

(For immediate release)

Digital China Announces 3Q FY09/10 Results

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Turnover growth surpasses market trend hits monthly high of HK\$5,000 million in December

Highlights:

For the nine months ended 31 December 2009:

- Turnover was HK\$37,826 million, an increase of 17.30% year-on-year, far higher than the growth rate of China's IT market. Turnover in December hit a monthly high of HK\$5,000 million
- Gross profit margin was 6.44%
- Profit attributable to the equity holders of the parent was HK\$677 million, an increase of 33.75% year-on-year. Basic earnings per share was 68.89 HK cents, an increase of 31.14% year-on-year
- Net cash inflow from overall operating activities was HK\$1,126 million

(9 February 2010, Hong Kong) China's leading integrated IT service provider, Digital China Holdings Limited ("Digital China" or the "Group"; Stock Code: 00861.HK) announced its results for the nine months ended 31 December 2009 ("3Q FY09/10").

During the period under review, against a backdrop of gradual recovery in the PRC economy, the Group continued to enhance implementation of its customer-focused and service-oriented strategy. Turnover for nine month FY09/10 was approximately HK\$37,826 million, an increase of 17.30% from HK\$ 32,249 million last year, significantly higher than the average growth rate of China's IT market. In particular, the Group reported its highest-ever monthly turnover in December, hitting HK\$5,000 million. Gross profit was HK\$2,436 million, an increase of 8.96% year-on-year. The operating cost ratio continued to drop as overall operating expenses fell significantly. Profit attributable to the equity holders of the parent was approximately HK\$677 million, an increase of 33.75% year-on-year. Basic earnings per share amounted to 68.89 HK cents, an increase of 31.14% year-on-year.

The Group was ranked by The Asset as one of China's Most Promising Companies of 2009 after being named by Forbes as one of the Asian Fab 50 companies, which demonstrates that both the Group's business transformation and leadership in China's IT industry are being widely acknowledged by the market.

In addition, The Group and SJI formed a strategic partnership to Jointly Develop Businesses in China and Japan. SJI Inc. is a company listed on the JASDAQ Securities Exchange, Inc. (Stock Code 2315). The Group and SJI agreed in principle to share specialties and intellectual property, technology, human resources and sales networks to jointly expand businesses in China and Japan.

“In the midst of an economic downturn last year, we adhered to our established strategies and formulated overall management and business plans accordingly” said Mr. Guo Wei, Chairman and CEO of Digital China. “By sticking to a ‘customer-centered and service-oriented’ approach, we have continuously made breakthroughs in our transition to an IT service company. The Group’s achievements are being widely acknowledged by the market. Meanwhile, we successfully established a partnership with SJI, which will develop our IT operations in Japan and further enhance our outsourcing business and management capability”

For the nine months ended 31 December 2009:

- Overall operating costs rose 2.04% year-on-year.
- Cash turnover fell from 22.89 days to 16.79 days, well below the average level of industry peers.

The Group’s overall operating expenses ratio for the nine months ended 31 December 2009 continued to drop at 5.06%, compared to 5.82% for the corresponding period last year, as the Group continued to practice stringent cost control policies. The overall cash turnover cycle was 16.79 days, 6.10 days less than a year ago.

Segment Results

	For the nine months ended 31 December		
(HK\$ million)	2009	2008	Change (%) YoY
Distribution Business			
Turnover	17,034	14,527	17.26
Gross profit	727	636	14.43
Segment Results	188	217	(13.50)
Systems Business			
Turnover	10,849	10,073	7.71
Gross profit	975	929	4.92
Segment Results	317	312	1.60
Supply Chain Services Business			
Turnover	6,650	3,545	87.58
Gross profit	225	147	53.43
Segment Results	62	45	35.67

Services Business			
Turnover	3,293	4,103	(19.75)
Gross profit	508	524	(2.95)
Segment Results	188	78	140.68

Business Review

Services Business (primary focus on IndustryMarket)

Turnover contribution from software and services rose steadily with a 16.09% gross profit margin, which was 29.67% higher than the 12.40% reported last year, even though turnover for the third quarter decreased by 23.38% year-on-year to approximately HK\$ 1,183 million. The Services Business reported a significant enhancement in value and profitability as its business mix was adjusted to put stronger emphasis on software and services while downscaling hardware-related businesses.

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 Qilu Bank's core system. A contract was also signed with Xuchang Commercial Bank earlier in the year with respect to core business system application software and related services. 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 a successful bid 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 earlier in May. This represented another important milestone in the Group's business of developing digitalised cities. The Group's new positioning as a service provider was further established with contract amount for professional service and solutions for the nine months ended 31 December 2009 increasing by 51% from a year ago.

Supply Chain Services Business (primary focus on High-tech Industries Market)

Supply Chain Services, a new growth niche, reported turnover of approximately HK\$1,964 million for the third quarter of the financial year, growing 75.81% year-on-year. For the nine months ended 31 December 2009, turnover amounted to approximately HK\$6,650 million, a 87.58% growth year-on-year. Turnover from the Fulfillment business (FA business) reported growth of 52.01% year-on-year, while turnover from Chain Electronic Stores (CES) reported a substantial 208.16% growth over last year, as it continued to introduce new products, business model innovations and process re-engineering on the back of its existing strengths.

Systems Business (primary focus on Enterprise Market)

Turnover for the Group's Systems Business for Nine Month FY09/10 amounted to approximately HK\$4,330 million, 18.14% growth year-on-year. In line with our customer-focused strategy, the Systems Business responded swiftly to market changes as it continued to expand its regional markets, while constantly upgrading its ability to provide solutions. For the nine months ended 31 December 2009, our regional customer business grew 52.99% over last year, providing a solid base for strong overall growth of the Systems Business. For the third quarter, contributions from storage products and Unix servers grew by 30.29% and 44.72%, respectively from a year ago.

Distribution Business (primary focus on SMB & Consumer Markets)

Third Quarter turnover for the Distribution Business was approximately HK\$5,885 million, 22.07% growth year-on-year. The Distribution Business reported improvements in profitability as it capitalised on a recovering Chinese economy to expand swiftly and further reinforce market dominance. Notebooks, PC servers and consumer IT segments all sustained impressive growth. Management formulated effective sales strategies in response to growing demand for notebooks and consumer IT products, while enriching product lines by introducing over 10 new products, such as Fujitsu, AIGO and HANWANG.

As of 31 December 2009, Digital China “@PORT” franchise retail outlets numbered more than 415 in China and turnover contributions from tier-4 to 6 cities grew 70% year-on-year. Furthermore, turnover for notebooks, PC servers and consumer IT products grew by 52.43%, 48.54% and 25.29%, respectively.

Outlook

Looking to the fourth quarter, management will leverage on the favourable conditions fostered by the stable development of China's economy and continue with business expansion in all segments. 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. With the continued implementation of our strategy shift to services, management believes that the Company is well-positioned to attain our annual operating objectives and deliver greater value to shareholders.

About Digital China

Digital China Holdings Limited (“Digital China” or the “Group”; Stock Code: 00861.HK) is the largest IT services provider in China. Digital China has regional centres in 19 major cities nationwide with 9,400 employees. The Group provides customers with comprehensive IT products and services, driving technological innovations for work and life and enhancing the digitalization process in China with four core businesses: IT Services, Enterprise Systems, IT Products Distribution and Supply Chain Services. The Group has maintained its No.1 position in IT product distribution while it has increasingly focused on expanding into IT services. Digital China remained as one of the top 5 IT services providers across various sectors in China including telecommunication, finance and government by providing self-developed and proprietary products that are customised for specific industry needs. For additional

information about Digital China, please visit the Company's website at www.digitalchina.com.hk.

For investor and media inquiries:

Wycee Liu
Digital China Holdings Limited
Tel: 852-3416-8089
Email: liuyqa@digitalchina.com

Winnie Wang
Digital China Holdings Limited
Tel: 852-3416-8090
Email: wangminh@digitalchina.com

Vivian Shi
Digital China Holdings Limited
Tel: 852-3416-8076
Email: vivianshi@digitalchina.com

Jane Liu
PRChina
Tel: 852-2522-1838
Email: jliu@prchina.com.hk

Henry Chik
PRChina
Tel: 852-2522-1368
Email: hchik@prchina.com.hk

Eric Song
PRChina
Tel: 852-2522-1368
Email: esong@prchina.com.hk

CONDENSED CONSOLIDATED INCOME STATEMENT

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 31 December 2009 (Unaudited) HK\$'000	At 31 March 2009 (Audited) HK\$'000
NON-CURRENT ASSETS		
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	<u>1,139,944</u>	<u>810,469</u>
CURRENT ASSETS		
Inventories	2,924,750	2,136,461
Trade and bills receivables	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	<u>15,254,480</u>	<u>10,735,756</u>
CURRENT LIABILITIES		
Trade and bills payables	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	<u>11,199,961</u>	<u>7,387,493</u>
NET CURRENT ASSETS	<u>4,054,519</u>	<u>3,348,263</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>5,194,463</u>	<u>4,158,732</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	650,600	701,516
Bond payable	-	226,296
Total non-current liabilities	<u>650,600</u>	<u>927,812</u>
NET ASSETS	<u>4,543,863</u>	<u>3,230,920</u>
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	102,025	96,239
Reserves	3,946,649	2,903,667
Proposed final dividend	-	140,030
	<u>4,048,674</u>	<u>3,139,936</u>
Minority interests	495,189	90,984
TOTAL EQUITY	<u>4,543,863</u>	<u>3,230,920</u>