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 2012

HIGHLIGHTS

1. Despite complicated market conditions, the business sustained sound growth momentum that outperformed the market. All business segments have beaten expectation and attained their respective performance targets set at the beginning of the year. For the year ended 31 March 2012, the Group recorded turnover of approximately HK$70,319 million, representing 23.79% growth as compared to approximately HK$56,804 million for last financial year. The Group reported another record-high turnover of approximately HK$18,913 million for the third quarter of the financial year.

2. With the benefit of new business expansion and business value enhancements facilitated by the transformation strategy, the Group's overall gross profit margin reached 7.55%, which was 0.66 percentage point higher than the gross profit margin of 6.89% reported for last financial year. Profit attributable to equity holders of the parent amounted to approximately HK$1,245 million, increasing by 23.81% as compared to approximately HK$1,005 million for last financial year. Basic earnings per share amounted to 116.32 HK cents, an increase by 21% compared to 96.13 HK cents reported for last financial year.

3. Driven by the overall Sm@rt City strategy, rapid expansion in business scale was achieved across the SMB & Consumer Markets (Distribution Business), Enterprise Market (Systems Business), Industry Market (Services Business) and Supply Chain Services Market to realize further enhancements in business value; our balanced business development has given us the edge of stability in a highly volatile market.

4. Sound cash turnover and cash flow performance for the financial year under review thanks to stringent risk control and cash flow management in response to China's macro-economic policy of tightened money supply. Net cash inflow from operating activities for the financial year amounted to approximately HK$473 million. The stability of the Group's operations was also underpinned by its cash turnover of 16.99 days for the financial year, 1.43 days less compared to last financial year.

5. Steady progress in the roll-out of "Sm@rt City" underpinned by strong overall sign-ups that beat expectations and increasing sophistication in our solutions, which further reinforced our status as the leader in China's Sm@rt City solutions.

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 2012 together with comparative figures for the last financial year as follows:

CONSOLIDATED INCOME STATEMENT
Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	4	**70,319,367**	56,803,774
Cost of sales		**(65,013,476)**	(52,891,788)
Gross profit		**5,305,891**	3,911,986
Other income and gains	4	**755,170**	646,664
Selling and distribution costs		**(3,046,983)**	(2,246,123)
Administrative expenses		**(668,029)**	(480,973)
Other operating expenses, net		**(400,910)**	(369,910)
Total operating expenses	5	**(4,115,922)**	(3,097,006)
Finance costs		**(335,388)**	(229,125)
Share of profits and losses of:			
Jointly-controlled entities		**(3,590)**	(11)
Associates		**47,005**	32,333
PROFIT BEFORE TAX	6	**1,653,166**	1,264,841
Income tax expense	7	**(314,478)**	(208,502)
PROFIT FOR THE YEAR		**1,338,688**	1,056,339
Attributable to:			
Equity holders of the parent		**1,244,813**	1,005,385
Non-controlling interests		**93,875**	50,954
		1,338,688	1,056,339
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**116.32 HK cents**	96.13 HK cents
Diluted		**115.54 HK cents**	95.73 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 2012

	2012	2011
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**1,338,688**	1,056,339
OTHER COMPREHENSIVE INCOME		
Change in fair value of an available-for-sale investment	**26,904**	**-**
Exchange differences on translation of foreign operations	**97,587**	83,388
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**124,491**	83,388
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,463,179**	1,139,727
Attributable to:		
Equity holders of the parent	**1,345,297**	1,076,317
Non-controlling interests	**117,882**	63,410
	1,463,179	1,139,727

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,236,475**	697,812
Investment properties		**305,005**	265,581
Prepaid land premiums		**163,215**	85,409
Goodwill		**236,377**	228,601
Intangible assets		**4,591**	3,439
Investments in jointly-controlled entities		**33,224**	33,322
Investments in associates		**780,739**	675,337
Available-for-sale investments		**214,321**	1,596
Other receivables		**-**	353,559
Deposits paid for acquisition of property and land use right		**-**	184,280
Deferred tax assets		**32,135**	40,263
Total non-current assets		**3,006,082**	2,569,199
CURRENT ASSETS			
Inventories		**5,154,490**	4,145,298
Trade and bills receivables	*10*	**10,787,427**	8,323,230
Prepayments, deposits and other receivables		**3,527,378**	1,838,190
Derivative financial instruments		**92,440**	20,203
Cash and cash equivalents		**4,253,966**	3,049,455
Total current assets		**23,815,701**	17,376,376
CURRENT LIABILITIES			
Trade and bills payables	*11*	**12,315,472**	8,842,950
Other payables and accruals		**2,728,849**	2,401,391
Tax payable		**201,525**	161,434
Interest-bearing bank borrowings		**2,323,895**	651,980
Total current liabilities		**17,569,741**	12,057,755
NET CURRENT ASSETS		**6,245,960**	5,318,621
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,252,042**	7,887,820
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**1,692,000**	1,281,576
Bond payable		**36,615**	35,411
Total non-current liabilities		**1,728,615**	1,316,987
NET ASSETS		**7,523,427**	6,570,833

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 March 2012

	Note	2012	2011
		HK$'000	*HK$'000*
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*12*	**109,273**	109,121
Reserves		**6,286,928**	5,571,959
Proposed final dividend		**424,986**	351,916
		6,821,187	6,032,996
Non-controlling interests		**702,240**	537,837
TOTAL EQUITY		**7,523,427**	6,570,833

NOTES:

1. Basis of preparation

These financial information 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, derivative financial instruments and an equity investment, which have been measured at fair value. These financial information 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 information.

HKFRS 1 Amendments	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial information.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-placed and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3. Operating segment information

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations, target customer segments 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, with a primary focus on the SMB & Consumer markets, focuses on meeting the demand for information technology ("**IT**") products and solutions from SMB and consumer markets, and also explores new opportunities in mobile internet devices and their applications with the implementation of the Sm@rt City strategy. It 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, with a primary focus on the Industry & Enterprise markets, focuses on meeting the IT demand from the urban information infrastructure construction, as well as the major accounts and enterprise markets and also makes direct sales to regional customers to enhance direct control over the demand of the enterprise market. It 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, with a primary focus on the Hi-tech Industries, e-Commerce and Online Service Providers and Platform Operators, is targeted at manufacturers of IT and other high-value density products manufacturers and industry customers, e-commerce platform operators and branded service providers, providing one-stop supply chain consultancy and execution services in logistics, business flow, capital flow and information flow through various means, including the creation of e-commerce logistic parks; and

(d) the "Services" segment, with a primary focus on the provision of urban information infrastructure and Sm@rt City operation services to the Industry market, focuses on the provision of urban information infrastructure and Sm@rt City operation services targeted at large-scale industry customers, offering 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 system integration and maintenance.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit 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.

The Group started to make adjustments to parts of the businesses of the Supply Chain Services Business in the previous financial year. Parts of the operations of the Supply Chain Services Business will continue to focus on the hi-tech industries and the industry market by providing one-stop supply chain consultancy and execution services, while others will, in tandem with adjustments to the Group's business strategy, shift to a distributor focus on the sale of general IT products, instead of providing one-stop supply chain consultancy and execution services to the hi-tech industries. In order to provide a more appropriate presentation for the operating segment information, the Group reclassified the results of the Fulfillment business (FA business) from the "Supply Chain Services" segment into the "Distribution" segment and restated the related results of the comparative financial year.

The following table presents revenue and results for the Group's operating segments for the years ended 31 March 2012 and 2011:

	Distribution		Systems		Supply Chain Services		Services		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000* (Restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (Restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**37,515,266**	32,252,958	**17,486,602**	13,823,493	**7,425,867**	4,685,705	**7,891,632**	6,041,618	**70,319,367**	56,803,774
Segment gross profit	**1,765,272**	1,337,711	**1,742,789**	1,346,195	**505,082**	259,326	**1,292,748**	968,754	**5,305,891**	3,911,986
Segment results	**733,791**	512,669	**856,518**	599,871	**140,763**	56,971	**260,205**	228,882	**1,991,277**	1,398,393
Interest income, unallocated revenue and gains									**355,220**	303,677
Unallocated expenses									**(401,358)**	(240,426)
Finance costs									**(335,388)**	(229,125)
Share of profits and losses of:										
Jointly-controlled entities	-	-	-	-	-	-	**(3,590)**	(11)	**(3,590)**	(11)
Associates	-	-	-	-	-	-	**47,005**	32,333	**47,005**	32,333
Profit before tax									**1,653,166**	1,264,841
Income tax expense									**(314,478)**	(208,502)
Profit for the year									**1,338,688**	1,056,339

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 other income and gains is as follows:

	2012	2011
	HK$'000	*HK$'000*
Other income		
Government grants	**96,451**	82,429
Bank interest income	**58,287**	17,792
Imputed interest income on other receivables	**31,680**	20,142
Gross rental income	**32,558**	33,779
Dividend income from available-for-sale investments	**37**	10,912
Others	**33,240**	42,461
	252,253	207,515
Gains		
Fair value gain on investment properties	**30,391**	44,265
Fair value gain on an available-for-sale investment (transfer from equity on disposal)	**-**	13,622
Gain on derivative financial instruments	**181,922**	144,703
Gain on disposal of an available-for-sale investment	**-**	6,563
Foreign exchange differences, net	**285,563**	229,540
Others	**5,041**	456
	502,917	439,149
	755,170	646,664

5. Total operating expenses

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

	2012	2011
	HK$'000	*HK$'000*
Selling expenses	**382,498**	305,803
Promotion and advertising expenses	**253,922**	173,167
Staff costs included in operating expenses (including directors' remuneration)	**2,124,642**	1,513,311
Other expenses	**1,354,860**	1,104,725
	4,115,922	3,097,006

6. Profit before tax

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

	2012	2011
	HK$'000	*HK$'000*
Cost of inventories sold	**63,520,011**	51,527,231
Depreciation	**138,287**	111,563
Amortisation of prepaid land premiums	**621**	540
Amortisation of intangible assets	**2,011**	1,681
Minimum lease payments under operating leases in respect of land and buildings	**144,931**	113,015
Provisions for and write-off of obsolete inventories	**82,769**	43,291
Impairment of trade receivables	**19,514**	67,422
Loss on disposal of items of property, plant and equipment	**8,288**	4,424

7. Income tax expense

	2012	2011
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong	**2,963**	-
Current – The People's Republic of China ("**PRC**")	**302,112**	197,859
Deferred	**9,403**	10,643
Total tax charge for the year	**314,478**	208,502

(a) During the year ended 31 March 2012, Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. 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.

(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 jointly-controlled entities of approximately HK$468,000 (2011: HK$473,000) and the share of tax charge attributable to associates of approximately HK$16,645,000 (2011: HK$10,377,000) 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

	2012	2011
	HK$'000	*HK$'000*
Proposed final dividend – 39.80 HK cents (2011: 32.25 HK cents) per ordinary share based on issued share capital at 31 March	**434,908**	351,916
Less: Dividend for shares held for the restricted share award scheme at 31 March	**(9,922)**	-
	424,986	351,916

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$1,244,813,000 (2011: HK$1,005,385,000), and the weighted average of 1,070,204,311 (2011: 1,045,911,614) ordinary shares in issue less shares held the restricted share award scheme during the year.

The calculation of diluted earnings per share amount for the year ended 31 March 2012 is based on the profit for the year ended 31 March 2012 attributable to ordinary equity holders of the parent of approximately HK$1,244,813,000 (2011: HK$1,005,385,000) and the weighted average of 1,077,348,072 (2011: 1,050,205,872) ordinary shares, which represented 1,070,204,311 (2011: 1,045,911,614) ordinary shares in issue during the year ended 31 March 2012, as used in the basic earnings per share calculation, and the weighted average of 7,143,761 (2011: 4,294,258) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares related to the Group's share-based incentive schemes into ordinary shares.

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 within 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:

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**4,616,485**	4,035,574
31 to 60 days	**2,494,412**	1,106,189
61 to 90 days	**547,398**	711,071
91 to 180 days	**1,842,493**	1,435,201
Over 180 days	**1,286,639**	1,035,195
	10,787,427	8,323,230

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:

	2012 *HK$'000*	2011 *HK$'000*
Within 30 days	**5,829,962**	4,189,636
31 to 60 days	**3,303,573**	2,122,394
61 to 90 days	**1,104,136**	1,160,812
Over 90 days	**2,077,801**	1,370,108
	12,315,472	8,842,950

12. Share capital

	2012 *HK$'000*	2011 *HK$'000*
Authorised:		
2,000,000,000 (2011: 2,000,000,000) ordinary shares of HK$0.1 (2011: HK$0.1) each	**200,000**	200,000
Issued and fully paid:		
1,092,734,581 (2011: 1,091,212,581) ordinary shares of HK$0.1 (2011: HK$0.1) each	**109,273**	109,121

A summary of the movements of the Company's issued capital and share premium accounts during the years ended 31 March 2012 and 2011 is as follows:

	Notes	**Number of ordinary shares in issue**	**Issued capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 April 2010		1,020,767,581	102,077	984,342	1,086,419
Issue of shares	(a)	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 and 1 April 2011		**1,091,212,581**	**109,121**	**2,041,222**	**2,150,343**
Exercise of share options	(b)	**1,522,000**	**152**	**11,484**	**11,636**
At 31 March 2012		**1,092,734,581**	**109,273**	**2,052,706**	**2,161,979**

Notes:

(a) 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.

(b) During the year ended 31 March 2012, the subscription rights attaching to 1,521,000 (2011: 445,000) and 1,000 (2011: Nil) share options were exercised at subscription prices at HK$5.89 and HK$15.04 per share, respectively, resulting in the issue of a total of 1,522,000 (2011: 445,000) ordinary shares of HK$0.1 each for a total cash consideration, of approximately HK$8,974,000 (2011: HK$2,621,000). An amount of HK$2,662,000 (2011: HK$898,000) was transferred from employee share-based compensation reserve to the share premium account upon the exercise of the share options.

DIVIDENDS

The Board recommends the payment of a final dividend of 39.80 HK cents (2011: 32.25 HK cents) per share for the year ended 31 March 2012 to the shareholders of the Company. The date of the forthcoming annual general meeting of the Company, the book close periods and the date of dividend payment will be announced in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

The 2011/12 financial year marked the 10th anniversary of Digital China's spin-off listing. It also signified the commencement of Digital China's strategic transformation to "Sm@rt City" and the first year of the third five-year plan in the Group's business planning. Market-wise, we had faced a complicated situation during the 2011 financial year as the nation's macro-economic performance had started strongly before trending downwards, while the credit environment remained tight. To cope with the austere market conditions, Digital China formulated at the onset of the financial year an articulate strategy of "driving growth, speeding up transformation and making a concentrate effort to build Sm@rt City," which was also in tandem with our medium- to long-term goal for overall business development, and made it the main theme for our development throughout the year. Under the direction of this strategic goal, each of the Group's business units devised and diligently implemented relevant business expansion and transformation plans. As a result, all of the Group's business segments attained their respective performance targets set at the beginning of the year, beating management expectations and outgrowing the market to win our first battle for the five–year period. We were also included in "Forbes Asia's Fab 50" for the third consecutive year. For the year ended 31 March 2012:

1.1. The Group accomplished the strategic goal of "driving growth" as it sustained outperforming business growth with continuous rapid expansion in scale

The Group endeavored to implement its strategic goal of "driving growth" at each of its business segment to ensure that potential products and customers were fully identified. With the benefit of balanced exposures to different business sectors and solid cooperation with upstream and downstream partners, we were able to sustain sound momentum for growth and outperformed the market. For the year ended 31 March 2012, the Group recorded turnover of approximately HK$70,319 million, representing 23.79% growth as compared to approximately HK$56,804 million for last financial year. Following the second quarter of the financial year, the Group reported another record-high turnover of HK$18,913 million for the third quarter of the financial year.

1.2 Business values continued to grow as the Group accelerated its shift towards a customer- and service-oriented model in an intensive pursuit of the strategic direction of "speeding up transformation."

The Group has been committed to transformation into a business model oriented towards customers, solutions and services. With the benefit of new business expansion and business value enhancements facilitated by the transformation strategy, gross profit growth exceeded turnover growth to underpin continuous increment in profit attributable to equity holders of the parent. The Group's business value has been further enhanced, with overall gross profit margin for the year ended 31 March 2012 reaching 7.55%, which was 0.66 percentage point higher than the gross profit margin of 6.89% reported for last financial year, reflecting gross profit margin growth across all major business segments. Total gross profit was approximately HK$5,306 million, representing a 35.63% growth as compared to HK$3,912 million for last financial year. For the year ended 31 March 2012, profit attributable to equity holders of the parent amounted to approximately HK$1,245 million, increasing by 23.81% as compared to approximately HK$1,005 million for last financial year. Basic earnings per share amounted to 116.32 HK cents, an increase by 21% compared to 96.13 HK cents reported for last financial year.

1.3 Sound cash turnover and cash flow performance thanks to stringent risk control and cash flow management

The Group actively responded to the austerity in the macro-economic environment with a strong alertness for potential crisis. A strong net cash inflow from the Group's operating activities for the year ended 31 March 2012 of approximately HK$473 million provided assurance for the Group's healthy and stable development. The significant growth in cash flow contributed by business operations is a clear indication that Digital China has developed comprehensive abilities in operational management, whether in connection with profit and loss, assets and liabilities or cash flow. The stability of the Group's operations was also underpinned by its cash turnover of 16.99 days for the year ended 31 March 2012, 1.43 days less compared to 18.42 days reported for last financial year.

1.4 Focusing on "Sm@rt City" strategy, steady progress has been rolled out with strong overall sign-ups that beat expectations and increased sophistication in our solutions

During the financial year under review, the Group consolidated its position as the "Leader in Sm@rt City Solutions," tracking and covering 67 cities in total. New strategic cooperation agreements were signed up with Nanjing, Foshan, and Kunshan to take the total number of strategic city partners to 11. Targets set at the beginning of the year for contract sign-ups and revenue were exceeded by a significant margin. We were engaged in ongoing improvements to the Sm@rt City solution and investigations in the operating model for the Citizen Card. Meanwhile, we swiftly completed adjustments to our business and organizational structure in tandem with the Sm@rt City model, such that we started to generate synergies of a holistic business in certain cities.

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

Our Distribution Business is primarily focused on meeting the demand for IT products and solutions from SMB and consumer markets, while we also explore opportunities in new mobile internet devices and their applications with the implementation of the Sm@rt City strategy.

Targets were accomplished on the back of the rapid growth in accessories, PC servers and consumer IT products, as we made strong efforts to capitalize on changes in market demands and favorable market factors; which also supported the healthy growth of the overall income of the Group

Turnover from the Group's Distribution Business for the year ended 31 March 2012 grew 16.32%, as compared to the corresponding period of last financial year, to approximately HK$37,515 million. Gross profit margin for the financial year under review was 4.71%, a significant rise by 0.56 percentage point over last financial year. Driven by the higher market shares of CPU (chips) manufacturers and the new expansion of product lines (such as hard disk drives and monitors), the turnover for accessories for the financial year under review was 49.10% higher as compared to the corresponding period of last financial year. The 22.07% growth in turnover of PC servers for the financial year under review was mainly attributable fresh demand arising from the construction of cloud computing infrastructure and the ongoing replacement of some of low-end UNIX servers. As a core element of the Distribution Business, notebooks recorded near double-digit growth in turnover despite falling ASP (average sales price) due to the increasing market competition. Gross profit margin for notebooks improved 0.96 percentage point as compared to last financial year as a result of the shortage in HDD supply for notebooks in last financial year. Noting the change in market demand brought about by the Mobile Internet, Digital China also worked on its exposures to different products with a special emphasis on smart phones and tablets.

Rapid growth achieved thanks to stronger efforts to cover new channels such as e-commerce retail enterprises in a move to capture opportunities arising from changing formats of the retail business

The Group highly values new channels as important alternate business channels to traditional IT products stores (IT Mall) and CES (large chain electronic stores). Through the provision of feature products and consulting services, Digital China delivered mutually beneficial relationships and established long-term cooperation with key customers, laying the foundation for investigating the e-commerce model while driving significant overall growth for the e-commerce sub-segment. Digital China also made steady progress in the development of the terminal chain retail store, as an important measure for retail end control. The Group opened 156 new Digital China "@PORT" franchise retail outlets and concession counters as at 31 March 2012 to bring the total number of "@PORT" outlets and counters owned to 790.

2.2 Systems Business (with a primary focus on the Industry and Enterprise Markets)

Our Systems Business seeks to meet IT demand arising from enterprise applications and the construction of infrastructure as well as clients from the industry and enterprise market by providing value-added distribution. We also make direct sales to regional customers to enhance first-hand understanding of the needs of the enterprise market.

Effective share management was implemented in relation to business value on the basis of corporate IT infrastructure products and solutions, while rapid growth provided strong support for the accomplishment of overall Group target for profit

Turnover from the Systems Business for the year ended 31 March 2012 grew 26.50%, year-on-year, to approximately HK$17,487 million. The growth in the core product business has generally outperformed the market, while undisputed leadership was maintained in terms of market share, underscoring our prestigious position in value-added distribution. The gross profit margin of the Systems Business was at par with last financial year to contribute significantly to the overall profit growth of the Group, notwithstanding the substantial increase in turnover, thanks to the technological value adding capabilities of the segment. Gross profit margin for the financial year under review was 9.97%, indicating further consolidation and improvement as compared to 9.74% for last financial year. Driven by the data processing requirements of corporate customers, turnovers for packaged software and storage products for the financial year under review grew 45.34% and 27.42%, respectively, as compared to last financial year. Turnover of networking equipment for the financial year under review grew 31.79% over last financial year, reflecting the benefits of larger shares of the market comprising major vendors and additional business volumes channeled through new partners.

General improvements in the gross profit margin of our Systems Business driven by vigorous moves to increase the sales of compounded products based on actual requirements of corporate clients

Our Systems Business delivered remarkable results by strengthening the marketing of compounded products. Rapid year-on-year growth of 42% in the total sales revenue from the three types of solution businesses, namely communications, video conference and data security, was reported. In view of the demand for cloud computing and virtualization technologies from the enterprise market, our Systems Business cooperated with vendors such as CISCO, VMware and NetApp, to roll out a separate "Planter Plan" aimed at promoting our product solution business. Our market leadership has been reinforced and our market shares in businesses with vendors have been increased as a result.

2.3. Supply Chain Services Business (with a primary focus on the markets of Hi-tech Industries, Branded e-Commerce and Online Service Providers and Platform Operators)

Our Supply Chain Services Business is primarily targeted at manufacturers of IT and other high value-intensive products and industry customers, e-commerce platform operators and branded service providers, providing "one-stop" supply-chain consultancy and execution in logistics, business flow, capital flow and information flow through various means, including the creation of e-commerce logistic parks.

Strong growth and improvement in gross profit margin for CES business underpinned by a dual approach of enhancing cooperation with core customers as well as optimizing product lines, in an active effort to capitalize on market demand from emerging industry

Turnover from the Supply Chain Services Business for the year ended 31 March 2012 amounted to HK$7,426 million, representing a 58.48% increase over last financial year. The overall gross profit margin for the year for the Supply Chain Services Business was 6.80%, increasing significantly by 1.27 percentage points as compared to last financial year. Cooperation with CES customers underscored Digital China's effective coverage of multiple business formats. The management team of the Supply Chain Services Business sought to enlarge the scope of cooperation with retail malls, while actively expanded our product exposures by introducing items with strong market recognition and higher gross profit margin, such as the Apple products, as well as various accessories, in order to enhance our business value. During the financial year under review, CES business grew 56.75% as compared to last financial year. Gross profit margin increased significantly by 1.25 percentage points over last financial year.

As integral components of the "Sm@rt City" strategic synergy businesses, logistics and service station businesses reported rapid growth in revenue to drive business value improvements of the Supply Chain Services Business

Driven by the rapid growth in the demand of the logistics market, turnover from the logistics business of the Supply Chain Services Business for the year ended 31 March 2012 grew 86.25%. In logistics services, we continued to enhance the streamlining and development of the core logistics capabilities of storage, transportation and dispatching. Breakthroughs were being made in third-party logistics in connection with both B2B and B2C e-commerce storage. In the meantime, we were actively deploying our e-commerce storage service business. In this connection, we have become an important partner of Taobao in further enhancement of our indirect coverage of novel business formats. Our service station business benefitted from cooperation with key manufacturers of notebooks and desktop computers and the extensive coverage of our service outlets, as business expansion continued in a systematic manner. Thanks to the outstanding performance of our warranty services, gross profit margin of the service station business for the financial year under review increased by 7.19 percentage points over last financial year. Logistics and service station businesses, as a services business, supported the growth of gross profit of the Supply Chain Services Business.

2.4. Services Business (with a primary focus on the provision of industry software, information infrastructure and "Sm@rt City" operation services to the Industry Market)

Our Services Business is primarily focused on meeting the demand of large-scale industry customers for industry software, information infrastructure facilities and "Sm@rt City" operation services, offering 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.

Solid turnover growth and ongoing improvements in gross profit margin for the Services Business as an important vehicle for the "Sm@rt City" strategy

With the benefit of the foundation built through "customer-focused and service-oriented" strategic transformation over the past 5 years and also owing to the implementation of the "Sm@rt City" strategy during the financial year under review, the Group reported turnover of approximately HK$7,892 million for the year ended 31 March 2012, a 30.62% growth as compared to HK$6,042 million for the corresponding period of last financial year. As our software and servicing capabilities grew in sophistication, gross profit margin for the financial year under review reached 16.38%, representing an increase of 0.35 percentage point as compared to last financial year.

Analyzed by sector, year-on-year growth rates of 78.16% and 30.51%, respectively, were reported in operating income of the government enterprise sector and the banking sector for the financial year under review, as these sectors continued to sustain positive growth momentum. In particular, we made solid breakthroughs in the insurance and power sectors, providing support to the overall rapid growth of ITS while optimizing our coverage of different industrial sectors. Analyzed by business type, our application software business has achieved notable results in the development of new customers among regional banks and local taxation authorities business. In the banking sector, business relationships have been established with 15 banks, including China Resources Zhuhai Commercial Bank, Jiangsu Changjiang Commercial Bank and Bank of Xi'an, through the provision of regional core banking solutions. We have also made inroads into the market of local taxation authorities with our third-generation golden tax collection and administration system, signing up the local tax bureaus of Shenzhen, Hainan and Shandong as new customers. Initial results have been achieved in the investigation of new models for the software business with 26 township banks being signed up for banking software operating services, making us the undisputed market leader in this sub-segment. Our taxpayer-end service business was established in Hainan. We have devoted major efforts to the development of proprietary brands, while continuing to consolidate our leading edge in the telecommunications, banking and government enterprise sectors, as we secured several multi-million contracts from the State Administration for Industry and Commerce, China Unicom and China Telecom. We gained further inroads in our pursuit of refined management underpinned by the productization and standardization of services, with more sophisticated internal management and more specific business and profit models that provided a very solid foundation for massive growth.

Sound overall deployment of "Sm@rt City" with initial planning completed in key regions

During the financial year under review, the Group swiftly completed the tracking coverage of the Sm@rt City target cities, exceeding targets set at the beginning of the year for contract sign-ups and revenue by a significant margin, while overall sign-ups also substantially exceeded our annual targets. Projects signed up and started during the year have not only added to the numbers of the Group's "Sm@rt City" projects, but have also contributed to improvements in terms of the richness and sophistication of solutions, enhancing the overall strengths of the Group as China's leading solution provider in Sm@rt City and fostering a sound foundation for the "Sm@rt City" operating services. More specifically, mature core solutions were replicated in other cities, such as the Citizen Card project in Zhenjiang and Lanzhou, the Citizen Service project in Foshan, and the demonstration center project in Zhenjiang and Guangzhou, for which contracts have been signed for implementation. Meanwhile, significant progress has also been made in strategic solutions, such as the Yangzhou Healthcare Information Platform in the health sector, the Suzhou Meat and Vegetable Source Tracking System in the food and drug sector and relevant projects for Shunde, Zhuzhou, Wuhan and Shenyang in the data exchange sector.

3. Management Outlook

Amid the intricate and volatile times of 2011, our management team completed and exceeded all financial targets set for the financial year under review. As guided by the overall strategy of the Company, we have also conducted bold investigations regarding the probable directions of Sm@rt City and realigned our organizational structure in tandem with our Sm@rt City strategy.

Market conditions are set to remain challenging in 2012. Our management has formulated the principle of "prudent progress with a focus on Sm@rt City," whereby the Group will concentrate on customer marketing, process streamlining and optimization and technological innovation, with a view to bolstering its competitive strengths, enhancing its leadership and influence in the Sm@rt City sector and achieving various business targets for greater shareholders' value.

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$26,821 million at 31 March 2012 which were financed by total liabilities of HK$19,298 million, non-controlling interests of HK$702 million and equity attributable to equity holders of the parent of HK$6,821 million. The Group's current ratio at 31 March 2012 was 1.36 as compared to 1.44 at 31 March 2011.

During the year ended 31 March 2012, capital expenditure of HK$734 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 0.59 at 31 March 2012 as compared to 0.33 at 31 March 2011. The computation of the said ratio was based on the total interest-bearing bank borrowings and bond payable of HK$4,053 million (31 March 2011: HK$1,969 million) and equity attributable to equity holders of the parent of HK$6,821 million (31 March 2011: HK$6,033 million).

At 31 March 2012, the denomination of the interest-bearing bank borrowings and bond payable of the Group was shown as follows:

	Denominated in United States dollars *HK$'000*	**Denominated in Renminbi** *HK$'000*	**Denominated in Hong Kong dollars** *HK$'000*	**Total** *HK$'000*
Current				
Interest-bearing bank borrowings, unsecured	733,739	415,096	1,068,876	2,217,711
Interest-bearing bank borrowings, secured	-	106,184	-	106,184
	733,739	521,280	1,068,876	2,323,895
Non-current				
Interest-bearing bank borrowings, unsecured	1,302,000	-	390,000	1,692,000
Bond payable	-	36,615	-	36,615
	1,302,000	36,615	390,000	1,728,615
Total	2,035,739	557,895	1,458,876	4,052,510

Included in the Group's current bank borrowings of approximately HK$82 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 and trade receivables with an aggregate carrying amount of approximately HK$64 million at 31 March 2012, and 8,229,004 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 bank borrowings of approximately HK$24 million extended by a financial institution to a subsidiary of the Group, Digital China Jinxin Technology Co., Ltd. ("**Beijing Jinxin**"), were secured by fixtures and office equipment with a value of approximately HK$27 million at 31 March 2012 in favour of Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd., an independent third party, for securing a guarantee issued by such Pledgee on behalf of Beijing Jinxin.

During the year ended 31 March 2012, the Group's subsidiary, Digital China Technology Limited, entered into a facility agreement with a syndicate of banks for a three-year loan facility of US$150 million for the purpose of financing general working capital of the Group. Included in the Group's non-current bank borrowings of approximately HK$1,162 million (equivalent to US$150 million) represented the syndicated loan repayable in three years from the date of the drawdown and were guaranteed by the Company.

Included in the Group's current and non-current bank borrowings of approximately HK$749 million and HK$1,692 million respectively represented the term loans and are repayable from Year 2012 to 2014.

In September 2010, the Group completed the acquisition of the remaining 89.56% equity interest in Beijing Jinxin Technology Co., Ltd. (now named as "Digital China Jinxin Technology Co., Ltd.") 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 the 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$37 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 the 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 the continuing guarantee; and if the Issuers cannot provide a guarantor with good reputation before the conclusion of the 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 2012 amounted to HK$23,304 million, of which HK$2,859 million were in term loan facilities, HK$14,167 million were in trade lines and HK$6,278 million were in short-term and revolving money market facilities. At 31 March 2012, the facility drawn down was HK$2,441 million in term loan facilities, HK$5,554 million in trade lines and HK$1,395 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 2012, the Group had approximately 12,900 (31 March 2011: approximately 11,400) full-time employees. The majority of these employees work in the PRC. The Group offers remuneration packages in line with industry practice. Employees' remuneration includes basic salaries and bonuses. With the increase in the total number of staff to cope with its business requirements, the Group has recorded a 39.68% increase in staff costs to approximately HK$2,678 million for the year ended 31 March 2012 as compared to approximately HK$1,918 million for the last financial year. In order to attract and retain a high caliber of capable and motivated workforce, the Company offers share-based incentive schemes 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 2012.

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 (the "**Listing Rules**") throughout the year ended 31 March 2012, except for the following deviations from certain code provisions with considered reasons are given below:

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 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, 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, the Chairman of the Board, shall not be subject to retirement by rotation.

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 2012.

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

During the year ended 31 March 2012, 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 Company has maintained a sufficient of public float as required under the Listing Rules throughout the year ended 31 March 2012.

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

Hong Kong, 12 June 2012

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*