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 2011

HIGHLIGHTS

1. **Record profit level with improving profitability:**
   - Profit attributable to shareholders grew 21.97% to HK$1,005 million, a historical high
   - Basic EPS amounted to 96.13 HK cents, representing a 15.65% growth
   - Gross profit margin of 6.89%, increased by 0.31 percentage point

2. **A successful 10th anniversary since listing in 2001:**
   - Profit attributable to shareholders has been growing 21.64% p.a. on a compound basis between FY2000/01 and FY2010/11
   - Net assets has also been growing 35.50% p.a. during the same period
   - Share price of HK$14.66 per share as at 31 March 2011 represented an increase of 16.24% p.a. (including dividends) over IPO price of HK$3.68 in 2001

3. **Good growth in turnover:**
   - Turnover of HK$56,804 million, representing a 13.20% growth
   - Achieved record quarterly sales of HK$14,823 million in the third quarter in FY2010/11

4. **Healthy financial position:**
   - Shareholders' equity of HK$6,033 million, increased by 43.61%
   - Gross debt-to-equity ratio reduced from 41.01% to 32.64%
   - Cash turnover reduced to 18.42 days, shortened by 0.8 day

5. **Solid foundation and strategy for future growth:**
   - All segments recorded continuous growth outperforming the industry average
   - Continued implementation of focus strategy on direct customers and services to further enhance profitability
   - Establishing the Group as the leader in China's "Sm@rt City" development as part of its urbanisation

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 2011 together with comparative figures for the last financial year as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	4	**56,803,774**	50,178,281
Cost of sales		**(52,891,788)**	(46,878,503)
Gross profit		**3,911,986**	3,299,778
Other income and gains	4	**646,664**	619,445
Selling and distribution costs		**(2,246,123)**	(1,907,220)
Administrative expenses		**(480,973)**	(402,142)
Other operating expenses, net		**(369,910)**	(445,797)
Total operating expenses	5	**(3,097,006)**	(2,755,159)
Finance costs		**(229,125)**	(125,021)
Share of profits and losses of:			
Jointly-controlled entities		**(11)**	(642)
Associates		**32,333**	9,589
PROFIT BEFORE TAX	6	**1,264,841**	1,047,990
Income tax expense	7	**(208,502)**	(174,288)
PROFIT FOR THE YEAR		**1,056,339**	873,702
Attributable to:			
Equity holders of the parent		**1,005,385**	824,299
Non-controlling interests		**50,954**	49,403
		1,056,339	873,702
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**96.13 HK cents**	83.12 HK cents
Diluted		**95.73 HK cents**	82.93 HK cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 March 2011

	2011 *HK$'000*	2010 *HK$'000*
PROFIT FOR THE YEAR	**1,056,339**	873,702
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation of foreign operations	**83,388**	1,224
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**83,388**	1,224
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,139,727**	874,926
Attributable to:		
Equity holders of the parent	**1,076,317**	825,046
Non-controlling interests	**63,410**	49,880
	1,139,727	874,926

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**697,812**	374,260
Investment properties		**265,581**	285,472
Prepaid land premiums		**85,409**	53,072
Goodwill		**228,601**	-
Intangible assets		**3,439**	2,822
Investments in jointly-controlled entities		**33,322**	3,785
Investments in associates		**675,337**	265,173
Available-for-sale investments		**1,596**	101,496
Other receivables		**353,559**	332,849
Deposits paid for acquisition of property and land use right		**184,280**	-
Deferred tax assets		**40,263**	49,118
Total non-current assets		**2,569,199**	1,468,047
CURRENT ASSETS			
Inventories		**4,145,298**	3,368,487
Trade and bills receivables	*10*	**8,323,230**	6,411,961
Prepayments, deposits and other receivables		**1,838,190**	1,633,760
Derivative financial instruments		**20,203**	15,508
Cash and cash equivalents		**3,049,455**	2,772,026
Total current assets		**17,376,376**	14,201,742
CURRENT LIABILITIES			
Trade and bills payables	*11*	**8,842,950**	7,209,673
Other payables and accruals		**2,401,391**	1,850,178
Derivative financial instruments		**-**	6,456
Tax payable		**161,434**	207,492
Interest-bearing bank borrowings		**651,980**	455,711
Bond payable		**-**	226,296
Total current liabilities		**12,057,755**	9,955,806
NET CURRENT ASSETS		**5,318,621**	4,245,936
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,887,820**	5,713,983
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**1,281,576**	1,040,600
Bond payable		**35,411**	-
Total non-current liabilities		**1,316,987**	1,040,600
NET ASSETS		**6,570,833**	4,673,383

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 March 2011

	Note	2011 HK$'000	2010 HK$'000
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*12*	**109,121**	102,077
Reserves		**5,571,959**	3,810,246
Proposed final dividend		**351,916**	288,505
		6,032,996	4,200,828
Non-controlling interests		**537,837**	472,555
TOTAL EQUITY		**6,570,833**	4,673,383

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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised) and amendments to HKAS 7 included in *Improvements to HKFRSs 2009*, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and further reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 April 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendment most applicable to the Group is as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

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 offering IT planning and IT systems consultation, design and implementation of industry application software and solutions, outsourcing of IT system operation and maintenance, provision of systems integration, 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 reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, unallocated corporate income and gains, unallocated corporate expenses and share of profits and losses of jointly-controlled entities and associates are excluded from such measurement.

A restructuring had undergone in one of the business units, the Teleco Accounts Team, which transformed the business of distribution of systems products to the provision of systems integration and consultation services since the previous financial year. During the current year, the Group carried out an organisational restructuring by incorporating the Teleco Accounts Team of the Systems Business into the Information Technology Services Group with an aim of strengthening the service transformation and centralising the management of businesses, and targeting at the telecommunications industry's customers. Moreover, during the current year, upon the consideration of the more well-prepared transformation, the Group reclassified the results of this business unit from the "Systems" segment into the "Services" segment and restated the related results of the previous financial year in order to provide a more appropriate presentation for the operating segment information.

The following table presents revenue and results for the Group's operating segments for the years ended 31 March 2011 and 2010:

	Distribution		Systems		Supply Chain Services		Services		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000* (Restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (Restated)	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**26,918,084**	22,721,957	**13,823,493**	12,666,781	**10,020,579**	8,775,449	**6,041,618**	6,014,094	**56,803,774**	50,178,281
Segment gross profit	**1,179,010**	998,858	**1,346,195**	1,193,776	**418,027**	306,347	**968,754**	800,797	**3,911,986**	3,299,778
Segment results	**450,357**	234,559	**599,871**	391,303	**119,283**	91,345	**228,882**	190,695	**1,398,393**	907,902
Interest income, unallocated revenue and gains									**303,677**	504,382
Unallocated expenses									**(240,426)**	(248,220)
Finance costs									**(229,125)**	(125,021)
Share of profits and losses of:										
Jointly-controlled entities	**-**	-	**-**	-	**-**	-	**(11)**	(642)	**(11)**	(642)
Associates	**-**	-	**-**	-	**-**	-	**32,333**	9,589	**32,333**	9,589
Profit before tax									**1,264,841**	1,047,990
Income tax expense									**(208,502)**	(174,288)
Profit for the year									**1,056,339**	873,702

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:

	2011	2010
	HK$'000	*HK$'000*
Revenue	**56,803,774**	50,178,281
Other income		
Government grants	**82,429**	57,430
Bank interest income	**17,792**	32,346
Imputed interest income on other receivables	**20,142**	4,911
Gross rental income	**33,779**	36,732
Dividend income from available-for-sale investments	**10,912**	2,373
Others	**42,461**	16,500
	207,515	150,292
Gains		
Fair value gain on investment properties	**44,265**	46,956
Fair value gain on an available-for-sale investment (transfer from equity on disposal)	**13,622**	-
Gain on derivative financial instruments:		
Realised gain	**124,500**	93,454
Unrealised gain	**20,203**	9,052
Gain on deemed disposal of investment in a subsidiary	**-**	142,449
Gain on partial disposal of investment in a subsidiary	**-**	118,217
Gain on disposal of subsidiaries	**-**	57,746
Gain on disposal of an available-for-sale investment	**6,563**	-
Foreign exchange differences, net	**229,540**	-
Others	**456**	1,279
	439,149	469,153
	646,664	619,445

5. Total operating expenses

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

	2011	2010
	HK$'000	*HK$'000*
Selling expenses	**305,803**	262,367
Promotion and advertising expenses	**173,167**	146,697
Staff costs included in operating expenses (including directors' remuneration)	**1,513,311**	1,317,415
Other expenses	**1,104,725**	1,028,680
	3,097,006	2,755,159

6. Profit before tax

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

	2011	2010
	HK$'000	*HK$'000*
Cost of inventories sold	**51,527,231**	45,680,114
Depreciation	**111,563**	82,867
Amortisation of prepaid land premiums	**540**	409
Impairment of goodwill	**-**	1,572
Amortisation of intangible assets	**1,681**	1,411
Minimum lease payments under operating leases in respect of land and buildings	**113,015**	103,124
Provisions for and write-off of obsolete inventories	**43,291**	123,498
Impairment of trade receivables	**67,422**	136,247
Loss on disposal of items of property, plant and equipment	**4,424**	532
Foreign exchange differences, net	**(229,540)**	717

7. Income tax expense

	2011	2010
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong	**-**	6,773
Current – The People's Republic of China ("**PRC**")	**197,859**	192,457
Deferred	**10,643**	(24,942)
Total tax charge for the year	**208,502**	174,288

(a) No provision for Hong Kong profits tax has been made for the Hong Kong subsidiaries for the year ended 31 March 2011 as the Hong Kong subsidiaries had no estimated assessable profits arising in Hong Kong. During the year ended 31 March 2010, Hong Kong profits tax had been provided at the rate of 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) The share of tax charge attributable to the jointly-controlled entities of approximately HK$473,000 (2010: HK$279,000) and the share of tax charge attributable to the associates of approximately HK$10,377,000 (2010: share of tax credit of approximately HK$2,643,000) 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

	2011	2010
	HK$'000	*HK$'000*
Proposed final dividend – 32.25 HK cents (2010: 28.26 HK cents) per ordinary share	**351,916**	288,505

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$1,005,385,000 (2010: HK$824,299,000), and the weighted average of 1,045,911,614 (2010: 991,754,252) ordinary shares in issue during the year.

The calculation of diluted earnings per share amount for the year ended 31 March 2011 is based on the profit for the year ended 31 March 2011 attributable to ordinary equity holders of the parent of approximately HK$1,005,385,000 (2010: HK$824,299,000) and 1,050,205,872 (2010: 994,025,926) ordinary shares, which represented the weighted average of 1,045,911,614 (2010: 991,754,252) ordinary shares in issue during the year ended 31 March 2011, and the weighted average of 4,294,258 (2010: 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 2011.

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:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**4,035,574**	3,366,585
31 to 60 days	**1,106,189**	548,099
61 to 90 days	**711,071**	794,480
91 to 180 days	**1,435,201**	875,980
Over 180 days	**1,035,195**	826,817
	8,323,230	6,411,961

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:

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**4,189,636**	3,939,790
31 to 60 days	**2,122,394**	2,040,302
61 to 90 days	**1,160,812**	501,732
Over 90 days	**1,370,108**	727,849
	8,842,950	7,209,673

12. Share capital

	2011	2010
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 (2010: 2,000,000,000) ordinary shares of HK$0.1 (2010: HK$0.1) each	**200,000**	200,000
Issued and fully paid:		
1,091,212,581 (2010: 1,020,767,581) ordinary shares of HK$0.1 (2010: HK$0.1) each	**109,121**	102,077

A summary of the movements of the Company's issued capital and share premium accounts during the years ended 31 March 2011 and 2010 is as follows:

	Notes	**Number of ordinary shares in issue**	**Issued capital**	**Share premium account**	**Total**
			HK$'000	***HK$'000***	***HK$'000***
At 1 April 2009		962,390,581	96,239	617,803	714,042
Issue of shares	(a)	57,647,000	5,765	361,235	367,000
Exercise of share options	(b)	730,000	73	5,304	5,377
At 31 March 2010 and 1 April 2010		**1,020,767,581**	**102,077**	**984,342**	**1,086,419**
Issue of shares	(c)	**70,000,000**	**7,000**	**1,053,405**	**1,060,405**
Exercise of share options	(b)	**445,000**	**44**	**3,475**	**3,519**
At 31 March 2011		**1,091,212,581**	**109,121**	**2,041,222**	**2,150,343**

Notes:

(a) 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.

(b) During the year ended 31 March 2011, the subscription rights attaching to 445,000 (2010: 730,000) share options were exercised at subscription prices at HK$5.89 (2010: HK$5.89) per share, resulting in the issue of 445,000 (2010: 730,000) ordinary shares of HK$0.1 each for a total cash consideration, of approximately HK$2,621,000 (2010: HK$4,300,000). An amount of HK$898,000 (2010: HK$1,077,000) was transferred from employee share-based compensation reserve to the share premium account upon the exercise of the share options.

(c) On 22 November 2010, the Company has allotted and issued 70,000,000 new ordinary shares of HK$0.1 each ("**New Shares**") for the listing of Taiwan depository receipts ("**TDR**") in the Taiwan Stock Exchange Corporation (the "**Taiwan Stock Exchange**"). On 24 November 2010, the TDR were listed on the Taiwan Stock Exchange. As each unit of TDR represented half an ordinary share, the New Shares were issued at NT$60.40 per New Share. The New Shares were issued by the Company with total net proceeds of approximately NT$4,160,393,000 (equivalent to approximately HK$1,060,405,000). Further details of the transaction were set out in the announcements of the Company dated 4 October 2010, 9 November 2010, 17 November 2010 and 23 November 2010.

DIVIDENDS

The Board recommends the payment of a final dividend of 32.25 HK cents (2010: 28.26 HK cents) per share for the year ended 31 March 2011 to the shareholders of the Company. The date of the forthcoming annual general meeting of the Company, the book close period and the date of dividend payment will be announced in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2010, being the final year of the 11th Five-Year-Plan period of China, the nation sustained stable economic growth with solid deliverables in the aftermath of the financial turmoil. It was also a spectacular year for the Group, in which the transformation from a "product-oriented distribution business" into a "customer-focused and service-oriented" integrated IT service provider for 10 years has finally been successfully achieved. While our Group was celebrating the 10th anniversary of public listing, we engineered the "second wave" of our business transformation by remolding ourselves into an "IT operation service provider" on top of being an "IT service provider". With proven experience and execution capabilities garnered through the construction of "Digitized City" in the past two years, we commenced yet another transformation process to assume a strategic commanding position in the development of the "Sm@rt City". In overview of the financial year, the "customer-focused and service-oriented" strategy was implemented in full swing, while the "Digitized City / Sm@rt City" strategy was rolled out in a most favorable manner, with all segments reporting stable growth that outperformed the industry average in fulfillment of benchmarks set at the beginning of the year. As a result, our market leadership has been further reinforced and our customer value significantly enhanced.

For the year ended 31 March 2011, the Group:

- **Delivered excellent performance with continuous improvement in overall profitability** – The Group's profit attributable to ordinary equity holders of the parent (profit attributable to shareholders) for the year amounted to approximately HK$1,005 million, representing a 21.97% growth as compared to last financial year. And, the operating profit achieved was HK$942.20 million, representing a strong growth of 78% as compared to operating profit of approximately HK$529.18 million for last financial year. Profit attributable to shareholders for the fourth quarter of the financial year under review was approximately HK$176.21 million, representing a 19.37% growth as compared to HK$147.61 million for the corresponding period of last financial year. Basic earnings per share amounted to 96.13 HK cents, which was 15.65% higher as compared to 83.12 HK cents for the corresponding period of last financial year.

- **Reported sound growth in operating income underpinned by solid quarterly results** – With the benefit of a balanced coverage of various industry segments, outstanding customer value and comprehensive product offerings, the Group continued to report steady increase in turnover, bagging approximately HK$56,804 million for the full year which was 13.20% higher compared to approximately HK$50,178 million for the corresponding period of last financial year. More particularly, we finished the second and third quarters with successive record-high levels of quarterly sales to assure strong growth in annual results. Turnover for the fourth quarter of the financial year amounted to approximately HK$14,421 million, representing growth of close to 17% as compared to the corresponding period of last financial year.

- **Assured notable enhancements in profitability for principal operations** – our gross profit margin generally increased across all principal business segments thanks to our successful strategic transformation; on an annualized basis, profitability for all business units either sustained or exceeded the level attained last financial year in terms of gross profit; the Group's overall cumulative gross profit margin was 6.89%, increasing by 0.31 percentage point as compared to 6.58% for the corresponding period of last financial year. Notably, gross profit margin for the fourth quarter of the financial year reached 7.07%, significantly improved as compared to the corresponding period of last financial year.

- **Achieved prominent results in risk control and cash flow management on the back of improved capability** – The Group's net cash inflow from operating activities for the financial year amounted to HK$433 million. The Group assured healthy business development and stable growth thanks to persistent efforts in stringent risk control measures and strengthened cash flow control. Fund efficiency was significantly improved as overall cash turnover for the financial year was reduced to 18.42 days, shortened by 0.8 day as compared to 19.22 days of the corresponding period of last financial year.

- **Assuming strategic advantage with successful launch of "Sm@rt City" Portfolio –** The Group enjoyed initial success in the roll-out of the Sm@rt City strategy, with business deployment commencing in 57 cities throughout the nation. Sm@rt City as a Group strategy has established an initial leading edge in the market, as a publicity campaign promoting our brand new image as "China's Sm@rt City Expert" based on the concept of "integration service" has also been launched in full scale. The "Citizen Card" projects for Yangzhou, Wuxi, Zhangjiagang and Zhenjiang were hugely successful, while the "Cloud-Based Platform for Smart Cards" in Foshan City was smoothly progressing. The successful conclusion of strategic cooperation agreements with Hainan Province and the cities of Shenzhen, Nanjing, Zhengzhou, Wuhan and Guilin during the year have also provided a solid foundation for the Group as "China's Sm@rt City Expert".

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.

Outperforming growth for Distribution Business courtesy of timely opportunities and dominant market coverage
Turnover from the Group's Distribution Business for the year ended 31 March 2011 grew 18.47%, as compared to the corresponding period of last financial year, to approximately HK$26,918 million, representing a higher growth rate than the average market level for the segment. Gross profit margin was 4.38%. In particular, turnover for the fourth quarter of the financial year grew 17.13%, year-on-year, to approximately HK$6,662 million, which far exceeded the industry average.

Market leadership enhanced in tandem with expanding channels, networks and retail business
There were 634 Digital China "@PORT" franchise retail outlets operating in China as at 31 March 2011, representing a 50% growth as compared to 422 outlets at the end of the corresponding period of last financial year and effectively consolidating the Group's leadership in tiers 4-6 cities. In addition, SMB channels grew by over 20%. Our leading edge was further extended as our sales grids covered more than 594 cities in the 4^{th} to 6^{th} tiers.

Outperforming growth in various products thanks to strategies for "sustaining current volumes and seeking additional volumes"
On the back of a balanced and complete product portfolio as well as a proactive strategy in market coverage and expansion, we avoided declines or attained growth in various product lines for the year ended 31 March 2011 despite volatility in certain sub-segment markets during the year, thanks to timely strategies for sustaining current business volumes and seeking additional business volumes. We succeeded in preventing our percentage share in mainstream brands from shrinking, while reporting a 7% year-on-year growth for our notebook segment. Meanwhile, substantial year-on-year growth was reported for other product lines, such as PC servers, consumer IT products and peripherals, the sales of which increased by over 30%. In the mobile communications sector, the future driver for business volume growth, a smart phone business plan underpinning "Three Major Operators" and "Six Major Operating Systems" was devised, while MAA-based solutions and sales promotion were adopted. Proprietary intermediary products for mobile communications were also launched as part of our ongoing efforts to increase our ability to provide futuristic solutions.

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 from the enterprise market. Since 2007, we have been making direct sales to regional customers to enhance direct control over our business in the enterprise market.

Significant improvements in profitability alongside pro-active efforts to expand the Enterprise Market
Turnover from the Group's Systems Business for the year ended 31 March 2011 amounted to approximately HK$13,823 million, representing a 9.13% growth over the corresponding period of last financial year. In the meantime, we continued to break new grounds in our customer-end business with a broadening customer base. The Group's Systems Business returned a gross profit margin of 9.74%, which was 0.32 percentage points higher as compared to 9.42% for the corresponding period of last financial year. In particular, gross profit margin reached 10.42% for the final quarter of the financial year, driving significant improvements in the overall profitability of the Systems Business.

Customer mix optimized underpinned by substantial increase in revenue from large corporate clients
The Group's Systems Business continued to capitalize on opportunities available to explore the regional market and expand its base of preferred customers in persistent implementation of a customer-oriented strategy, while constantly improving and substantiating its ability to provide solutions. During the year ended 31 March 2011, our regional customer business grew by 27.03% in comparison with the corresponding period of last financial year, contributing to our outperforming growth in overall turnover. Meanwhile, the Company's profitability was significantly improved on the back of stronger ability to provide solutions attributable to the increase in the number and business volume of large corporate customers.

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 value-intensive manufacturers and industry customers, providing "one-stop" supply-chain consultancy and execution.

Record-high profitability for Supply Chain Services Business thanks to optimized business structure

The business structure of the Group's Supply Chain Services Business underwent significant modifications during the financial year in response to changes in the macro-economic environment and sustained sound growth as a result despite volatility in certain market sub-segments. The Group's Supply Chain Services Business reported turnover of approximately HK$10,021 million during the year ended 31 March 2011 which represented a 14.19% growth over the corresponding period of last financial year. The Supply Chain Services Business reported a record-high gross profit margin of 4.17% thanks to ongoing optimization of its business structure. In particular, the gross profit margin of 4.78% for the fourth quarter represented a significant improvement of 0.96 percentage points compared to 3.82% for the corresponding period of last financial year, effectively lifting the overall profitability of the Supply Chain Services Business.

CES business underpinned by rapid expansion, improving profitability and solid relationships with customers served

Our Chain Electronic Stores (CES) business continued to expand its regional store operations, while maintaining our business volume with large electronic stores such as Gome and Suning as well as our market shares. These efforts combined to contribute to a substantial year-on-year growth of over 50% in CES turnover. For our third-party logistics business, we continued to develop new customers. For the year ended 31 March 2011, turnover of third-party logistics business grew by 78.19% as compared to the corresponding period of last financial year. As a value-added service for the supply chain, the Maintenance Service Business sustained rapid expansion with revenue from maintenance services growing approximately 25% over the corresponding period of last financial year. The growing percentage share of revenue from service-based businesses has provided a solid foundation for structural optimization of the Supply Chain Services Business.

4. Services Business (with a primary focus on the Industry Market)

The Group's Services Business is targeted at large-scale industry customers, offering software services for all segments of the industry and provides clients with IT planning and IT systems 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. The Services Business is also capable of supplying ERP and software outsourcing services for all segments of the industry to the market.

IT Services continued to expand; improving profitability underpinned by best three-month results in the fourth quarter

In terms of the Services Business, the Group has been focusing on value enhancement for customers with a special emphasis on software and services. During the year ended 31 March 2011, our software and servicing capabilities continued to improve as the overall gross profit margin of the Services Business reached 16.03%, representing a substantial growth over 13.32% for the corresponding period of last financial year. In particular, the Services Business bagged the year's highest quarterly turnover of approximately HK$1,715 million in the fourth quarter, providing a further boost to the Group's dominant position in the IT services market.

Extensive and effective roll-out of Sm@rt Cities supported by growing sophistication in solution packages

As at 31 March 2011, strategic deployment for the "Sm@rt City" Project had commenced in 57 cities throughout the nation. Starting in Yangzhou, Sm@rt City as a Group strategy has established an initial leading edge in the market. Meanwhile, a publicity campaign promoting our brand new image as "China's Sm@rt City Expert" based on the concept of integrated and concerted service has also been launched in full scale. The "Citizen Card" projects for Yangzhou, Wuxi, Zhangjiagang and Zhenjiang were hugely successful, while the "Cloud-Based Platform for Smart Cards and related Demo Project" for the People's Government of Chancheng District, Foshan City, Guangdong was effectively implemented and smoothly progressing. The successful conclusion of strategic cooperation agreements with Hainan Province and the cities of Shenzhen, Nanjing, Zhengzhou, Wuhan and Guilin have provided a solid foundation for the Group as China's Sm@rt City Expert. Also in the pipeline are solutions for citizen cards, regional health systems, smart tourism, government-business connection, general tax administration, data exchange, cloud servicing and safety surveillance, etc, offering solid support of our future business progress.

Rapid expansion of software solution business continued as core software became industry-ready

As a result of our strategy of focusing on business value and the enhancement of industry and customer capabilities, software service projects accounted for an increasing share of our Group's business during the financial year. In the financial sector, we capitalized on opportunities in the market of regional banks to complete our coverage of the same and make breakthroughs in the sales of core systems. Our pre-sale capabilities for core bank projects were also enhanced. The development of new solutions, such as the 2nd-generation payment system, was expedited, and the Xi'an base was grown into a settlement security center. For the full year of 2010, more than 20 new customers were signed up (including 15 regional banks, 3 joint-stock banks, 2 foreign banks and 1 rural bank). Six new customers (including 4 regional banks and 2 foreign banks) for core bank systems were signed up, as regional banks proved to be the fastest-growing customer group. In the tax sector, active expansion of market coverage continued as customers were secured in various segments from the large-scale customer of head bureaus to core customers of local tax bureaus and individual taxpayer services. In the telecommunications sector, we were awarded BOSS and CRM projects of a provincial branch of China Mobile as well as the ODS project of China Telecom during the financial year, despite cutbacks in telecommunications carriers' investments in overall construction and deferred procurement for certain projects.

Position as leading service provider strengthened as participation in the formulation of published national IT services standards contributed to rapid growth in service contracts

Digital China has been involved in the formulation of national IT services standards after being designated as Deputy Chief of the Working Group and the Head of the Supporting Team by the "Working Group on Standardization of China's IT services" under the Ministry of Industry and Information Technology. In this connection, the "White Paper on IT Services Standards (First Edition)" was officially published on 28 October 2010 during our third quarter of the financial year. Leveraging the formulation and publication of national standards for IT services, the Group's Services Business accomplished the target of increasing contracts for proprietary services by 30% during the year ended 31 March 2011. We also assumed a dominant position in the formulation of national IT support standards and in China Mobile's first nationwide centralized procurement for third party services, while achieving initial success in the design and drive of management systems. In addition to honors and awards for IT services garnered during the financial year, we also received 3 commendations from the PBOC/CSRC for the development of 3 major marketable solutions including the operation management center and others for financial institutions/operators, which featured monthly updates of the proprietary solution and product road map and turned automated operation into a bright spot for the market. Our industry influence has been enhanced as a result.

Management Outlook

The 2010/2011 financial year presented both opportunities and challenges for our Group. Nevertheless, we completed our tasks solidly and achieved outperforming growth despite various uncertainties. Our general strategic transformation to a "customer-focused and service-oriented" business model has been decisive in our delivery of such outstanding results. As the Group continued to pursue "customer-focused and service-oriented" strategic transformation and persisted in its implementation at all business levels, we may look forward to yet brighter prospects for our future development. Based on meticulous research on China's IT market in the context of global economic conditions in 2011/2012 and the macro-economic development of China under the 12th Five-Year Plan, the management has defined the 2011/2012 financial year as the first year for the third five-year plan of our Group, and has adjusted our organization structure accordingly so that our Company's operation will be in closer tandem with the customers and the market and better positioned for sustainable development. The management believes that, under the guidance of the 12th Five-Year Plan, urbanization will provide the major driving force for China's economic growth as the process rolls on, and urbanization cannot be successful without the support of informatization. As such, the Group will continue to roll out and consolidate its strategic planning for the "Sm@rt City" so that it would become the engine of Digital China's future growth. With our best-in-class management team and our proven management process and risk management system, we will be able to address the current challenges effectively and sustain strong growth that outperforms the industry.

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$19,946 million at 31 March 2011 which were financed by total liabilities of HK$13,375 million, non-controlling interests of HK$538 million and equity attributable to equity holders of the parent of HK$6,033 million. The Group's current ratio at 31 March 2011 was 1.44 as compared to 1.43 at 31 March 2010.

During the year ended 31 March 2011, capital expenditure of HK$376 million was mainly incurred for the acquisition of land, properties, office equipment and IT infrastructure facilities.

The aggregate borrowings as a ratio of equity attributable to equity holders of the parent was 0.33 at 31 March 2011 as compared to 0.41 at 31 March 2010. The computation of the said ratio was based on the total interest-bearing bank borrowings and bond payable of HK$1,969 million (31 March 2010: HK$1,723 million) and equity attributable to equity holders of the parent of HK$6,033 million (31 March 2010: HK$4,201 million).

At 31 March 2011, the denomination of the interest-bearing bank borrowings and bond payable of the Group was shown as follows:

	Denominated in Renminbi	**Denominated in Hong Kong dollars**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Current			
Interest-bearing bank borrowings, unsecured	279,074	329,233	608,307
Interest-bearing bank borrowings, secured	43,673	-	43,673
	322,747	329,233	651,980
Non-current			
Interest-bearing bank borrowings, unsecured	631,576	650,000	1,281,576
Bond payable	35,411	-	35,411
	666,987	650,000	1,316,987
Total	989,734	979,233	1,968,967

Included in the Group's current bank borrowings of approximately HK$44 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$26 million at 31 March 2011 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$65 million and HK$1,282 million respectively represented the term loans and are repayable from Year 2011 to 2013.

In September 2010, the Group completed the acquisition of the remaining 89.56% equity interest in Beijing Jinxin Technology Co., Ltd. ("**Beijing Jinxin**") from independent third parties (the "**Acquisition**"). Beijing Jinxin was owned as to 10.44% by the Group prior to the Acquisition and subsequent to which, it became a wholly-owned subsidiary of the Group. In August 2010, i.e. before the Acquisition, Beijing Jinxin and twelve other companies being independent third parties of the Group (collectively referred as the "**Issuers**") issued "2010 Collective Bonds of Zhongguancun High-tech SME" ("**2010 Bonds**") to institutional and public investors in Mainland China through Shenzhen Stock Exchange. The aggregate principal amount of the 2010 Bonds is RMB383 million, of which Beijing Jinxin accounts for RMB30 million (equivalent to approximately HK$35 million). The fund raised by Beijing Jinxin will be applied to the development of its ATM network construction project. The 2010 Bonds which carry interest at a rate of 5.18% per annum, will mature in August 2016, and are unconditionally and irrevocably guaranteed in full with joint liabilities by Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd., an independent third party, from the first to third year of the issuance ("**ZGC Guarantee**"). At the same time, ZGC Guarantee is guaranteed by Beijing SMEs Credits Re-guarantee Co., Ltd., and also guaranteed by Beijing Jinxin for the principal amount of the 2010 Bonds it accounted for (i.e. RMB30 million). The Investors' Put Option and the Issuers' Full Redemption Option in respect of the 2010 Bonds may be exercised under the following circumstances: if the Issuers can provide a guarantor with good reputation before the conclusion of interest period in the third year of the issuance of the 2010 Bonds, investors may opt to hold the 2010 Bonds in full or in part and/or exercise the Investors' Put Option to sell the 2010 Bonds back to the Issuers within five working days from the publication of the announcement in respect of information regarding continuing guarantee; and if the Issuers cannot provide a guarantor with good reputation before the conclusion of interest period in the third year of the issuance of the 2010 Bonds, the Issuers shall redeem the 2010 Bonds in full.

The Group's total available credit facilities at 31 March 2011 amounted to HK$17,570 million, of which HK$2,501 million were in term loan facilities, HK$14,406 million were in trade lines and HK$663 million were in short-term and revolving money market facilities. At 31 March 2011, the facility drawn down was HK$1,347 million in term loan facilities, HK$4,478 million in trade lines and HK$258 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 2011, the Group had approximately 11,400 (31 March 2010: approximately 9,600) 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 13.92% increase in staff costs to approximately HK$1,918 million for the year ended 31 March 2011 as compared to approximately HK$1,683 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 currently comprises three Independent Non-executive Directors, namely Mr. HU Zhaoguang (who is the Chairman of Audit Committee), Mr. WONG Man Chung, Francis and Ms. NI Hong (Hope). 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 2011.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the "Code on Corporate Governance Practices" contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2011, except for the following deviations from certain code provisions with considered reasons are given below:

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 Group since 19 December 2007. On 14 March 2011, the Company announced that Mr. GUO Wei ceased to act as the Chief Executive Officer of the Group and Mr. LIN Yang was appointed as the Chief Executive Officer and ceased to act as the President of the Group, all with effective from 1 April 2011. Since then, the roles of Chairman and Chief Executive Officer are segregated, which are held by Mr. GUO Wei and Mr. LIN Yang respectively. Mr. GUO is responsible for the strategic development and management of the Group whereas Mr. LIN is responsible for the overall business management of the Group. The above division of responsibilities between the Chairman and Chief Executive Officer are beneficial to the Group's overall business development as a whole.

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 *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.*

Ms. NI Hong (Hope) and Mr. ONG Ka Lueng, Peter were appointed as the Independent Non-executive Directors of the Company immediately after the conclusion of the 2010 annual general meeting (the "**2010 AGM**") on 29 September 2010. They 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 *stipulates that a majority of the members of the remuneration committee should be independent non-executive directors.*

Prior to the 2010 AGM of the Company held on 29 September 2010, the Remuneration Committee of the Company has four members and only half of them were Independent Non-executive Directors. However, following the retirement of Mr. QIU Zhongwei as a Non-executive Director and Mr. KWAN Ming Heung, Peter as an Independent Non-executive Director of the Company, and both of them also ceased to act as members of the Remuneration Committee of the Company at the conclusion of the 2010 AGM, Mr. ONG Ka Lueng, Peter was appointed as an Independent Non-executive Director and a member of the Remuneration Committee of the Company immediately following the conclusion of the 2010 AGM. Since then, the Remuneration Committee has three members and majority of them are Independent Non-executive Directors.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct of Company for Directors' securities transactions. Having made specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the year ended 31 March 2011.

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

During the year ended 31 March 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules throughout the year ended 31 March 2011.

By Order of the Board
Digital China Holdings Limited
(神州數碼控股有限公司*)
GUO Wei
Chairman

Hong Kong, 14 June 2011

As at the date of this announcement, the Board comprises seven directors namely:

Executive Directors: Mr. GUO Wei (Chairman) and Mr. LIN Yang (Chief Executive Officer)

Non-executive Director: Mr. Andrew Y. YAN

Independent Non-executive Directors: Mr. HU Zhaoguang, Mr. WONG Man Chung, Francis, Ms. NI Hong (Hope) and Mr. ONG Ka Lueng, Peter

Website: www.digitalchina.com.hk

** For identification purpose only*