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 NINE MONTHS ENDED 31 DECEMBER 2013

HIGHLIGHTS

The Group reported revenue of approximately HK$52,265 million for the financial year under review, a decrease of 7.78% as compared to the corresponding period of last financial year. The overall gross profit margin declined by 80 basis points to 6.46%, as compared to the corresponding period of last financial year. A one-off financial loss of approximately HK$549 million arising from the dilution of the Group's equity interest following spin-off of the IT Services Business, which was not a real cash outflow, was booked in December. The financial loss is slightly different from the HK$600 million loss announced by the Company on 27 January 2014. This is because in calculating the transaction costs for the absorption and merger of the IT Services, the fair value of the assets of the IT Services as at 30 April 2013 was used in the announcement published in January 2014, while the fair value of the assets of the IT Services as at 31 December 2013 was used when the financial loss was recorded in December 2013. In addition, the provision for employees' bonuses that was historically accounted for during the fourth quarter of the financial year were made and recorded earlier in December, due to the change of the financial year end date of the Company. As affected by the aforesaid factors, profit attributable to equity holders in the financial year amounted to approximately HK$84 million, a decrease of 92.82% as compared to the corresponding period of last financial year. Basic earnings per share amounted to 7.87 HK cents, representing a decrease of 101.77 HK cents from 109.64 HK cents reported in the corresponding period of last financial year.

The board of directors (the "**Board**") of Digital China Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the nine months ended 31 December 2013 together with the comparative figures for the year ended 31 March 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Nine months ended 31 December 2013

	Notes	**Nine months ended 31 December 2013** *HK$'000*	Year ended 31 March 2013 *HK$'000*
REVENUE	*4*	**52,264,534**	73,498,913
Cost of sales		**(48,885,928)**	(68,128,346)
Gross profit		**3,378,606**	5,370,567
Other income and gains	*4*	**872,063**	822,607
Selling and distribution expenses		**(2,041,846)**	(2,939,133)
Administrative expenses		**(366,297)**	(647,570)
Listing expense relating to the Absorption and Merger	*11*	**(1,216,133)**	-
Other expenses, net		**(806,162)**	(492,463)
Finance costs		**(178,741)**	(293,205)
Share of profits and losses of:			
Joint ventures		**(4,893)**	6,997
Associates		**72,004**	23,474
PROFIT/(LOSS) BEFORE TAX	*5*	**(291,399)**	1,851,274
Income tax expense	*6*	**(171,245)**	(332,122)
PROFIT/(LOSS) FOR THE PERIOD/YEAR		**(462,644)**	1,519,152
Attributable to:			
Equity holders of the parent		**84,103**	1,367,369
Non-controlling interests		**(546,747)**	151,783
		(462,644)	1,519,152
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic		**7.87 HK cents**	128.01 HK cents
Diluted		**7.76 HK cents**	126.37 HK cents

Details of the dividend payable and proposed for the period are disclosed in note 7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Nine months ended 31 December 2013

	Nine months ended 31 December 2013 *HK$'000*	Year ended 31 March 2013 *HK$'000*
PROFIT/(LOSS) FOR THE PERIOD/YEAR	**(462,644)**	1,519,152
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(111,983)**	58,931
Reversal of revaluation gain	**-**	(110,578)
Reclassification adjustments for losses included in consolidated statement profit or loss:		
- impairment loss	**74,592**	-
- loss on disposal	**867**	-
	(36,524)	(51,647)
Exchange differences on translation of foreign operations	**88,397**	49,348
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**51,873**	(2,299)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD/YEAR, NET OF TAX	**51,873**	(2,299)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD/YEAR	**(410,771)**	1,516,853
Attributable to:		
Equity holders of the parent	**144,167**	1,361,113
Non-controlling interests	**(554,938)**	155,740
	(410,771)	1,516,853

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Notes	31 December 2013 HK$'000	31 March 2013 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,505,445**	1,515,037
Investment properties		**755,383**	335,197
Prepaid land premiums		**196,498**	503,849
Goodwill		**243,670**	239,012
Other intangible assets		**36,566**	10,079
Investments in joint ventures		**163,275**	126,601
Investments in associates		**1,035,300**	681,976
Available-for-sale investments		**517,500**	473,952
Deferred tax assets		**194,916**	78,567
Total non-current assets		**4,648,553**	3,964,270
CURRENT ASSETS			
Inventories		**5,635,678**	5,726,876
Properties under development		**393,562**	66,866
Trade and bills receivables	*9*	**11,494,720**	10,324,760
Prepayments, deposits and other receivables		**3,617,912**	4,082,068
Derivative financial instruments		**113,378**	53,511
Available-for-sale investments		**301,959**	-
Cash and cash equivalents		**3,894,211**	4,189,519
Total current assets		**25,451,420**	24,443,600
CURRENT LIABILITIES			
Trade and bills payables	*10*	**11,092,793**	10,873,485
Other payables and accruals		**3,499,189**	3,041,381
Tax payable		**384,241**	306,462
Interest-bearing bank borrowings		**3,719,187**	2,765,891
Bond payable		**-**	37,023
Total current liabilities		**18,695,410**	17,024,242
NET CURRENT ASSETS		**6,756,010**	7,419,358
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,404,563**	11,383,628
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**2,314,853**	2,712,494
Deferred income		**43,322**	-
Total non-current liabilities		**2,358,175**	2,712,494
NET ASSETS		**9,046,388**	8,671,134

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2013

	Note	**31 December 2013** **HK$'000**	31 March 2013 *HK$'000*
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**109,374**	109,346
Reserves		**7,426,466**	7,302,560
Proposed final dividend	*7*	**190,037**	414,592
		7,725,877	7,826,498
Non-controlling interests		**1,320,511**	844,636
TOTAL EQUITY		**9,046,388**	8,671,134

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 certain investment properties, derivative financial instruments and certain equity investments, which have been measured at fair value. These financial information are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Change of financial year end date

Pursuant to the resolution of the board of directors of the Company dated 19 November 2013, the Company's financial year end date has been changed from 31 March to 31 December. The change is to align the financial year end date of the Company with those of principal subsidiaries of the Group in order to facilitate the preparation of the consolidated financial statements of the Group and for the benefit of the overall development of the Group in the long run.

Accordingly, these financial information cover a period of nine months from 1 April 2013 to 31 December 2013. The comparative amounts presented in the consolidated statement of profit or loss, the consolidated statement of comprehensive income and the related notes, which covered for the year ended 31 March 2013, are not for a comparable to the current period.

2.2 Changes in accounting policies and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current period's financial information.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC) – Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 11, HKFRS 12, HKFRS 13 and HKAS 1 Amendments, and certain amendments included in *Annual Improvements 2009-2011 Cycle*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial information.

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

(a) HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

    The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 April 2013.

(b) HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e. joint operations and joint ventures, and remove the option to account for joint ventures using proportionate consolidation. The classification of joint arrangements under HKFRS 11 depends on the parties' rights and obligations arising from the arrangements. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities of the arrangement and is accounted for on a line-by-line basis to the extent of the joint operators' rights and obligations in the joint operation. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets the arrangement and is required to be accounted for using the equity method in accordance with HKAS 28 (2011).

(c) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements,* HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

(d) HKFRS 13 provide a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended.

(e) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. In addition, the Group has chosen to use the new title "statement of profit or loss" as introduced by the amendments in these financial information.

(f) *Annual Improvements 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of standards. 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 have had a significant impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

  In additional, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entitles to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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, peripherals, accessories and consumer IT products;

(b) the "Systems" segment, with a primary focus on the Enterprise market, focuses on meeting the IT demand from the urban information infrastructure construction, as well as the enterprise market 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 servers, networking products, storage products and packaged software;

(c) the "Supply Chain Services" segment, with a primary focus on the Hi-tech Industries, Branded e-Commerce Platform Operators and Branded Service Providers, is targeted at manufacturers of IT and other high-value density products manufacturers and industry customers, branded e-commerce platform operators and branded service providers, providing one-stop consultancy and execution services in logistics, business flow, capital flow and information flow; 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 products and services in 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 system integration and maintenance.

Management monitors the results of the Group's 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 unallocated interest income, unallocated finance costs, unallocated corporate income and gains, listing expense relating to the Absorption and Merger (defined in note 11) and unallocated corporate expenses are excluded from such measurement.

The following table presents revenue and results for the Group's operating segments for the nine months ended 31 December 2013 and the year ended 31 March 2013:

	Distribution		Systems		Supply Chain Services		Services		Consolidated	
	Nine months ended 31 December 2013	Year ended 31 March 2013	**Nine months ended 31 December 2013**	Year ended 31 March 2013	**Nine months ended 31 December 2013**	Year ended 31 March 2013	**Nine months ended 31 December 2013**	Year ended 31 March 2013	**Nine months ended 31 December 2013**	Year ended 31 March 2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**26,254,130**	37,656,787	**17,638,370**	25,618,478	**1,064,603**	1,211,041	**7,307,431**	9,012,607	**52,264,534**	73,498,913
Segment gross profit	**613,999**	1,239,269	**1,424,442**	2,444,860	**205,148**	245,540	**1,135,017**	1,440,898	**3,378,606**	5,370,567
Segment results	**17,380**	413,916	**489,953**	1,198,531	**51,678**	47,637	**336,472**	468,073	**895,483**	2,128,157
Interest income, unallocated income and gains									**452,385**	354,582
Listing expense relating to the Absorption and Merger (defined in note 11)									**(1,216,133)**	-
Other unallocated expenses									**(311,504)**	(368,731)
Finance costs									**(178,741)**	(293,205)
Share of profits and losses of:										
Joint ventures	**-**	-	**-**	-	**-**	-	**(4,893)**	6,997	**(4,893)**	6,997
Associates	**-**	-	**-**	-	**-**	-	**72,004**	23,474	**72,004**	23,474
Profit/(loss) before tax									**(291,399)**	1,851,274
Income tax expense									**(171,245)**	(332,122)
Profit/(loss) for the period/year									**(462,644)**	1,519,152

4. Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered to customers, net of business tax and government surcharges.

An analysis of the Group's other income and gains is as follows:

	Nine months ended 31 December 2013 *HK$'000*	Year ended 31 March 2013 *HK$'000*
Other income		
Government grants	**115,615**	121,234
Interest income	**49,566**	95,561
Gross rental income	**7,976**	29,569
Dividend income from an available-for-sale investment	**2,683**	-
Others	**77,185**	52,150
	253,025	298,514
Gains		
Fair value gains on investment properties	**11,709**	15,954
Gain on derivative financial instruments	**206,247**	113,981
Gain on disposal of subsidiaries	**13,637**	251,012
Gain on disposal of associates	**-**	573
Gain on deemed partial disposal of the equity interest in an associate	**60,025**	-
Foreign exchange differences, net	**304,021**	134,691
Others	**23,399**	7,882
	619,038	524,093
	872,063	822,607

5. Profit/(loss) before tax

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

	Nine months ended 31 December 2013 *HK$'000*	Year ended 31 March 2013 *HK$'000*
Cost of inventories sold	**47,038,133**	66,200,901
Depreciation	**123,625**	159,749
Amortisation of prepaid land premiums	**3,882**	4,128
Amortisation of other intangible assets	**6,321**	916
Minimum lease payments under operating leases in respect of land and buildings	**113,594**	150,039
Provisions/(reversal of provision) for and write-off of obsolete inventories	**101,157**	(2,597)
Impairment of trade receivables	**105,258**	116,948
Impairment of an investment in an associate	**-**	110,620
Impairment of an available-for-sale investment	**74,592**	-
Loss on disposal of an available-for-sale investment	**1,072**	-
Loss/(gain) on disposal of items of property, plant and equipment	**7,830**	(4,233)
Listing expense relating to the Absorption and Merger (defined in note 11)	**1,216,133**	-

6. Income tax expense

	Nine months ended 31 December 2013 *HK$'000*	Year ended 31 March 2013 *HK$'000*
Group:		
Current – Hong Kong	**292**	805
Current – Mainland China	**285,318**	377,122
Deferred	**(114,365)**	(45,805)
Total tax charge for the period/year	**171,245**	332,122

(a) During the nine months ended 31 December 2013 and the year ended 31 March 2013, Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.

(b) Corporate income tax of the People's Republic of China ("**PRC**") represents tax charged on the estimated assessable profits arising in Mainland China. In general, the Group's subsidiaries operating in Mainland China are subject to the PRC corporate income tax rate of 25% except for certain subsidiaries which are entitled to preferential tax rates.

(c) The share of tax charge attributable to jointly-controlled entities of HK$387,000 (year ended 31 March 2013: HK$597,000) and the share of tax charge attributable to associates of HK$21,115,000 (year ended 31 March 2013: HK$12,297,000) are included in "Share of profits and losses of joint ventures" and "Share of profits and losses of associates", respectively, in the consolidated statement of profit or loss.

7. Dividends

	Nine months ended 31 December 2013 *HK$'000*	Year ended 31 March 2013 *HK$'000*
Proposed final dividend – 17.80 HK cents (year ended 31 March 2013: 38.80 HK cents) per ordinary share based on issued share capital at the end of reporting period	**194,685**	424,264
Less: Dividend for shares held for the restricted share award scheme at the end of reporting period	**(4,648)**	(9,672)
	190,037	414,592

The proposed final dividend for the period is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the nine months ended 31 December 2013 attributable to ordinary equity holders of the parent of HK$84,103,000 (year ended 31 March 2013: HK$1,367,369,000), and the weighted average of 1,068,011,559 (year ended 31 March 2013: 1,068,181,622) ordinary shares in issue less shares held under the restricted share award scheme during the nine months ended 31 December 2013.

The calculation of the diluted earnings per share amount for the nine months ended 31 December 2013 is based on the profit for the nine months ended 31 December 2013 attributable to ordinary equity holders of the parent of HK$84,103,000 (year ended 31 March 2103: HK$1,367,369,000) and the weighted average of 1,083,825,536 (year ended 31 March 2013: 1,082,073,741) ordinary shares, which represented 1,068,011,559 (year ended 31 March 2013: 1,068,181,622) ordinary shares in issue during the nine months ended 31 December 2013, as used in the basic earnings per share calculation, and the weighted average of 15,813,977 (year ended 31 March 2013: 13,892,119) 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.

9. 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 30 to 180 days. An aged analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the invoice date and net of impairments, is as follows:

	31 December 2013 *HK$'000*	31 March 2013 *HK$'000*
Within 30 days	**5,693,741**	5,013,732
31 to 60 days	**2,256,215**	1,396,454
61 to 90 days	**752,181**	816,325
91 to 180 days	**1,541,503**	1,671,920
Over 180 days	**1,251,080**	1,426,329
	11,494,720	10,324,760

10. Trade and bills payables

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	31 December 2013 *HK$'000*	31 March 2013 *HK$'000*
Within 30 days	**6,232,429**	5,981,589
31 to 60 days	**2,257,027**	1,992,868
61 to 90 days	**732,999**	1,247,136
Over 90 days	**1,870,338**	1,651,892
	11,092,793	10,873,485

11. Investments in subsidiaries

In August 2013, Digital China Information Service Co. Ltd. ("**DCITS**"), an indirect non-wholly-owned subsidiary of the Company, entered into an absorption and merger agreements (the "**Absorption and Merger Agreements**") with Shenzhen Techo Telecom Co., Ltd. ("**Shenzhen Techo Telecom Co., Ltd.**") in relation to, among other things, the merger of DCITS into Shenzhen Techo Telecom by absorption (the "**Absorption and Merger**") pursuant to the terms of the Absorption and Merger Agreements and the asset restructuring of Shenzhen Techo Telecom (the "**Asset Restructuring**"). Shenzhen Techo Telecom is a company with limited liability established under the laws of the PRC and its A shares are listed on the Shenzhen Stock Exchange.

Pursuant to the Absorption and Merger Agreements and the Asset Restructuring:

(a) Shenzhen Techo Telecom issued 21,186,440 ordinary shares to Kunshan Shenchang Technology Limited, the existing single largest shareholder of Shenzhen Techo Telecom holding 19,897,057 A shares of Shenzhen Techo Telecom, for a cash consideration of RMB200 million;

(b) DCITS merged into Shenzhen Techo Telecom by absorption in accordance with the relevant PRC laws and all of its assets, liabilities, business (consisting of the IT Services Business) and employees were injected or assumed by Shenzhen Techo Telecom. Meanwhile, the then 60.98% and 39.02% equity interests in DCITS held by Digital China Software Limited ("**DCSL**"), a wholly-owned subsidiary of the Company, and the other shareholders of DCITS (the "**Other Shareholders of DCITS**"), respectively, were also cancelled and DCITS was deregistered pursuant to the applicable PRC laws; and

(c) a total number of 319,399,894 ordinary shares (the "**Consideration Shares**") were issued by Shenzhen Techo Telecom to the then shareholders of DCITS in following manner:

    (i) 194,770,055 ordinary shares to DCSL; and
    (ii) 124,629,839 ordinary shares to Other Shareholders of DCITS.

As part of the Absorption and Merger, each of the then shareholders of DCITS entered into a profit compensation agreement (the "**Profit Compensation Agreement**") with Shenzhen Techo Telecom. Pursuant to the Profit Compensation Agreement entered into between DCSL and Shenzhen Techo Telecom, DCSL agreed to pay a share-based compensation to Shenzhen Techo Telecom by way of selling such number of the Consideration Shares held by it back to Shenzhen Techo Telecom at an aggregate nominal price of RMB1.00 (the "**Compensation Shares**") and such Compensation Shares to be repurchased by Shenzhen Techo Telecom will be cancelled.

The number of the Compensation Shares for each of the relevant financial years shall be calculated based on:

(a) any shortfall between the projected net profits of DCITS for the year ended 31 December 2013 and for each of the financial years ending 31 December 2014 and 2015 and the actual net profits of DCITS for each of these financial years (the "**Income Approach Compensation**"); and

(b) any audited decrease from the estimated asset value of the non-controlling interests invested by DCITS in DigiWin Software Co., Ltd., a limited liability company established under the laws of the PRC, and SJI Inc., a company listed on Jasdaq, the Tokyo Stock Exchange, Inc. as at 31 December 2013, 2014 and 2015 set out in the valuation report (the "**Market Approach Compensation**").

As at the date of approval of the financial information, no compensation is considered necessary to be accrued in relation to the Income Approach Compensation and Market Approach Compensation.

Upon the completion of the Absorption and Merger, the indirect holding by the Company in approximately 60.98% equity interests in DCITS was effectively exchanged to approximately 45.17% equity interests in Shenzhen Techo Telecom, and Shenzhen Techo Telecom became an indirect non-wholly-owned subsidiary of the Company. As a result, DCSL became the single largest shareholder of Shenzhen Techo Telecom and DCSL has rights to nominate three out of the six non-independent directors and two out of the three independent directors of the board of directors of Shenzhen Techo Telecom upon the completion of the Absorption and Merger. In the opinion of the directors of the Company, the equity holdings in Shenzhen Techo Telecom are dispersed in a way that other shareholders have not organised and cannot easily organised their holdings so that the Group can exercise more voting power than the minority shareholders. Therefore the directors of the Company are of the view that the Company has de facto control over Shenzhen Techo Telecom.

Prior to the Asset Restructuring, Shenzhen Techo Telecom is principally engaged in the trading business of liquid crystal film display panel products and after the Absorption and Merger Agreement became effective, Shenzhen Techo Telecom discontinued its existing business. As a result, the Absorption and Merger does not constitute a business combination under HKFRS 10 *Consolidated Financial Statements* and was accounted for in the Group's consolidated financial statements as a continuation of the financial statements of DCITS, together with a deemed issue of shares by DCITS. This deemed issue of shares by DCITS is accounted for as an equity-settled share-based payment transaction whereby DCITS has received the net assets of Shenzhen Techo Telecom, generally cash, together with the listing status of Shenzhen Techo Telecom. As the listing status does not qualify for recognition as an asset, and therefore was expensed in profit or loss as listing expense of HK$1,216,133,000, which was calculated based on the fair value of the shares that are deemed to have been issued by DCITS, less the fair value of the net assets of Shenzhen Techo Telecom, as at the completion date of the Absorption and Merger.

Further details of the transactions are included in previous announcements dated at 1 August 2013 and 26 August 2013.

DIVIDENDS

The Board recommends the payment of a final dividend of 17.80 HK cents (year ended 31 March 2013: 38.80 HK cents) per share for the nine months ended 31 December 2013 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

Unprecedented challenges encountered by each IT sub-segment market had subjected the Group's operation to significant impact since the beginning of FY2013, leading to a decline of the Group's financial results. This was partly due to slowdown in China's economic growth amid structural transition, while the accelerated change in IT product profile and the industry's competitive landscape also played a part. The Group's management made extensive adjustments to the business operations based on changes in market conditions, adopting the three-pronged strategy of "Controlling Costs, Adjusting Structures and Identifying Breakthroughs". First of all, we sought to match our business progress with costs through "Controlling Costs" so as to withstand market volatility. Next, after market analysis, we pinned down specific approach to "Adjusting Structures" and implemented step by step. After completing those mentioned above, the management focused their efforts on "Identifying Breakthroughs" for building the Group's long-term competitive strengths. The Group's management strives to make breakthroughs in traditional businesses such as Distribution and Systems, while establishing an independent financing platform for IT Services Business and cultivating Sm@rt City as a new growth niche. These three measures have started to yield initial results and, more importantly, laid a foundation for the Group's future development, allowing the management to have a better visibility of what lies ahead. Firstly, the Distribution Business has stabilised, with clear objectives for adjusting structures of products and channels. Secondly, the adjustment of the Systems Business is also directed towards a concrete goal, addressing the long-term rising trend of domestic brands. Thirdly, the Sm@rt City business will be based on the Internet model and future investment will be backed by a clear vision. Finally, an array of capital market operations have seen productive outcomes, highlighted by the successful spin-off listing of IT Services Business and lucrative returns for our investment in HC International.

1.1. Ongoing weakness of IT market and the rapidly changing market profile led to year-on-year decline in the Group's full-year revenue and profit.

During the financial year (nine months ended 31 December 2013, and hereafter), the IT market displayed continued weakness, significant changes in product and competition profile, and intensified market competition. Affected by such factors, the Group reported revenue of approximately HK$52,265 million for the financial year under review, a decrease of 7.78% as compared to the corresponding period of last financial year. The overall gross profit margin declined by 80 basis points to 6.46%, as compared to the corresponding period of last financial year. A one-off financial loss of approximately HK$549 million arising from the dilution of the Group's equity interest following spin-off of the IT Services Business, which was not a real cash outflow, was booked in December. The financial loss is slightly different from the HK$600 million loss announced by the Company on 27 January 2014. This is because in calculating the transaction costs for the absorption and merger of the IT Services, the fair value of the assets of the IT Services as at 30 April 2013 was used in the announcement published in January 2014, while the fair value of the assets of the IT Services as at 31 December 2013 was used when the financial loss was recorded in December 2013. In addition, the provision for employees' bonuses that was historically accounted for during the fourth quarter of the financial year were made and recorded earlier in December, due to the change of the financial year end date of the Company. As affected by the aforesaid factors, profit attributable to equity holders in the financial year amounted to approximately HK$84 million, a decrease of 92.82% as compared to the corresponding period of last financial year. Basic earnings per share amounted to 7.87 HK cents, representing a decrease of 101.77 HK cents from 109.64 HK cents reported in the corresponding period of last financial year. For the third quarter of the financial year (three months ended 31 December 2013, and hereafter), the Group reported revenue of approximately HK$18,636 million, a decrease of 3.29% as compared to the corresponding period of last financial year. Gross profit margin was 7.02%, dropped by 99 basis points as compared to the corresponding period of last financial year. Excluding the impact of the two above mentioned one-off events, profit attributable to equity holders for the third quarter of the financial year under review would have been approximately HK$152 million.

1.2. "Controlling Costs", expenses continued to decrease. "Adjusting Structures", addressed changes in products profile and competition landscape in the market. Through enhanced management, we have also achieved sound cash flow performance.

Amidst declining results, the Group continued to report reduced expenditure following stringent cost control measures and adjustment to resources input. Since initiating human resources optimisation, the staff headcount of the traditional businesses (the Distribution Business and the Systems Business) has been reduced by approximately 1,600 employees. The Group's selling and distribution expenses and administrative expenses for the financial year decreased by 6.45% and 12.09%, respectively, as compared to the corresponding period of last financial year. To address the changing market environment, the Group made proactive moves to adjust its business mix. While consolidating our fundamental business, we also increased our coverage of Mobile Internet products and e-commerce, and expanded into new business frontiers such as domestic brands, to develop a more comprehensive business exposure. Sales of Apple products and Microsoft Surface tablets continued to register significant growth, and our Mobile Internet business unit in the third quarter of the financial year grew by 64% year-on-year. Our domestic brand business, highlighted by Huawei, also sustained substantial growth. Sales of Huawei products increased 64% year-on-year during the financial year. The Group continued to report net cash inflow from operating activities thanks to its implementation of a stringent risk control measures, taking full account of market volatility risk. Net cash inflow from operating activities for the financial year amounted to approximately HK$534 million, while net cash inflow from operating activities for the third quarter amounted to approximately HK$290 million, ensuring stable operation of the Group's business.

1.3. "Identifying Breakthroughs", to build long-term competitive strengths, keep innovating in traditional business and progress firmly in Sm@rt City.

Regarding our traditional business, we continue to identify gateway for breakthroughs. Our Distribution Business pioneered in the industry in proposing the "Omni-Channel" marketing scheme, while our Systems Business was also drawing up strategies to address the challenge stemming from the rise of domestic brands. Encouraged by a series of Sm@rt City policies launched by the Central Government, the Group's management reaffirmed its determination to head towards Sm@rt City strategy and to foster new growth niches. During the financial year under review, the Group realised breakthroughs in virtual image technology which is a foundation for Public Information Service Platform, and launched Public Information Service Platform 2.0 in Beijing in October 2013. The launch has not only consolidated the Group's leading position in this field, but also given us deeper insight into patterns of Internet-based business. During the third quarter of the financial year under review, the Group entered into Sm@rt City strategic cooperation agreements with cities like Qingdao, Benxi and Baiyin, with 7 cities in total signed up for strategic cooperation during the financial year under review. Digital China's Public Information Service Platform will be promoted in these cities. By the end of 2013, Integrated Citizen Service Platforms have commenced operation in Foshan, Fuzhou and Zhangjiagang. For 2014, we aim to extend coverage to more than 10 cities, by when Digital China's Sm@rt City initiative will have footprint across all major regions of China.

1.4. Productive operations in the capital market.

As for the capital market, the Group's IT Services Business was listed in A-share market in late 2013 to unleash its enormous intrinsic value. This new financing platform has enabled IT Services Business extended development through investment and merger and acquisition, and laid a foundation for expediting its business development. Concerning the auditing and information disclosure requirements in the two places of listing, in order to bring the financial year end of the Group in line with its subsidiaries, the financial year end of the Company was changed from 31 March to 31 December. Hence the financial year under review comprises only nine months. As part of our Sm@rt City strategy, the Group continued to increase investment in HC International during the financial year under review. We are going to launch the micro-credit Internet financing business in partnership with HC International in future.

2.1. Distribution Business: primary focus on the SMB & Consumer Markets, engaging in the distribution of general IT products such as notebook computers, desktop computers, peripherals, accessories and consumer IT products.

Year-on-year decline in Distribution Business revenue attributable to the fast-changing profile of consumer IT market marked by continuous decline in demand for traditional products and rapid adjustment of channels profiles. Our Distribution Business was under pressure amid a dwindling PC market throughout the year, despite rapid growth of its e-commerce business, which carried a much smaller weight than the traditional channels. Affected by this, revenue from the Distribution Business of the Group within the financial year amounted to approximately HK$26,254 million, down by 7.70% as compared to the corresponding period of last financial year. While assuring market share for traditional products, the Group made an effort to boost sales of consumer IT products and accessories. These two categories registered rapid growth of 34.39% and 18.51% respectively (excluding CES channel) during the third quarter of the financial year, driving a 1.56% year-on-year growth in the overall revenue of the Distribution Business to approximately HK$9,036 million for the third quarter of the financial year, and preliminarily curbing the declining trend. The Distribution Business is among the first to implement human resources optimisation. Excluding the advanced provision of employees' bonuses, the business segment reported a 33% reduction in human resources expenses as compared to the corresponding period of last financial year.

Reinforcing traditional businesses while speeding up development in emerging sectors, as the scope of cooperation with core e-commerce customers continued to broaden. While securing our existing market share in traditional products, we continued to enhance development in the Mobile Internet sector. The Mobile Internet business achieved a significant year-on-year growth of 64% in revenue in the third quarter of the financial year, thanks to significant sales growth of Apple products and Microsoft Surface tablets. Meanwhile, the Group kept expanding its cooperation with core e-commerce customers like JD.com and Yixun, enlarging share of e-commerce channels in our total sales. In a bid to strive for breakthroughs in business models, Distribution Business proposed the "Omni-Channel" marketing scheme, a pioneer move in the industry that has won initial reorganization from partners.

2.2. Systems Business: primary focus on the Enterprise Market, offering value-added distribution of systems products such as servers, networking products, storage products and packaged software.

Year-on-year decline in Systems Business revenue owing to slowdown in enterprise IT infrastructure investment and accelerated changes in market profile driven by the rise of domestic brands. Affected by macro-economic conditions, there was a notable slowdown in domestic enterprise IT infrastructure investments. In the meantime, domestic brands are rapidly expanding market shares in major areas such as networking, servers and information security, resulting a significant impact in market profile, to the extent that major foreign vendors reported negative growth. Affected by the stated factors, revenue from the Group's Systems Business within the financial year decreased to approximately HK$17,638 million, a 14.46% decline as compared to the corresponding period of last financial year. Revenue from the Group's Systems Business for the third quarter of the financial year decreased to approximately HK$5,624 million, a 22.65% decline as compared to the corresponding period of last financial year. Gross profit margin of the Systems Business decreased to 7.43% in the third quarter of the financial year, due to escalating market competition. Excluding the advanced provision of employees' bonuses, human resource expenses of this business segment in this financial year decreased 8% as compared to the corresponding period of last financial year.

Securing leading position in traditional areas by focusing on market-share management, while expediting rolling out and expanding business with domestic brands to graspe growth opportunities in sub-segment markets. In response to challenging market conditions, the Group's Systems Business assured its leadership in market shares for core product lines thanks to persistent efforts in market-share management. In the meantime, the Group expedited rolling out and expanding business with domestic brands, introducing domestic brand product lines in application areas such as information security, and optimized product profile continuously. Our domestic brand business, highlighted by Huawei, reported substantial growth. Sales of Huawei products grew by 64% year-on-year within the financial year. Moreover, sales of packaged software products for the third quarter also grew by 5.13% as compared to the corresponding period of last financial year, as we leveraged growth opportunities in the packaged software market. We were also identifying breakthroughs for our Systems Business with attempts to build our proprietary brand, in response to the long-term challenges stemming from the rise of domestic brands.

2.3. Services Business: primary focus on the Industry clients, offering products and services in IT planning, IT system consultation, industry application softwares, solution design and implementation, outsourcing of IT system operation as well as systems integration and maintenance.

Growth in the Services Business thanks to persistent advancement in customer plan and enhanced efforts in industry diversification and regional coverage. In response to the decline in government investments and IT demand from customers, the Group persisted in advancing its customer plan and broadening customer coverage, while being prudent in selection of clients and businesses to ensure the quality of business. Expansion efforts were put to meet the needs of the financial, telecom carrier, energy, power, government & corporations and military sectors to ensure efficient coverage of target sectors and solid support for steady growth of the Services Business. Revenue from the Group's Services Business for the financial year under review increased to approximately HK$7,307 million, an 8.18% growth as compared to the corresponding period of last financial year. Revenue from the Group's Services Business for the third quarter of the financial year increased to approximately HK$3,570 million, a 27.62% growth as compared to the corresponding period of last financial year. Revenue from the financial sector for the financial year under review increased by 8.36%, as we achieved breakthroughs in scale or products with Bank of China, Bank of Jilin, Bank of Suzhou, Bank of Zhumadian and Urumqi City Commercial Bank. Revenue from the telecom carrier sector mostly stay flat year-on-year, while breakthroughs were achieved in ICT business in Yunnan, Hubei, Jiangsu and Tibet. Revenue from the government & corporations sub-sectors grew by 11.55%, as we snatched up regional projects of State Grid in Hunan, Hubei, Zhejiang, Xinjiang and Shandong. We also made progress with our core customer China Southern Power Grid, securing projects of its UHV Bureau, Guizhou Bureau and Yunnan Bureau. In the Internet sector, we leveraged opportunities afforded by Alibaba's increase in procurement, and entered into a sizeable contract with Baidu.

Strategic transformation was in progress, underpinned by steady growth in the proportion of self-developed software, technology services and ATM equipment businesses and an optimised business mix. In persistent efforts to advance business transformation, the weightings of software, technology services, operation, proprietary brand equipment continued to grow year by year, generating a revenue of approximately HK$2,535 million for the financial year under review, which was 12% higher compared to the corresponding period of last financial year, and contributing over 60% of profit for an optimised profit structure. The Services Business continued to amass technologies and conducted R&D on industry application solutions, increasing customer stickiness and profitability of the business fundamentally. Meanwhile, we also enhanced our project management capabilities. Gross profit margin for the software and technology services parts of the Services Business was 26% for the financial year under review, which largely stays flat as compared to the same period of last financial year.

2.4. Supply Chain Services Business: primary focus on the markets of Hi-Tech Industries, Branded e-Commerce Platform Operators and Branded Services Providers, providing "one-stop" consultancy and execution services on logistics, business flow, capital flow and information flow.

Enhanced our servicing ability steadily and reaped notable results in our marketing and expansion efforts in a fast-growing market. The Supply Chain Services Business reported overall revenue of approximately HK$1,065 million for the financial year under review, an increase by 24.64% compared to the same period of last financial year. Revenue for the third quarter of the financial year amounted to approximately HK$406 million, an increase by 33.29% compared to the same period of last financial year. During the financial year under review, the Group achieved a major breakthroughs in customer marketing for its logistics business as it has been fostering capabilities in centralised procurement tenders and total outsourcing services for large customers, and assumed a pole position in the market of logistics service providers for the telecommunication industry. We won the centralised logistics service procurement bid of China Mobile Terminal Company and accomplished business deployment in the carrier sector as planned at the beginning of the financial year. In connection with BYD, we completed taking over BYD's outsourced personnel and warehouses in various locations, providing a successful precedent in total logistics outsourcing and M&A. We steadily enhanced our capabilities in warehousing, transportation and delivery, as well as forged a Warehouse Management System, to support operations of the logistics business. Apart from the logistics business, the Group was also closely monitoring potential opportunities presented by Mobile Internet products and e-commerce channels, making progress in expanding our brand maintenance service. Following the launch of nationwide maintenance services for Surface tablets, we also signed up Xiaomi in the Mobile Internet sector. The Group had started exploring new business models in Internet maintenance service with Yixun and Qihoo 360. Meanwhile, at the end of the financial year, the number of profitable stores grew by 42% as we continued to focus on lifting per-store profitability.

3. Management Outlook

Under the impact of macro-economic weakness coupled with adjustments in the market landscape, 2013 has been a difficult year for the Group's traditional business. In the new financial year, the Group has revised its past management philosophy to better adapt to the fast-changing IT industry. Each business unit will focus on its own business field, formulating and adjusting its strategy direction according to market changes. The authorization of decision-making to frontline business units will drive more initiative to unleash their productivity. Looking forward to 2014, following thorough analysis of market trends, the Group's management is of the view that initial signs of stabilization of Consumer IT market have been seen while demand in the Enterprise IT market, which is yet to stabilise, will pick up gradually, and expect those factors to provide solid supports for the Group's results. As market conditions likely remain complicated, the Group's management will closely monitor new trends in the market as it continued to complete its business deployment, in a bid to maintain its long-term competitive strengths. In 2014, our IT Services Business will embark on a new journey, while our logistics business will also continue to see solid developments driven by e-commerce and Mobile Internet development. Meanwhile, at the senior official meeting of China-EU Partnership on Urbanisation Summit held at the end of last year, Premier Li Keqiang voiced his full support for Sm@rt City development, giving a detailed exposition of the objective, approach and critical points of Sm@rt City construction. This was in perfect resonance with the Group's exploration all along. Together with a series of national policies on Sm@rt City development announced in 2013, this has given immense encouragement to the management. In the next three years, the Group will roll out its Sm@rt City operation business in full scale, with the aim of extending the scope of covered cities, driving the Group's transformation to an Internet-based business model, in a bid to deliver greater value for shareholders.

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$30,100 million at 31 December 2013 which were financed by total liabilities of HK$21,053 million, non-controlling interests of HK$1,321 million and equity attributable to equity holders of the parent of HK$7,726 million. The Group's current ratio at 31 December 2013 was 1.36 as compared to 1.44 at 31 March 2013.

During the nine months ended 31 December 2013, capital expenditure of HK$553 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 0.78 at 31 December 2013 as compared to 0.70 at 31 March 2013. The computation of the said ratio was based on the total interest-bearing bank borrowings of HK$6,034 million (31 March 2013: HK$5,515 million) and equity attributable to equity holders of the parent of HK$7,726 million (31 March 2013: HK$7,826 million).

At 31 December 2013, the denomination of the interest-bearing bank borrowings of the Group was shown as follows:

	Denominated in United States dollars	**Denominated in Renminbi**	**Denominated in Hong Kong dollars**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current				
Interest-bearing bank borrowings, unsecured	2,818,208	629	900,350	3,719,187
Non-current				
Interest-bearing bank borrowings, unsecured	2,314,853	-	-	2,314,853
Total	5,133,061	629	900,350	6,034,040

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$1,163 million (equivalent to US$150 million) as at 31 December 2013 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$1,163 million and HK$2,315 million respectively represented the term loans and are repayable from Year 2014 to 2016.

The Group's total available credit facilities at 31 December 2013 amounted to HK$37,137 million, of which HK$5,250 million were in term loan facilities, HK$14,050 million were in trade lines and HK$17,837 million were in short-term and revolving money market facilities. At 31 December 2013, the facility drawn down was HK$4,127 million in term loan facilities, HK$4,898 million in trade lines and HK$1,336 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 December 2013, the Group had approximately 9,800 (31 March 2013: approximately 10,600) 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 decrease in the total number of staff to cope with its business requirements, the Group has recorded a 1.66% decrease in staff costs to approximately HK$1,826 million for the nine months ended 31 December 2013 as compared to approximately HK$1,857 million for the corresponding period of 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.

REVIEW BY AUDIT COMMITTEE

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 nine months ended 31 December 2013.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the "Corporate Governance Code and Corporate Governance Report" 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 nine months ended 31 December 2013, except for the following deviations from certain code provisions with considered reasons as 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.

Code Provision A.5.1 *stipulates that company should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.*

The Company does not establish a Nomination Committee at present. The Company considers that the setting up of a Nomination Committee may not be necessary as the Board has the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as addition to the Board according to the Bye-Laws, therefore, the Board has been able to assume the responsibilities of a Nomination Committee. The Board will identify and assess whether the candidate has the balanced composition of skills and experience appropriate for the requirements of the businesses of the Company and suitably qualified to become board members.

***Code Provision D.1.4** stipulates that directors should clearly understand delegation arrangements in place. Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.*

The Company has not entered into any written letters of appointment with its Non-executive Director or any Independent Non-executive Directors. However, the Board recognizes that (i) the relevant Directors have already been subject to the laws and regulations applicable to directors of a company listed on The Stock Exchange of Hong Kong Limited, including the Listing Rules as well as the fiduciary duties to act in the best interests of the Company and its shareholders; (ii) all of them are well established in their professions and have held directorships in other listed companies; and (iii) the current arrangement has been adopted by the Company for years and has proved to be effective. Therefore, the Board considers that the relevant Directors are able to carry out their duties in a responsible and effective manner under the current arrangement.

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 code of conduct for Directors' securities transactions. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the nine months ended 31 December 2013.

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

During the nine months ended 31 December 2013, 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 public float as required under the Listing Rules throughout the nine months ended 31 December 2013.

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

Hong Kong, 25 March 2014

At the publication of this announcement, the Board comprises nine Directors namely:

Executive Directors: Mr. GUO Wei (Chairman), Mr. LIN Yang (Chief Executive Officer) and Mr. YAN Guorong (President)

Non-executive Director: Mr. Andrew Y. YAN

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

Website: www.digitalchina.com.hk

** For identification purpose only*