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ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

UNAUDITED CONSOLIDATED INTERIM RESULTS

The board of directors (the “**Board**”) of Digital China Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2015 together with comparative figures for the corresponding period of last financial year (restated) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Three months ended 30 June 2015 (Unaudited) <i>HK\$'000</i>	Six months ended 30 June 2015 (Unaudited) <i>HK\$'000</i>	Three months ended 30 June 2014 (Unaudited) <i>HK\$'000</i> (Restated)	Six months ended 30 June 2014 (Unaudited) <i>HK\$'000</i> (Restated)
	<i>Notes</i>				
CONTINUING OPERATIONS					
REVENUE	3	3,720,546	6,425,454	2,845,781	5,154,824
Cost of sales		<u>(3,226,595)</u>	<u>(5,538,842)</u>	<u>(2,406,045)</u>	<u>(4,382,338)</u>
Gross profit		493,951	886,612	439,736	772,486
Other income and gains	3	68,579	114,049	37,098	85,313
Selling and distribution expenses		(221,027)	(392,455)	(214,804)	(363,660)
Administrative expenses		(29,816)	(58,903)	(36,383)	(67,435)
Other expenses, net		(144,028)	(337,616)	(90,337)	(232,102)
Finance costs		(15,503)	(21,690)	(17,283)	(28,242)
Share of profits and losses of:					
Joint ventures		21,538	16,208	3,966	1,296
Associates		<u>22,347</u>	<u>17,735</u>	<u>33,395</u>	<u>34,090</u>
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	4	196,041	223,940	155,388	201,746
Income tax expense	5	<u>(41,881)</u>	<u>(39,377)</u>	<u>(5,631)</u>	<u>(9,430)</u>
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		154,160	184,563	149,757	192,316
DISCONTINUED OPERATION					
Profit for the period from a discontinued operation	6	<u>78,360</u>	<u>223,208</u>	<u>105,332</u>	<u>270,356</u>
PROFIT FOR THE PERIOD		<u>232,520</u>	<u>407,771</u>	<u>255,089</u>	<u>462,672</u>
Attributable to:					
Equity holders of the parent		179,822	350,643	200,705	398,865
Non-controlling interests		<u>52,698</u>	<u>57,128</u>	<u>54,384</u>	<u>63,807</u>
		<u>232,520</u>	<u>407,771</u>	<u>255,089</u>	<u>462,672</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7				
Basic					
- For profit for the period			<u>32.70 HK cents</u>		<u>37.36 HK cents</u>
- For profit from continuing operations			<u>11.88 HK cents</u>		<u>11.78 HK cents</u>
Diluted					
- For profit for the period			<u>32.64 HK cents</u>		<u>36.69 HK cents</u>
- For profit from continuing operations			<u>11.86 HK cents</u>		<u>11.57 HK cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	407,771	462,672
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	48,235	(55,695)
Reclassification adjustments for gains included in the consolidated statement profit or loss:		
- gain on disposal	(17,313)	-
	<u>30,922</u>	<u>(55,695)</u>
Exchange differences on translation of foreign operations	(33,488)	(44,120)
Share of other comprehensive income of an associate	<u>2,681</u>	<u>-</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>115</u>	<u>(99,815)</u>
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation	-	5,239
Income tax effect	<u>-</u>	<u>(1,310)</u>
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	<u>-</u>	<u>3,929</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	115	(95,886)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	407,886	366,786
Attributable to:		
Equity holders of the parent	373,638	330,867
Non-controlling interests	<u>34,248</u>	<u>35,919</u>
	<u>407,886</u>	<u>366,786</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		892,416	1,323,438
Investment properties		1,918,175	1,744,226
Prepaid land premiums		137,246	139,960
Goodwill		1,268,677	1,274,815
Other intangible assets		38,636	65,786
Investments in joint ventures		933,064	675,579
Investments in associates		1,521,272	1,191,959
Available-for-sale investments		572,389	1,916,433
Finance lease receivables		66,671	7,686
Prepayments, deposits and other receivables		243,696	-
Deferred tax assets		115,556	192,609
Total non-current assets		<u>7,707,798</u>	<u>8,532,491</u>
CURRENT ASSETS			
Inventories		497,995	6,175,416
Properties under development		662,276	562,445
Trade and bills receivables	8	4,120,045	9,601,923
Prepayments, deposits and other receivables		1,275,437	3,683,099
Derivative financial instruments		-	32,841
Available-for-sale investments		6,954	1,000,000
Cash and cash equivalents		2,470,846	4,119,557
		<u>9,033,553</u>	<u>25,175,281</u>
Assets of a disposal group classified as held for sale	6	18,065,630	-
Total current assets		<u>27,099,183</u>	<u>25,175,281</u>
CURRENT LIABILITIES			
Trade and bills payables	9	2,479,931	10,301,179
Other payables and accruals		1,641,211	4,021,434
Tax payable		23,734	359,318
Interest-bearing bank borrowings		2,209,484	7,060,139
		<u>6,354,360</u>	<u>21,742,070</u>
Liabilities directly associated with the assets classified as held for sale	6	16,087,033	-
Total current liabilities		<u>22,441,393</u>	<u>21,742,070</u>
NET CURRENT ASSETS		<u>4,901,486</u>	<u>3,433,211</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>12,365,588</u>	<u>11,965,702</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		1,211,838	1,064,848
Deferred tax liabilities		61,826	-
Deferred income		56,438	36,679
Total non-current liabilities		<u>1,330,102</u>	<u>1,101,527</u>
NET ASSETS		<u>11,035,486</u>	<u>10,864,175</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	109,419	109,374
Reserves	8,652,839	8,276,528
Proposed final dividend	-	214,454
	<u>8,762,258</u>	<u>8,600,356</u>
Non-controlling interests	<u>2,273,228</u>	<u>2,263,819</u>
TOTAL EQUITY	<u><u>11,035,486</u></u>	<u><u>10,864,175</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent													
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Employee share trust (Unaudited) HK\$'000	Employee share-based compensation reserve (Unaudited) HK\$'000	Asset revaluation reserve# (Unaudited) HK\$'000	Available- for-sale investment revaluation reserve (Unaudited) HK\$'000	Reserve funds (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed final dividend (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non- controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2015	109,374	2,060,433	1,498,902	(302,457)	35,108	3,929	(1,780)	576,956	356,209	4,049,228	214,454	8,600,356	2,263,819	10,864,175
Profit for the period	-	-	-	-	-	-	-	-	-	350,643	-	350,643	57,128	407,771
Other comprehensive income/(loss) for the period:														
Available-for-sale investments:														
- Changes in fair value	-	-	-	-	-	-	48,235	-	-	-	-	48,235	-	48,235
- Gain on disposal	-	-	-	-	-	-	(17,313)	-	-	-	-	(17,313)	-	(17,313)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(9,340)	-	-	(9,340)	(24,148)	(33,488)
Share of other comprehensive income of an associate	-	-	-	-	-	-	-	-	1,413	-	-	1,413	1,268	2,681
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	30,922	-	(7,927)	350,643	-	373,638	34,248	407,886
Exercise of share options	45	3,481	-	-	(840)	-	-	-	-	-	-	2,686	-	2,686
Share-based compensation	-	-	-	-	32	-	-	-	-	-	-	32	-	32
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	2,613	2,613
Final 2014 dividend	-	-	-	-	-	-	-	-	-	-	(214,454)	(214,454)	(27,452)	(241,906)
At 30 June 2015	109,419	2,063,914*	1,498,902*	(302,457)*	34,300*	3,929*	29,142*	576,956*	348,282*	4,399,871*	-	8,762,258	2,273,228	11,035,486

* These reserve accounts comprise the consolidated reserves of HK\$8,652,839,000 (31 December 2014: HK\$8,276,528,000) in the unaudited condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity holders of the parent													
	Issued share capital (Unaudited) HK\$ '000	Share premium account (Unaudited) HK\$ '000	Capital reserve (Unaudited) HK\$ '000	Employee share trust (Unaudited) HK\$ '000	Employee share-based compensation reserve (Unaudited) HK\$ '000	Asset revaluation reserve# (Unaudited) HK\$ '000	Available- for-sale investment revaluation reserve (Unaudited) HK\$ '000	Reserve funds (Unaudited) HK\$ '000	Exchange fluctuation reserve (Unaudited) HK\$ '000	Retained profits (Unaudited) HK\$ '000	Proposed final dividend (Unaudited) HK\$ '000	Total (Unaudited) HK\$ '000	Non- controlling interests (Unaudited) HK\$ '000	Total equity (Unaudited) HK\$ '000
At 1 January 2014	109,374	2,060,433	1,114,551	(369,897)	132,685	-	(43,256)	457,056	392,265	3,682,629	190,037	7,725,877	1,320,511	9,046,388
Profit for the period	-	-	-	-	-	-	-	-	-	398,865	-	398,865	63,807	462,672
Other comprehensive income/(loss) for the period:														
Available-for-sale investments:														
- Changes in fair value	-	-	-	-	-	-	(37,838)	-	-	-	-	(37,838)	(17,857)	(55,695)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(34,089)	-	-	(34,089)	(10,031)	(44,120)
Gains on property revaluation, net of tax	-	-	-	-	-	3,929	-	-	-	-	-	3,929	-	3,929
Total comprehensive income/(loss) for the period	-	-	-	-	-	3,929	(37,838)	-	(34,089)	398,865	-	330,867	35,919	366,786
Share-based compensation	-	-	-	-	19,347	-	-	-	-	-	-	19,347	-	19,347
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	8,237	8,237
Acquisition of non-controlling interests	-	-	(25,406)	-	-	-	-	-	-	-	-	(25,406)	(2,094)	(27,500)
Final 2013 dividend	-	-	-	-	-	-	-	-	-	-	(190,037)	(190,037)	-	(190,037)
At 30 June 2014	109,374	2,060,433	1,089,145	(369,897)	152,032	3,929	(81,094)	457,056	358,176	4,081,494	-	7,860,648	1,362,573	9,223,221

The asset revaluation reserve arose from a change of use from owner-occupied properties to investment properties carried at fair value during the six months ended 30 June 2014.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cash flows from operating activities		
Decrease/(increase) in inventories	122,312	(32,636)
Decrease/(increase) in trade and bills receivables	(738,171)	1,566,032
Decrease in trade and bills payables	(664,228)	(1,541,405)
Decrease in other working capital and adjustments for non-cash transactions	345,661	627,011
Net cash flows from/(used in) operating activities	(934,426)	619,002
Cash flows from investing activities		
Purchases of items of property, plant and equipment	(60,010)	(90,497)
Additions to investment properties	(148,181)	(97,504)
Additions to properties under development	(109,931)	(42,253)
Proceeds from disposal of items of property, plant and equipment	291	360
Additions to other intangible assets	(3)	(2,792)
Disposal of a subsidiary	62,289	-
Proceeds from disposal of a joint venture	-	2,294
Proceeds from disposal of available-for-sales investments	172,413	-
Dividends received from a joint venture	4,823	6,175
Dividends received from associates	9,599	-
Investments in joint ventures	(261,753)	(280,797)
Investment in an associate	(337,512)	-
Investments in available-for-sale investments	(232,387)	(1,445,224)
Decrease/(increase) in other receivables	(542,732)	124,799
Net cash flows used in investing activities	(1,443,094)	(1,825,439)
Cash flows from financing activities		
Exercise of share options	2,686	-
New bank loans	12,146,165	5,591,937
Repayment of bank loans	(10,134,649)	(4,148,366)
Interest paid	(120,221)	(121,014)
Dividends paid	(214,454)	(190,037)
Dividends paid to non-controlling shareholders	(27,452)	-
Contribution from non-controlling shareholders of subsidiaries	2,613	8,237
Net cash flows from financing activities	1,654,688	1,140,757
Net decrease in cash and cash equivalents	(722,832)	(65,680)
Cash and cash equivalents at the beginning of the period	4,119,557	3,894,211
Effects of foreign exchange rate changes, net	(16,757)	(49,108)
Cash and cash equivalents at the end of the period	3,379,968	3,779,423

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Six months ended 30 June	
	2015	2014
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	2,470,846	3,779,423
Cash and cash equivalents attributable to a discontinued operation	909,122	-
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	3,379,968	3,779,423

NOTES:

1. Basis of preparation

These unaudited condensed consolidated interim financial information for the six months ended 30 June 2015 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). In preparing the unaudited condensed consolidated interim financial information, the same basis of presentation, accounting policies and methods of computation as set out in the annual financial statements for the year ended 31 December 2014 had been consistently applied except in relation to the following revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, HKASs and interpretations) that affect the Group and has adopted the first time for the current period’s unaudited condensed consolidated interim financial information:

Amendments to HKAS 19

Annual Improvements

2010-2012 Cycle

Annual Improvements

2011-2013 Cycle

Defined Benefit Plans: Employee Contributions

Amendments to a number of HKFRSs

Amendments to a number of HKFRSs

The adoption of these revised HKFRSs has had no significant financial effect on the unaudited condensed consolidated interim financial information.

2. Operating segment information

In the first quarter of 2015, the financial data of the Group was classified into the four business groups based on the relevance of the business for a more lucid and accurate reflection of the Group's strategic development planning. The Group has decided that, starting from the second quarter of 2015, its scope of its business groups will be adjusted as follows to reflect the impact of the proposed disposal of Digital China Group (note 6) on the Group's business classification:

- (1) the business of investing in financial products with surplus funds of the Distribution segment is transferred from the Financial Service Strategy Unit under the New Business Segment and aggregated under the discontinued Digital China Group segment; and
- (2) the service fee-based businesses in the discontinued Digital China Group is transferred to and aggregated under the Supply Chain Management Strategy Unit segment.

There are no changes to the respective scopes of the Services segment (i.e. DCITS segment). Relevant results of comparative financial periods have been restated. Certain revenue previously accounted for under the Financial Strategy Service Unit of the New Business segment has been reclassified as other income and gains under the discontinued Digital China Group segment.

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 specialized 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, investment, credit lending, financial risk management and financial information consultation, 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 before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that unallocated interest income, unallocated finance costs, unallocated corporate income and gains 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 six months ended 30 June 2015 and 2014:

	DCITS		Supply Chain Management Strategy Unit		New Business		Total continuing operations	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000 (Restated)	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000 (Restated)	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000 (Restated)
Six months ended 30 June								
Segment revenue:								
Sales to external customers	3,538,929	3,630,134	2,846,485	1,494,282	40,040	30,408	6,425,454	5,154,824
Segment gross profit	674,075	592,270	176,468	151,676	36,069	28,540	886,612	772,486
Segment results	107,165	123,418	45,182	31,192	17,616	27,308	169,963	181,918
Interest income, other unallocated revenue and gains	28,626	10,345					62,448	23,821
Other unallocated expenses	-	-					(20,724)	(11,137)
Finance costs	(12,182)	(19,863)					(21,690)	(28,242)
Share of profits and losses of:								
Joint ventures	2,100	2,188					16,208	1,296
Associates	4,139	7,197					17,735	34,090
Profit before tax	129,848	123,285					223,940	201,746
Income tax expense	(12,861)	4,488					(39,377)	(9,430)
Profit for the period	116,987	127,773					184,563	192,316

3. Revenue, other income and gains

Revenue represents net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered to customers, net of business tax and government surcharges.

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

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
<u>Other income</u>		
Government grants	18,036	19,952
Interest income	38,533	12,057
Income from financial products	7,855	11,763
Dividend income from an available-for-sale investment	8,864	7,280
Others	1,281	969
	74,569	52,021
<u>Gains</u>		
Fair value gains on investment properties	24,394	-
Gain on disposal of a subsidiary	35	-
Gain on deemed partial disposal of the equity interest in an associate	-	25,602
Gain on partial disposal of the equity interest in an associate	-	921
Gain on disposal of a joint venture	-	580
Gain on disposal of available-for-sale investments	15,051	-
Others	-	6,189
	39,480	33,292
	114,049	85,313

4. Profit before tax

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

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Cost of inventories sold	4,466,828	3,428,070
Depreciation	50,923	52,453
Amortisation of prepaid land premiums	2,041	2,326
Amortisation of other intangible assets	7,305	5,331
Impairment loss on other intangible assets	19,586	-
Minimum lease payments under operating leases in respect of land and buildings	36,812	39,516
Provisions/(reversal of provisions) for and write-off of obsolete inventories	11,755	(2,142)
Impairment of trade receivables	74,813	15,048
Loss on disposal of items of property, plant and equipment	1,949	762
Foreign exchange differences, net	8,157	8,176

5. Income tax expense

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Continuing operations:		
Current – Mainland China	74,699	37,910
Deferred	(35,322)	(28,480)
Total tax charge for the period	39,377	9,430

- (a) No provision for Hong Kong profits tax has been made as the continuing operations of the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).
- (b) Corporate income tax of the People's Republic of China ("PRC") represents tax charged on the estimated assessable profits arising in Mainland China. In general, the Group's subsidiaries operating in Mainland China are subject to the PRC corporate income tax rate of 25% except for certain subsidiaries which are entitled to preferential tax rates.
- (c) The share of tax charge attributable to the joint ventures of the continuing operations of the Group of approximately HK\$5,734,000 (six months ended 30 June 2014 (restated): HK\$401,000) and the share of tax charge attributable to the associates of approximately HK\$5,666,000 (six months ended 30 June 2014 (restated): HK\$6,018,000) are included in "Share of profits and losses of joint ventures" and "Share of profits and losses of associates", respectively, in the unaudited condensed consolidated statement of profit or loss.

6. 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.* (深圳市深信泰豐(集團)股份有限公司), the details of which have been set out in the circular entitled "Very Substantial Disposal and Connected Transaction and Notice of Special General Meeting" published on 9 August 2015. Following completion of the transaction, the entities engaged in the distribution business will cease to be the Company's subsidiaries.

The results of Digital China Group for the period, 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:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue	28,621,829	26,827,803
Cost of sales	(27,165,284)	(25,455,438)
Gross profit	1,456,545	1,372,365
Other income and gains	262,310	183,866
Expenses	(1,301,197)	(1,097,501)
Finance cost	(98,531)	(92,772)
Share of profits and losses of a joint venture and an associate	(11,993)	(9,192)
Profit before tax from the discontinued operation	307,134	356,766
Income tax	(83,926)	(86,410)
Profit for the period from the discontinued operation	223,208	270,356

The major classes of assets and liabilities of Digital China Group (excluding assets and liabilities with continuing operations eliminated as usual in the consolidation) classified as held for sale as at 30 June 2015 are as follows:

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Assets		
Property, plant and equipment	387,023	-
Investment in an associate	33,913	-
Available-for-sale investments	2,439,030	-
Deferred tax assets	204,860	-
Inventories	5,478,525	-
Trade and bills receivables	6,090,354	-
Prepayments, deposits and other receivables	2,434,419	-
Derivative financial instruments	88,384	-
Cash and cash equivalents	909,122	-
Assets classified as held for sale	18,065,630	-
Liabilities		
Trade and bills payables	7,157,020	-
Other payables and accruals	1,801,083	-
Tax payable	355,141	-
Interest-bearing bank borrowings	6,714,943	-
Deferred tax liabilities	1,374	-
Deferred income	57,472	-
Liabilities directly associated with the assets classified as held for sale	16,087,033	-
Net assets directly associated with the disposal group	1,978,597	-

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Earnings per share:		
Basic, from the discontinued operation	20.82 HK cents	25.58 HK cents
Diluted, from the discontinued operation	20.78 HK cents	25.12 HK cents

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

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the parent from the discontinued operation	HK\$223,208,000	HK\$273,088,000
Weighted average number of ordinary shares in issue less shares held the restricted share award during the period used in the basic earnings per share calculation (note 7)	1,072,457,098	1,067,628,581
Weighted average number of ordinary shares during the period used in the diluted earnings per share calculation (note 7)	1,074,210,734	1,087,108,642

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

The calculation of the basic earnings per share amount is based on the profit for the six months ended 30 June 2015 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,072,457,098 (six months ended 30 June 2014: 1,067,628,581) in issue less shares held the restricted share award scheme during the six months ended 30 June 2015.

The calculation of the diluted earnings per share amount for the six months ended 30 June 2015 is based on the profit for the six months ended 30 June 2015 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 the restricted share award scheme during the six months ended 30 June 2015, as used in the basic earnings 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 per share are based on:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation:		
From continuing operations	127,435	125,777
From a discontinued operation	223,208	273,088
	350,643	398,865

	Number of shares	
	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
<u>Shares</u>		
Weighted average number of ordinary shares in issue less shares held the restricted share award scheme during the period used in the basic earnings per share calculation	1,072,457,098	1,067,628,581
Effect of dilution – weighted average number of ordinary shares:		
Share-based incentive schemes	<u>1,753,636</u>	<u>19,480,061</u>
Weighted average number of ordinary shares during the period used in the diluted earnings per share calculation	<u>1,074,210,734</u>	<u>1,087,108,642</u>

8. Trade and bills receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 180 days. An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment is as follows:

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 30 days	1,640,732	4,681,534
31 to 60 days	520,750	1,661,036
61 to 90 days	202,534	726,908
91 to 180 days	490,676	1,019,605
Over 180 days	<u>1,265,353</u>	<u>1,512,840</u>
	<u>4,120,045</u>	<u>9,601,923</u>

9. Trade and bills payables

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

	30 June 2015	31 December 2014
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 30 days	1,436,397	5,573,183
31 to 60 days	440,463	2,181,120
61 to 90 days	247,261	1,020,765
Over 90 days	<u>355,810</u>	<u>1,526,111</u>
	<u>2,479,931</u>	<u>10,301,179</u>

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (for the six months ended 30 June 2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

China was subject to considerable pressure from macro-economic downturn during the first half of 2015, as GDP growth rate slowed down to 7% year-on-year with an ongoing adjustment of the economic structure. The traditional distribution business of Digital China has been under ongoing impact of the macro-economic slowdown, new business models brought out by the Mobile Internet and national IT policy of controllability and autonomy for long time. At the same time, under the prevailing trend of Internet+, a new business model characterized by Internet-based operations and deep integration with traditional industries has been emerging to become an important driving force for China's future economic growth. With our mission of "Digitalizing China", Digital China has been seeking constant breakthroughs in line with technological advances and changes in national policies, and has repeatedly embarked on strategic transformation with success. From product sales involving mainly distribution business when the Company was first spun off from the Legend Group, we shifted our focus to integrated IT services which were mainly IT solutions and application business, and then to Internet-based services on Sm@rt City. The Company has shifted from a peripheral business to a mainstream business, and then to a frontier business, continuously generating new driving force to fuel its growth. The Group is and will focus on Internet, Cloud Computing and Big Data technologies, as it pursues integration with various traditional industries, with the Sm@rt City strategy as a core, to focus on businesses with high added value and growth potential, like Internet-based city services (Sm@rt City), Internet Agriculture, Internet Healthcare, Internet Manufacturing, Internet Logistics and relevant financial services.

1.1 Disposal of the distribution and systems businesses to reap the full benefits of strategic transformation

In the announcement of "Very Substantial Disposal and Connected Transaction" dated 7 August 2015, the Company announced the proposed conditional disposal of 100% equity interests in its traditional consumer business and corporate distribution businesses (namely, the current "Digital China Group") for a consideration of RMB4.01 billion (approximately HK\$5.01 billion). Assuming completion of the disposal, it is intended that 75% of the net proceeds of approximately HK\$4.67 billion (after deduction of transaction costs and tax expenses) will be distributed as special cash dividend, which amount to HK\$3.2 per share. Furthermore, 12.5% of the net proceeds would be invested in Internet-related businesses with higher added value and growth potential, such as Internet-based city services (Sm@rt City), Internet Agriculture, Internet Healthcare. The remainder of the proceeds will be applied as working capital of the Group.

After the disposal of the distribution and systems businesses, Digital China will become a pure Internet services company. The Company will focus all its resources and management's attention and energy to the business with higher added value and growth potential. Together with clearer business segments and profit outlook, company believes the overall valuation will be enhanced. With the segregation of the distribution business which commands lower added value, the overall profitability of the Company will be significantly improved. Net proceeds from the disposal will generate sound and reasonable cash return to the shareholders and make positive contributions to the cash flow and financial conditions of the Company, to maximize shareholders' value.

1.2 Distribution business continues to decline while New Business shows encouraging developments

The disposed business, namely Digital China Group, will be presented as "Discontinued operation" in the 2015 interim results, while the retained businesses, namely the IT service business (Digital China Information Service Company Ltd.), Supply Chain Management Service and "Internet+" New Business, such as the financial service business and Sm@rt City business, will be presented under "Continuing operations."

Starting from 2015, the financial data of the Group has been classified into four business groups based on the relevance of the business to reflect the Group's strategic development planning more accurately. The Company has decided that, starting from the second quarter of 2015, its scope of the business groups will be adjusted as follows to reflect the impact of the proposed disposal of Digital China Group on the Group's business classification:

1. The business of investment in financial products with surplus funds of the Distribution Business segment is transferred from the Financial Service Strategy Unit under the New Business segment and aggregated under Digital China Group; and
2. The service fee-based businesses in Digital China Group is transferred to and aggregated under the Supply Chain Management Strategy Unit segment.

There are no changes to the respective scopes of the IT services segments. Relevant results of comparative financial periods (namely, the first half of 2015 and the first half of 2014) have been restated. Certain revenue previously accounted under the Financial Service Strategy Unit of the New Business segment has been reclassified as other income and gain under Digital China Group.

For the first six months of 2015, the Company's continuing operations reported revenue of approximately HK\$6.425 billion, rising by 24.65% as compared to the corresponding period of last year, while gross profit margin was 13.80%. Profit attributable to shareholders of the parent company amounted to approximately HK\$127 million, representing a 1.32% growth as compared to the corresponding period of last year. Excluding the one-off exceptional gain from the partial disposal and deemed partial disposal of shareholdings in Digiwin Software Co., Ltd., an associate company, profit attributable to shareholders of the parent company from continuing operations for the period would have increased by 14.12% as compared to the corresponding period of last year. Profit attributable to shareholders of the parent company from discontinued operation for the period amounted to approximately HK\$223 million, representing a decrease of 18.27% as compared to the corresponding period of last year. The combined (continuing and discontinued operations) profit attributable to shareholders amounted to approximately HK\$351 million, representing a decrease of 12.09% as compared to the corresponding period of last year.

1.3 Establishing a strong foothold in Internet-based city services to accelerate the development of Sm@rt City

Internet-based city services are what the Sm@rt City stands for. Digital China has been engaged in the implementation of Internet+ and business deployment in relation to its Sm@rt City strategy since 2011, in line with the nation's overall development trend of pursuing "new industrialisation, informatisation, urbanisation, and agricultural modernisation with Chinese characteristics". Starting with information system projects for government authorities, Digital China has now developed and evolved to the Internet-based Sm@rt City services and operations, after four years of diligent efforts.

Currently, Digital China's Sm@rt City is based on "One Centre and Three Platforms" infrastructure and targeted at government, citizens and enterprises. Leveraging new-generation technologies such as the Mobile Internet, Internet of Things, Cloud Computing and Big Data, virtual imaging relationships between physical recipients and information agents in the city are being built to facilitate the effective application of urban resources through the amalgamation of information resources, thereby to improve the operating efficiency, servicing ability and city development.

"One Centre" refers to the city network data resources center, which sets out to identify and apply Big Data and formulate data standards of city information resources. It facilitates full integration of data stored in individual, fragmented application systems within the city to build a unified information resource administration and service platform for government; it identifies and increases the value of data resources to promote the sharing of information resources for government. Upon this center, we have built up three platforms, namely, the integrated citizen service platform, integrated enterprise service platform and visual-enabled integrated smart urban administration platform, providing integrated, multi-channel and one-stop services to citizens, enterprises and city administrators, respectively.

Digital China's Sm@rt City business is generally operated on three revenue models: 1) revenue from the purchase of services by the government; 2) revenue from Internet services based on the daily life of citizens; and 3) revenue from Big Data analysis and application in the future as business models evolve. Currently, Sm@rt City derives its revenue mainly from the government procurement of services. We have entered into service procurement contracts with government authorities for tenors ranging from three to five years with annual service fees collected from government. Revenue generated from this segment last year amounted to around HK\$7 million and, with faster implementation in more cities, is expected to grow at a rate of 100% or even more for this year and next few years. The second source of revenue from Internet services based on the daily life of citizens is expected to become a major contributor of revenue in future. Our life channels on the internet-based integrated citizen service platform are in fact the access of city O2O services. Thanks to the accumulated layout in our Sm@rt City business, our platforms products enjoy a first-mover advantage in the O2O access sector of the city. We provide O2O services most relevant to the life of citizens in the most convenient manner. We also work with the government to implement effective management on the services which will be developed in a healthy and systematic manner. Commission fee charged on ongoing transactions will become the major source of revenue under this model. Meanwhile, our payment channels will offer a convenient payment method for the aforesaid services. The third source of revenue is Big Data analysis and application. The provision of services, especially those relating to government affairs and people's livelihood, over a long period will result in valuable sizeable database. Such data, when properly analyzed and processed, will give rise to a lot of valuable information, which will not only allow us to provide more accurate services, but will also enable the government to carry out city administration in a more timely and efficient manner. As such, their value is immeasurable.

Continuing Operations

2.1 Digital China Information Service Company Ltd. (DCITS): leading IT service provider in China's IT industry specialized in proprietary software, services, Cloud Computing and Big Data analysis persisting with the strategy of integrating Sm@rt City and Sm@rt Agriculture.

Accelerating strategic upgrade and business innovation to develop Sm@rt Agriculture across the whole industry value chain. Following the disposal of Digital China Group, The strategic status of Digital China Information Service Company Ltd. ("DCITS") in Digital China has become increasingly clear: as an essential technical support of Digital China's strategy and the principal through which application solutions of the Company's Internet-based businesses are implemented. During the first half of 2015, DCITS accelerated the strategic upgrade of its IT Service Business, while making strong efforts to drive developments in strategic sectors such as Business Cloud Service and Big Data modeling analysis. Revenue was approximately HK\$3.539 billion, representing a decrease of 2.51% as compared to the corresponding period of last financial year. For the second quarter, business stabilized and revenue grew 9.56%, year-on-year. With improved revenue mix, gross profit margin for the first half of the year reached to 19.05%, increasing by 2.73 percentage points as compared to the corresponding period of last financial year as profitability continued to improve. The four segments with high added-value, namely, technical services, application software development, agricultural informatisation and specialized financial business equipment, reported revenue of HK\$1.425 billion in aggregate, increasing by 4.46% as compared to the corresponding period of last financial year. They accounted for 40.27% of all business segments in terms of revenue, representing an increase by 2.69 percentage points as compared to the corresponding period of last financial year. Net profit attributable to the shareholders of the parent company amounted to HK\$137 million, improved by 1.67% as compared to the corresponding period of last financial year. With the successive implementation of newly signed business contracts in the second half of the year, the management anticipates net profit growth for DCITS for the full year.

Our technical service business promoted Cloud-based IT maintenance services, with further expanded scope of services and enhanced coverage of SME customers. New contracts were signed with Southwest Securities, China Merchants Securities and Changchun Rural Commercial Bank. The application software development business also signed up new customers in the financial sector, such as Pingdingshan Bank, Ningbo Bank and Jiujiang Bank. DCITS continued to drive revenue mix optimization as it proactively relinquished systems integration businesses with low profit margins or long project turnover. While this has resulted in a 6.71% decrease in revenue for the first half of the year, as compared to the corresponding period of last financial year, ongoing optimization of its business mix and profitability has been noted.

The agricultural informatization business is conducted primarily through Zhongnong Xinda, which was fully acquired by DCITS in mid-2014 and serves as the main carrier of Internet Agriculture in the strategic planning of Digital China. Currently, the agricultural informatization business derives its revenue and profit mainly from services relating to farmland right registration. The aggregate contract amount for the period increased by 203% as compared to the corresponding period of last year, while revenue recognized amounted to approximately HK\$60 million. During the period, DCITS actively promoted the construction of farmland transaction and exchange platform, while actively investigating other services with high added value, such as complementary finance and data analysis services, so that the source of revenue will gradually develop from one-off payments for farmland right registration to an ongoing revenue stream generated from value-added platform services for farmland transaction and exchange. During the first half of the year, Zhongnong Xinda commenced construction of the first farmland transaction and exchange platforms in 6 counties in Hebei Province, and completed the first provincial-level (Hebei) platform in China. Zhongnong Xinda plans to further improve the operation and management of these platforms in the second half of the year and to rapidly expand the layout to 100 counties throughout Hebei and to other major agricultural provinces.

2.2. Supply Chain Management Strategy Unit: focusing on e-commerce clients, together with development of logistics services for corporate customers and actively expansion of O2O self-branded maintenance services.

The software-defined supply chain service benefitted from the rapid development of the Mobile Internet. The supply chain management business of Digital China provides integrated services relating to the supply chain, such as management, warehousing and transportation, based on the self-developed software. The Supply Chain Business sustained rapid growth during the first half of the year, reporting overall revenue of approximately HK\$2.846 billion for the period, which represented an increase by 90.49% as compared to the corresponding period of last year. The e-commerce business maintained a strong growth momentum under the ongoing trend of online shopping with broad usage of Mobile Internet. Overall gross profit margin of the Supply Chain Business for the first half of the year was 6.20%, down by 3.95 percentage points as compared to the corresponding period of last year, as its invoicing business is accounted for both revenue and expenditure under relevant accounting standards. Revenue from e-commerce supply chain service, logistics and maintenance, its three principal segments, grew by 124.44%, 13.89% and 5.27%, as compared to the corresponding period of last year.

The e-Commerce Supply Chain Service maintained rapid growth as it implemented the “intermediary platform” business model targeted at brand customers and offered e-commerce supply chain solutions to customers through their online stores on T-mall Flagship Store and JD.COM Flagship Store and etc. The scope of cooperation with a number of customers, including Lenovo’s Magic Factory, Tencent Doctor Tang and store.baidu.com, was expanded during the period. In the Logistics Business, contracts were signed with major customers in the auto accessory, fast consumer goods, IT and communications sectors, such as Meizu, 360 Qiku, Geely and so on. The Maintenance Business, conducted under our brand name “K-boy”, adopted an O2O model combining online marketing channels such as Wechat and offline service and delivery outlets to foster a new growth niche for post-warranty services. The Company was also actively working with Internet-based transportation platforms. Through the close cooperation with these platforms where demand was generated and with over 1,000 physical offline service outlets across the country, a business model with distinctive characteristics has been developed for ongoing enhancement of customers’ experience.

2.3 New Business based on “Internet+”: to accelerate development of internet-based Sm@rt City and Internet finance, develop new directions for strategic businesses and foster new growth drivers in proactive response to the national strategy of “Internet+”.

The New Business segment reported overall revenue of approximately HK\$40.04 million, representing a 31.68% growth as compared to the corresponding period of last year. Businesses with financial institutions accounted for approximately 93% of total revenue of the segment. Revenue inflow of Sm@rt City will be realized mainly in the second half of the year.

A clearer commercial model was emerging with expedited implementation of Sm@rt City. During the first half of the year, the Company continued to increase investment in the construction of Internet-based Sm@rt City platforms and their services, as strategic cooperation agreements were signed with Zhuhai, Xiamen and Guiyang, bringing the number of cities signed up for strategic cooperation to 35. Platform construction in these cities will commence soon. Currently, integrated citizen service platforms are operating in 8 cities, which are expected to increase to 16 by the end of year. Including Chengdu and Chongqing which platforms are put into operation in the first half of the year, Digital China Sm@rt City is covering population of 67 million. During the period, the Company also won the bid for the operating rights of “Beijing Network”. The Internet-based city service platform and its applications are scheduled to officially come into operation in the second half of the year to provide integrated city services for the citizens in Beijing.

Meanwhile, the Group was also actively seeking cooperation with major Internet platform companies. In May, the Group entered into a strategic cooperation agreement with Benxi Government and Tencent in Benxi, Liaoning Province for the development of “Benxi•Internet+ City Service”. Strategic cooperation agreements have also been signed with www.aliyun.com and Ant Group, the parent company of Alipay, in relation to in-depth cooperation in city services such as credit check and offline O2O.

In connection with investments in Sm@rt City operations, the Company successfully acquired equity interests in Fuzhou Rongcheng Universal Card Ltd., which had issued 2 million cards covering the entire transportation system of Fuzhou. Moreover, a joint venture company with Smartpay Group has been set up to provide convenient payment services for citizens through the integration of Internet finance services

Multiple financial licenses providing capital support: The financial institution business leverages Digital China’s brand advantage, channel resources and advanced technologies and the licenses that it has already obtained for various financial businesses, such as micro-credit finance, third-party payment, commercial factoring, and finance leasing, so as to provide financial support for the Company’s vigorous development of Internet-based services, and facilitate rapid development of Internet-based financial business by rendering strong support. Chongqing Digital China HC Micro-credit finance Co., Ltd., our joint venture with HC International, made great progress to develop its micro-credit finance business on the back of its qualifications in nationwide micro-credit finance operations, leveraging on the online membership base and transaction information of HC International. Loan balance as at the end of June 2015 amounted to approximately RMB1.2 billion among which RMB 1 billion comes from its funding and RMB 200 million comes from shareholders’ loan. Net profit of the joint venture company for the first half of the year amounted to over RMB 22 million. Loan balance of the commercial factoring and finance leasing operations as at the end of June 2015 was in excess of RMB200 million for the company itself.

Discontinued operation

2.4 Digital China Group: In the corporate IT sector, provision of products and solutions covering application structures, such as system, network, storage and security. In the consumer electronics sector, consolidation of online and offline resources to provide customers with end-to-end services centered on omni-channel marketing strategy.

Driven by certain brands, the business showed seasonality recovery in the second quarter while structural challenges persist. The former distribution and systems businesses of the Group were combined to form the Digital China Group for better resource sharing and cost efficiency starting from 2014. Driven by offline retail (CES) channels and the lower comparative base for the corporate IT sector, Digital China Group reported revenue of approximately HK\$28.622 billion for the first half of 2015, representing an 6.69% growth as compared to the corresponding period of last year, while overall gross profit was 5.09%, a slight decline of 0.03 percentage points as compared to the corresponding period of last year. Profit of Digital China Group for the period amounted to approximately HK\$223 million, representing a decrease of 18.27% as compared to the corresponding period of last year, which reflected the substantial year-on-year increase in impairment for trade receivables and provisions for inventories for the period.

Consumer Business: The consumer business reported revenue grew 5.78%, as compared to the corresponding period of last year, to approximately HK\$17.932 billion, underpinned by solid growth in the both the online business and the offline retail (CES) business, which was in turn driven by the strategic distribution of omni-channels. Gross profit margin was 3.39%, 0.13 percentage points higher as compared to the corresponding period of last year. Apple products enjoyed strong sales during the first six months with an approximately 67% year-on-year growth in revenue, accounting for approximately 20% of the revenue of the consumer business. As a result, the CES business also reported year-on-year growth of 40.8% in revenue, accounting for approximately 25.85% of the overall revenue of the consumer business. The online business continued to enhance cooperation with mainstream e-commerce platforms and capitalized on opportunities presented by marketing campaigns launched by customers during the year, reporting year-on-year growth of approximately 13% for the first half of the year.

Corporate Business: Despite the complicated market condition, the corporate business continued to enhance the development of the domestic brand business and reported year-on-year growth of 8.25% in revenue to approximately HK\$10.69 billion. Huawei business sustained substantial growth with a 108% year-on-year growth in revenue which accounted for approximately 19.5% of the revenue of the corporate business and contributed to an approximately 28.15% year-on-year growth in the overall revenue for network products. In the server business, the Company resumed cooperation with HP in the x86 server business, while the business relating to Lenovo servers reported rapid growth following the completion of business integration. As a result, revenue of the server business for the first half of the year grew by approximately 8.30%, year-on-year. The software segment was significantly affected by the decline in the business with Microsoft, as revenue for the first half of the year decreased by 11.51%, year-on-year. The Company was expediting the development of its proprietary brand business in the network and storage sectors, while consensus for cooperation in Cloud Computing was reached with key manufacturers after extensive consultations.

3. Management Outlook

Over the past 15 years, Digital China has undergone several transformations through ongoing innovation. From product sales mainly by way of distribution to integrated IT services focused on IT solutions, a complete IT service value chain has been fostered with extensive industry coverage (government affairs, public services, finance, telecommunications, taxation, healthcare and education), and we have established profound industry experience, technological strengths and ability to innovate.

Leveraging on technologies accumulated over the years and the extensive layout of Sm@rt City, Digital China has developed a business profile with the Sm@rt City strategy as a core supporting the Internet-based city service (Sm@rt City), Internet Agriculture, Internet Manufacturing, Internet Supply Chain, Internet Healthcare and Internet Finance, which perfectly match with China's Internet economy, the future growth engine of the nation. Digital China is set to deliver greater value to shareholders as it embraces this unprecedented opportunity for development.

Capital Expenditure, Liquidity and Financial Resources

The Group mainly finances its operations with internally generated cash flows, bank borrowings and banking facilities.

The Group had total assets of HK\$34,806 million at 30 June 2015 which were financed by total liabilities of HK\$23,771 million, non-controlling interests of HK\$2,273 million and equity attributable to equity holders of the parent of HK\$8,762 million. The Group's current ratio at 30 June 2015 was 1.22 as compared to 1.18 at 31 March 2015 and 1.16 at 31 December 2014.

During the six months ended 30 June 2015, capital expenditure of HK\$307 million was mainly incurred for the acquisition of properties, office equipment and IT infrastructure facilities.

The aggregate borrowings from continuing operations of the Group as a ratio of equity attributable to equity holders of the parent was 0.39 at 30 June 2015. The aggregate borrowings of the Group as a ratio of equity attributable to equity holders of the parent was 1.16 at 30 June 2015 as compared to 0.94 at 31 March 2015 and 0.94 at 31 December 2014. The computation of the said ratio was based on the total interest-bearing bank borrowings of HK\$10,136 million (31 March 2015: HK\$8,193 million and 31 December 2014: HK\$8,125 million) and equity attributable to equity holders of the parent of HK\$8,762 million (31 March 2015: HK\$8,753 million and 31 December 2014: HK\$8,600 million).

At 30 June 2015, the denomination of the interest-bearing bank borrowings of the Group was shown as follows:

	Denominated in United States dollars HK\$'000	Denominated in EURO dollars HK\$'000	Denominated in Renminbi HK\$'000	Denominated in Hong Kong dollars HK\$'000	Total HK\$'000
<u>Continuing operations</u>					
Current					
Interest-bearing bank borrowings, unsecured	1,383,825	344,476	366,183	115,000	2,209,484
Non-current					
Interest-bearing bank borrowings, unsecured	775,000	-	136,838	300,000	1,211,838
Interest-bearing bank borrowings from continuing operations as stated in the condensed consolidated statement of financial position	2,158,825	344,476	503,021	415,000	3,421,322
<u>Discontinued operation</u>					
Current					
Interest-bearing bank borrowings, unsecured	4,872,501	-	-	1,077,594	5,950,095
Non-current					
Interest-bearing bank borrowings, unsecured	764,848	-	-	-	764,848
Interest-bearing bank borrowings from a discontinuing operation	5,637,349	-	-	1,077,594	6,714,943
Total	7,796,174	344,476	503,021	1,492,594	10,136,265

Included in the Group's current and non-current bank borrowings from continuing operations of approximately HK\$1,550 million and HK\$1,977 million respectively represented the term loans which are repayable from 2015 to 2022.

The Group's total available credit facilities at 30 June 2015 amounted to HK\$37,005 million, of which HK\$5,031 million were in term loan facilities, HK\$17,861 million were in trade lines and HK\$14,113 million were in short-term and revolving money market facilities. At 30 June 2015, the facility drawn down was HK\$4,409 million in term loan facilities, HK\$6,028 million in trade lines and HK\$3,264 million in short-term and revolving money market facilities.

The total available credit facilities from the Group's continuing operations at 30 June 2015 amounted to HK\$9,788 million, of which HK\$2,066 million were in term loan facilities, HK\$3,453 million were in trade lines and HK\$4,269 million were in short-term and revolving money market facilities. At 30 June 2015, the facility drawn down from continuing operations was HK\$1,444 million in term loan facilities, HK\$1,188 million in trade lines and HK\$1,542 million in short-term and revolving money market facilities.

Under the normal course of business, the Group has issued performance bonds to some customers for potential claims of non-performance in order to satisfy the specific requirements of these customers. As no material claims had been made by the customers under such performance bonds in the past, the management considers that the possibility of realisation of any actual material liabilities arising from such performance bonds is remote.

Human Resources

At 30 June 2015, the Group's continuing operations had approximately 5,400 (30 June 2014 (restated): approximately 5,100) 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 3.64% increase in staff costs to approximately HK\$639 million for the six months ended 30 June 2015 as compared to approximately HK\$616 million (restated) 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. ONG Ka Lueng, Peter. The Audit Committee has reviewed with the senior management of the Company their respective 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 unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2015.

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 six months ended 30 June 2015, except 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 six months ended 30 June 2015.

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

During the six months ended 30 June 2015, 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 six months ended 30 June 2015.

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

Hong Kong, 25 August 2015

As at the date of this announcement, the Board comprises nine Directors namely:

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

Non-executive Director: Mr. Andrew Y. YAN

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

Website: www.digitalchina.com.hk

** For identification purpose only*