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神州控股
DC Holdings

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 DECEMBER 2017

The board of directors (the "**Board**") of Digital China Holdings Limited (the "**Company**" or "**Digital China Holdings**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2017 together with the comparative figures for the corresponding period of the last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2017

	Notes	**Year ended 31 December 2017** *HK$'000*	Year ended 31 December 2016 *HK$'000*
CONTINUING OPERATIONS			
REVENUE	*4*	**13,246,571**	12,251,359
Cost of sales and services		**(10,581,271)**	(9,747,655)
Gross profit		**2,665,300**	2,503,704
Other income and gains	*4*	**467,591**	273,402
Selling and distribution expenses		**(1,233,956)**	(1,168,468)
Administrative expenses		**(763,065)**	(465,941)
Other expenses, net		**(1,064,160)**	(883,017)
Finance costs		**(230,542)**	(196,989)
Share of profits and losses of:			
Joint ventures		**65,160**	39,247
Associates		**45,855**	35,775
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	*5*	**(47,817)**	137,713
Income tax expense	*6*	**(143,584)**	(148,743)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(191,401)**	(11,030)
DISCONTINUED OPERATION			
Profit for the year from the discontinued operation	*7*	**-**	559,623
PROFIT/(LOSS) FOR THE YEAR		**(191,401)**	548,593
Attributable to:			
Equity holders of the parent		**(413,006)**	389,314
Non-controlling interests		**221,605**	159,279
		(191,401)	548,593
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic			
- For profit/(loss) for the year		**HK cents (29.21)**	HK cents 34.74
- For ~~profit/(~~loss~~)~~ from continuing operations		**HK cents (29.21)**	HK cents (15.20)
Diluted			
- For profit/(loss) for the year		**HK cents (29.21)**	HK cents 34.74
- For loss from continuing operations		**HK cents (29.21)**	HK cents (15.19)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	Year ended 31 December 2017 *HK$'000*	Year ended 31 December 2016 *HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**(191,401)**	548,593
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	**(4,089)**	(14,472)
Reclassification adjustments for losses/(gains) included in the consolidated statement of profit or loss:		
- impairment losses	**-**	3,599
- gain on disposal	**(3,261)**	-
	(7,350)	(10,873)
Exchange differences:		
Exchange differences on translation of foreign operations	**387,499**	(321,936)
Reclassification adjustments for foreign operations disposed of during the year	**-**	(45,348)
	387,499	(367,284)
Share of other comprehensive income/(loss) of associates	**(31,715)**	5,525
Net other comprehensive profit/(loss) to be reclassified to profit or loss in subsequent periods	**348,434**	(372,632)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation	**32,065**	601,807
Income tax effect	**(8,017)**	(150,452)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**24,048**	451,355
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**372,482**	78,723
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**181,081**	627,316
Attributable to:		
Equity holders of the parent	**(232,755)**	609,428
Non-controlling interests	**413,836**	17,888
	181,081	627,316

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	31 December 2017 HK$'000	31 December 2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,167,160**	1,088,555
Investment properties		**4,102,327**	3,046,367
Prepaid land premiums		**69,279**	67,937
Goodwill		**2,346,218**	2,195,376
Other intangible assets		**181,387**	152,043
Investments in joint ventures		**228,639**	1,008,013
Investments in associates		**2,637,304**	1,629,520
Available-for-sale investments	*10*	**3,314,809**	952,239
Finance lease receivables		**113,493**	327,865
Accounts receivable	*11*	**23,428**	131,528
Prepayments, deposits and other receivables		**123,391**	-
Deferred tax assets		**102,354**	68,176
Total non-current assets		**14,409,789**	10,667,619
CURRENT ASSETS			
Inventories		**1,221,410**	788,146
Properties under development		**260,504**	242,517
Completed properties held for sale		**45,006**	193,073
Accounts and bills receivables	*11*	**5,214,237**	3,872,087
Prepayments, deposits and other receivables		**1,944,876**	1,952,932
Available-for-sale investments	*10*	**585,719**	2,856,415
Finance lease receivables		**341,735**	386,264
Restricted bank balances		**107,989**	58,910
Cash and cash equivalents		**3,784,296**	2,698,158
Total current assets		**13,505,772**	13,048,502
CURRENT LIABILITIES			
Accounts and bills payables	*12*	**3,217,547**	2,124,347
Other payables and accruals		**3,560,919**	3,072,125
Tax payables		**145,081**	97,137
Interest-bearing bank and other borrowings		**5,296,981**	5,199,014
Total current liabilities		**12,220,528**	10,492,623
NET CURRENT ASSETS		**1,285,244**	2,555,879
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,695,033**	13,223,498

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2017

	Note	**31 December 2017** ***HK$'000***	31 December 2016 *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,695,033**	13,223,498
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**2,583,949**	2,465,874
Deferred tax liabilities		**273,112**	247,522
Deferred income		**43,098**	38,189
Total non-current liabilities		**2,900,159**	2,751,585
NET ASSETS		**12,794,874**	10,471,913
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*13*	**167,726**	123,466
Reserves		**8,942,059**	7,045,121
		9,109,785	7,168,587
Non-controlling interests		**3,685,089**	3,303,326
TOTAL EQUITY		**12,794,874**	10,471,913

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 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. Changes in accounting policies and disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial information.

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale.

3. Operating segment information

Segment information of the three continuing business groups is summarised as follows:

(a) the "DCITS" segment: Leading IT service provider in China's IT industry specialised in proprietary software, services, Cloud Computing and Big Data analysis persisting with the strategy of integrating Sm@rt City and Sm@rt Agriculture;

(b) the "Supply Chain Management Strategy Unit" segment: Operating through Instant Logistics to provide comprehensive intermediary and backstage logistics services for corporate customers, e-commerce platforms, branded service providers and individuals, while actively exploring Internet-based self-branded maintenance services; and

(c) the "New Business" segment: Including the "Sm@rt City Service Group" which is the provision of all-encompassing Sm@rt City services for city administrators, enterprises and citizens based on "one centre and three platforms" (the urban information management centre, the integrated citizen service platform, the integrated enterprise service platform and the integrated city administration platform); and the "Financial Service Strategy Unit" which is the provision of financial services, such as financing, factoring, leasing, guarantee, etc., to internal departments as well as third party customers.

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/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that unallocated interest income, unallocated finance costs, unallocated corporate income and gains and unallocated corporate expenses are excluded from such measurement.

The following table presents revenue and results for the Group's operating segments from continuing operations for the years ended 31 December 2017 and 2016:

	DCITS		Supply Chain Management Strategy Unit		New Business		Total continuing operations	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**9,414,513**	9,208,612	**2,884,828**	2,251,883	**947,230**	790,864	**13,246,571**	12,251,359
Segment gross profit	**1,939,110**	1,759,148	**372,018**	358,832	**354,172**	385,724	**2,665,300**	2,503,704
Segment results	**521,527**	418,402	**(54,850)**	37,848	**(142,160)**	127,498	**324,517**	583,748
Interest income, other unallocated income and gains	**14,856**	8,256					**96,765**	45,168
Unallocated expenses	**-**	-					**(349,572)**	(369,236)
Finance costs	**(95,832)**	(65,758)					**(230,542)**	(196,989)
Share of profits and losses of:								
Joint ventures	**(190)**	(3,058)					**65,160**	39,247
Associates	**12,854**	8,345					**45,855**	35,775
Profit/(loss) before tax	**453,215**	366,187					**(47,817)**	137,713
Income tax expense	**(76,152)**	(78,102)					**(143,584)**	(148,743)
Profit/(loss) for the year	**377,063**	288,085					**(191,401)**	(11,030)

4. Revenue, other income and gains

Revenue represents the net invoiced value of goods and properties sold, after allowances for returns and trade discounts; an appropriate of contract revenue; gross rental income received and receivable from investment properties; and the value of services rendered to customers, net of value-added tax and government surcharges.

An analysis of revenue, other income and gains from continuing operations is as follows:

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Systems integration business	**4,740,997**	4,826,370
Technical service business	**3,021,107**	2,573,861
Logistics business	**1,380,844**	1,124,853
Application software development business	**1,019,050**	1,038,270
E-commerce supply chain services business	**1,322,742**	894,943
Agricultural informatisation business	**274,829**	324,289
Financial specified equipment business	**357,878**	445,822
Financial services business	**257,391**	364,783
Others	**871,733**	658,168
	13,246,571	12,251,359
Other income		
Government grants	**74,245**	60,102
Interest income	**21,526**	14,165
Income from wealth management financial products	**33,621**	21,159
Dividend income from available-for-sale investments	**17,289**	8,710
Others	**5,133**	7,883
	151,814	112,019
Gains		
Fair value gains on investment properties, net	**53,086**	134,888
Gain on disposal of the equity interests in joint ventures	**102,394**	72
Gain on disposal of the equity interest in an associate	**2,795**	-
Gain on deemed partial disposal of the equity interests in associates	**42,046**	-
Gain on disposal of available-for-sale investments	**31,138**	26,420
Foreign exchange differences, net	**79,751**	-
Others	**4,567**	3
	315,777	161,383
	467,591	273,402

5. Profit/(loss) before tax

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

	2017	2016
	HK$'000	*HK$'000*
Cost of inventories sold	**6,065,408**	5,719,147
Depreciation	**142,947**	85,836
Amortisation of prepaid land premiums	**1,755**	2,601
Amortisation of other intangible assets	**31,853**	14,601
Minimum lease payments under operating leases in respect of land and buildings	**146,656**	129,891
Provisions for and write-off of obsolete inventories	**50,311**	10,238
Impairment of accounts and bills receivables	**135,580**	70,720
Impairment of finance lease receivables	**522**	20,102
Impairment provision of available-for-sale investments	**239,773**	3,599
Loss on deemed partial disposal of the equity interest in an associate	**-**	33,740
Loss on disposal of items of property, plant and equipment	**2,742**	4,588
Foreign exchange differences, net	**(79,751)**	163,198

6. Income tax expense

	2017	2016
	HK$'000	*HK$'000*
Current – Mainland China		
Corporate income tax ("**CIT**")		
Charge for the year	**162,415**	110,320
Underprovision in prior years	**4,748**	4,991
Land appreciation tax ("**LAT**")	**3,484**	12,212
	170,647	127,523
Current – Hong Kong		
Charge for the year	**129**	17
Underprovision in prior years	**165**	-
	294	17
Deferred	**(27,357)**	21,203
Total tax charge for the year	**143,584**	148,743

(a) CIT 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 CIT rate of 25% except for certain subsidiaries which are entitled to preferential tax rates.

(b) PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sale of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

(c) During the year ended 31 December 2017, Hong Kong profits tax had been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong. Taxes on profit assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

(d) The share of tax charge attributable to joint ventures of HK$19,510,000 (2016: HK$21,457,000) and the share of tax charge attributable to associates of HK$35,087,000 (2016: HK$22,069,000) of the continuing operations of the Group 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. Discontinued operation

On 7 August 2015, the Company published an announcement in relation to its proposed disposal of the subsidiaries engaged in the distribution business (namely, "Digital China Group") to Shenzhen Shenxin Taifeng Group Co., Ltd.^ ("**Shenxin Taifeng**") the details of which have been set out in the circular of the Company dated on 9 August 2015. Following the completion of the transaction, the entities engaged in the distribution business will cease to be the Company's subsidiaries. The disposal of Digital China Group was approved by the shareholders of the Company at the special general meeting held on 26 August 2015 and the approval from PRC regulatory authorities was received by Shenxin Taifeng on 18 December 2015. Digital China Group was classified as a disposal group held for sale and as a discontinued operation, and accordingly the distribution business is no longer included in the note for the operating segment information as a continuing operation. The disposal of Digital China Group has been completed on 28 March 2016.

^ The English name of the company is a direct transliteration of its registered Chinese name.

The net assets of Digital China Group disposed of as at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	370,011
Investment in an associate	43,668
Available-for-sale investments	75,464
Deferred tax assets	309,768
Inventories	5,803,416
Accounts and bills receivables	6,084,877
Prepayments, deposits and other receivables	3,314,765
Derivative financial instruments	2,954
Cash and cash equivalents	2,534,688
Accounts and bills payables	(5,621,913)
Other payables and accruals	(1,805,219)
Tax payable	(122,669)
Interest-bearing bank borrowings	(6,818,296)
Deferred tax liabilities	(198,175)
	3,973,339
Exchange fluctuation reserve	(45,348)
	3,927,991
Gain on disposal of subsidiaries	842,047
Tax and expenses	(344,016)
Gain on disposal of subsidiaries, net of tax and expenses	498,031
	4,426,022
Satisfied by cash	4,426,022

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK$'000
Cash consideration	4,426,022
Cash and cash equivalents disposed of	(2,534,688)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	1,891,334

The results of Digital China Group for the year, which are only from transactions with counterparties external to the Group and do not necessarily represent the activities of the operation as individual entities, are presented below:

	2016* HK$'000
Revenue	12,913,654
Cost of sales	(12,189,837)
Gross profit	723,817
Other income and gains	92,573
Expenses	(654,444)
Finance costs	(83,776)
Share of profits and losses of a joint venture and an associate	269
Profit before tax from the discontinued operation	78,439
Income tax	(16,847)
	61,592
Gain on disposal of subsidiaries, net of tax and expenses	498,031
Profit for the year from the discontinued operation	559,623
Earnings per share:	
Basic, from the discontinued operation	HK cents 49.94
Diluted, from the discontinued operation	HK cents 49.93

* These numbers represent the activities of Digital China Group contributed to the Group in the current year prior to its disposal.

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2016
Profit attributable to ordinary equity holders of the parent from the discontinued operation	HK$559,623,000
Weighted average number of ordinary shares in issue less shares held under the restricted share award scheme during the year used in the basic earnings per share calculation (note 9)	1,120,671,262
Weighted average number of ordinary shares during the year used in the diluted earnings per share calculation (note 9)	1,120,712,935

8. Dividends

	2017	2016
	HK$'000	*HK$'000*
Special dividend – HK$3.20 per ordinary share	**-**	3,515,317
Proposed final dividend	**-**	-
Total tax charge for the year	**-**	3,515,317

Upon the completion of the disposal of Digital China Group, the Company declared and paid a special cash dividend of HK$3.20 per share to shareholders of the Company for the year ended 31 December 2016.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

9. Earnings/(loss) per share attributable to ordinary equity holders of the parent

The calculations of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average of 1,414,003,454 (2016: 1,120,671,262) ordinary shares in issue less shares held under the restricted share award scheme during the year.

The calculations of the diluted earnings/(loss) per share amount for the year is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue less shares held under the restricted share award scheme during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of 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.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2017	2016
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculations:		
From continuing operations	**(413,006)**	(170,309)
From the discontinued operation	**-**	559,623
	(413,006)	389,314

	Number of shares 2017	2016
Shares		
Weighted average number of ordinary shares in issue less shares held under the restricted share award scheme during the year, used in the basic earnings/(loss) per share calculations	**1,414,003,454**	1,120,671,262
Effect of dilution – weighted average number of ordinary shares:		
Share-based incentive schemes	**-**	41,673
Weighted average number of ordinary shares during the year used in the diluted earnings/(loss) per share calculations	**1,414,003,454**	1,120,712,935

10. Available-for-sale investments

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Current			
Wealth management financial products, at cost	*(a)*	**585,719**	2,856,415
Non-current			
Wealth management financial products	*(a)*	**2,366,416**	-
Listed equity investments, at fair value	*(b)*	**98,440**	172,455
Unlisted equity investments	*(b)*	**849,953**	779,784
		3,314,809	952,239

Notes:

(a) Wealth management financial products have original maturity can be redeemed at any time or from three months to one year (2016: three months to one year) when acquired. Included in the above balances are certain wealth management financial products with an aggregate principal amount of HK$2,603,057,000 (before deducting the impairment loss) which were purchased from an affiliate to a state-owned large-scale financial institution during the year ended 31 December 2016. These wealth management financial products were due for repayment during the year ended 31 December 2017 but have not yet been settled. The Group is in discussion with the counterparties on the settlement plan, but no conclusion has been reached as at the date on which these financial statements were approved. During the year, an impairment provision of HK$227,941,000 (2016: Nil) was made against these wealth management financial products and recorded in the results of the "New Business" segment based on the Group's provision policy. In addition, these wealth management financial products were reclassified to non-current assets for current year's presentation considering the existence of uncertainties to recover these balances within twelve months after the reporting period.

(b) The investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

During the year, an impairment of HK$11,832,000 (2016: Nil) was recognised for an available-for-sale investment in the wine segment with a carrying amount of HK$33,972,000 (before deducting the impairment loss), because there are objective evidences indicating that such investment was impaired. During the year ended 31 December 2016, there was a significant decline in the market value of certain listed equity investments during the year. The directors consider that such a decline indicates that the listed equity investments have been impaired and an impairment loss of HK$3,599,000, which included a reclassification from other comprehensive income of HK$3,599,000, has been recognised in the statement of profit or loss for the year then ended.

The Group's unlisted equity investments and wealth management financial products are measured at cost less impairment. The directors consider that fair values of these investments cannot be measured reliably because the probabilities of various estimates within the range cannot be reasonably assessed and used in estimating fair values.

11. Accounts 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 15 to 720 days, in which the credit period of factoring and micro-credit loans in New Business Segment is generally 90 to 720 days. An aged analysis of the accounts and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**2,733,417**	2,048,714
31 to 60 days	**391,351**	342,964
61 to 90 days	**108,864**	115,122
91 to 180 days	**486,228**	440,582
Over 180 days	**1,517,805**	1,056,233
	5,237,665	4,003,615

12. Accounts and bills payables

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

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**1,765,901**	1,069,278
31 to 60 days	**390,947**	327,893
61 to 90 days	**163,513**	57,036
Over 90 days	**897,186**	670,140
	3,217,547	2,124,347

13. Share capital

	2017	2016
	HK$'000	*HK$'000*
Authorised:		
2,500,000,000 (2016: 2,000,000,000) ordinary shares of HK$0.1 (2016: HK$0.1) each (note)	**250,000**	200,000
Issued and fully paid:		
1,677,261,976 (2016: 1,234,655,581) ordinary shares of HK$0.1 (2016: HK$0.1) each	**167,726**	123,466

Note: The authorised share capital has been increased from HK$200,000,000 divided into 2,000,000,000 shares of HK$0.1 each to HK$250,000,000 divided into 2,500,000,000 shares by the creation of an additional 500,000,000 new shares of HK$0.1 each on 27 December 2017.

A summary of the movements in the Company's issued share capital and share premium account during the years ended 31 December 2017 and 2016 is as follow:

	Number of shares in issue	Issued capital *HK$'000*	Share premium account *HK$'000*	Total *HK$'000*
At 1 January 2016	1,096,365,581	109,637	2,080,480	2,190,117
Exercise of share options (note a)	2,171,000	217	16,568	16,785
Issue of new shares (notes b and c)	136,119,000	13,612	697,786	711,398
Share-based payment expenses for shares issued at discount (note c)	-	-	43,658	43,658
Share issue expenses	-	-	(1,819)	(1,819)
At 31 December 2016 and 1 January 2017	1,234,655,581	123,466	2,836,673	2,960,139
Issue of new shares (notes b and c)	107,154,000	10,715	526,882	537,597
Rights issue (note d)	335,452,395	33,545	1,308,264	1,341,809
Share issue expenses	-	-	(6,724)	(6,724)
At 31 December 2017	1,677,261,976	167,726	4,665,095	4,832,821

Notes:

(a) During the year ended 31 December 2016, the subscription rights attaching to 2,171,000 share options were exercised at a subscription price of HK$5.89 per share, resulting in the issue of a total of 2,171,000 ordinary shares of HK$0.1 each for a total cash consideration, before expenses, of HK$12,787,000. An amount of HK$3,998,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

(b) On 1 June 2016, the Group entered into the conditional sale and purchase agreement with Dragon City International Investment Limited ("**Dragon City**"), pursuant to which the Group conditionally agreed to acquire and Dragon City conditionally agreed to sell the entire interest in a property located in Mainland China to the Group at the a maximum total consideration of RMB630 million (equivalent of HK$749.7 million), which shall be satisfied by the allotment and issuance of shares of the Company. On 17 June 2016 and 26 April 2017, 78,000,000 and 71,940,000 ordinary shares were issued by the Company to Dragon City of HK$5 per share, respectively.

(c) On 5 September 2016, the Company entered into the subscription agreement with the directors, employees and a trust company (collectively named as "**Subscribers**"), pursuant to which the Subscribers conditionally agreed to subscribe, and the Company conditionally agreed to allot and issue, an aggregate of 99,391,000 ordinary shares ("**Subscription Shares**") at the subscription price of HK$5.53 per share for an aggregate cash consideration of HK$549,632,230 ("**Subscription**"). The fair value of the Subscription Shares at the grant date was HK$659,956,240 with the share price of HK$6.64 per share. The directors of the Company considered that the Subscription will further strengthen the capital base and financial position of the Company for the Group's future business developments and investments. The Company intends to apply the net proceeds of the Subscription as working capital for further business development of the Group. For all Subscription Shares, not more than 50% of shares will be released from the lock-up period of six months after the issuance date, and more than 50% of the shares will be released from the lockup period of twelve months after the issuance date.

On 21 December 2016 and 18 January 2017, the Company issued 58,119,000 and 35,214,000 Subscription Shares at the subscription price of HK$5.53 per share, for a total consideration of approximately, before expenses, HK$321,398,000 and 194,733,000, respectively.

Given the Subscription Shares were issued to the Subscribers at a discount to the then market price of the Company's shares for the purpose to provide incentives and rewards to the Company's directors and other employees of the Group, the difference between the total fair value of these shares and the total consideration received by the Group of HK$49,735,000 was accounted for as share-based payment expenses by the Group during the year ended 31 December 2016.

The fair values of these shares issued at discount were valued by an external valuer, taking into account the liquidity of these shares as a result of the aforesaid lock-up periods, and liquidity discounts were applied to measure their fair values.

(d) During the year ended 31 December 2017, a rights issue of one rights share for every four existing shares held by shareholders on the register of members on 18 August 2017 was made, at a subscription price of HK$4 per rights share, resulting in the issue of 335,452,395 shares for a total cash consideration, before expense, of approximately HK$1,341,809,000.

DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Digital China Holdings continued the transition from a traditional IT service provider to an innovative Big Data service provider in 2017 in accordance with its "Cloud Computing + Big Data" strategy. On the back of massive data depositories built up over the years, Digital China Holdings achieved strategic breakthroughs in selected business segments and swift improvements in operational efficiency following ongoing optimisation in operational management and business processes. We continued to provide enabling services to sectors such as government, modern agriculture, sm@rt manufacturing, Sm@rt City management and healthcare through our capital- and technology-driven operations underpinned by "Cloud Computing + Big Data".

1.1 Successful completion of rights issue expediting development of Healthcare Big Data; full cooperation with GZ Infrastructure driving Sm@rt City business

In September 2017, the Company completed a rights issue and raised funds of approximately HK$1.34 billion. Underpinning market confidence in the strategic transformation of Digital China Holdings, the successful completion of the rights issue with substantial oversubscription has strengthend the Group's resolve to advance the development of new businesses such as Precision Medicine and Sm@rt City. Approximately 59% of the net proceeds from the rights issue will be applied to fund investment in China Healthcare Big Data Technology Development Group Ltd. (中國健康醫療大數據科技發展集團公司) ("**Healthcare Big Data Group**"). As the primary directions in the development of China's medical sector under national policies, Precision Medicine and Healthcare Big Data will become the Group's core business segments in the future. The rights issue exercise has provided Digital China Holdings with financial resources to step up with developments in the Healthcare Big Data sector. The proposed Healthcare Big Data Group, to be formed as a joint venture by a host of well-known Central Government-owned Enterprises, state-owned enterprises listed companies and the Chinese Academy of Sciences, is set to become one of the national leagues in the Healthcare Big Data sector.

Digital China Holdings, as the first company in China to embark on the Sm@rt City business, has been enhancing its cooperation with strategic partner Guangzhou City Infrastructure Investment Group Limited (廣州市城市建設投資集團有限公司) ("**GZ Infrastructure**"), a major player in the Guangzhou's infrastructure and Sm@rt City construction. Cooperation between the two companies will facilitate more effective combination of the advanced technologies of Digital China Holdings and the city construction operations of GZ Infrastructure will provide a genuine model of technology assisting city development, and the partnership is expected to generate positive synergies to drive the development of the Sm@rt City and Big Data sectors. Digital China Holdings will continue to implement strategic transformation and innovative development in a vigorous manner and step up with strategic transformation through multilateral cooperation, so as to develop new niches for profit growth and drive sustainable, healthy business development for more lucrative shareholders' return.

For the year of 2017, the Continuing Operations reported revenue of HK$13.247 billion, representing year-on-year growth of HK$996 million or 8.12%, compared to HK$12.251 billion for the corresponding period of last financial year, reflecting all-rounded revenue growth for IT Services, Supply Chain and New Business. Gross profit increased to HK$2,665 million by HK$161 million or 6.45%, as compared to HK$2,504 million for the corresponding period of last financial year. Gross profit margin was 20.12%, down 0.32% from 20.44% last financial year. Loss from Continuing Operations attributable to the shareholders of the parent company amounted to HK$413 million, down 142.5% or increase HK$243 million, from HK$170 million for the corresponding period of last financial year. The results were affected by one-off, non-cash expenses, including the expenses arising from the grant of share options and restricted share units and the impairment of wealth management financial products. Excluding the above-mentioned one-off expenses, the recurring profit from Continuing Operations attributable to the shareholders of the parent company amounted to HK$122 million, up 196.68% from last financial year.

1.2 Firm footholds in Cloud Computing and Big Data empowering government, modern agriculture, sm@rt manufacturing, Sm@rt City management and healthcare sectors

With the advancement of our new strategy, we have leaped forward from an industry IT service provider to an industry operator through innovations in business model developed on the back of Cloud Computing and Big Data technologies, in relation to the core sectors where we claim a competitive edge.

The concept of Sm@rt City was first introduced in China by Digital China Holdings in 2010. Today, our Sm@rt City solutions cover more than 120 Chinese cities, while our city service platforms have been signed up by more than 40 cities/districts and in operation in more than 30 cities covering over more than 100 million residents. As the first mover in Sm@rt City, Digital China Holdings has grown into an undisputable leader of the sector. In 2017, our Sm@rt City was focused on deploying cloud-based open city data platforms on top of its existing model of city services. In cooperation with Peking University, we have developed and invested in Yanfeng (燕風) DaaS and Yanyun (燕雲) IaaS, exclusive deep-web data extraction technologies by Beijing Internetware Corporation Limited* (北京因特睿軟件有限公司). The application of the new technologies has significantly accelerated the progress of various data sharing processes, including those in relation to government data, effectively breaking the isolation of individual information systems and orchestrating a substantial leap forward in our ability to extract and analyze data. On this basis, we have launched respective business models for the operation of resources, scenarios and platforms, providing government and corporate clients with products for the integration and convergence of API government information resources, micro-service solutions and platform construction and operation. Currently, data service products for industrial operation, economic operation, defined poverty aid, citizen credit, transportation and education have been developed in a move to commercialise our technological achievements in multiple sectors through different approaches. We have also propositioned a model for the empowerment of Chinese manufacturers through Big Data applications. In November 2017, we worked with Shenyang Machine Tools to launch the i5 new-generation smart machine tool operating system, which gave rise to the iSESOL industrial cloud platform. By facilitating production capacity trade, customised manufacturing and regional coordination, iSESOL has contributed to the creation of a brand new, socialised business ecosphere for the manufacturing sector.

With the rapid penetration of new technologies and service models, such as mobile Internet, Big Data and Cloud Computing, into various segments of the medical sector, the development and application of Healthcare Big Data as an important, fundamental form of strategic resources of the nation will promise enormous commercial and social value. On the back of its unrivaled ability in cancer data analysis in the domestic market, Digital China Health is developing China's largest oncologic data centre and oncology Big Data platform in cooperation with the Chinese Academy of Sciences, on the basis of which comprehensive tumor data services will be provided. In future, the new Healthcare Big Data Group is expected to consolidate the strengths of its member companies to drive collective innovation through capital investments. It has plans to build experimental national medical care Big Data centers and industrial parks in major cities, eventually forming a Healthcare Big Data service regime that will drive the development of elementary Healthcare Big Data for the nation.

The Group has been making strong efforts to drive the development of quantum communication as one of its important strategic businesses, underpinned by its full participation in the construction of the national quantum communication route and provision of related services in support of the nation's strategic requirements and sustainable development. In 2017, the Group entered into a series of strategic cooperation in active involvement in the construction of the quantum communication industrial park in Tianjin, as well as standard formulation and operating services in relation to quantum communication networks. The "Beijing-Shanghai Communication Route" project, a quantum encrypted communication network constructed with the support of the Company, has fulfilled the national inspection and acceptance procedures and completed connection with the ground station of the "Mozi" experimental quantum satellite, signifying initial success for a Space-Earth wide-area quantum communication network. Towards the end of the year, the Company made further progress in driving the industrialisation of quantum encrypted communication technologies in China, as it secured a tender for the "Wuhan-Hefei Communication Route" project, the second quantum encrypted communication network to be constructed by the nation as a key project, following the "Beijing-Shanghai Communication Route" project.

2.1 IT Service Business (DCITS): leading IT service provider in China's IT industry specialised in proprietary software services, Cloud Computing and Big Data analysis, with emphasis on customised cloud platform services for the agricultural, financial and taxation sectors on the back of its strengths in these industries

DCITS (IT Services Business) continued to enhance its business value in 2017, making strong efforts in the development of strategic businesses such as sm@rt maintenance, sm@rt agriculture, quantum communication and financial technology as it provided solid support for the sustainable development of the Company. DCITS reported turnover of HK$9.415 billion for the year, representing an increase of HK$206 million or 2.24%, compared to HK$9.209 billion for the corresponding period of last financial year. Gross profit margin increased by 1.50 percentage points to 20.60%, as compared to 19.10% for the corresponding period of last financial year, reflecting the increase in revenue from Technical Services coupled with the decrease in revenue from the Systems Integration Business and Financial Specialised Equipment Business, which commanded lower gross profit margins, as a percentage of the total revenue of DCITS. Profit of DCITS attributable to shareholders of the parent company for the year rose HK$85 million or 31.23%, on a year-on-year basis, to HK$359 million, up from HK$274 million for the corresponding period of last financial year. Excluding the one-off, non-cash expenses arising from the grant of share options and restricted share units, profit of DCITS attributable to shareholders of the parent company for the year amounted to HK$376 million, representing a year-on-year growth of 32.68%.

2.1.1 Technical Services and Application Software Development (including Cloud services)

In 2017, our Technical Services Business reported rapid development towards cloudification, platform-based operation and intelligentisation with the formation of an integrated smart maintenance service platform — "銳行交付寶", which was capable of providing a full range of IT smart management services comprising centralised maintenance APP, maintenance Big Data analysis, maintenance automation management, service process management, network and business performance analysis, IT infrastructure control and asset allocation management. During the reporting period, the Group's Technical Services Business reported revenue of HK$3.021 billion for the financial year under review, representing a robust growth of 17.38% on a year-on-year basis. Gross profit margin increased by 2.33 percentage points to 24.75%. Our smart maintenance platform provided services to over 1,000 large-scale industry clients, while acquiring 1,528 new smart maintenance projects in 2017. Having been widely applied in banking, securities, telecommunications and government and corporate services, the automated maintenance platform of DCITS further tapped the military industry and aerospace sectors in 2017. DCITS have signed up Xiamen International Bank, Anhui Mobile, Zhejiang Mobile and Shanxi Mobile for its automated testing services and China Electric Power Research Institute for its smart data centre SDC and cloud maintenance service. In the communication network service sector, DCITS has identified further values in communication data with its Deeplan Big Data platform and formed examples for application in the public security, government and judiciary sectors supporting risk management functions such as warning and preventive control.

Application Software Development (including Cloud services) reported revenue of HK$1.019 billion, down 1.85% on a year-on-year basis. Gross profit margin expanded 4.06 percentage points to 37.51%, benefitting primarily from the product technology upgrades and extended competitive edge of DCITS since recent years. During the reporting period, DCITS signed up 11 banks in the financial sector after winning tenders to provide core banking business systems, of which new-generation distributed core banking systems accounted for 60%. Elsewhere, DCITS continued to lead in the innovation of financial technologies as it signed up 18 financial institutions for corporate service bus systems, 8 banks for smart network outlet systems and 3 banks for Internet finance platforms after winning the relevant tenders. On the back of strengths afforded by its "Financial and Taxation Administration Information System Phase III" administration and decision-making platform, DCITS was assigned a number of projects in the taxation sector in support of China's tax collection reforms and data-sharing service, involving, among others, decision support, external information exchange, horizontal integration of the financial, taxation, treasury and banking networks, and electronic tax payment.

2.1.2 Agricultural Informatisation

During the reporting period, the Agricultural Informisation Business of DCITS reported revenue of HK$275 million, representing a 15.25% decline on a year-on-year basis. Gross profit margin declined 4.01 percentage points to 52.75%. DCITS made vigorous efforts to drive the implementation of the "One Network, One Data Base and Three Services" model in sm@rt agriculture, leveraging its strengths in IT technology support, industrial integration and value-added services to assist in China's latest reform and revitalisation strategy for the agriculture sector and agricultural villages. Regarding agricultural Big Data, DCITS has undertaken the construction of a national-level farmland rights registration data integration and database, while the "Big Data Command Module for Agricultural Sector, Agricultural Villages and Agricultural Workers" developed by DCITS has commenced operation in Yangling Agricultural Hi-tech Industrial Demonstration Zone in Shaanxi. We have enhanced the marketing of agricultural technologies and standalone Big Data applications, which has been commended by visiting Central Government leaders. In connection with the agricultural IOT business, the application and promotion of sm@rt irrigation and integrated irrigation and fertilisation products in sm@rt industrial parks has been enhanced to drive large-scale implementation, while Sichuan Provincial Agricultural Science Academy and Luoning County, Henan have been signed up for joint venture projects.

2.1.3 Systems Integration Business

Our Systems Integration Business enhanced planning for the "adaptable" architecture of the industry data centre and improved its ability to deliver system integration and facilitate cloud deployment for distributed and centralised business architecture to seize market opportunities presented by national information and cyber security developments. The Group's systems integration business reported revenue of HK$4.741 billion for the financial year under review, representing a year-on-year decline of 1.77%. Overall gross profit margin expanded by 1.13 percentage points to 10.68%. DCITS played a full part in driving the progress of the industrialisation quantum communication technologies, as it further undertook the construction of the "Wuhan-Hefei Communication Route", the second quantum encrypted communication trunk route in China, following the completion and delivery of the "Beijing-Shanghai Communication Route", to support cyber security development in the government and finance sectors. Moreover, DCITS has also successfully signed up large projects such as the data centre of the Industrial and Commercial Bank of China and the China online payment and clearing platform while providing specialised services to Alibaba and Ching Export and Import Bank, in a further testimony to our competitive edge in experience and expertise.

2.2 Supply Chain Management Business: leading supply chain management brand in China with extensive logistic network and comprehensive after-sale maintenance capability. Development of B2C services and Internet-based O2O self-branded maintenance services on the back of the SaaS-based "intermediary platform" integrated e-commerce service model

Year 2017 was a crucial year for the strategic deployment of our Supply Chain Management Business, as it continued to focus on developing major customers in various sectors in order to swiftly expand its sales and market shares. Against the backdrop of a rapidly developing third-party logistics industry, positive growth momentum was sustained as we reported continuous business expansion as a whole. For the financial year under review, the Supply Chain Management Business recorded overall turnover of approximately HK$2.885 billion for current financial year under review, an increased by HK$633 million or 28.11% as compared to the overall turnover of HK$2.252 billion for the corresponding period of last financial year. The three principal branches of the Supply Chain Management Business, namely, e-Commerce Supply Chain services, Logistics and Maintenance, accounted for 45.85%, 47.87% and 6.28%, respectively, of the revenue from this business segment. The gross profit margin is approximately 12.90% for the period, dropping by 3.03 percentage points from 15.93% for the corresponding period of last financial year. This is attributable primarily to the rapid expansion in scale of the lower margin e-Commerce Supply Chain Service business. During the year under review, the Supply Chain Management Business reported stellar results in its strategic cooperation with Cainiao Network following enhanced efforts on all fronts. On a year-on-year basis, B2C daily handling volume and the handling volume on November 11th marketing campaign rose 83% and 93%, respectively. The full-year target of the supply chain management business has been achieved.

During the financial year under review, the Supply Chain Management Business increased its strategic investment in the B2C business, in a bid to enhance business value through rapid deployment. Segment results declined to a loss of HK$54.85 million from HK$37.85 million profit in the last financial year, representing a profit reduction of HK$92.70 million. Excluding the one-off, non-cash expenses arising from the grant of share options and restricted share units, segment results declined by HK$68.03 million or 149.88% from the last financial year. This was attributable mainly to rapid growth in the scale of our e-Commerce Supply Chain Service following strategic investments. In the future, our Supply Chain Management Business will pursue a model for healthy, sustainable development, seeking to enhance market shares and business value by accelerating market expansion and business deployment with the aid of capital derived from industrial and financial sources.

2.2.1 e-Commerce Supply Chain Business

Riding on strong market and customer approval for the "intermediary platform" business model, our e-Commerce Supply Chain Business continued to enhance business cooperation with three major manufacturers, namely, Huawei, Honor and Dell and reported turnover year-on-year growth of 47.8%, on a year-on-year basis, as it actively explored servicing opportunities in categories such as luxury glasses, luggage bags and handset accessories.

2.2.2 Logistics Services

In view of the rapid development of third-party logistics, the Company proposed the "Warehouse + Technology + Data" model for smart logistics development to create a new logistics business ecosphere under the new era for retail, as it stepped up with the development of a nationwide e-commerce warehouse network to build warehouses in Wuxi, Chengdu, Huizhou, Dongguan, Tianjin, Shijiazhuang, Haining, Hefei, Luoyang and Yichang, in addition to its existing warehouses in Beijing, Shanghai, Guangzhou, Shenzhen and Wuhan. Sectors covered have expanded to include baby care, cosmetics, homeware, small domestic appliances, 3C, Tmall supermarket, cross-border purchases and lst.1688.com. We have signed up the first batch of logistics service mega-market strategic partners in Alibaba Cainiao Network, as well as renowned brand names including Three Squirrels, Bestore, Li-Ning and Darlie as new customers. As a core strategic partner in Alibaba Cainiao Network, we have reported stellar results for the November 11th marketing campaign and received the "Golden Eagle Award" in the "Cainiao Outstanding Partners Award 2017". In the meantime, we have provided WMS warehouse management system, TMS transportation and distribution management system, OMS order management system and Big Data application services to customers in persistent adherence to the principle of staying atop in technology. In accordance with customers' requirements, we have developed a customised visualization big screen to facilitate visibility, manageability and controllability of all stages in the logistics business. Leveraging AI technologies, we pioneered in the application of the "Human + Robot" smart logistics solution developed by our in-house team and realised a "Human + Robot" work mode at the warehouse during major marketing and promotion seasons to facilitate efficiency improvements in warehouse operation. Industry-wise, we have been named for the "Exemplary Entity in Smart Logistics Services in China 2017 Award" by China e-Commerce Industrial Alliance. In the logistics B2B sector, we have cemented our leading position in handset logistics with vigorous business developments in the handset, auto accessories and IT sectors, while undertaking logistics services for multiple destinations and categories within the Xiaomi ecosphere in ongoing cooperation with the three leading telecommunications carriers. We have also signed up Smartisan, BYD and Epson for B2B logistics services.

2.2.3 Maintenance Services

As a leading original manufacturer maintenance service provider, our Maintenance Services Business has continued to enhance its capability to service multiple manufacturers and signed up Huawei to serve as the latter's PC after-sales maintenance provider in China, while introducing authorised maintenance services for new product types such as robots and smart equipment. The allocation of our nationwide service network has been enhanced with the establishment of a number of new service stations in Kunming, Quanzhou and Xining. Meanwhile, new customers in the hotel sector have been developed on the back of our nationwide network of service stations with a strong focus on meeting the equipment maintenance requirements of corporations with nationwide business chains, signing up Marriott Hotel Group, Kempinski and Shangri-La for equipment maintenance services. On top of developing shop services at the service stations, we have also optimised the management of our on-site services to enhance customer experience and service quality.

2.3 New Business: Exploring opportunities in "Internet+" sectors such as Sm@rt City, Precision Medicine and Sm@rt Manufacturing to foster strategic new business growth niche on the basis of core Cloud Computing and Big Data technologies

Revenue from the Group's New Business rose to HK$947 million from HK$791 million for the corresponding period of last financial year, representing an increase of HK$156 million or 19.77% on a year-on-year basis. Gross profit margin dropped 11.38 percentage points to 37.39% as compared to 48.77% for the corresponding period of last financial year. The sustained revenue growth reflects ongoing stable development of the Sm@rt City business of "Internet + citizen services".

2.3.1 Sm@rt City Business

From the year 2010 to year 2016, Digital China Holdings completed the first-stage development of Sm@rt City. Under the "Cloud + Big Data" strategic deployment, the Sm@rt City Business of Digital China Holdings has begun a new stage of development, whereby we have been growing from a provider of Sm@rt City construction capabilities into a developer of Sm@rt City ecospheres. Digital China Holdings held core editorships for three of the four national Sm@rt City standards announced by the Government in 2017, while several others in which we have leading roles are expected to be announced next year, as we continue to stay atop as an industry expert. On top of Digital China Holdings our existing "Smart Government+" comprising "Internet + Government" and "Big Data + Government", Yanyun (燕雲) Daas has come into operation and a "city operating system" has been designed based on Big Data, API technologies and novel business models, whereby a cross-sector ecosphere featuring a high level of integration of technology, finance, urban infrastructure construction, culture and trade has been developed through the building of a module for smart construction of urban infrastructure facilities.

Digital China Holdings has entered into a strategic cooperation agreement with GZ Infrastructure and GRG Banking Equipment Co., Ltd.* (廣州廣電運通金融電子股份有限公司), whereby members of the management of GZ Infrastructure have joined the board of directors of Digital China Holdings. This alliance of forces for the joint development of Sm@rt City in Guangzhou will provide a genuine model of technology assisting city development. Digital China Holdings and GZ Infrastructure have jointly established the Guangzhou Sm@rt City Planning and Research Institute, bringing together resources derived from industry players, academia, research institutes and users and linking up fragmented projects in the city to create an integrated Sm@rt City development module across different industries and sectors. In connection with the large-scale public housing rental operation in Guangzhou undertaken by GZ Infrastructure, and Digital China Holdings plans to introduce advanced technologies such as face recognition, artificial intelligence, geographic information, 3D technologies to the project so that tenants can experience housing with more security, precision and convenience.

Digital China Holdings will drive the development of Sm@rt City in Hong Kong in active response to the "Hong Kong Smart City Blueprint" published by the Hong Kong Government. During the year, Digital China Holdings continued to work with the Hong Kong Government and The Hong Kong University of Science and Technology, facilitating Sm@rt City research projects in relation to environment, transportation, finance and other aspects.

2.3.2 Financial Services Business

As an important segment underpinning Digital China Holdings' strategy, our Financial Services Business provides a broad range of financial services, such as micro-credit, commercial factoring and financial leasing, to corporate customers of the Company's various business segments with a persistent emphasis on risk control, in a full effort to drive the implementation of the new strategy. In 2017, the Company enhanced risk control with a special focus on risk evaluation and collection of repayments in connection with existing loans, taking the initiative to scale down outstanding loans. In further elucidation of its strategy, the Financial Services Business has affirmed the new strategy of developing into a smart financial service provider by fostering new dynamics underpinned by core capabilities in resource integration, product design platform operation and risk control. In the future, we will continue to build a new business profile comprising the four segments of credit business, finance management, asset management and wealth management, in a move to serve the macro business ecosphere of Digital China Holdings with an integrated micro ecosphere of smart financial businesses.

Apart from the financial institution business, we are also engaged in the business of wealth management financial product investments. As stated by Ernst & Young in the section headed “Basis for Qualified Opinion”, the Group had due but were not recovered the investment products with an aggregate principal amounts of approximately HK$2,603,057,000 (before impairment) and their related interest receivables of approximately HK$123,391,000. Such investment products have been purchased from an affiliate to a state-owned large-scale financial institution. The Group is currently negotiating with the issuer of the wealth management financial products in respect of the recovery of the amount receivables. We have out of prudence made an impairment provision of approximately HK$227,941,000 about the wealth management financial products. The Company has also conducted an analysis on the impact of the investment on the Group’s financial conditions, and concluded that the Group has sufficient liquidity and solvency. Coupled with the fact that approximately 54% (or approximately 70% excluding the ratio of secured loans of DCITS as an independently listed A share company in China) of the Group’s borrowings as at 31 December 2017 were secured borrowings, there is considerable assurance for the solvency of the Group as a borrower. Hence, the investment will not have a material impact on the Group’s ability to continue as a going concern.

2.3.3 Self-incubating Business

In the sector of Precision Medicine, Digital China Health, an innovative enterprise founded by Digital China Holdings through more than 10 years of incubation, has built an unrivaled ability in cancer data analysis in the domestic market on the back of its strong R&D team, technologies developed over the years and cooperation with reputable international as well as domestic academia and research institutions. Digital China Health is currently engaged in a comprehensive cooperation with the National Cancer Center to construct the largest nationwide oncologic data centre and oncology Big Data platform in China. The oncologic data centre has been connected to 17 provincial oncology hospitals collecting more than 4 million sets of clinical, imaging and genetic oncology data, and has entered into comprehensive strategic cooperation agreements with a number of well-known pharmaceutical manufacturer, medical equipment supplier and insurance institutions. Digital China Health has entered into a consensus for cooperation with Congenica, an international renowned international genomic research and diagnostic company to engage in cooperation at a sophisticated level in connection with effective and accurate analyses of clinical and genomic data. In the future, Digital China Health will continue to seek innovation in the R&D and clinical applications of frontier technologies in three core segments, namely, Healthcare Big Data, medical cloud services and healthcare informatisation, in a bid to contribute to the implementation of the “Healthy China” strategy.

2.4 Management Outlook

Year 2017 has been a year of full implementation of new strategies and businesses Digital China Holdings. In retrospect, Digital China Holdings has always pursued reform and innovation in significant proportions and with utmost determination calling for courageous sacrifices. From the channel business comprising mainly IT products distribution at the time of our IPO, we had shifted to the software services business featuring mainly IT solutions, before taking on the Big Data and Cloud Computing service businesses built upon the Sm@rt City. We have steered through every new turn on the back of the vigorous involvement of our staff, the diligent implementation of our management team and the understanding and support of the market and the investors, which have allowed us to swiftly move ahead of others and expand our new businesses with increased financial resources derived from the capital market.

Global economic recovery in general coupled with new opportunities presented by the economic transformation and upgrade of China have given rise to robust, technology-driven innovations across the board, where new business formats and models are emerging in quick succession, presenting us with challenges as well as opportunities. We firmly believe that Digital China Holdings will continue to advance against all odds on the way of its transformation to a Cloud and Big Data service provider and deliver lucrative rewards to the shareholders, given the depth of its technological strengths, its extensive presence in different sectors and its solid network of Sm@rt City operations.

Capital Expenditure, Liquidity and Financial Resources

Except for the rights issue raised during the year ended 31 December 2017, the Group mainly finances its operations with internally generated cash flows, bank borrowings and banking facilities.

The Group had total assets of HK$27,916 million at 31 December 2017 which were financed by total liabilities of HK$15,121 million, non-controlling interests of HK$3,685 million and equity attributable to equity holders of the parent of HK$9,110 million. The Group's current ratio at 31 December 2017 was 1.11 as compared to 1.24 at 31 December 2016.

During the year ended 31 December 2017, capital expenditure of HK$975 million was mainly incurred for the acquisition of properties, office equipment and IT infrastructure facilities.

As at 31 December 2017, the Group's continuing operations had cash and bank balances of HK$3,892 million, of which about HK$3,252 million were denominated in Renminbi.

The aggregate borrowings from continuing operations of the Group as a ratio of equity attributable to equity holders of the parent was 0.87 at 31 December 2017 as compared to 1.07 at 31 December 2016. The computation of the said ratio was based on the total interest-bearing bank and other borrowings of HK$7,881 million (31 December 2016: HK$7,665 million) and equity attributable to equity holders of the parent of HK$9,110 million (31 December 2016: HK$7,169 million).

At 31 December 2017, the denomination of the interest-bearing bank and other 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	439,508	2,061,908	247,525	2,748,941
Interest-bearing bank borrowings, secured	-	2,311,398	-	2,311,398
Corporate bond	-	236,642	-	236,642
	439,508	4,609,948	247,525	5,296,981
Non-current				
Interest-bearing bank borrowings, unsecured	-	76,909	-	76,909
Interest-bearing bank borrowings, secured	-	1,911,650	-	1,911,650
Corporate bond	-	595,390	-	595,390
	-	2,583,949	-	2,583,949
Total	439,508	7,193,897	247,525	7,880,930

Certain of the Group's bank borrowings of:

1. HK$2,147 million extended by financial institutions to certain subsidiaries of the Group were secured by mortgages over the Group's buildings, investment properties, land use right and properties under development with an aggregate carrying amount of HK$4,181 million at 31 December 2017;
2. HK$2,070 million extended by financial institutions to certain subsidiaries of the Group were secured by pledge of 229,820,000 issued shares of Digital China Information Service Company Ltd. (神州數碼信息服務股份有限公司) ("**DCITS**"), a non-wholly-owned subsidiary of the Company, directly held by a wholly-owned subsidiary of the Company, with an aggregate carrying amount of HK$3,195 million at 31 December 2017; and
3. HK$6 million extended by financial institutions to a non-wholly-owned subsidiary of the Group were secured by mortgages over a building of a non-controlling shareholder at 31 December 2017.

Included in the Group's current and non-current bank borrowings from continuing operations of HK$499 million and HK$1,989 million respectively represented the term loans which are repayable from the year 2018 to year 2027. All of the Group's bank borrowings from continuing operations were charged at floating interest rates except for the loan balances with an aggregate amount of HK$2,136 million which were charged at fixed interest rates as at 31 December 2017.

In May 2016, Digital China Software Limited*(神州數碼軟件有限公司) ("**DC Software**"), a wholly-owned subsidiary of the Company, obtained the relevant approval for issuing the medium-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB700 million. In September 2016, DC Software issued the first tranche of the medium-term notes of 2016 with a total principle amount of RMB500 million (equivalent to approximately HK$591 million) with a maturity period of 5 years (with the investors' option to sell back the notes after the end of the third year from the issuance date) and at an interest rate of 4.9% per annum. The proceeds thereof were to be used for repaying the bank loans of the Group.

In January 2017, DC Software, a wholly-owned subsidiary of the Company, obtained the relevant approval for issuing the short-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB1,500 million. In July 2017, DC Software issued the second tranche of the short-term notes of 2017 with a total principle amount of RMB200 million (equivalent to approximately HK$237 million) with a maturity period of 270 days and at an interest rate of 5.7% per annum. The proceeds thereof were to be used for repaying the bank loans of the Group.

Pursuant to the "Capital Contribution and Shareholders' Agreement of Shenzhou Lingyun (Beijing) Technology Co., Ltd.", upon fulfillment of the condition pertaining to an undertaking regarding business results, investors subscribing for shares with new capital contributions shall provide, according to their capital contribution ratios, loans with a total amount of RMB33 million in the form of convertible bonds to Shenzhou Lingyun (Beijing) Technology Co., Ltd.* (神州靈雲(北京)科技有限公司) (a subsidiary of DCITS, which is in turn a non-wholly-owned subsidiary of the Company) ("**Shenzhou Lingyun**"). In the year 2017, the investors provided the first tranche of convertible bond loans in the amount of RMB16 million, comprising RMB12.80 million provided by DCITS and RMB3.20 million (equivalent to approximately HK$4 million) provided by the remaining investors. Subject to the fulfillment of the undertaking regarding Shenzhou Lingyun's the business results for the years 2016 to 2020 in full, the investors have agreed to convert the full amount of the convertible bond loans into investments in Shenzhou Lingyun, which shall be credited, upon conversion, to Shenzhou Lingyun's capital reserve. In the event that the business result undertaking is not fulfilled, Shenzhou Lingyun shall repay the aforesaid convertible bond loans within 30 days upon receipt of notices from the investors.

The total bank available credit facilities from the Group's continuing operations at 31 December 2017 amounted to HK$12,771million, of which HK$3,982 million were in term loan facilities, HK$3,182 million were in trade lines and HK$5,607 million were in short-term and revolving money market facilities. At 31 December 2017, the facility drawn down from Group's continuing operations was HK$2,931 million in term loan facilities, HK$1,180 million in trade lines and HK$2,409 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.

Contingent Liabilities

(a) The Group provided guarantee in favour of one financial institution for certain asset-backed securities issued by a joint venture, Chongqing Digital China HC Microfinance Co. Ltd.* (重慶神州數碼慧聰小額貸款有限公司), with an aggregate amount of approximately HK$205,878,000 as at 31 December 2017.

(b) On 14 November 2017, 太極計算機股份有限公司 filed a lawsuit with Haidian District People's Court in Beijing to demand for the payment of an aggregate amount of RMB5,548,000, comprising RMB4,627,000 in settlement for overdue fees, RMB761,000 in default penalty relating to equipment payments and RMB160,000 in default penalty relating to construction work payments, together with litigation costs by Digital China Rongxin Software Limited* (神州數碼融信軟件有限公司) (one of the subsidiaries of DCITS, a non-wholly-owned subsidiary of the Company) ("**DC Rongxin**"), on the grounds that the contracting amounts payable by DC Rongxin had been partially overdue and outstanding.

(c) On 14 July 2017, 大唐軟件技術股份有限公司 filed a lawsuit with the Shangdi Court of Haidian District People's Court in Beijing to demand for the payment of an aggregate amount of RMB3,105,000, comprising RMB2,349,000 in procurement costs relating to purchase orders, RMB204,000 in compensation for loss of profit otherwise available and RMB552,000 in compensation for loss arising from fund appropriation, together with litigation costs by Digital China Systems Integration Services Limited* (神州數碼系統集成服務有限公司) (one of the subsidiaries of DCITS, a non-wholly-owned subsidiary of the Company) ("**DCSIS**"), on the grounds that DCSIS had failed to honour payment of contract amounts as stipulated.

While the outcomes of such litigations or other legal procedures have yet to be determined, the management believes that, any responsibility arising on the part of the Group as a defendant in the aforesaid cases (b) and (c) will not have any material adverse impact on the financial conditions or operating results of the Group.

Capital Commitment

At 31 December 2017, the Group had the following capital commitments:

	HK$'000
Land and buildings	192,807
Capital contributions payable to joint ventures	41,412
Capital contribution payable to an associate	6,232
Capital contributions payable to available-for-sale investments	181,031
	421,482

Human Resources

At 31 December 2017, the Group had approximately 12,000 (31 December 2016: approximately 10,500) full-time employees. The majority of these employees work in the PRC. The Group's continuing operations 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's continuing operations has recorded a 31% increase in staff costs to approximately HK$2,615 million for the year ended 31 December 2017 as compared to approximately HK$2,000 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's continuing operations is committed to providing its staff with various in-house and external training and development programs.

REVIEW BY AUDIT COMMITTEE

The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. WONG Man Chung, Francis (who is the Chairman of Audit Committee), Ms. NI Hong (Hope) and Mr. LAI Daniel, *BBS, JP*. 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 annual results of the Company for the year ended 31 December 2017.

EXTRACT OF THE INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditors' report of Ernst & Young, the auditors of the Company, on the Group's consolidated financial statements for the year ended 31 December 2017:

Qualified opinion

We have audited the consolidated financial statements of Digital China Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for qualified opinion

As disclosed in note 21 to the consolidated financial statements, there are certain wealth management financial products with an aggregate principal amount of approximately HK$2,603,057,000 (before impairment) and their related interest receivables of approximately HK$123,391,000 recorded in the Group's consolidated statement of financial position as at 31 December 2017 as available-for-sale investments (non-current) and prepayments, deposits and other receivables (non-current), respectively. The related interest income recorded as revenue in the Group's consolidated statement of profit or loss for the year ended 31 December 2017 is approximately HK$117,642,000. The principal amounts of these wealth management financial products and the related interest receivables (collectively the "Receivables") were due for repayment during the year ended 31 December 2017, but have not been settled. The Group is in discussion with the counterparties on the settlement plan, but no conclusion has been reached as at the date of this report. The Group has performed an assessment on the recoverability of the Receivables and has made an impairment provision of approximately HK$227,941,000 against the Receivables, which was recorded as "other expenses" in the Group's consolidated statement of profit or loss for the year ended 31 December 2017. We have not been able to obtain sufficient audit evidence we consider necessary to assess the recoverable amounts of the Receivables and accordingly the adequacy of the impairment provision as at 31 December 2017. Any adjustment found to be necessary to the impairment provision and accordingly the carrying amount of the Receivables as at 31 December 2017 would affect the Group's net assets as at 31 December 2017 and the Group's loss for the year then ended and the related note disclosure to the consolidated financial statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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 year ended 31 December 2017, 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 of Directors 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. Given the existing number of Directors of the Company, not less than one-third of the Directors are subject to retirement by rotation at each annual general meeting, by which each Director (other than the Chairman of the Board) will retire by rotation once every three years at the minimum.

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 year ended 31 December 2017.

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

During the year ended 31 December 2017, 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 year ended 31 December 2017.

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

Hong Kong, 28 March 2018

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

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

Non-executive Directors: Mr. YU Ziping and Mr. PENG Jing

Independent Non-executive Directors: Mr. WONG Man Chung, Francis, Ms. NI Hong (Hope), Dr. LIU Yun, John, Ms. YAN Xiaoyan and Mr. LAI Daniel, BBS, JP

Website: www.dcholdings.com.hk

** For identification purpose only*