

Digital China Holdings Limited

# 2004/05 First Quarter Results Announcement

Mr. Zhang Yibing, Vice President

24 August 2004



# Overview

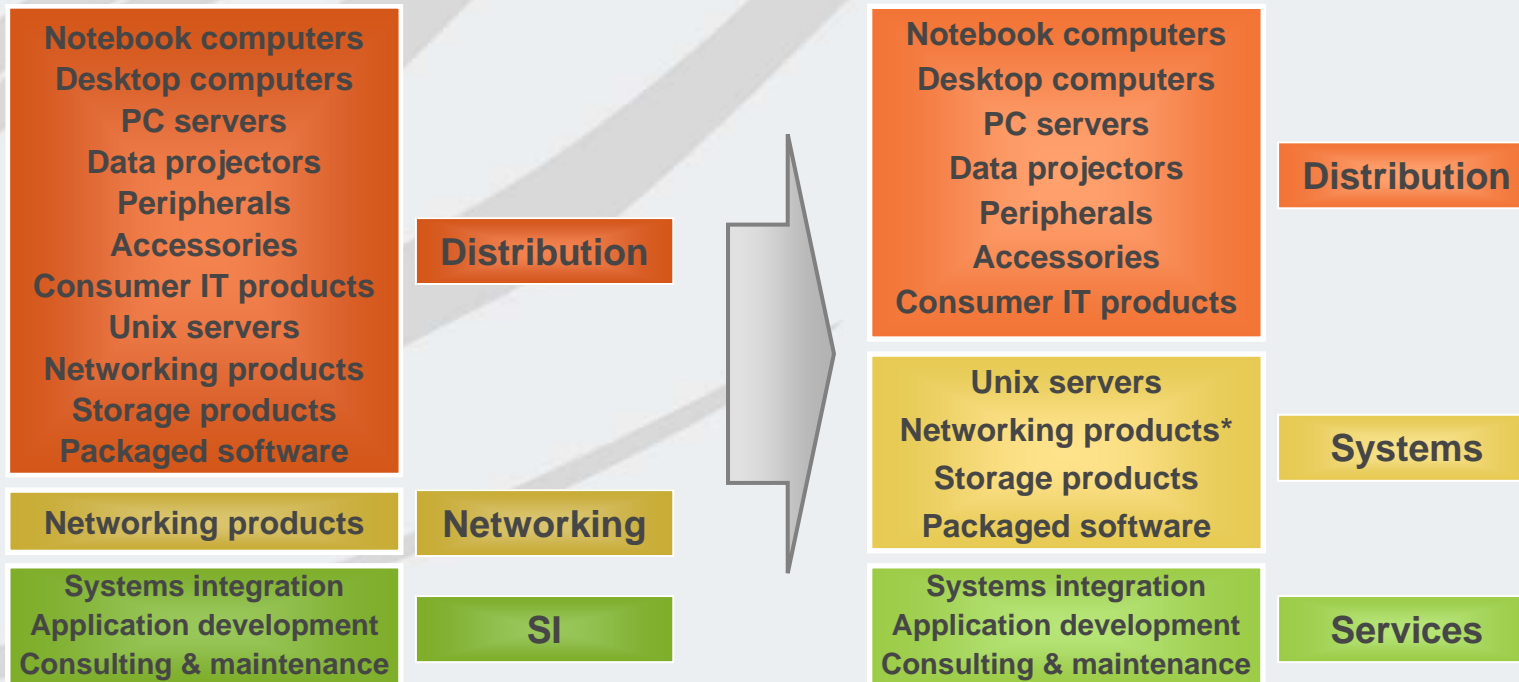
## China Market Overview

- Moderate growth in general IT product segment with a rate of 6.2%.
- Good growth in enterprise level products with a rate of 15.0%.
- Hardware integration from telecom, finance and government enjoyed 12% growth, whilst application development of the three vertical industries recorded 15% business increase.
- Overall China IT market grew by 8% from April to June.

## Business Review

- After the turnaround by the end of last financial year, the Group is back on track with management emphasis on profitability and risk control in the new financial year, which resulted in growth in the first quarter at gross profit level with a rate of 22.41%.
- Turnover on distribution of general IT products grew by 6.40%, Systems Business increased by 19.42%. Service Business' turnover is dragged by delayed projects, which will have revenue recognized in Q2.

# Change of Business Segment Reporting



- **The business model of distribution business becomes diverging in**
  - clientele
  - business-specific expertise
  - product life cycle
  - technical support level
- **Operational & managerial indicators are therefore different in**
  - margin percentage
  - inventory cycle
  - expense structure
  - net profit margin percentage

\* Including own branded networking products.

## Financial Highlights

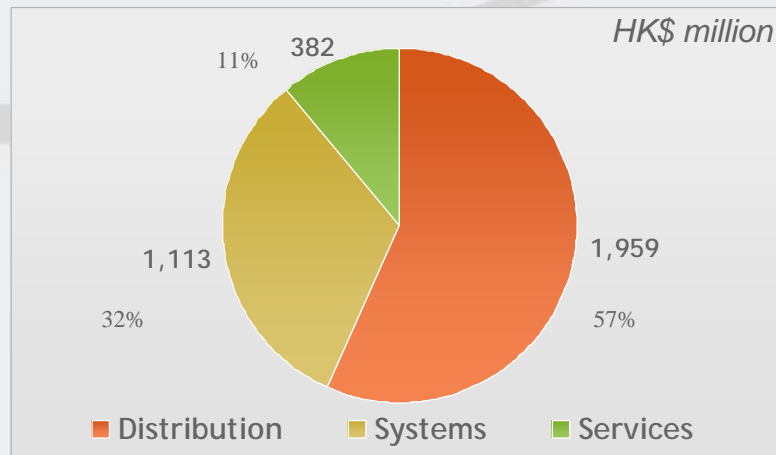
- **HK\$3,454 million turnover was generated in Q1 this year, an increase of 4.65% over the same period last year. Reasons for the flat top-line y-o-y growth are three folds:**
  - **Termination of mobile phone business**
  - **Declined turnover of Toshiba notebook computer**
  - **Some major systems integration projects delayed to Q2**
- **Gross profit margin improved to 7.95%.**
- **Profit attributable to shareholders in Q1 recorded HK\$30 million, with EPS of 3.53 HK cents.**

<i>HK\$ million</i>	<b>2004/05 Q1</b>	Change(%)	2003/04 Q1*
Turnover	<b>3,454</b>	4.65%	3,301
Gross Profit Margin (%)	<b>7.95%</b>	--	6.80%
EBITD	<b>53</b>	n/a	(128)
Profit attributable to shareholders	<b>30</b>	n/a	(149)
EPS (HK cents)	<b>3.53</b>	n/a	(17.31)

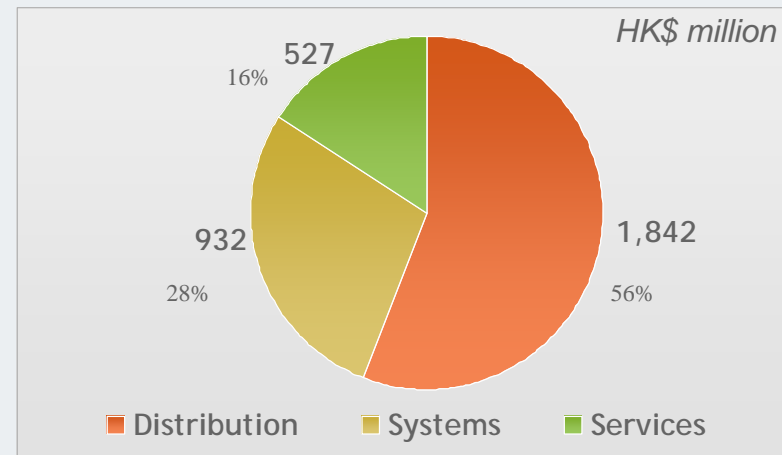
\* Inclusive of results of mobile phone business

# Turnover Breakdown by Business Group

- Distribution of general IT products, contributed 56.73% to the group total turnover in Q1 this year, as against 55.80% the same period last year with 6.40% increase. Without taking into account the mobile phone turnover in Q1 last financial year, Distribution Business would have recorded a growth of 12.91%.
- Turnover of Systems Business grew 19.42%. Turnover of Services Business decreased by 27.57%.
- Services Business' turnover is affected by delayed systems integration projects, which will have revenue recognized in Q2.

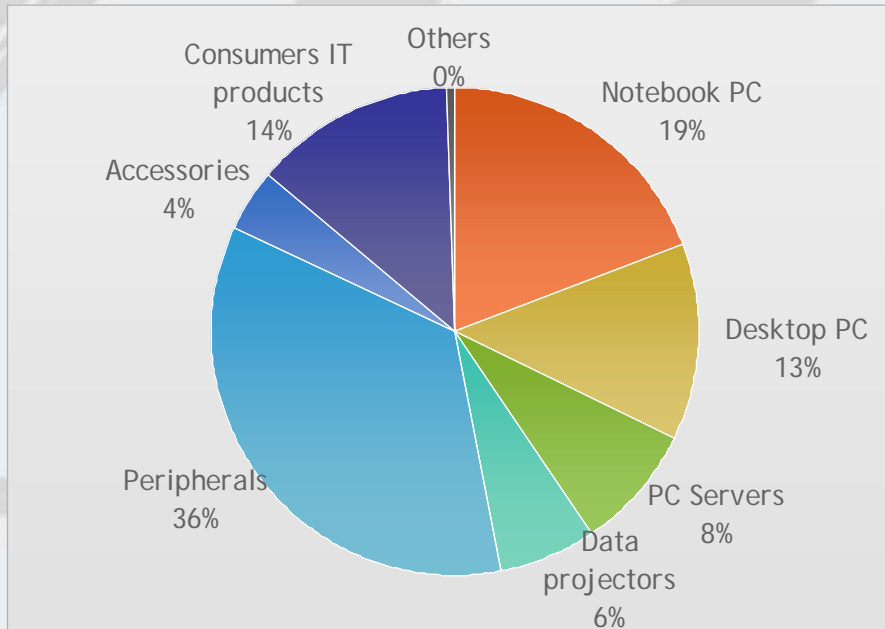


04/05 Q1 Turnover: HK\$ 3,454 million

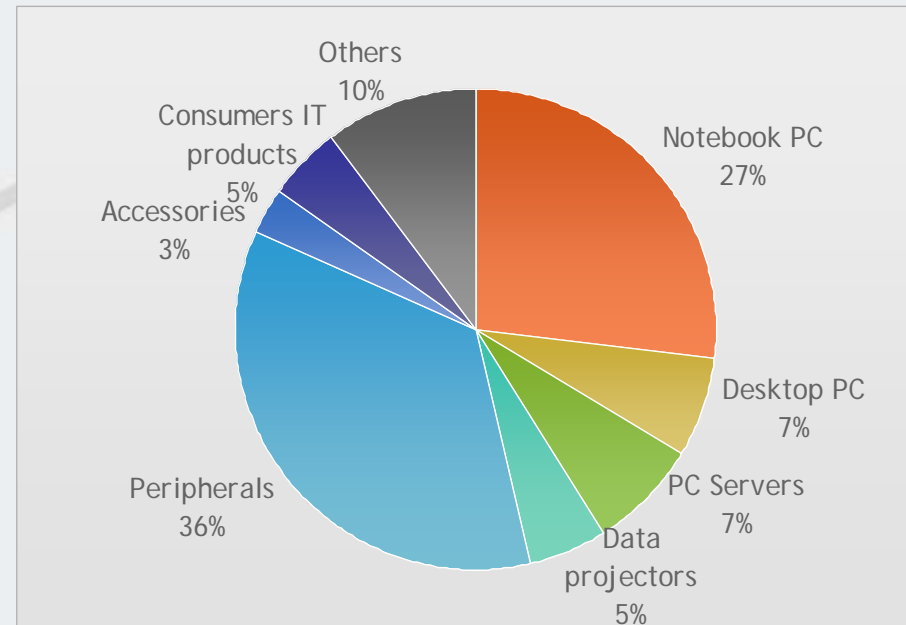


03/04 Q1 Turnover: HK\$ 3,301million

# Distribution Business: Revenue breakdown



04/05 Q1 Distribution Business: HK\$ 1,959 million

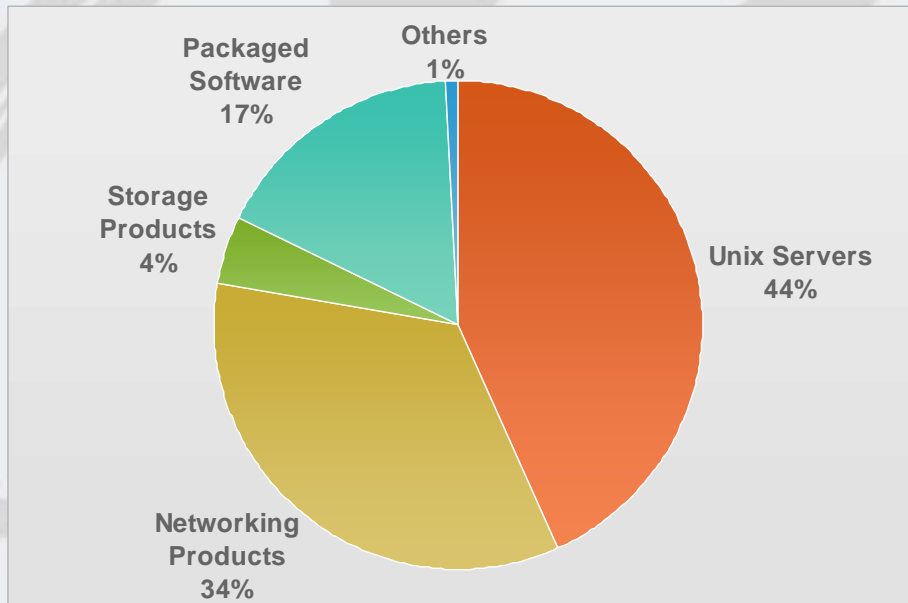


03/04 Q1 Distribution Business: HK\$ 1,842 million

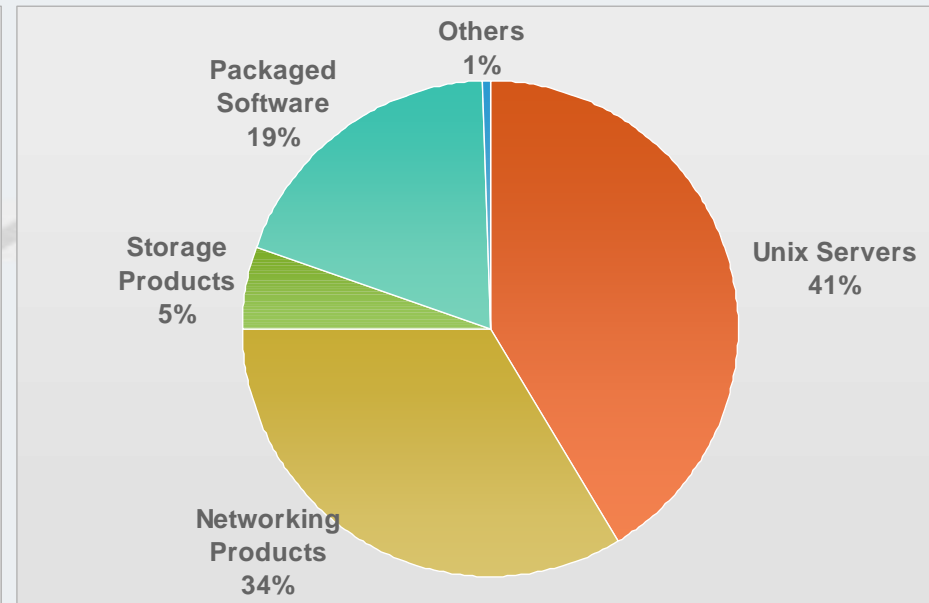
- Notebook Computers
- Peripherals
- Desktop Computers
- Accessories

- PC Servers
- Consumers IT Products
- Data Projectors
- Others

# Systems Business: Revenue breakdown



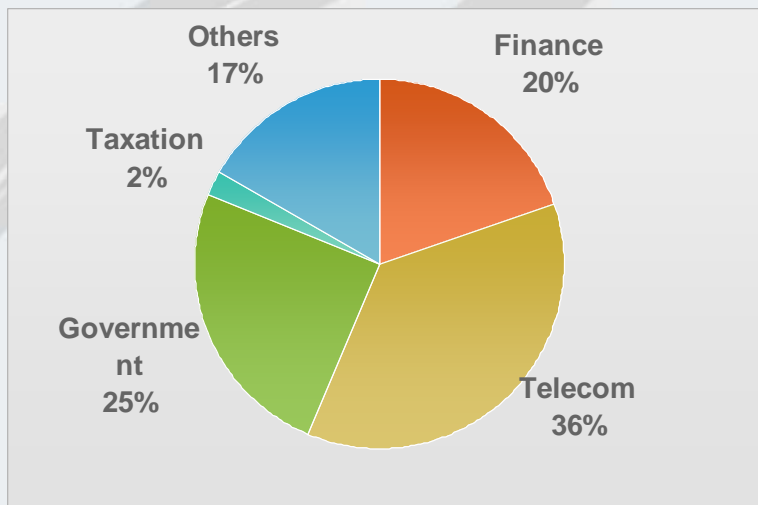
04/05 Q1 Systems Products Revenue Distribution:  
HK\$ 1,113 million



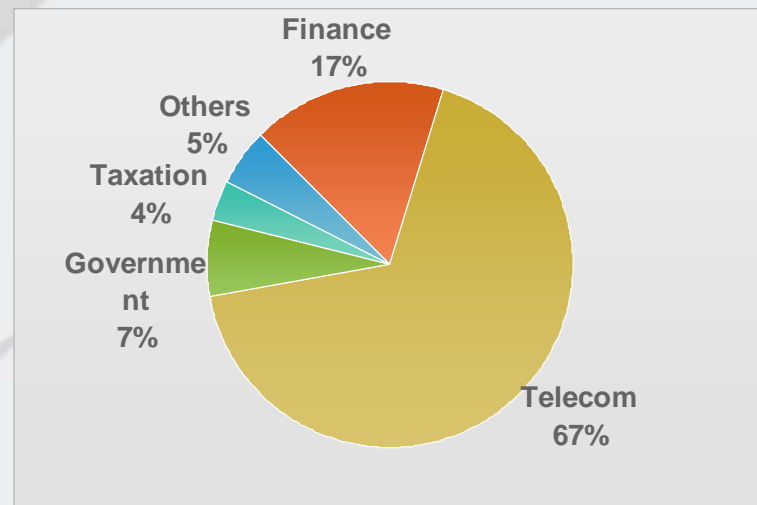
03/04 Q1 Systems Products Revenue Distribution:  
HK\$ 932 million

Unix Servers   Networking Products   Storage Products   Packaged Software   Others

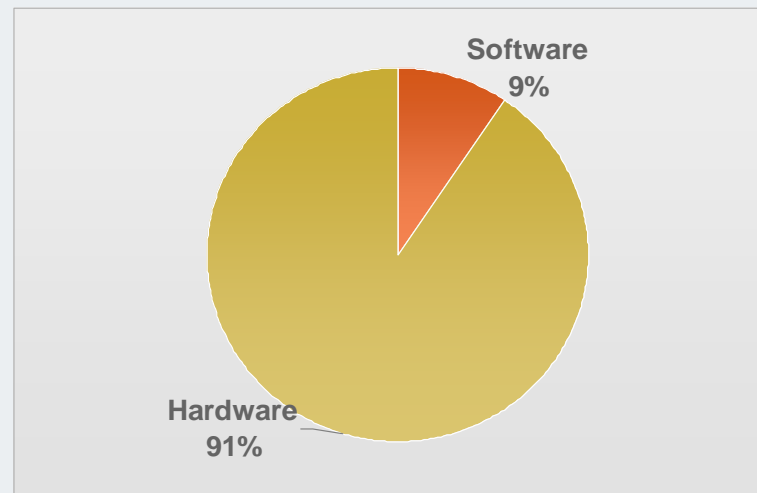
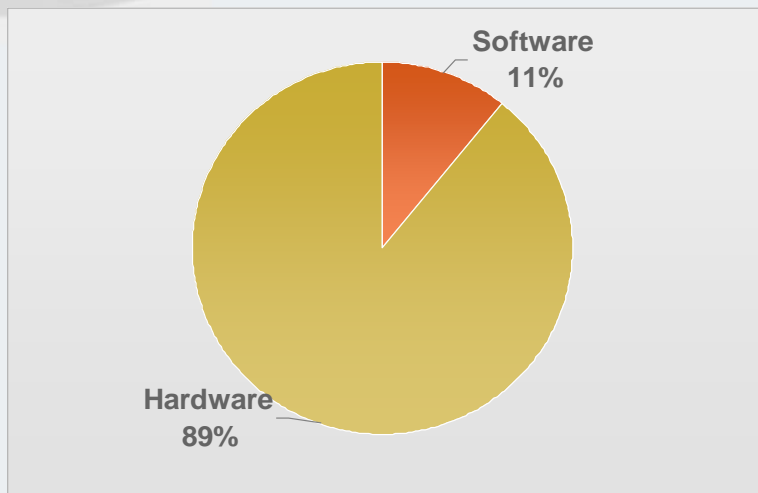
# Services Business: Turnover Mix by Industry



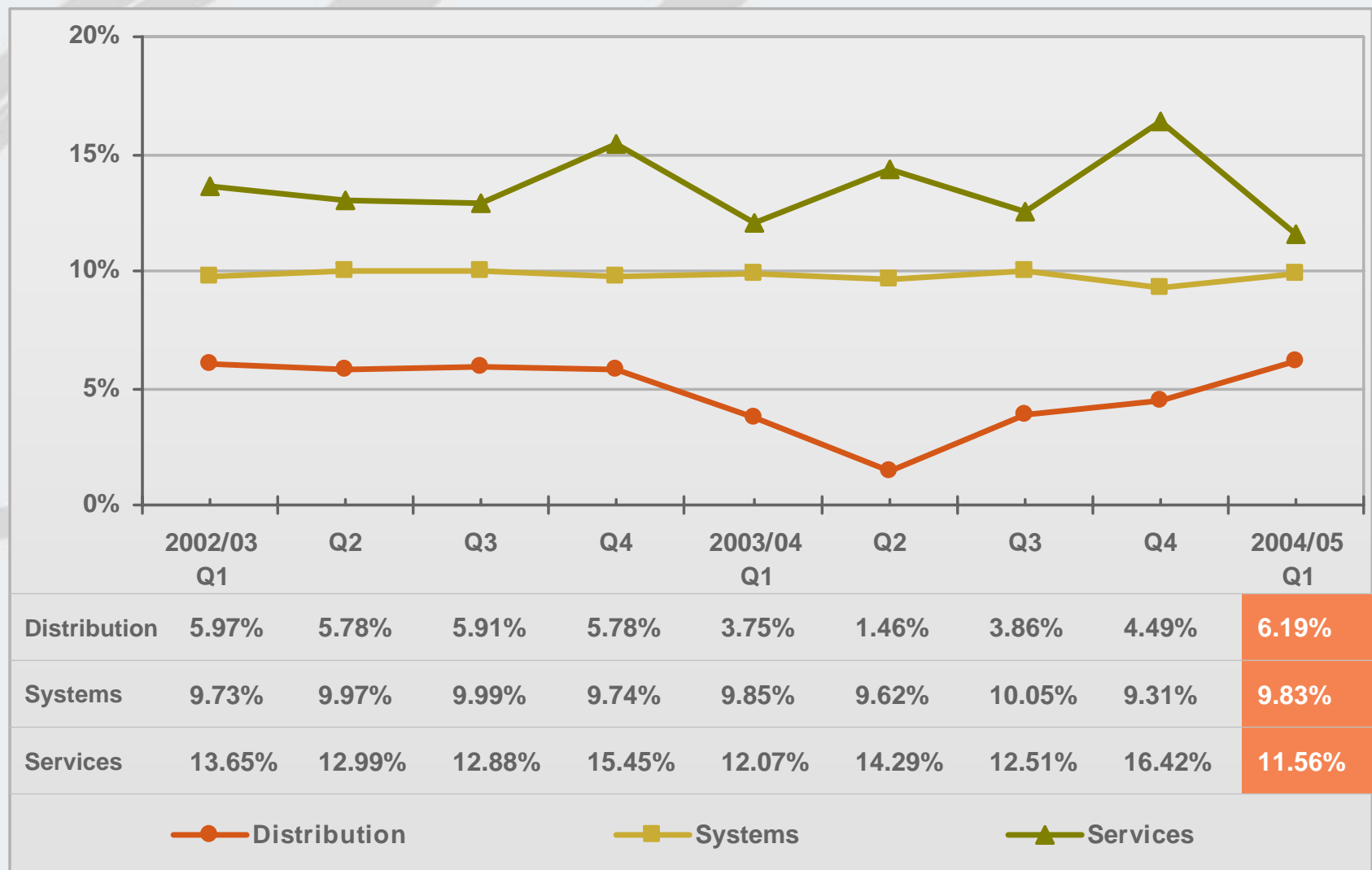
04/05 Q1 Services Business Turnover Mix:  
HK\$ 382 million



03/04 Q1 Services Business Turnover Mix:  
HK\$ 527 million



# Gross Profit Margin Trend by Business Group



## Operating Expenses Breakdown

<i>HK\$ million</i>	<b>FY2004/05 Q1</b>	Change%	FY2003/04 Q1
Selling expenses	<b>23</b>	24.63%	18
Promotion and advertising expenses	<b>19</b>	(5.65%)	20
Staff costs	<b>88</b>	9.33%	81
Other operating expenses, net	<b>92</b>	(60.65%)	234
Total operating expenses	<b>222</b>	(37.06%)	353
As percentage of total turnover	<b>6.42%</b>	n/a	10.68%

- **A significant decrease in total operating expenses is recorded, which is mainly due to the large drop in other operating expenses.**

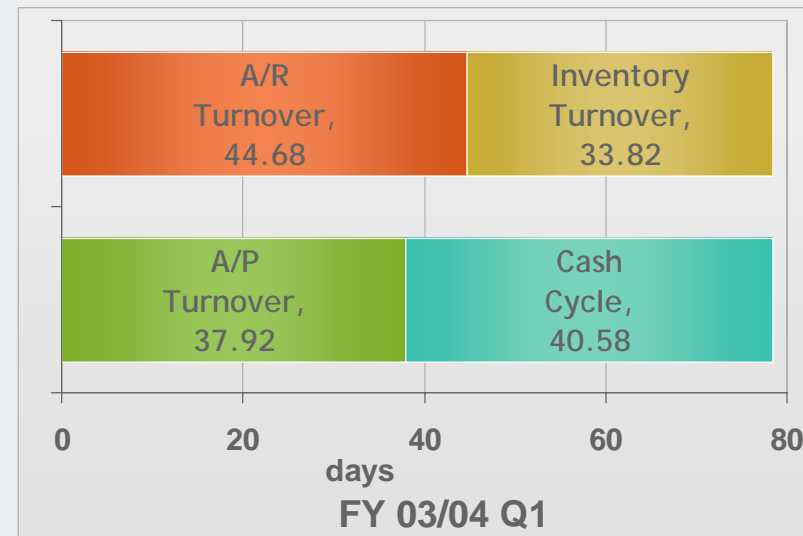
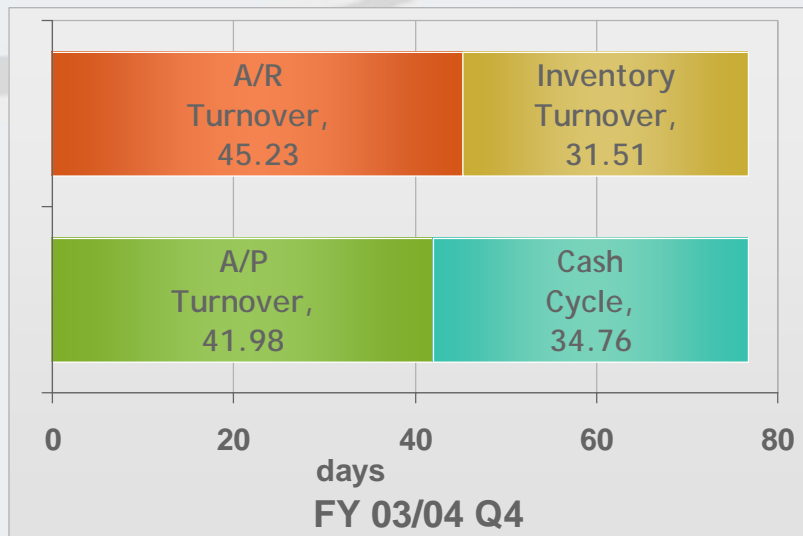
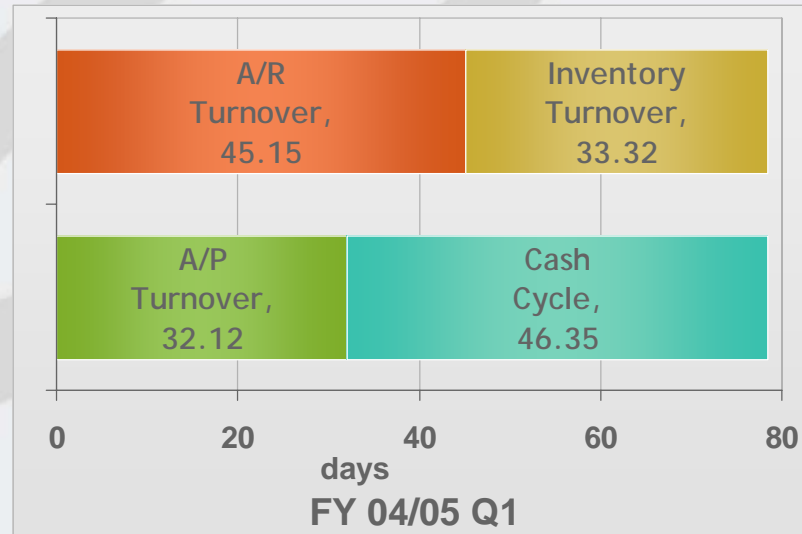
## Consolidated Balance Sheet

<i>HK\$ million</i>	30 June 2004	31 March 2004
Fixed Assets	429	394
Interests in associates	32	30
Other non-current assets	57	51
Cash and bank balances	334	521
Inventories	1,253	1,101
Trade and bills receivables	1,852	1,614
Other current assets	311	327
<b>Total assets</b>	<b>4,268</b>	<b>4,038</b>
Trade and bills payables	1,178	1,200
Interest-bearing bank borrowings (short term)	625	463
Other current liabilities	513	454
Interest-bearing bank borrowings (long term)	546	546
<b>Total liabilities</b>	<b>2,862</b>	<b>2,663</b>
Shareholders' equity	1,397	1,365
Minority interests	9	10

## Key Financial Figure

	04/05 Q1	03/04 Q4	03/04 Q1
Tangible Net Assets (HK\$ million)	1,340	1,314	1,198
Cash & Cash Equivalents at the end of the period (HK\$ million)	334	521	413
Capital Expenditure (HK\$ million)	50	209	110
Total External Borrowings (HK\$ million)	1,171	1,009	1,281
Current Ratio	1.62X	1.68X	1.52X
ROE	2.17%	4.31%	(11.94%)

# Operating Ratio for the Group



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## 2004/05 First Quarter Results Announcement Questions & Answers

Mr. Guo Wei, President & CEO





**Thank You**