/loss on disposal of items of property, plant and equipment	(255)	2,149

## 6. Tax

	Nine months ended 31 December	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Group:		
Current – Hong Kong	9,516	12,450
Current – The People's Republic of China ("PRC")	168,926	71,778
Deferred	(21,597)	(639)
Total tax charge for the period	156,845	83,589

- (a) During the nine months ended 31 December 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.
- (b) 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.
- (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 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 nine months ended 31 December 2009 and 2008. The share of tax charge attributable to the jointly-controlled entities of approximately HK\$259,000 (nine months ended 31 December 2008: HK\$246,000) and the share of tax charge attributable to the associates of approximately HK\$103,000 (nine months ended 31 December 2008: HK\$2,666,000) for the nine months ended 31 December 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 nine months ended 31 December 2009 attributable to ordinary equity holders of the parent of approximately HK\$676,687,000 (nine months ended 31 December 2008: HK\$505,936,000), and the weighted average of 982,336,781 (nine months ended 31 December 2008: 963,143,414) ordinary shares in issue during the nine months ended 31 December 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 period 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.

The calculation of diluted earnings per share amount for the nine months ended 31 December 2009 is based on the profit for the nine months ended 31 December 2009 attributable to ordinary equity holders of the parent of approximately HK\$676,687,000 and 983,291,885 ordinary shares, which represented the weighted average of 982,336,781 ordinary shares in issue during the nine months ended 31 December 2009, and the weighted average of 955,104 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 2009.

For the nine months ended 31 December 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 31 December 2009 (Unaudited) <i>HK\$'000</i>	At 31 March 2009 (Audited) <i>HK\$'000</i>
Within 30 days	4,150,695	2,230,866
31 to 60 days	1,055,737	1,145,323
61 to 90 days	316,284	734,548
91 to 180 days	836,313	819,115
Over 180 days	745,088	541,641
	<u>7,104,117</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 31 December 2009 (Unaudited) <i>HK\$'000</i>	At 31 March 2009 (Audited) <i>HK\$'000</i>
Within 30 days	4,860,210	2,724,953
31 to 60 days	2,162,118	1,060,975
61 to 90 days	477,300	453,751
Over 90 days	506,708	458,024
	<b>8,006,336</b>	<b>4,697,703</b>

## 10. Share capital

	At 31 December 2009 (Unaudited) <i>HK\$'000</i>	At 31 March 2009 (Audited) <i>HK\$'000</i>
Authorised: 2,000,000,000 (31 March 2009: 2,000,000,000) ordinary shares of HK\$0.1 (31 March 2009: HK\$0.1) each	<b>200,000</b>	<b>200,000</b>
Issued and fully paid: 1,020,247,581 (31 March 2009: 962,390,581) ordinary shares of HK\$0.1 (31 March 2009: HK\$0.1) each	<b>102,025</b>	<b>96,239</b>

A summary of the movements of the Company's issued capital is as follows:

	<b>Number of ordinary share in issue</b>	<b>Nominal value of ordinary share HK\$'000</b>
At 1 April 2008	963,619,581	96,362
Repurchase and cancellation of shares	<u>(1,229,000)</u>	<u>(123)</u>
At 31 March 2009	<b>962,390,581</b>	<b>96,239</b>
Issue of shares (note)	<b>57,647,000</b>	<b>5,765</b>
Exercise of share options	<u>210,000</u>	<u>21</u>
At 31 December 2009	<b><u>1,020,247,581</u></b>	<b><u>102,025</u></b>

Note:

In September 2009, the Company completed the issue of 57,647,000 new ordinary shares of the Company representing 5.65% of the then enlarged capital of the Company, at the net price of approximately HK\$6.37 per share. The net proceeds of the issue were approximately HK\$367 million. Further details of the transaction were set out in the announcement of the Company dated 16 September 2009.

## **DIVIDENDS**

The Board does not recommend the payment of a dividend for the nine months ended 31 December 2009 (for the nine months ended 31 December 2008: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Group continued to enhance the implementation of its strategic principles of being customer-focused and service-oriented during the second half of the financial year, with a view to ongoing improvements in business value and profitability. While leveraging market opportunities to extend its leading edge, the Group assured healthy and stable business growth supported by sound and stable cash flow as it continued to exercise operating risk control and stringent cost management. For the nine months ended 31 December 2009, the Group sustained overall business growth that considerably outperformed its peers and its market dominance was further reinforced with due attainment of various business indicators and smooth progress of key tasks.

### **1.1 Pro-active marketing efforts driving significant, outperforming turnover growth, underpinned by record high monthly sales in December**

Turnover of the Group for the third quarter of the financial year was approximately HK\$13,362 million, representing an increase of 19.87% from HK\$11,147 million for the corresponding period of last financial year. In particular, the Group reported its highest-ever monthly turnover in December, hitting above HK\$5,000 million. Turnover for the nine months ended 31 December 2009 amounted to approximately HK\$37,826 million, representing an increase of 17.30% from HK\$32,249 million for the corresponding period of last financial year, which was significantly higher than the average growth rate of China's IT market in general.

### **1.2 Marked improvements in the Group's overall profitability evidenced by continued substantial growth in profit attributable to the equity holders of the parent**

Profit attributable to the equity holders of the parent for the nine months ended 31 December 2009 was approximately HK\$677 million, representing an increase of 33.75% from approximately HK\$506 million for the corresponding period of last financial year. Basic earnings per share amounted to 68.89 HK cents, representing an increase of 31.14% from the corresponding period of last financial year.

### **1.3 Services Business reported improvements in profitability as strategic transformation continued to infiltrate**

The overall profitability of our Services Business continued to grow as we sought to increase the weighting of software and service business in the segment during the financial year. Overall gross profit margin of the Group's Services Business for the nine months ended 31 December 2009 was 15.44%, up by 20.94% compared to 12.77% for the corresponding period of last financial year.

### **1.4 Substantial improvement in cash turnover efficiency evidenced by sustained healthy growth in net cash inflow thanks to proactive risk control measures**

For the nine months ended 31 December 2009, the Group's net cash inflow from operating activities was approximately HK\$1,126 million, higher than approximately HK\$1,071 million for the same period of last financial year.

The Group has assured healthy and stable business growth by persistently applying stringent risk control measures with enhanced cash flow management initiatives, such as increased use of trade and bills payables on the basis of expedited collection of receivables and stringent inventory management over the complete cycle of order-placement, sales and inventory. The Group's cash turnover cycle for the third quarter of the financial year was shortened to 14.72 days, which were 9.13 days less as compared to 23.85 days for the corresponding period of last financial year. The Group's overall cash turnover cycle for the nine months ended 31 December 2009 were 16.79 days, which were 6.10 days less as compared to 22.89 days for the corresponding period of last financial year and represented a major enhancement in fund efficiency.

### **1.5 Operating expenses ratio continued to drop as we focused on overall cost control**

The Group's overall operating expenses ratio for the nine months ended 31 December 2009 was lowered at 5.06%, compared to 5.82% for the corresponding period of last financial year, as the Group continued to practise stringent cost control policies. Given increasing competition amid market recovery, we will continue to strengthen management and control of overall operating costs.

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

The Distribution Business reported improvements in profitability as it capitalised on the favourable condition of a recovering Chinese economy to expand swiftly and further reinforce market dominance. Turnover of the Group's Distribution Business for the third quarter amounted to approximately HK\$5,885 million, representing a 22.07% growth over the corresponding period of last financial year. Gross profit margin was improved to 4.30% from 3.97% for the corresponding period of last financial year. Turnover for the nine months ended 31 December 2009 amounted to approximately HK\$17,034 million, representing a 17.26% growth over the corresponding period of last financial year.

### **Notebooks, PC servers and consumer IT products segments sustaining impressive growth**

The Group's Management formulated effective sales strategies in response to growing demand for notebooks, PC servers and consumer IT products, while enriching the Company's product lines by introducing over 10 new product lines, such as Blackberry, Fujitsu, AIGO and HANWANG, etc. For the nine months ended 31 December 2009, turnovers for these three principal business lines of the Group's Distribution Business grew by 52.43%, 48.54% and 25.29%, respectively, resulting in substantial overall turnover growth for the Distribution Business.

### **Penetrating efforts in regional network expansion and channel development proved rewarding**

During the nine months ended 31 December 2009, turnover contributions from tiers 4-6 cities increased by 70% as compared to the corresponding period of last financial year. With 415 Digital China "@PORT" franchise retail outlets in China, solid foundations have been put in place for further reinforcing our market position and competitive edge in distribution.

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

### **Leveraging market opportunities to enhance market position by maximising growth**

As the Enterprise Market showed signs of recovery, the Group's Management fine-tuned its strategy by making penetrating efforts to identify customers' needs. Turnover of the Group's Systems Business for the third quarter amounted to approximately HK\$4,330 million, an 18.14% growth over the corresponding period of last financial year. For the nine months ended 31 December 2009, turnover of the Group's Systems Business amounted to approximately HK\$10,849 million, a 7.71% growth over the corresponding period of last financial year.

### **Ongoing initiatives to expand regional markets and upgrade solution capabilities**

In line with its customer-focused strategy, our Systems Business responded swiftly to market changes as it continued to expand its regional markets and go the extra mile for opportunities, while constantly upgrading its ability to provide solutions. For the nine months ended 31 December 2009, our regional customer business grew by 52.99% as compared to the corresponding period of last financial year, providing a solid base for strong overall growth of the System Business.

### **Rapid growth in storage products and Unix servers driven by market demand**

For the third quarter, contributions from storage products and Unix servers to the turnover of the Group's Systems Business grew by 30.92% and 44.72%, respectively, as compared to the corresponding period of last financial year. For the nine months ended 31 December 2009, contributions from storage products and Unix servers to the turnover of the Group's Systems Business grew by 36.13% and 27.80%, respectively, as compared to the corresponding period of last financial year.

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

### **A fast-expanding new growth niche contributing to overall growth in Group results**

Our Supply Chain Services Business reported turnover of approximately HK\$1,964 million for the third quarter of the financial year, growing 75.81% as compared to the corresponding period of last financial year. Turnover from the Fulfillment business (FA business) reported growth of 52.01% over the corresponding period of last financial year, while turnover from mega Chain Electronic Stores (CES) business reported a substantial 208.16% growth in turnover as compared to the corresponding period of last financial year, as it continued to introduce new products, business model innovations and process re-engineering on the back of its existing strengths.

Turnover of our Supply Chain Services Business for the nine months ended 31 December 2009 amounted to approximately HK\$6,650 million, an 87.58% growth over the corresponding period of last financial year.

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

### **Profitability improving on the back of adjustments in favour of software and services**

The Group's Services Business reported significant enhancement in business value and profitability as its business mix was adjusted to give stronger emphasis on software and services while downscaling hardware-related businesses. As a result, though the overall turnover of IT Services Business for the third quarter of the financial year was approximately HK\$1,183 million, lower than that for the same period of last financial year, turnover contributions from software and services were steadily on the rise with a 16.09% gross profit margin, which was 29.67% higher than 12.40% reported for the corresponding period of last financial year.

### **Growing contract size and profitability underpinned by enhanced ability to implement software solution**

The Group continued to launch industry-specific software solutions for major sectors during the period. In the financial sector, the core banking system for Jinshang Bank went live during the third quarter, following the successful launch of the Qilu Bank core system and the contract signed with Xuchang Commercial Bank in respect of core business system application software and related services earlier in the year. In the government sector, the Group started to implement two consultancy projects in connection with the Phase III financial and taxation system project of the State Administration of Taxation following successful bidding in August 2009. Meanwhile, contracts for the issuance of citizen cards were signed with cities such as Wuxi and Zhangjiagang, following the successful debut of this product in Yangzhou in May 2009. This represented another important milestone in the Group's business of developing digitalised cities.

### **Service provider status further reinforced by expanding business in service and solutions**

The Group's positioning as a service provider was further reinforced as the contract amount for the Group's professional service and solutions for the nine months ended 31 December 2009 increased by 51% over the corresponding period of last financial year, after the Group had added new contracts to its business portfolio of service and solutions during the financial year.

### **Management Outlook**

The Management is of the view that: For the third quarter of the financial year, all businesses of the Group reported stable growth and outstanding results and all designated targets for key management objectives, business indicators and risk indicators have been met. Looking to the fourth quarter of the financial year, the Management will leverage the favourable conditions fostered by the stable development of China's macro-economy and continue with business expansion in all segments on the basis of relevant customer strategies that take into account changes of the demand in the IT market, with a view to enlarging market shares and enhancing customer value. Meanwhile, the Group will endeavour to ensure stable business operations by maintaining positive operating cash flow, exercising stringent management of receivables and inventory, and reinforcing cost control. On the back of sound management foundations and continued implementation of the strategy of shifting to focus on services, the Management believes that the Company is well-positioned to attain operating objectives formulated for the financial year and deliver greater value to the 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\$16,394 million at 31 December 2009 which were financed by total liabilities of HK\$11,850 million, minority interests of HK\$495 million and equity attributable to equity holders of the parent of HK\$4,049 million. The Group's current ratio at 31 December 2009 was 1.36 as compared to 1.44 at 30 September 2009, 1.47 at 30 June 2009 and 1.45 at 31 March 2009.

During the nine months ended 31 December 2009, capital expenditure of HK\$52 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 0.45 at 31 December 2009 as compared to 0.41 at 30 September 2009, 0.46 at 30 June 2009 and 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\$1,812 million (30 September 2009, 30 June 2009 and 31 March 2009: HK\$1,548 million, HK\$1,556 million and HK\$1,803 million respectively) and equity attributable to equity holders of the parent of HK\$4,049 million (30 September 2009, 30 June 2009 and 31 March 2009: HK\$3,781 million, HK\$3,404 million and HK\$3,140 million respectively).

At 31 December 2009, the denomination of the interest-bearing bank borrowings and bond payable of the Group was shown as follows:

	<b>Denominated in United States dollars HK\$'000</b>	<b>Denominated in Renminbi HK\$'000</b>	<b>Denominated in Hong Kong dollars HK\$'000</b>	<b>Total HK\$'000</b>
<b>Current</b>				
Interest-bearing bank borrowings, unsecured	77,504	63,327	760,546	901,377
Interest-bearing bank borrowings, secured	-	33,944	-	33,944
Bond payable	-	226,296	-	226,296
	<u>77,504</u>	<u>323,567</u>	<u>760,546</u>	<u>1,161,617</u>
<b>Non-current</b>				
Interest-bearing bank borrowings, unsecured	-	650,600	-	650,600
Total	<u>77,504</u>	<u>974,167</u>	<u>760,546</u>	<u>1,812,217</u>

Included in the Group's current bank borrowings of approximately HK\$34 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 31 December 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 31 December 2009 amounted to HK\$12,878 million, of which HK\$1,143 million were in term loan facilities, HK\$10,083 million were in trade lines and HK\$1,652 million were in short-term and revolving money market facilities. At 31 December 2009, the facility drawn down was HK\$702 million in term loan facilities, HK\$5,064 million in trade lines and HK\$240 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 2009, the Group had approximately 9,400 (31 December 2008: approximately 8,500) 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 5.25% increase in staff costs to approximately HK\$1,155 million for the nine months ended 31 December 2009 as compared to approximately HK\$1,098 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 nine months ended 31 December 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 nine months ended 31 December 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**

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Following the appointment of Mr. SHENG Gang as a Non-executive Director of the Company on 10 November 2009 by the Board, a special general meeting of the Company was held on 24 November 2009 for approving certain discloseable and connected transactions. Such special general meeting was the first general meeting after Mr. SHENG's appointment but resolution for the re-election of Mr. SHENG was not put forward to the shareholders for consideration at such meeting. This is due to the fact that the special general meeting held on 24 November 2009 was an adjourned meeting and according to the Bye-Laws of the Company, any new business cannot be transacted at an adjourned general meeting. Mr. SHENG will therefore be subject to re-election by shareholders only at the next general meeting of the Company.

Besides, Mr. GUO Wei, Chairman of the Board, would not retire by rotation at each annual general meeting since the retirement clause under the Bye-Laws of the Company does not apply to the Chairman of the Board.

#### **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 best to the optimal efficiency for the operation of the Committee.

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

During the nine months ended 31 December 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, 9 February 2010

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. SHENG Gang 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