

(For immediate release)

Digital China Announces 1Q FY09/10 Results

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Stable Business Operation with Solid Growth and a Focus on Strategic Transforming to Fully Service-oriented Business

Highlights:

For the three months ended 30 June 2009:

- Turnover was HK\$10,660 million, up 6.49% from 1Q FY08/09
- Operating income was HK\$313 million, an increase of 84.66% over the corresponding period of last financial year
- Profit attributable to the equity holders of the parent was HK\$262 million, a 129.86% growth as compared to corresponding period in FY08/09
- Net cash inflow from overall operating activities was HK\$361 million, a record improvement from the corresponding period of last financial year

(26 August 2009, 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 three months ended 30 June 2009 ("1Q FY09/10").

For the three months ended 30 June 2009, the Group reported stable business operations with solid growth in both turnover and profit, substantial increase in net cash inflow from operating activities and a declining ratio of the overall operating expenses and smooth progress in all key operations, paving the way for the attainment of its operating and management targets for the financial year.

"The Group sustained a positive growth trend underpinned by enlarged market shares and re-assured market dominance, despite continued severity in the macro-economic landscape of year 2009 and other uncertainties in the market," said Mr. Guo Wei, Chairman and CEO of Digital China. "In tandem with the strategy of 'customer-focused and service-oriented', FY09/10 was designated as the 'Year of Strategic Marketing' and our organizational structure was adjusted accordingly."

Financial Review

During the period under review, turnover was HK\$10,660 million, an increase of 6.49% as compared to HK\$10,011 million for the corresponding period of last financial year. Gross margin was 6.42%, a slight decrease compared to 6.61% for the last fiscal year. Profit attributable to the equity holders of the parent (profit attributable to shareholders) surged 129.86% to HK\$262 million as compared to HK\$114 million for the corresponding period of last financial year. Basic earnings per share grew 130.26% to 27.24 HK cents compared with the same period of last financial year. Return on shareholders' equity was 7.70%, up from 4.15% for the corresponding period of last financial year.

The management is of the view that the Group has attained designated targets for management objectives, business performance and risk indicators for the three months ended 30 June 2009, against a range of uncertainties in the marketplace. During the period under review, overall operating expenses ratio was 5.30%, lowered from 6.22% for the corresponding period of last financial year. Besides cost management, the Group also made persistent efforts in risk management and process management, and as a result a stable overall operating cash flow was maintained during the period under review. Net cash inflow from overall operating activities of the Group was HK\$361 million up from HK\$868 million for the corresponding period of last financial year. Overall cash turnover cycle was 22.40 days, which was about 10 days less as compared to the corresponding period of last financial year.

Segment Results

(HK\$ million)	For the three months ended 30 June		Change (%) YoY
	2009	2008	
Distribution Business			
Turnover	4,854	4,690	3.48
Gross profit	233	196	18.56
Segment Results	68	75	(8.68)
Systems Business			
Turnover	3,110	3,278	(5.13)
Gross profit	255	271	(5.90)
Segment Results	82	82	(0.79)
Supply Chain Services Business			
Turnover	1,843	770	139.26
Gross profit	67	39	73.17
Segment Results	23	17	38.68
Services Business			
Turnover	853	1,272	32.93
Gross profit	129	156	17.07
Segment Results	5	27	-81.97

Business Review

Services Business (with a primary focus on Industry Market)

During the period under review, the Service Business recorded 15.18% of gross profit margin,

improving significantly as compared with 12.27% for the corresponding period of last year. It reported profitability for the seventh quarter in a row. Though turnover from the Services business reporting year-on-year decrease of 32.93% due to the front-loaded comparative base of FY2008/09 bolstered by the Olympic Games effect, as well as internal re-alignments of the Services business during the current financial year to more focus on software and services, the Business received steady improvements in application software solution execution and significant growth in contract value of service solutions. Meanwhile, our Infrastructure Services Strategic Business Unit (“SBU”) was appointed as a deputy group leader of the task force team for IT services standards established by the Software Service Industry Division of the Ministry of Industry and Information Technology.

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

Targeting IT corporations, major account customers in vertical market segments, and other high-value products manufacturers, the business sector was formed on the basis of the existing distribution business. It 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. Supply Chain Services has reported year-on-year turnover growth of 139.26% at approximately HK\$1,843 million for the three months ended 30 June 2009 as compared with HK\$770 million for the corresponding period of last year. Turnover from the Fulfillment business (FA business) grew 160.57% year-on-year on the back of closer cooperation with partner manufacturers such as HP and Dell. Revenue from mega chain electronic stores (CES business) grew 99.06% year-on-year as turnover efficiency was significantly improved with the launch of new product and the benefits of business model innovations and process re-engineering.

Systems Business (with a primary focus on Enterprise Market)

Turnover and segment results for the Systems Business, decreased by 5.13% and 0.79% year on year to HK\$3,110 million and HK\$82 million respectively due to a stronger comparative base of FY2008/09 bolstered by the Olympic Games which had some front-loaded effects. Yet, rapid growth was still reported for the main stream product lines, among which turnover from UNIX servers and storage products grew 22.06% and 19.47%, respectively, as compared to the corresponding period of last financial year. Meanwhile, revenue from regional clients sustained a growth rate of 31.63% against a volatile market.

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

Turnover and segment results for the Distribution Business, increased by 3.48% and 8.68% year on year to HK\$4,854 million and HK\$68 million, respectively. Sales of notebooks recorded impressive growth as the management employed relevant sales and marketing strategies in response to growing demand for notebooks from the retail market for personal IT products and enriched the Company’s product offerings with new models. Growth in turnover of this Business also reflects the penetrative coverage of the regional network. As at 30 June 2009, number of cities with in-depth coverage reached 460. Turnover contributed by 4th- to 6th-tier cities increased by 44.38% as compared to the corresponding period last financial year.

Outlook

Given continuous signs of economic recovery in China, the management will closely monitor market changes and seek to enhance the Group's market leadership when the right opportunities arise. Meanwhile, Digital China will continue to focus on controlling operational risks, maintaining sound cash flow and exercising stringent cost management. The strategy of transforming to a fully service-oriented business continues to be a key focus. "FY2009/10 will remain a year of opportunities and challenges, the management is confident that the operating targets set for the financial year will be achieved in outperforming growth to create greater value for shareholders," said Mr. Guo Wei, Chairman and CEO of Digital China.

About Digital China

Digital China Holdings Limited ("Digital China" or the "Group"; Stock Code: 00861.HK) is the largest IT services provider in China. Headquartered in Beijing, Digital China has regional centres in 19 major cities nationwide with 8,300 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.

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CONSOLIDATED INCOME STATEMENT
Three months ended 30 June 2009

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

CONSOLIDATED BALANCE SHEET

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