神州数码
Digital China

DIGITAL CHINA HOLDINGS LIMITED

(神州數碼控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 00861)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2008

FINANCIAL HIGHLIGHTS

- Turnover increased by 38.65% over the last financial year to reach approximately HK$35,244 million.
- Profit attributable to equity holders of the parent for the financial year ended 31 March 2008 was approximately HK$401 million, an increase of 92.45% 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 2008 together with comparative figures for the last financial year as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 March 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	4	**35,243,773**	25,418,398
Cost of sales		**(32,732,995)**	(23,569,405)
Gross profit		**2,510,778**	1,848,993
Other income and gains	4	**417,965**	219,938
Selling and distribution costs		**(1,548,118)**	(1,105,296)
Administrative expenses		**(394,624)**	(318,635)
Other operating expenses, net		**(335,350)**	(230,263)
Total operating expenses	5	**(2,278,092)**	(1,654,194)
Finance costs		**(207,791)**	(146,406)
Share of profits and losses of:			
Jointly-controlled entities		**(880)**	(20,882)
Associates		**11,052**	(5,505)
Profit before tax	6	**453,032**	241,944
Tax	7	**(52,152)**	(40,631)
Profit for the year		**400,880**	201,313
Attributable to:			
Equity holders of the parent		**401,125**	208,429
Minority interests		**(245)**	(7,116)
		400,880	201,313
Dividends – Proposed final	8	**140,210**	72,370
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic (HK cents)		**43.72**	23.92
Diluted (HK cents)		**42.91**	23.78

CONSOLIDATED BALANCE SHEET
At 31 March 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**401,124**	337,621
Investment properties		**234,212**	208,226
Prepaid land premiums		**14,765**	13,547
Intangible assets		**5,526**	19,087
Interests in jointly-controlled entities		**7,894**	3,644
Interests in associates		**35,612**	22,970
Available-for-sale investments		**31,611**	31,611
Deferred tax assets		**19,480**	25,038
Total non-current assets		**750,224**	661,744
CURRENT ASSETS			
Inventories		**2,559,364**	1,683,630
Trade and bills receivables	10	**3,772,820**	2,852,404
Prepayments, deposits and other receivables		**1,233,629**	957,146
Cash and bank balances		**998,454**	717,455
		8,564,267	6,210,635
Non-current asset classified as held for sale	11	**-**	12,681
Total current assets		**8,564,267**	6,223,316
CURRENT LIABILITIES			
Trade and bills payables	12	**3,334,519**	2,667,444
Other payables and accruals		**1,695,420**	975,330
Tax payable		**66,405**	31,807
Interest-bearing bank borrowings		**400,066**	633,536
Total current liabilities		**5,496,410**	4,308,117
NET CURRENT ASSETS		**3,067,857**	1,915,199
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,818,081**	2,576,943
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**952,803**	603,697
Bond payable		**221,582**	-
Total non-current liabilities		**1,174,385**	603,697
Net assets		**2,643,696**	1,973,246
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**96,362**	87,404
Reserves		**2,389,347**	1,801,579
Proposed final dividend		**140,210**	72,370
		2,625,919	1,961,353
Minority interests		**17,777**	11,893
Total equity		**2,643,696**	1,973,246

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of presentation

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, which have been measured at fair value, and a non-current asset held for sale, which has been stated at the lower of its carrying amount and fair value less cost to sell. These financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

2. Impact of new and revised HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

(c) HK(IFRIC)-Int 8 *Scope of HFKRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Company's share option schemes, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 April 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such asset, the interpretation has had no impact on the financial position or results of operations of the Group.

(f) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

This interpretation requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires instruments from another party, or the shareholders provide the equity instruments needed. This interpretation also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

3. Segment information

Summary details of the business 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; and

(c) the "Services" segment engages in the provision of systems integration, applications software development, consultancy and training, etc..

Primary reporting format - business segments

The following table presents revenue and profit for the Group's business segments for the years ended 31 March 2008 and 2007:

	Distribution		Systems		Services		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**20,889,194**	14,727,993	**9,731,836**	7,351,562	**4,622,743**	3,338,843	**35,243,773**	25,418,398
Segment gross profit	**966,820**	705,974	**906,268**	698,968	**637,690**	444,051	**2,510,778**	1,848,993
Segment results	**297,656**	267,785	**250,910**	207,614	**47,135**	(24,415)	**595,701**	450,984
Interest income, unallocated revenue and gains							**357,830**	187,358
Unallocated expenses							**(302,880)**	(223,605)
Finance costs							**(207,791)**	(146,406)
Share of profits and losses of:								
Jointly-controlled entities	**-**	-	**-**	-	**(880)**	(20,882)	**(880)**	(20,882)
Associates	**-**	-	**-**	-	**11,052**	(5,505)	**11,052**	(5,505)
Profit before tax							**453,032**	241,944
Tax							**(52,152)**	(40,631)
Profit for the year							**400,880**	201,313

Secondary reporting format - geographical segments

No geographical segment information is presented as over 90% of the Group's customers and operations are located in the Mainland of the People's Republic of China ("**Mainland China**").

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, value-added 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:

	2008	2007
	HK$'000	*HK$'000*
Revenue	**35,243,773**	25,418,398
Other income		
Government grants	**64,454**	36,830
Bank interest income	**10,124**	7,035
Gross rental income	**29,393**	34,431
Others	**7,341**	9,205
	111,312	87,501
Gains		
Change in fair value on investment properties	**1,108**	1,456
Gain on disposal of non-current asset classified as held for sale	**2,495**	21,500
Foreign exchange differences, net	**293,812**	109,481
Others	**9,238**	-
	306,653	132,437
	417,965	219,938

5. Total operating expenses

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

	2008	2007
	HK$'000	*HK$'000*
Selling expenses	**199,503**	140,205
Promotion and advertising expenses	**224,053**	149,810
Staff costs included in operating expenses (including directors' remuneration)	**1,044,619**	742,162
Other expenses	**809,917**	622,017
	2,278,092	1,654,194

6. Profit before tax

The Group's profit before tax is arrived at after charging:

	2008	2007
	HK$'000	*HK$'000*
Cost of inventories sold	**32,062,729**	23,058,332
Depreciation	**70,839**	64,197
Amortisation of prepaid land premiums	**376**	352
Impairment of goodwill	**-**	28,566
Amortisation of intangible assets	**4,786**	5,019
Impairment of intangible assets	**16,731**	16,259
Impairment of available-for-sale investments	**-**	2,425
Minimum lease payments under operating leases in respect of land and buildings	**72,391**	60,131
Provision and write-off of obsolete inventories	**13,331**	28,230
Impairment and write-off of trade receivables	**152,940**	64,610
Loss on disposal of items of property, plant and equipment	**3,482**	4,142

7. Tax

	2008	2007
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong	**2,661**	1,447
Current – The People's Republic of China ("**PRC**")	**41,632**	32,119
Deferred	**7,859**	7,065
Total tax charge for the year	**52,152**	40,631

(a) PRC corporate income tax represents the tax charged on the estimated assessable profits arising in Mainland China. Pursuant to the PRC corporate income tax law passed by the 10th National People's Congress on 16 March 2007, the new corporate income taxes for domestic and foreign enterprises are unified at 25%, which is effective from 1 January 2008. As a result, the corporate income tax rate of PRC subsidiaries of the Group has changed from 33% to 25% with effect from 1 January 2008, except for certain PRC subsidiaries which are entitled to tax holidays and preferential tax rates.

(b) During the year, Hong Kong profits tax has been provided at the rate of 17.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong.

(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 2007 and 2008. PRC corporate income tax has been provided at the applicable rates of on the estimated assessable profits of the jointly-controlled entities and associates for the years ended 31 March 2007 and 2008. The share of tax charge attributable to the jointly-controlled entities of approximately HK$Nil (2007: share of tax credit of approximately HK$32,000) and the share of tax charge attributable to the associates of approximately HK$679,000 (2007: share of tax credit of approximately HK$317,000) are included in "Share of profits and losses of jointly-controlled entities" and "Share of profits and losses of associates" respectively on the face of the consolidated income statement.

8. Dividends

	2008 *HK$'000*	2007 *HK$'000*
Proposed final dividend – 14.55 HK cents (2007: 8.28 HK cents) per ordinary share	**140,210**	72,370

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 amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$401,125,000 (2007: HK$208,429,000), and the weighted average of 917,512,860 (2007: 871,479,182) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$401,125,000 (2007: HK$208,429,000) and 934,702,820 (2007: 876,317,035) ordinary shares, which represent the weighted average of 917,512,860 (2007: 871,479,182) ordinary shares in issue during the year and the weighted average of 17,189,960 (2007: 4,837,853) ordinary shares deemed to have been issued at no consideration on the deemed exercise of all the outstanding share options during the year.

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 balance sheet date and net of impairment is as follows:

	2008 *HK$'000*	2007 *HK$'000*
Within 30 days	**1,846,435**	1,445,863
31 to 60 days	**467,480**	327,043
61 to 90 days	**438,626**	277,791
91 to 180 days	**601,101**	447,396
Over 180 days	**419,178**	354,311
	3,772,820	2,852,404

11. Non-current asset classified as held for sale

In January 2007, the Group has entered into a share transfer agreement with a third party to dispose of its entire interest in an associate, Nanjing Mercuries DC Financial Systems Ltd. The disposal was completed in August 2007 and resulting in a net gain of approximately HK$2,495,000 (note 4).

12. Trade and bills payables

An aged analysis of the Group's trade and bills payables as at the balance sheet date is as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**1,596,040**	1,400,964
31 to 60 days	**986,495**	876,647
61 to 90 days	**552,703**	212,180
Over 90 days	**199,281**	177,653
	3,334,519	2,667,444

DIVIDENDS

The Board recommends the payment of a final dividend of 14.55 HK cents (2007: 8.28 HK cents) per share for the year ended 31 March 2008 to the shareholders whose names appear on the register of members of the Company on 19 August 2008. Subject to the shareholders' approval at the forthcoming annual general meeting of the Company, the final dividend will be paid on or around 2 September 2008.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Harbour View Ballroom I (Level 4), Four Seasons Hotel Hong Kong, 8 Finance Street, Central, Hong Kong on Tuesday, 19 August 2008 at 9:30 a.m.. Notice of the annual general meeting will be issued in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 15 August 2008 to Tuesday, 19 August 2008 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all completed transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar, Tricor Abacus Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 14 August 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

1. The Group posted enormous growth as it accomplished all targets set for the year ended 31 March 2008 in excellent results. The year under review marked a watershed where the Group built on the foundations of past achievements to open up new frontiers with the implementation of new strategies. There was improvement in the Group's overall profitability and significant progress in effective control over operational risks as the Group advanced the general strategy of focusing on customers and services, heralding the second five-year plan with solid groundwork.

1.1 Substantial turnover growth further reinforcing prestigious market position

For the year ended 31 March 2008, the Group recorded turnover of approximately HK$35,244 million, an increase of 38.65% as compared to HK$25,418 million for last financial year. For the third year in a row since the 2005/06 financial year, the Group had registered growth exceeding 20%, which was well above the average industry growth rate. It was also strongest growth in overall turnover recorded by the Group since its listing.

1.2 Strong overall results underpinned by phenomenal profit growth

The Group's profit attributable to the equity holders of the parent (profit attributable to shareholders) for the financial year under review amounted to approximately HK$401 million, a 92.45% increase as compared to HK$208 million for last financial year. Return on shareholders' equity was 15.28%, improving by 43.74% as compared to last financial year. Basic earnings per share grew 82.78% to 43.72 HK cents.

1.3 Major breakthrough in results for the Services business after years of development and buildup

All of the Group's business segments reported rapid growth and continued dominance in their respective industries. According to an analysis report provided by IDC in April 2008, the Group topped the list of domestic IT service providers and held pole positions in the government and banking sub-sectors. Following years of positive buildup, the Group's Services business achieved overall profitability for the financial year under review to contribute gain of approximately HK$47 million according to the segment results. The effective cultivation of core capabilities in three key areas, namely service base development, software commercialization, products support and IT outsourcing and maintenance services (PSOM), has played an extremely important role in the attainment of overall profitability for the Services business.

1.4 Notable improvement on profitability in the first year of a strategic switch to focuses on customers and services

The Group has completed a business setup to match the most common clientele and services in China. Operations of each of our three major businesses have been structured according to five types of clientele and services: namely CONSUMER, SOHO (small office and home office), SMB (small and medium businesses), Enterprise and Major Accounts. Innovative products, solutions and services focused on customers' requirements contributed to notable improvements on profitability. For the year ended 31 March 2008, the overall adjusted gross profit margin of the Group was 7.96% after taking into account the effect of Renminbi appreciation on the purchasing costs, up 0.26 percentage points from 7.70% for last financial year.

1.5 Risk control system and process management ensuring sound operating cash flow and cash cycle amid fast turnover growth

The Group maintained stable operating cash flow for the year ended 31 March 2008, despite the government's policy to tighten monetary policy. Net cash inflow from operating activities was approximately HK$77 million. The cash turnover days for the financial year under review was 25.02 days, which was 2.41 days less compared to last financial year. Turnover days of trade receivables and inventory were also shortened by 4.66 days and 1.50 days, respectively.

2.1 Distribution business

The Group's Distribution business continued to outperform the market in rapid growth during the financial year

For the year ended 31 March 2008, turnover of the Group's Distribution business amounted to HK$20,889 million, representing a 41.83% growth compared to last financial year. Adjusted profit margin for the Distribution business increased to 4.99% versus 4.94% for last financial year, after taking into account the effect of exchange gains on the purchasing costs, as the Group sought to steer a balanced course between business growth and stable profitability.

2.1.1 Customer development efforts in the SMB, SOHO and CONSUMER markets rewarded by strong turnover growth in all categories

The Group's Distribution business conducted detailed analysis of customers' needs in the SMB (small and medium businesses), SOHO (small office and home office) and CONSUMER markets and launched a series of solutions through a dedicated solutions center on the back of the variety of products under its distribution. The efforts in customer development resulted in rapid growth in turnover for the Group's major business sectors. Turnover from notebooks, consumer IT products, PC servers and accessories reported growth of 65.04%, 37.66%, 31.76% and 65.54%, respectively, as compared to last financial year.

2.1.2 Active implementation of the new "SELL-OUT" marketing model met with positive response from sales channels

As a key point of promoting business transformation, the Group's Distribution business during the financial year under review was underpinned by the adoption of the "SELL-OUT" marketing model calling for close monitoring of channel sales as well as knowledge of end-channels and user requirements, with a view to customizing product supplies, solutions and marketing strategies that meet users' requirements and upgrading supply chain efficiency. The "SELL-OUT" model was vigorously promoted by the Group's Distribution business during the financial year under review through new marketing training at the channel end, the establishment of experimental platforms and the launch of the E-partner system (ex-warehouse reporting on channel sales) on 1 June 2007. Positive response was received from the channels.

2.2 Systems business

Business scale and profitability of the Group's Systems business enhanced on the back of pro-active expansionary policy, redefined customer base and customer-specific business setup

For the year ended 31 March 2008, turnover of the Group's Systems business increased by 32.38% to HK$9,732 million, as compared to last financial year. Adjusted gross profit margin after reversing the effect of exchange gains on the purchasing costs was 11.15%, which was notably higher than 10.53% reported for last financial year.

2.2.1 Significant business growth backed by vigorous customer development

The Group's Systems business actively developed its enterprise-level customer base and reported substantial growth in its customer-end business during the financial year under review with the offering of over 100 enterprise-specific solutions. Efforts to develop regional customers were rewarded by year-on-year increase in turnover of 141.60%, 116.90% and 77.61%, respectively, as compared to last financial year, from regional customers in North China, East China and South China. All in all, the dominance in the market for enterprise-level customers has been further reinforced.

2.2.2 Redefining services to enhance servicing capabilities

The Group continued to advance its servicing capabilities during the financial year under review by setting up solution centers to provide product and application solutions specific to enterprise-level customers. The services business under the Group's Systems business delivered sound results for the financial year under review, as evidenced by a 68.39% growth in turnover compared to last financial year.

2.3 Services business

The Group's Services business reported significant growth in business scale and turnaround to profit for the year

For the year ended 31 March 2008, turnover of the Group's Services business amounted to HK$4,623 million, representing a 38.45% growth compared to last financial year. Adjusted gross profit margin of the Services business was 14.65% taking into account exchange gains, which was 0.96 percentage points higher compared to 13.69% for last financial year.

As shown in the segment results for the year ended 31 March 2008, the Group's Services business reported gain of HK$47 million in a historical turnaround to positive bottom line, as compared to retained loss of approximately HK$24 million for last financial year.

2.3.1 Strategic shift to focus on customer needs resulted in increased business with large enterprises and stronger customer servicing capabilities

The Group's Services business reported substantial growth in contracts signed with customers in major industries for the year ended 31 March 2008, outpacing the average growth rates for the respective industries by considerable margins. In particular, the aggregate contract value for the finance sector increased by more than 86.67% over last financial year, as significant inroads in securing regional banks and insurance companies as new customers were achieved in addition to the rapid expansion of our traditional customer base. The aggregate contract value for the telecommunications sector increased by 29.27% over last financial year on the back of ongoing positive relationships with traditional customers coupled with major progress in developing businesses with China Unicom, China Telecom and China Netcom. The contract value for the government sector increased by 49.30% over last financial year as our major customer-end business maintained a leading edge in the market.

2.3.2 Upgraded capabilities in software solutions contributing strongly to growth in contract value and profitability

The Group's capabilities in software application solutions under its Services business were significantly enhanced for the year ended 31 March 2008, as evidenced by substantial growth in contract value for projects relating to major software. A number of customers including state-owned, foreign and commercial banks signed up for our ModelB@nk 2.0 financial system solution during the year. China Mobile and China Telecom renewed contracts for the Group's BOSS 3.0 service operations support system after improvements had been made to add sophistication to the Group's telecommunications service support system solutions. In the government sector, we continued to dominate the market with application solutions in major segments such as taxation, commodities reserves and utilities.

2.3.3 R&D bases contributing to stronger software development capabilities, cost reductions and efficiency enhancements

There were continued improvements to the software development servicing capabilities of the research and development (R&D) bases in Xi'an and Chengdu under the Group's Services business. The Xi'an software development base secured CMMI4 (Capability Maturity Model Integration) certification during the year, as a quality management system with centralized standards enabled the base to develop a variety of solution products by enhancing its software R&D capabilities. With solid software R&D and implementation capabilities, the R&D bases were developing an active client interface as it undertook core projects for state-owned and commercial banks. Some of these banking projects have already been commissioned.

2.3.4 Rapid business expansion and effective system building for PSOM

For the year ended 31 March 2008, revenue from PSOM services under the Group's Services business increased by 40% to approximately HK$354 million as compared to last financial year, coupled with strong improvements in profit. The Group's efforts to develop a PSOM system were met with steady progress and notable results.

Management outlook:

While the Group delivered excellent results in the 2007/08 financial year with growth and breakthrough in service redefinition, customers, geographical presence and product development, the 2008/09 financial year is expected to be as much challenging as it is rewarding for the Group. While the general economic environment will be subject to a number of uncertainties, the Group will find core drivers to business growth in its market leadership in the principal businesses attained through years of buildup, in particular the headways made in terms of customer development, product commercialization, cost control and consultation services by its IT Services business which has started to contribute profit. For this reason, the management believes that as the Group continues to maintain its dominance in various sectors, it is well-positioned to realize the targets in turnover and profit growth for the 2008/09 financial year through focused and dedicated efforts in the strategic shift to the customer- and service-oriented approaches and further refined cost control initiatives.

The management is of the view that China will continue to see steady economic growth in the next three to five years, during which the demand for IT products and services is expected to grow in tandem, providing a key prerequisite to as well as opportunity for the Group's business growth. As such, the Group intends to enhance its profitability and investment return for greater shareholders' value by advancing its development through ongoing strategic moves, optimization of business structures and overall business value.

Capital Expenditure, Liquidity and Financial Resources

The Group mainly finances its operations with internally generated cash flows, bank loans and banking facilities.

The Group had total assets of HK$9,314 million at 31 March 2008 which were financed by total liabilities of HK$6,670 million, minority interests of HK$18 million and equity attributable to equity holders of the parent of HK$2,626 million. The Group's current ratio at 31 March 2008 was 1.56 as compared to 1.44 at 31 March 2007.

During the year ended 31 March 2008, capital expenditure of HK$98 million was 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 0.60 at 31 March 2008 as compared to 0.63 at 31 March 2007. The computation of the said ratio was based on the total amount of interest-bearing borrowings and bond payable of HK$1,574 million (31 March 2007: HK$1,237 million) and equity attributable to equity holders of the parent of HK$2,626 million (31 March 2007: HK$1,961 million).

At 31 March 2008, the denomination of the interest-bearing borrowings and bond payable of the Group was shown as follows:

	Denominated in United States dollar	**Denominated in Renminbi**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Current			
Interest-bearing bank borrowings, unsecured	311,433	55,396	366,829
Interest-bearing bank borrowing, secured	-	33,237	33,237
	311,433	88,633	400,066
Non-current			
Interest-bearing bank borrowings, unsecured	-	952,803	952,803
Bond payable	-	221,582	221,582
	-	1,174,385	1,174,385
Total	311,433	1,263,018	1,574,451

The Group's current borrowings of approximately HK$33 million extended by financial institutions to a subsidiary of the Group, Beijing Si-Tech Information Technology Co., Ltd. ("**STQ**"), were secured by the Group's property situated in the Mainland China with a value of approximately HK$19 million at 31 March 2008 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. The Group's current bank borrowings and non-current bank borrowings of approximately HK$55 million and HK$953 million respectively represented the term loans and are repayable from Year 2008 to 2014.

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$222 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 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 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 2008 amounted to HK$9,232 million, of which HK$1,119 million were in term loan facilities, HK$6,145 million were in trade lines and HK$1,968 million were in short-term and revolving money market facilities. At 31 March 2008, the facility drawn down was HK$1,008 million in term loan facilities, HK$1,469 million in trade lines and HK$345 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 2008, the Group had approximately 7,700 (31 March 2007: approximately 6,700) 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 37.29% increase in staff costs to approximately HK$1,205 million for the year ended 31 March 2008 as compared with an approximate sum of approximately HK$878 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 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 2008.

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 of the Rule Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2008, except for the following deviations:

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.

Prior to the change of Chairman of the Board from Mr. LI Qin to Mr. GUO Wei on 19 December 2007, Mr. GUO has been the Chief Executive Officer of the Company since February 2001. Therefore, Mr. GUO took up the dual role as Chairman and Chief Executive Officer of the Company upon the resignation of Mr. LI Qin. 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 benefit the Group and the shareholders of the Company as a whole in consistent the setting up and the implementation of the business strategy.

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 Chairman or 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 continuation of the service of the Directors.

The second part of Code Provision A.4.2 stipulates that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the Bye-Laws of the Company, 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 notwithstanding anything herein, the Chairman of the Board and the Managing Director shall not, whilst holding such office, be subject to retirement by rotation. Therefore, Mr. GUO Wei, Chairman of the Company, shall not be subject to retirement by rotation.

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 mostly conform to the needs of the Company and is best to the optimal efficiency for the operation of the Committee.

The Remuneration Committee is responsible for, among others, determine and agree with the Board the framework and policy, take into account all factors which it deems necessary, for the remuneration of the Chairman, Chief Executive Officer, and the Executive Directors, determine the total individual remuneration package of each Executive Director (including the Chairman and the Chief Executive Officer) and other senior executives including bonuses, incentive payments and share options or other share awards within the terms of the agreed policy and in consultation with the Chairman and Chief Executive Officer as appropriate.

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

During the year ended 31 March 2008, 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, 25 June 2008

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. CHEN Derek Zhiyong and Mr. LUO Hong

Independent Non-executive Directors: Mr. HU Zhao Guang, Professor WU Jinglian, Mr. WONG Man Chung, Francis and Mr. KWAN Ming Heung, Peter

Website: www.digitalchina.com.hk

* *For identification purpose only*