

(For immediate release)

Digital China Announces FY09/10 Annual Results

--

Strategic Marketing to Promote Transformation to IT Services Turnover Growth Continues to Outperform the Market Average

Results Highlights:

For the year ended 31 March 2010:

- Turnover increased by 18.55 % year-on-year to HK\$50,178 million, far exceeding the growth rate of China's IT market.
- Cash flow performance remained sound, with net cash inflow from operating activities amounted to HK\$1,008 million as compared to HK\$727 million in the previous financial year.
- Profit attributable to the equity holders of the parent increased by 28.57% to HK\$824 million. Basic earnings per share were 83.12 HK cents, an increase of 24.84% year-on-year.
- Overall operating expense ratio fell to 5.49% from 5.96% in FY08/09.

(20 July 2010, Hong Kong) Digital China Holdings Limited (“Digital China” or the “Group”; Stock Code: 00861.HK), China's leading integrated IT service provider, today announced its annual results for the year ended 31 March 2010 (the “Review Period”).

Mr. Guo Wei, Chairman and CEO of Digital China, commented, “The market conditions around the world and in China were very difficult and full of uncertainties over the past year. However, we were well prepared to tackle the challenges. We took an active approach to respond to the changes in market environment and captured the opportunities that arose. During the period under review, the Group achieved all targets in the fields of corporate management, operating results and risk control. The value and profitability of our IT service business continued to improve. Besides, the extensive market coverage of our software service business helped us preempt and outperform our peers in the development of government software solutions business. Our software solution products experienced phenomenal growth and we got the contracts for projects with high growth potential including “Sm@rt City”, state and local taxation system project. Meanwhile, our core banking products were widely acclaimed in the market for their supreme quality. These products further strengthened our competitive edges. The Group's exposure to the telecommunication sector was well-balanced, with coverage of China Mobile, China Unicom and China Telecom.”

Financial Review

During the Review Period, various sectors in China operated in a complicated and severe environment due to the impact of financial crisis. In response to the difficult condition, management of the Group further proceeded with the “customer-focused and service-oriented” strategy. By defining the Review Period as “Year of Strategic Marketing”, the Group shrewdly explored and seized opportunities in

different sectors arising from the ever-changing macro-environment and launched large scale customer-focused marketing campaigns. As a result, the Group met various operational targets and achieved excellent operating results.

The Group recorded turnover of HK\$50,178 million for the Review Period, representing an increase of 18.55% from HK\$42,326 million in the previous financial year. The growth rate stayed above that for China's IT industry. Gross profit was HK\$3,300 million, an increase of 11.53% year-on-year. Profit attributable to the equity holders of the parent reached HK\$824 million, an increase of 28.57% year-on-year. Basic earnings per share amounted to 83.12 HK cents, an increase of 24.84% year-on-year. Due to its enhanced efforts in cost management, operating expense ratio continued to decrease. Overall operating expense ratio declined to 5.49% in the Review Period from 5.96% in the previous financial year. During the Review Period, cash turnover ratio decreased by 4.44 days to 19.22 days from the previous financial year, which was among the lowest in the industry.

Segment Results

	For the year ended 31 March		
(HK\$ million)	2010	2009	Change (%) YoY
Distribution Business			
Turnover	22,722	18,797	20.88
Gross profit	999	821	21.67
Segment Results	235	213	10.05
Systems Business			
Turnover	13,983	13,356	4.70
Gross profit	1,298	1,268	2.40
Segment Results	442	429	3.04
Supply Chain Services Business			
Turnover	8,775	5,290	65.89
Gross profit	306	215	42.53
Segment Results	91	76	20.25
Services Business			
Turnover	4,698	4,883	-3.80
Gross profit	696	655	6.32
Segment Results	140	88	59.50

Business Review

Services Business (primary focus on Industry Market)

During the Review Period, the Group stepped up efforts in raising the contribution of software and IT service operations to Services Business segment and reduced its reliance of hardware delivery business. As a result, the value and profitability of Services Business segment made a significant improvement. Turnover from this segment was approximately HK\$4,698 million, a slight decrease from the previous financial year. Nevertheless, gross profit margin increased remarkably to 14.82% from 13.41% in the previous year. Software solutions business grew robustly, with the Group's successful implementation of a number of large IT solutions projects. In the financial sector, the Group helped Qilu Bank and Jinshang Bank launch their core banking systems and Jinzhong City Commercial Bank launch debit card system. Moreover, it signed a contract with Bank of Xuchang for the application software of core banking system and related services.

In the government sector, the Group got two consulting bids relating to the Golden Tax Project Phase III of the State Administration of Taxation in August 2009. Besides, the Sm@rt City project was successfully launched in various cities in the PRC, which not only greatly promoted the informatization development in the cities of the country, but also helped the Group firmly establish its leading position in this field. Citizen card program is a part of the Sm@rt City project. Citizen cards were issued in Wuxi and Zhangjiagang following their successful launch in Yangzhou in May 2009.

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

During the Review Period, Supply Chain Services Business segment reported turnover of HK\$8,775 million, representing a substantial growth of 65.89% over the previous financial year. This business segment played an important role for the Group to realize operational targets and became a new driver of its business growth. Turnover from the Fulfillment business (FA business) grew by 60.15% over the previous financial year on the back of closer cooperation with manufacturers such as HP and Dell, while turnover from its mega Chain Electronic Stores (CES) significantly increased by 90.21% over the previous financial year owing to the introduction of new products, business model innovation and improved operating process. Meanwhile, the Group made breakthroughs in the development of corporate supply chain services business and became services provider to famous enterprises such as PetroChina and BYD.

Systems Business (primary focus on Enterprise Market)

Management of the Group actively adjusted business strategies to stimulate customers' demands. During the Review Period, Systems Business segment generated turnover of HK\$13,983 million, an increase of 4.70% over the previous financial year. This segment experienced persistent growth over the past two years and achieved breakthroughs in the expansion of local customer business. The Group's IT solutions capabilities were therefore continuously improved. During the Review Period, business from local customers increased by more than 56% year-on-year, providing stable income to support the

development of Systems Business. During the Review Period, driven by robust demand from China's telecommunications and financial sectors in 2009, turnover from the sale of storage products soared by 42.50% over the previous financial year.

Distribution Business (primary focus on SMB & Consumer Markets)

The Group reinforced its leading position in the distribution business sector through rapid expansion of business. Profitability of its Distribution Business segment was further improved. This segment reported turnover of HK\$22,722 million, an increase of 20.88% over the previous financial year. Gross profit margin of this segment slightly increased and reached 4.40%. Sales of notebooks, PC servers, consumer IT products grew significantly by 48.98%, 55.44% and 34.25% year-on-year, respectively, driving the vigorous growth of turnover from Distribution Business segment.

The Group made breakthroughs in exploring new business in consumer and commercial business sectors. It was appointed by China Mobile as its Top Tier Distributor in the first quarter of FY09/10 and entered into agreement with China Unicom in the second quarter to become its nation-wide partner for WO-3G business with special emphasis on the iPhone. Digital China is the national distributor in the country providing distribution services to the three domestic telecommunications giants: China Mobile, China Unicom and China Telecom. During the Review Period, its regional network and channel development were further expanded with franchised retail outlets of Digital China “@PORT” on Mainland China increased to 422. The expansion of distribution network led to an increase of more than 70% in turnover from fourth to sixth-tier cities over the previous financial year, thereby further enhancing the Group's leading position and competitive edges of distribution business in these cities.

Outlook

The Chinese and global economies have entered the “post-financial crisis era” since the beginning of 2010. While the macro economy is recovering gradually, the Chinese government takes initiative to prevent the Chinese economy from overheating. As a result, domestic economy is full of uncertainties this year. On the other hand, the IT industry in China has gradually transformed from distribution of hardware to IT services and this process is accelerating. The IT services sector will play a more important role in the future. In the face of challenges and opportunities, Digital China, as a pioneer of IT services in the country, will continue to implement the established strategies. Leveraging on solid business foundation and extensive customer base, the Group will step up efforts in expanding IT services business in order to ensure its sustainable growth. Management believes that by sticking to these strategies, the Group will sustain persistent growth and deliver greater value to shareholders and customers.

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 centers 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 telecommunications, 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

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

Judie Zhu
Digital China Holdings Limited
Tel: 852-3416-8090
Email: zhusja@digitalchina.com

Eric Song
PRChina
Tel: 852-2522-1838
Email: esong@prchina.com.hk

Lily Lai
Digital China Holdings Limited
Tel: 852-3416-8133
Email: lilylai@hk.digitalchina.com

Ada Tsang
PRChina
Tel: 852-2522-2823
Email: atsang@prchina.com.hk

CONSOLIDATED INCOME STATEMENT
Year ended 31 March 2010

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 March 2010

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS		
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>
CURRENT ASSETS		
Inventories	3,368,487	2,136,461
Trade and bills receivables	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>
CURRENT LIABILITIES		
Trade and bills payables	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>
NET CURRENT ASSETS	<u>4,245,936</u>	<u>3,348,263</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>5,713,983</u>	<u>4,158,732</u>
NON-CURRENT LIABILITIES		
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>
NET ASSETS	<u>4,673,383</u>	<u>3,230,920</u>
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	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	472,555	90,984
TOTAL EQUITY	<u>4,673,383</u>	<u>3,230,920</u>