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## **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2010**

### **FINANCIAL HIGHLIGHTS**

- Turnover for the financial year ended 31 March 2010 increased by 18.55% over the last financial year to reach approximately HK\$50,178 million.
- Profit attributable to equity holders of the parent for the financial year ended 31 March 2010 was approximately HK\$824 million, an increase of 28.57% over the last financial year.

The board of directors (the “**Board**”) of Digital China Holdings Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the financial year ended 31 March 2010 together with comparative figures for the last financial year as follows:

**CONSOLIDATED INCOME STATEMENT**  
**Year ended 31 March 2010**

	<i>Notes</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>REVENUE</b>	4	<b>50,178,281</b>	42,326,342
Cost of sales		<u>(46,878,503)</u>	<u>(39,367,767)</u>
Gross profit		<b>3,299,778</b>	2,958,575
Other income and gains	4	<b>619,445</b>	447,701
Selling and distribution costs		<b>(1,907,220)</b>	(1,701,244)
Administrative expenses		<b>(402,142)</b>	(372,297)
Other operating expenses, net		<b>(445,797)</b>	(449,053)
Total operating expenses	5	<u>(2,755,159)</u>	<u>(2,522,594)</u>
Finance costs		<b>(125,021)</b>	(159,091)
Share of profits and losses of:			
Jointly-controlled entities		<b>(642)</b>	(40)
Associates		<b>9,589</b>	11,671
<b>PROFIT BEFORE TAX</b>	6	<b>1,047,990</b>	736,222
Income tax expense	7	<u>(174,288)</u>	<u>(126,936)</u>
<b>PROFIT FOR THE YEAR</b>		<b><u>873,702</u></b>	<b><u>609,286</u></b>
Attributable to:			
Equity holders of the parent		<b>824,299</b>	641,145
Minority interests		<b>49,403</b>	(31,859)
		<b><u>873,702</u></b>	<b><u>609,286</u></b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	9		
Basic		<b><u>83.12 HK cents</u></b>	<b><u>66.58 HK cents</u></b>
Diluted		<b><u>82.93 HK cents</u></b>	<b><u>N/A</u></b>

Details of the dividend payable and proposed for the year are disclosed in note 8.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**Year ended 31 March 2010**

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>PROFIT FOR THE YEAR</b>	<b>873,702</b>	609,286
<b>OTHER COMPREHENSIVE INCOME:</b>		
Exchange differences on translation of foreign operations	<u>1,224</u>	<u>7,879</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<u>1,224</u>	<u>7,879</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>874,926</u></b>	<b><u>617,165</u></b>
Attributable to:		
Equity holders of the parent	<b>825,046</b>	648,663
Minority interests	<u>49,880</u>	<u>(31,498)</u>
	<b><u>874,926</u></b>	<b><u>617,165</u></b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**31 March 2010**

	<i>Notes</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		374,260	397,767
Investment properties		285,472	238,516
Prepaid land premiums		53,072	14,671
Intangible assets		2,822	4,233
Interests in jointly-controlled entities		3,785	6,201
Interests in associates		265,173	23,409
Available-for-sale investments		101,496	101,496
Other receivables		332,849	-
Deferred tax assets		49,118	24,176
Total non-current assets		<u>1,468,047</u>	<u>810,469</u>
<b>CURRENT ASSETS</b>			
Inventories		3,368,487	2,136,461
Trade and bills receivables	10	6,411,961	5,471,493
Prepayments, deposits and other receivables		1,633,760	1,366,277
Derivative financial instruments		15,508	27,097
Cash and cash equivalents		2,772,026	1,734,428
Total current assets		<u>14,201,742</u>	<u>10,735,756</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	7,209,673	4,697,703
Other payables and accruals		1,850,178	1,681,331
Derivative financial instruments		6,456	-
Tax payable		207,492	133,010
Interest-bearing bank borrowings		455,711	875,449
Bond payable		226,296	-
Total current liabilities		<u>9,955,806</u>	<u>7,387,493</u>
<b>NET CURRENT ASSETS</b>		<u>4,245,936</u>	<u>3,348,263</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>5,713,983</u>	<u>4,158,732</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		1,040,600	701,516
Bond payable		-	226,296
Total non-current liabilities		<u>1,040,600</u>	<u>927,812</u>
<b>NET ASSETS</b>		<u>4,673,383</u>	<u>3,230,920</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	12	102,077	96,239
Reserves		3,810,246	2,903,667
Proposed final dividend		288,505	140,030
		<u>4,200,828</u>	<u>3,139,936</u>
Minority interests		<u>472,555</u>	<u>90,984</u>
<b>TOTAL EQUITY</b>		<u>4,673,383</u>	<u>3,230,920</u>

## NOTES:

### 1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousand except when otherwise indicated.

### 2. Changes in accounting policy and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s 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 18 Amendment*	Amendment to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</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>
Improvement to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

\* Included in *Improvement to HKFRSs 2009* (as issued in May 2009).

\*\* The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised), HKFRS 7 Amendments and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

(a) 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. The Group has elected to present two statements.

(b) Amendments to HKFRS 7 *Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

(c) 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. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 3.

### 3. Operating segment information

For management purposes, 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 operating 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. Particulars of the Group's four reportable operating segments are summarised as follows:

- (a) the "Distribution" segment engages in the sale and distribution of general 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.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the profit for the year of each reportable operating segment, which is measured consistently with the Group's profit for the year.

The following table presents revenue and results for the Group's operating segments for the years ended 31 March 2010 and 2009:

	Distribution		Systems		Supply Chain Services		Services		Consolidated	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Segment revenue:</b>										
Sales to external customers	<u>22,721,957</u>	<u>18,797,374</u>	<u>13,982,890</u>	<u>13,355,613</u>	<u>8,775,449</u>	<u>5,289,877</u>	<u>4,697,985</u>	<u>4,883,478</u>	<u>50,178,281</u>	<u>42,326,342</u>
<b>Segment gross profit</b>	<u>998,858</u>	<u>820,947</u>	<u>1,298,234</u>	<u>1,267,753</u>	<u>306,347</u>	<u>214,940</u>	<u>696,339</u>	<u>654,935</u>	<u>3,299,778</u>	<u>2,958,575</u>
<b>Segment results</b>	<u>234,559</u>	<u>213,139</u>	<u>442,162</u>	<u>429,113</u>	<u>91,345</u>	<u>75,964</u>	<u>139,836</u>	<u>87,669</u>	<u>907,902</u>	<u>805,885</u>
Interest income, unallocated revenue and gains									<u>504,382</u>	<u>298,496</u>
Unallocated expenses									<u>(248,220)</u>	<u>(220,699)</u>
Finance costs									<u>(125,021)</u>	<u>(159,091)</u>
Share of profits and losses of:										
Jointly-controlled entities	-	-	-	-	-	-	(642)	(40)	<u>(642)</u>	<u>(40)</u>
Associates	-	-	-	-	-	-	9,589	11,671	<u>9,589</u>	<u>11,671</u>
Profit before tax									<u>1,047,990</u>	<u>736,222</u>
Income tax expense									<u>(174,288)</u>	<u>(126,936)</u>
Profit for the year									<u>873,702</u>	<u>609,286</u>

#### 4. 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:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Revenue	<b>50,178,281</b>	42,326,342
<u>Other income</u>		
Government grants	57,430	60,854
Bank interest income	32,346	14,283
Imputed interest income on other receivables	4,911	-
Gross rental income	36,732	31,861
Others	18,873	35,452
	<b>150,292</b>	142,450
<u>Gains</u>		
Fair value gain on investment properties	46,956	-
Gain on derivative financial instruments:		
Realised gain	93,454	28,435
Unrealised gain	9,052	27,097
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 subsidiaries	57,746	-
Gain on disposal of interest in an associate	-	42,997
Foreign exchange differences, net	-	89,474
Others	1,279	6,787
	<b>469,153</b>	305,251
	<b>619,445</b>	447,701

#### 5. Total operating expenses

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Selling expenses	262,367	253,625
Promotion and advertising expenses	146,697	114,567
Staff costs included in operating expenses (including directors' remuneration)	1,317,415	1,101,030
Other expenses	1,028,680	1,053,372
	<b>2,755,159</b>	2,522,594

## 6. Profit before tax

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Cost of inventories sold	45,680,114	38,521,886
Depreciation	82,867	83,522
Amortisation of prepaid land premiums	409	408
Impairment of goodwill	1,572	6,406
Amortisation of intangible assets	1,411	1,411
Impairment of intangible assets	-	35,181
Minimum lease payments under operating leases in respect of land and buildings	103,124	89,612
Provisions for and write-off of obsolete inventories	123,498	81,277
Impairment of trade receivables	136,247	163,020
Loss on disposal of items of property, plant and equipment	532	4,392
Foreign exchange differences, net	717	(89,474)
Fair value (gain)/loss on investment properties	<u>(46,956)</u>	<u>679</u>

## 7. Income tax expense

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Group:		
Current – Hong Kong	6,773	9,591
Current – The People's Republic of China ("PRC")	192,457	121,631
Deferred	<u>(24,942)</u>	<u>(4,286)</u>
Total tax charge for the year	<u>174,288</u>	<u>126,936</u>

- (a) During the year, Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong.
- (b) PRC corporate income tax represents tax charged on the estimated assessable profits arising in 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 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 years ended 31 March 2010 and 2009. 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 years ended 31 March 2010 and 2009. The share of tax charge attributable to the jointly-controlled entities of approximately HK\$279,000 (2009: HK\$262,000) and the share of tax credit attributable to the associates of approximately HK\$2,643,000 (2009: share of tax charge of approximately HK\$3,382,000) are included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates" respectively, in the consolidated income statement.

## 8. Dividends

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Proposed final dividend – 28.26 HK cents (2009: 14.55 HK cents) per ordinary share	<u><b>288,505</b></u>	<u>140,030</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 9. 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 year attributable to ordinary equity holders of the parent of approximately HK\$824,299,000 (2009: HK\$641,145,000), and the weighted average of 991,754,252 (2009: 962,957,784) ordinary shares in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year 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 year.

The calculation of diluted earnings per share amount for the year ended 31 March 2010 was based on the profit for the year ended 31 March 2010 attributable to ordinary equity holders of the parent of approximately HK\$824,299,000 and 994,025,926 ordinary shares, which represented the weighted average of 991,754,252 ordinary shares in issue during the year ended 31 March 2010, and the weighted average of 2,271,674 ordinary shares deemed to have been issued at no consideration on the deemed exercise of all the outstanding share options during the year ended 31 March 2010.

For the year ended 31 March 2009, the outstanding share options had anti-dilutive effect on the basic earnings per share.

## 10. 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 the reporting period and net of impairment is as follows:

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Within 30 days	<b>3,366,585</b>	2,230,866
31 to 60 days	<b>548,099</b>	1,145,323
61 to 90 days	<b>794,480</b>	734,548
91 to 180 days	<b>875,980</b>	819,115
Over 180 days	<b>826,817</b>	541,641
	<u><b>6,411,961</b></u>	<u>5,471,493</u>

## 11. Trade and bills payables

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Within 30 days	3,939,790	2,724,953
31 to 60 days	2,040,302	1,060,975
61 to 90 days	501,732	453,751
Over 90 days	727,849	458,024
	<b>7,209,673</b>	<b>4,697,703</b>

## 12. Share capital

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Authorised: 2,000,000,000 (2009: 2,000,000,000) ordinary shares of HK\$0.1 (2009: HK\$0.1) each	<b>200,000</b>	<b>200,000</b>
Issued and fully paid: 1,020,767,581 (2009: 962,390,581) ordinary shares of HK\$0.1 (2009: HK\$0.1) each	<b>102,077</b>	<b>96,239</b>

A summary of the movements of the Company's issued capital and share premium accounts during the years ended 31 March 2010 and 2009 is as follows:

	Notes	Number of ordinary shares in issue	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2008		963,619,581	96,362	620,567	716,929
Repurchase and cancellation of shares	(a)	(1,229,000)	(123)	(2,764)	(2,887)
At 31 March 2009 and 1 April 2009		<b>962,390,581</b>	<b>96,239</b>	<b>617,803</b>	<b>714,042</b>
Issue of shares	(b)	57,647,000	5,765	361,235	367,000
Exercise of share options	(c)	730,000	73	5,304	5,377
At 31 March 2010		<b>1,020,767,581</b>	<b>102,077</b>	<b>984,342</b>	<b>1,086,419</b>

Notes:

- (a) During the year ended 31 March 2009, the Company repurchased an aggregate of 1,229,000 ordinary shares at prices ranging between the highest and lowest purchase prices of HK\$2.72 and HK\$2.18 per share respectively on The Stock Exchange of Hong Kong Limited and the aggregate consideration paid (including transaction costs) was approximately HK\$2,887,000. The shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium of the repurchase was charged against the share premium account.
- (b) In September 2009, the Company issued 57,647,000 ordinary shares of HK\$0.1 each 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\$367,000,000. Further details of the transaction were set out in the announcement of the Company dated 16 September 2009.
- (c) During the year ended 31 March 2010, the subscription rights attaching to 730,000 share options were exercised at subscription prices at HK\$5.89 per share, resulting in the issue of 730,000 ordinary shares of HK\$0.1 each for a total cash consideration, of approximately HK\$4,300,000. At the time when the share options were exercised, the fair values of these share options in an aggregate amount of approximately HK\$1,077,000 previously recognised in the employee share-based compensation reserve were transferred to the share premium account.

## **DIVIDENDS**

The Board recommends the payment of a final dividend of 28.26 HK cents (2009: 14.55 HK cents) per share for the year ended 31 March 2010 to the shareholders of the Company.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Under the lingering effect of the financial crisis, all industries and sectors in China were facing the challenge of an extremely precarious business environment in 2009. Based on diligent and detailed research and analysis, the Management of the Group was resolved to address the external situation through in-depth and effective implementation of the customer-focused and service-oriented strategy, designating the financial year under review as the “Year of Strategic Marketing”. A customer-oriented marketing battle was launched in full scale in various market sub-segments, providing a direct boost for growth against adverse conditions and enabling the Group to achieve its goal for the year, i.e. “expedite transformation and deliver a crucial victory for 2009”. For the year ended 31 March 2010, the Group continued to deliver overall business growth that outperformed the industry, achieving the goals set for various business indicators and good progress in critical tasks as its dominant position in the market was further consolidated.

The Group’s brilliant results for the financial year under review were first and foremost attributable to the transformation strategy of “customer-focused and service-oriented”, which was formulated by the Management in 2007. Secondly, the Management’s ability to identify and capture opportunities in market sub-segments amid the ever-changing macro-economic landscape also contributed to our success. Finally, our strong results serve further evidence to the Management’s growing sophistication in strategic management and foundational management.

### **1.1 “Customer-oriented” marketing campaign in full swing in sub-segments to deliver substantial turnover growth outperforming the industry**

The Group recorded turnover of HK\$12,352 million for the fourth quarter, an increase of 22.57% as compared to HK\$10,078 million for the corresponding period of last financial year. For the year ended 31 March 2010, the Group reported total turnover of HK\$50,178 million versus HK\$42,326 million for the corresponding period of last financial year, representing a 18.55% growth rate which was significantly higher than the overall growth rate of China’s IT market.

## **1.2 Further strides in overall profitability underpinned by sustained strong growth in profit attributable to equity holders of the parent**

For the year ended 31 March 2010, profit attributable to the equity holders of the parent (profit attributable to shareholders) amounted to approximately HK\$824 million, representing a 28.57% growth as compared to approximately HK\$641 million for the corresponding period of last financial year. Basic earnings per share amounted to 83.12 HK cents, which was 24.84% higher as compared to the corresponding period of last financial year.

## **1.3 Ground-breaking progress in Software Services Business**

During the financial year under review, the Group enjoyed competitive edge over its rivals in terms of software business coverage, and it ranked among the leaders in the government sector, with particular dominance and potential in “Sm@rt City” Project and State Tax Administration. Our core banking products also boasted solid competitive advantages on the back of strong industry recognition and high standards. Our exposure to the telecommunications industry was well-balanced, with coverage of China Mobile, China Unicom and China Telecom.

## **1.4 Effective control of overall operating expenses ratio**

With persistent and stringent implementation of relevant cost management policies, the Group was able to lower its overall operating expenses ratio to 5.49% for the year ended 31 March 2010, as compared to 5.96% reported for the corresponding period of last financial year. Our measures to manage and control overall operating expenses proved effective against extremely intricate market conditions.

## **1.5 Effective cash flow management evidenced by sustained healthy growth in net cash inflow and substantial improvements in cash turnover efficiency**

Thanks to enhanced cash flow management and control, the Group recorded net cash inflow from operating activities of HK\$1,008 million for the year ended 31 March 2010, as compared to HK\$727 million for the corresponding period of last financial year. Cash flow performance remained sound and our cash turnover efficiency was improving as we continued to enhance inventory management over the complete cycle of ordering, sales and inventory, matching our purchases in close tandem with sales and focused on cash collection management. For the year ended 31 March 2010, the Group’s cash turnover cycle was 19.22 days, which was significantly reduced by 4.44 days as compared to the corresponding period of last financial year and commanded an undisputed leading position in the industry.

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

The Group’s Distribution Business is primarily focused on meeting the demand for IT products and solutions from SMB and consumer markets.

The Distribution Business further reinforced its market dominance reported improvements in profitability as it leveraged the favourable condition of a gradually recovering Chinese economy in 2009 to engage in swift expansion. For the year ended 31 March 2010, turnover amounted to approximately HK\$22,722 million, representing a 20.88% growth over the corresponding period of last financial year. Gross profit margin was higher at 4.40%, as compared to the corresponding period of last financial year.

### **Substantial growth sustained in the sectors of notebooks, PC servers and consumer IT products**

Our Distribution Business delivered outstanding performance in terms of new business expansion in the consumer and commercial business sectors, providing solid support for business growth of this business segment in the financial year under review. With the appointment as a Top Tier Distributor for China Mobile since the first quarter and a nation-wide partner for China Unicom in relation to the latter’s WO-3G business with special emphasis on the iPhone since the second quarter, our coverage of China’s big-three telecommunications carriers (China Mobile, China Unicom and China Telecom) was complete. Meanwhile, our Distribution Business made significant moves in new product development, enriching the Company’s product lines by introducing Blackberry, Fujitsu, AIGO and Hanvon, etc. Moreover, we entered into deals with leading domestic IT manufacturers such as Founder and Tongfang to become an important partner for this segment, in addition to being the leading partner of foreign manufacturers in China. For the year ended 31 March 2010, turnovers for notebooks, PC servers and consumer IT products grew by 48.98%, 55.44% and 34.25%, respectively as compared to the corresponding period of last financial year, driving substantial overall turnover growth for the Distribution Business.

### **Penetrating efforts in regional network expansion and channel development paying off**

For the year ended 31 March 2010, turnover contributions to the Group's Distribution Business from 4-6 tiers cities increased by over 70% as compared to the corresponding period of last financial year. With 422 Digital China "@PORT" franchise retail outlets in China, solid foundations have been put in place for further reinforcing our market dominance and competitive edge in the market for distribution in 4-6 tiers cities.

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

The Group's Systems Business of value-added distribution is primarily focused on meeting the IT demand of the enterprise market. Since 2007, direct sales to regional customers have been adopted on a trial basis to enhance direct control over our business in the enterprise market.

### **In-depth cultivation of customer demand to secure our market position and achieve trend-bucking growth**

In response to difficulties in the enterprise market in 2009, the Management made proactive adjustments to its strategies by cultivating customers' demands. For the year ended 31 March 2010, turnover amounted to approximately HK\$13,983 million, representing a 4.70% growth as compared to the corresponding period of last financial year.

### **Breaking new ground in regional markets with ongoing enhancement of solution capabilities**

Since fiscal year 2008, as one of the proactive implementation measures of our strategy of being fully customer-oriented, we have been seeking to expand our regional customer market by exploring the unique need from our regional customer businesses. After two years of continuous development, we are glad to report ground-breaking progress in our regional customer business and ongoing enhancements of our solution capabilities. Our regional customer business for the year ended 31 March 2010 registered a year-on-year growth of over 56% as compared to the corresponding period of last financial year, offering significant support for and stability in the overall income of the Systems Business.

### **Sustaining rapid growth in storage products**

Driven by robust demand from China's telecommunications sector and growing requirements from its financial sector in 2009, turnover for storage products in the Group's Systems Business reported a year-on-year growth of 42.50%.

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

The Group's Supply Chain Services Business is primarily targeted at manufacturers of IT and other high-value density manufacturers and major accounts, providing "one-stop" supply-chain consultancy and implementation.

### **Sustaining rapid business expansion as new driver to overall growth revenue and results**

To give further depth to the implementation of the strategy of being "customer-focused and service-oriented" the Group disclosed the results of its Supply Chain Services Business on a stand-alone basis for the financial year under review. For the year ended 31 March 2010, the Group's Supply Chain Services Business reported turnover of HK\$8,775 million, representing a substantial growth of 65.89% as compared to the corresponding period of last financial year. This business segment has made outstanding contributions to the realisation of the overall business objectives of the Group and provided a new driver to the Group's overall revenue growth. Turnover from the Fulfillment business (FA business) reported growth of 60.15% over the corresponding period of last financial year on the back of closer cooperation with manufacturers as such HP and Dell, while turnover from mega Chain Electronic Stores (CES) business reported a 90.21% 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 which resulted in significantly improved turnover rate. Meanwhile, ground-breaking progress was made in third-party logistics as we were signed up as logistics service provider for high-profile companies such as PetroChina and BYD.

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

The Group's Services Business is targeted at large-scale industry customers, offering IT planning and consultation, design and implementation of industry application software and solutions, outsourcing of IT system operation and maintenance, as well as products and services in systems integration and maintenance.

### **Continuous improvements in profitability through active adjustment of software and services distribution**

The Group adjusted the distribution of software and services during the financial year under review by increasing the weighting of software and services and downscaling hardware supply, contributing to significant improvements in business value and profitability. As a result, gross profit margin for this business improved significantly to 14.82%, as compared to 13.41% for the corresponding period of last financial year, even though turnover was slightly lower at approximately HK\$4,698 million.

### **Rapid expansion of software solution product lines and successful launch of large-scale solutions winning wide acclaim from customers**

In connection with the financial sector, the financial year under review was marked by the successful launch of the Core Banking System of Qilu Bank, the sign-up of Bank of Xuchang in respect of application software of core banking system and related services, the launch of the core banking system for Jinshang Bank and the debit card system for Jinzhong City Commercial Bank. As for the government sector, the Group made successful bidding in August 2009 for two consultancy projects in connection with the Golden Tax Project Phase III of the State Administration of Taxation. Meanwhile, the Sm@rt City Project of the Group was replicated in several Chinese cities, effectively helping local governments to enhance their services and management standards in citizen services, business sector administration and city management. The project facilitated the extensive application of informatisation in cities while reinforced the Group's leadership in city digitalisation. In addition, the issuance of Citizen Card as part of the Sm@rt City Project was conducted in Wuxi and Zhangjiagang, following their successful debut of Yangzhou in May 2009.

### **3. Management Outlook**

The Management is of the view that the Group has attained with satisfaction all management objectives, business benchmarks and risk indicators for the year ended 31 March 2010, despite extremely difficult market conditions in China and around the world and amid various uncertainties in 2009, by formulating specific strategies for the exceptional times and leveraging opportunities under adverse conditions in a proactive response to market changes. Looking to 2010 and beyond, China and the world will embrace the "post-financial crisis era", in which the macro-economy will be seen gradually recovering, while uncertainties will remain for 2010 as a result of proactive policy adjustments undertaken by the PRC Government. To address the situation, the Management intends to continue the persistent implementation of the transformation strategy, while additional focus will be given to the Services Business which promises to add value on a sustainable basis, on top of our existing businesses and clientele. Through resolute implementation of this strategy, we believe that the Group will sustain long-term growth and deliver greater value to shareholders and customers.

### **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\$15,670 million at 31 March 2010 which were financed by total liabilities of HK\$10,996 million, minority interests of HK\$473 million and equity attributable to equity holders of the parent of HK\$4,201 million. The Group's current ratio at 31 March 2010 was 1.43 as compared to 1.45 at 31 March 2009.

During the year ended 31 March 2010, capital expenditure of HK\$108 million was mainly incurred for the acquisition of land, office equipment and IT infrastructure facilities.

The aggregate borrowings as a ratio of equity attributable to equity holders of the parent was 0.41 at 31 March 2010 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\$1,723 million (31 March 2009: HK\$1,803 million) and equity attributable to equity holders of the parent of HK\$4,201 million (31 March 2009: HK\$3,140 million).

At 31 March 2010, the denomination of the interest-bearing bank borrowings and bond payable of the Group was shown as follows:

	<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	63,326	358,441	421,767
Interest-bearing bank borrowings, secured	33,944	-	33,944
Bond payable	226,296	-	226,296
	<u>323,566</u>	<u>358,441</u>	<u>682,007</u>
<b>Non-current</b>			
Interest-bearing bank borrowings, unsecured	<u>650,600</u>	<u>390,000</u>	<u>1,040,600</u>
Total	<u><u>974,166</u></u>	<u><u>748,441</u></u>	<u><u>1,722,607</u></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 Mainland China with a value of approximately HK\$23 million at 31 March 2010 and 22,290,980 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 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 March 2010 amounted to HK\$14,851 million, of which HK\$2,180 million were in term loan facilities, HK\$11,147 million were in trade lines and HK\$1,524 million were in short-term and revolving money market facilities. At 31 March 2010, the facility drawn down was HK\$1,092 million in term loan facilities, HK\$3,748 million in trade lines and HK\$34 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 March 2010, the Group had approximately 9,600 (31 March 2009: approximately 8,400) 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 17.05% increase in staff costs to approximately HK\$1,683 million for the year ended 31 March 2010 as compared to approximately HK\$1,438 million for the last financial year. In order to attract and retain a high caliber of capable and motivated workforce, the Company offers share options to staff based on the individual performance and the achievements of the Company's targets. The Group is committed to providing its staff with various in-house and external training and development programs.

## **AUDIT COMMITTEE**

The audit committee has reviewed with the senior management and the auditors of the Company their respective audit 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 financial statements of the Group for the year ended 31 March 2010.

## **CORPORATE GOVERNANCE**

During the year ended 31 March 2010, the Company has complied with the code provisions set out in the "Code on Corporate Governance Practices" (the "**Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year, 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 (the "**Bye-Laws**") 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 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, 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.

Under the Bye-Laws, at each annual general meeting one-third of the Directors for the time being or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office, 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.

Following the appointment of Mr. QIU Zhongwei as a member of the Remuneration Committee on 17 June 2009, 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 year ended 31 March 2010, 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, 20 July 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