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ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

UNAUDITED CONSOLIDATED INTERIM RESULTS

The board of directors (the “**Director(s)**” or the “**Board**”) of Digital China Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2018 together with comparative figures for the corresponding period of last financial year as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
REVENUE	3	6,985,835	5,732,712
Cost of sales and services		<u>(5,702,775)</u>	<u>(4,579,544)</u>
Gross profit		1,283,060	1,153,168
Other income and gains	3	560,167	132,966
Selling and distribution expenses		(621,751)	(505,937)
Administrative expenses		(166,182)	(459,221)
Other expenses, net		(606,765)	(634,450)
Finance costs		(109,377)	(106,987)
Share of profits and losses of:			
Joint ventures		(5,126)	17,216
Associates		<u>3,115</u>	<u>19,583</u>
PROFIT/(LOSS) BEFORE TAX	4	337,141	(383,662)
Income tax expense	5	<u>(11,145)</u>	<u>(2,975)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>325,996</u>	<u>(386,637)</u>
Attributable to:			
Equity holders of the parent		137,493	(451,734)
Non-controlling interests		<u>188,503</u>	<u>65,097</u>
		<u>325,996</u>	<u>(386,637)</u>
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT	6		
Basic		<u>HK cents 8.20</u>	<u>HK cents (34.94)</u>
Diluted		<u>HK cents 8.20</u>	<u>HK cents (34.94)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	325,996	(386,637)
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	-	(7,342)
Exchange differences:		
Exchange differences on translation of foreign operations	8,607	186,754
Share of other comprehensive income/(loss) of an associate	18,522	(11,992)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	27,129	167,420
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Financial assets:		
Changes in fair value	(26,094)	-
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	(26,094)	-
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	1,035	167,420
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	327,031	(219,217)
Attributable to:		
Equity holders of the parent	121,453	(366,036)
Non-controlling interests	205,578	146,819
	327,031	(219,217)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

		30 June 2018	31 December 2017
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,114,105	1,167,160
Investment properties		4,116,875	4,102,327
Prepaid land premiums		68,466	69,279
Goodwill		2,361,106	2,346,218
Other intangible assets		173,510	181,387
Investments in joint ventures		217,522	228,639
Investments in associates		3,468,383	2,637,304
Available-for-sale investments	7	-	3,314,809
Other non-current financial assets	7	2,142,709	-
Finance lease receivables		49,496	113,493
Accounts receivable	8	-	23,428
Prepayments, deposits and other receivables		123,503	123,391
Deferred tax assets		128,876	102,354
Total non-current assets		13,964,551	14,409,789
CURRENT ASSETS			
Inventories		755,941	1,221,410
Properties under development		260,338	260,504
Completed properties held for sale		45,047	45,006
Accounts and bills receivables	8	5,362,570	5,214,237
Prepayments, deposits and other receivables		2,913,057	1,944,876
Available-for-sale investments	7	-	585,719
Other current financial assets	7	117,666	-
Finance lease receivables		256,342	341,735
Restricted bank balances		35,337	107,989
Cash and cash equivalents		2,070,392	3,784,296
Total current assets		11,816,690	13,505,772
CURRENT LIABILITIES			
Accounts and bills payables	9	3,059,690	3,217,547
Other payables and accruals		2,569,823	3,560,919
Tax payable		6,819	145,081
Interest-bearing bank and other borrowings		3,463,188	5,296,981
Total current liabilities		9,099,520	12,220,528
NET CURRENT ASSETS		2,717,170	1,285,244
TOTAL ASSETS LESS CURRENT LIABILITIES		16,681,721	15,695,033

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2018

		30 June 2018 (Unaudited) <i>HK\$'000</i>	31 December 2017 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
TOTAL ASSETS LESS CURRENT LIABILITIES		16,681,721	15,695,033
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		3,260,578	2,583,949
Deferred tax liabilities		287,654	273,112
Deferred income		41,471	43,098
Total non-current liabilities		3,589,703	2,900,159
NET ASSETS		13,092,018	12,794,874
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	10	167,726	167,726
Reserves		9,077,256	8,942,059
		9,244,982	9,109,785
Non-controlling interests		3,847,036	3,685,089
TOTAL EQUITY		13,092,018	12,794,874

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2018

	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-to- sale investment revaluation reserve (Unaudited) HK\$'000	Financial assets at fair value through other comprehensive income revaluation reserve (Unaudited) HK\$'000	Reserve funds (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non- controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000	
At 31 December 2017	167,726	4,665,095	1,929,976	(21,571)	51,503	480,072	(16,329)	-	393,297	104,462	1,355,554	9,109,785	3,685,089	12,794,874	
HKFRS 9 adjustments	-	-	-	-	-	-	16,329	23,078	-	-	15,237	54,644	-	54,644	
At 1 January 2018	167,726	4,665,095	1,929,976	(21,571)	51,503	480,072	-	23,078	393,297	104,462	1,370,791	9,164,429	3,685,089	12,849,518	
Profit for the period	-	-	-	-	-	-	-	-	-	-	137,493	137,493	188,503	325,996	
Other comprehensive income/(loss) for the period:															
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	(26,094)	-	-	-	(26,094)	-	(26,094)	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	1,275	-	1,275	7,332	8,607	
Share of other comprehensive income of an associate	-	-	5,061	-	-	-	-	2,722	-	996	-	8,779	9,743	18,522	
Total comprehensive income for the period	-	-	5,061	-	-	-	-	(23,372)	-	2,271	137,493	121,453	205,578	327,031	
Share-based payment expenses	-	-	-	-	560	-	-	-	-	-	-	560	-	560	
Capital contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	1,184	1,184	
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(5,784)	(5,784)	
Capital reduction by a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(11,019)	(11,019)	
Acquisition of non-controlling interests	-	-	(41,460)	-	-	-	-	-	-	-	-	(41,460)	(5,912)	(47,372)	
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(22,100)	(22,100)	
At 30 June 2018	167,726	4,665,095*	1,893,577*	(21,571)*	52,063*	480,072*	-*	(294)*	393,297*	106,733*	1,508,284*	9,244,982	3,847,036	13,092,018	

* These reserve accounts comprise the consolidated reserves of HK\$9,077,256,000 (31 December 2017: HK\$8,942,059,000) in the unaudited condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

As at 30 June 2018

	Attributable to equity holders of the parent												Total equity (Unaudited) HK\$ '000
	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	Total (Unaudited) HK\$ '000	Non- controlling interests (Unaudited) HK\$ '000	
At 1 January 2017	123,466	2,836,673	1,934,787	(302,457)	26,307	456,024	29,649	310,871	(97,719)	1,850,986	7,168,587	3,303,326	10,471,913
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	(451,734)	(451,734)	65,097	(386,637)
Other comprehensive income/(loss) for the period:													
Changes in fair value of available-for-sale investments	-	-	-	-	-	-	(7,342)	-	-	-	(7,342)	-	(7,342)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	106,437	-	106,437	80,317	186,754
Share of other comprehensive income/(loss) of an associate	-	-	-	-	-	-	(18,302)	-	4,905	-	(13,397)	1,405	(11,992)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(25,644)	-	111,342	(451,734)	(366,036)	146,819	(219,217)
Issue of new shares (note 10)	10,715	526,882	-	-	-	-	-	-	-	-	537,597	-	537,597
Share-based payment expenses	-	-	-	-	307,506	-	-	-	-	-	307,506	10,561	318,067
Vesting of share under the restricted share award scheme	-	-	-	282,919	(282,919)	-	-	-	-	-	-	-	-
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	109,573	109,573
Acquisition of non-controlling interests	-	-	(1,294)	-	-	-	-	-	-	-	(1,294)	(3,287)	(4,581)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(16,808)	(16,808)
At 30 June 2017	134,181	3,363,555	1,933,493	(19,538)	50,894	456,024	4,005	310,871	13,623	1,399,252	7,646,360	3,550,184	11,196,544

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cash flows from operating activities		
Decrease in inventories	397,146	61,399
Increase in accounts and bills receivables	(320,245)	(1,557,579)
Increase/(decrease) in accounts and bills payables	(153,467)	361,493
Additions to properties under development	-	(764)
Decrease/(increase) in other working capital and adjustments for non-cash transactions	(937,767)	85,070
Net cash flows used in operating activities	<u>(1,014,333)</u>	<u>(1,050,381)</u>
Cash flows from investing activities		
Purchases of items of property, plant and equipment	(44,287)	(445,900)
Additions to investment properties	-	1,905
Proceeds from disposal of items of property, plant and equipment	685	744
Additions to other intangible assets	(15,259)	(27,078)
Acquisition of subsidiaries	(12,300)	(170,278)
Disposal of subsidiaries	64,774	-
Proceeds from disposal of associates	46,933	-
Proceeds from disposal of available-for-sales investments	-	70,986
Dividends received from associates	-	3,145
Dividends received from an available-for-sale investment	-	7,956
Investments in joint ventures	(4,737)	(9,183)
Investment in an associate	-	(9,462)
Investments in available-for-sale investments	-	(137,265)
Investments in financial assets at fair value through other comprehensive income	(22,145)	-
Net cash inflows from change of financial assets at fair value through profit or loss	<u>594,969</u>	<u>-</u>
Net cash flows from/(used in) investing activities	<u>608,633</u>	<u>(714,430)</u>
Cash flows from financing activities		
Proceeds from issue of new ordinary shares	-	194,733
New bank and other borrowings	2,410,433	4,373,958
Repayment of bank and other borrowings	(3,346,123)	(2,986,727)
Proceeds from issue of corporate bonds	-	569,853
Repayment of corporate bonds	(236,642)	(221,428)
Interest paid	(109,377)	(106,987)
Dividends paid to non-controlling shareholders	(22,100)	(16,808)
Acquisition of non-controlling interests	(47,372)	(4,581)
Capital contribution from non-controlling shareholders of subsidiaries	1,184	109,573
Capital reduction by a non-controlling shareholder of a subsidiary	(11,019)	-
Net cash flows from/(used in) financing activities	<u>(1,361,016)</u>	<u>1,911,586</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net increase/(decrease) in cash and cash equivalents	(1,766,716)	146,775
Cash and cash equivalents at the beginning of the period	3,784,296	2,698,158
Effects of foreign exchange rate changes, net	<u>52,812</u>	<u>63,912</u>
Cash and cash equivalents at the end of the period	<u>2,070,392</u>	<u>2,908,845</u>
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	<u>2,070,392</u>	<u>2,908,845</u>

NOTES:

1. Basis of preparation

These unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 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 2017 had been consistently applied except in relation to the following new and 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. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transaction</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarification to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investments Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transaction and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to HKFRS 1 and HKAS 28</i>

Other than explained below, the adoption of these revised HKFRSs has had no significant financial effect on the unaudited condensed consolidated interim financial information.

The Group applies, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments* that require to apply retrospectively. As required by HKAS 34, the nature and effect of these changes are disclosed below.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 *Revenue from Contracts with Customers* supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at 1 January 2018. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The Group's principal activities consist of provision of financial technology services, smart logistics, Sm@rt City services and smart financial services. The impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

(a) Financing component of accounting receivables

The Group provides IT services and internet based integrated IT platform construction and operation services to customers. For contract where the period between the payment by the customer and the transfer of the promised service exceeds one year, the transaction price is adjusted for the effects of a significant financing component, by discounting the amount of promised consideration, as there is an implicit financing benefit provided to the customer with a contract with long payment term. The revenue from contracts with long payment terms was recognised at a point in time or over time when control of the asset was transferred to the customer, generally upon delivery of the goods or services, and considering the time value of money, the significant financing component was recognised. The Group uses the same discount rate that it would use if it were to enter into a separate financing transaction with the customer. The Group elected to apply the practical expedient and did not recognise the effects of a significant financing component with a customer if the time period is one year or less.

(b) Contracts with multiple performance obligations

The Group provides systems integration, technical service, application software development, and internet based integrated IT platform construction and operation service to customers. Certain contracts of these services comprise a variety of performance obligations including, but not limited to, delivery of goods and provision of services including transportation, development, installation, training and maintenance. The Group evaluates the separability of the multiple performance obligations based on whether they are "distinct", and allocate the transaction price to each performance obligation in the contract on a relative stand-alone selling price basis.

The application of HKFRS 15 has had no material impact on the amounts and/or disclosures reported in these unaudited condensed consolidated financial information.

There is no material impact on the unaudited condensed consolidated statement of cash flows and basic and diluted earnings/loss per share.

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted HKFRS 9 using the modified retrospective method of adoption to items that existed at 1 January 2018 in accordance with the transition requirements. The impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The following are the changes in the classification of the Group's financial assets:

- (i) Accounts and bills receivables, deposits, other receivables and finance lease receivables previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortised cost.
- (ii) Wealth management financial products previously classified as available-for-sale financial assets at cost are now classified and measured as debt instruments at FVPL whose cash flow characteristics fail the SPPI criterion; or the Group expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis, and the assets are designated upon initial recognition as at FVPL.
- (iii) Equity investments in unlisted companies previously classified as available-for-sale financial assets are now classified and measured as equity instruments designated at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. The Group elected to classify irrevocably its unlisted equity investments under this category as it intends to hold these investments for the foreseeable future. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's unquoted equity instruments were classified as available-for-sale financial assets.
- (iv) Listed equity investments previously classified as available-for-sale financial assets are now classified and measured as financial assets at FVPL. Under HKAS 39, the Group's listed equity securities were classified as available-for-sale financial assets. Upon transition the available-for-sale reserve relating to listed equity securities, which had been previously recognised under accumulated other comprehensive income, was reclassified to retained earnings.

As a result of the change in classification of the Group's listed equity investments, the accumulated fair value gain of HK\$3,405,000 were reclassified from the available-for-sale investment revaluation reserve to retained profits as at 1 January 2018.

As a result of the change in classification of the Group's unlisted equity investments, the accumulated fair value gain of HK\$54,644,000 were recorded in the financial assets at FVOCI revaluation reserve, and the accumulated impairment loss of HK\$11,832,000 was reclassified from retained profits to the financial assets at FVOCI revaluation reserve at 1 January 2018.

The change did not have material impact on the cash flows from operating, investing and financing activities and the basic and diluted earnings/loss per share of the Group.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in profit or loss.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

In summary, upon the adoption of HKFRS 9, the Group had the following required or elected reclassifications for the balances of financial assets as at 1 January 2018.

HKAS 39 measurement category		HKFRS 9 measurement category		
	HK\$'000	FVPL HK\$'000	Amortised cost HK\$'000	FVOCI HK\$'000
Loans and receivables				
- Accounts and bills receivables	5,237,665	-	5,237,665	-
- Financial assets included in prepayments, deposits and other receivables	1,824,328	-	1,824,328	-
- Finance lease receivables	455,228	-	455,228	-
Available for sale investments				
- Listed equity investments	98,440	98,440	-	-
- Unlisted equity investments	849,953	-	-	926,141
- Wealth management financial products	2,952,135	2,952,135	-	-

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at FVPL and contract assets.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

HKFRS 9 requires an impairment on accounts receivable, contract assets, other receivables and finance lease receivables that are not accounted for at fair value under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and calculated ECLs based on lifetime expected credit losses on its accounts receivable, contract assets and finance lease receivables, and has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group applied general approach and recorded 12-month expected losses on its other receivables. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

2. Operating segment information

The Group has three reportable operating segments as follows:

- (a) "DCITS" segment: Digital China Information Service Company Ltd. (神州數碼信息服務股份有限公司) ("DCITS") is a leading financial technology service company in the banking sector in China. With core bank systems and enterprise service buses as its key products, DCITS provides services for customers in the banking industry such as system development, maintenance, industry cloud services and infrastructure development, and also provides technical services, application software development and industry cloud construction and operation services for key industries including government, enterprises and agriculture.
- (b) The "Smart Logistics Business" segment: Instant Technology Logistics is the leading supply chain management brand in China, implementing the new logistics core strategy of "Warehouse + Big Data + Artificial Intelligence". With its own logistics management system and the big data application platform X-DATA, it provides customers with customized one-stop supply chain services and is an industry leader in IT, communications and e-commerce logistics, and actively expands the Internet-based own maintenance services.
- (c) The "New Business" segment: including "Sm@rt City Business", which is based on the big data deep application, and builds a comprehensive urban-level big data platform for the city to solve medical, transportation, energy supply and social security issues; and "Smart Financial Business", relies on its various financial licenses, integrates resources of financial institutions such as banking, insurance, securities and trusts, provides of financial services, such as financing, leasing, guarantee, etc. to internal and external customers; and assets operations, other innovative businesses and incubation and strategic investments.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment results are 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 interest income, finance costs, unallocated corporate income and gains and unallocated corporate expenses are excluded from such measurement.

During the six months ended 30 June 2018, the Group considered it more appropriate to disclose certain gains and expenses in the segment results in order to better reflect the performance of each segment. Accordingly, the corresponding comparative amounts of the segment information have been revised to conform with the current period's presentation.

The following table presents revenue and results for the Group's operating segments for the six months ended 30 June 2018 and 2017:

	DCITS		Smart Logistics Business		New Business		Total	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000 (Restated)	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000 (Restated)	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000 (Restated)
Segment revenue:								
Sales to external customers	4,997,761	4,161,617	1,718,800	1,157,577	269,274	413,518	6,985,835	5,732,712
Segment gross profit	930,265	780,844	252,460	163,682	100,335	208,642	1,283,060	1,153,168
Segment results	371,003	156,326	(20,877)	(18,826)	164,050	(193,000)	514,176	(55,500)
Interest income, other unallocated revenue and gains	6,911	8,057					10,289	37,666
Unallocated expenses	-	-					(77,947)	(258,841)
Finance costs	(46,549)	(40,976)					(109,377)	(106,987)
Profit/(loss) before tax	331,365	123,407					337,141	(383,662)
Income tax expense	(2,807)	4,064					(11,145)	(2,975)
Profit/(loss) for the period	328,558	127,471					325,996	(386,637)

3. 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 partial 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 is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<u>Revenue</u>		
Systems integration business	2,965,340	2,491,974
Software development and technical services business	2,032,421	1,669,643
Logistics business	934,859	578,383
E-commerce supply chain services business	698,875	493,745
Financial services business	60,531	195,910
Others	293,809	303,057
	6,985,835	5,732,712
<u>Other income</u>		
Government grants	33,755	18,330
Interest income	10,203	10,388
Income from wealth management financial products	14,131	19,794
Dividend income from available-for-sale investments	-	16,439
Others	1,668	1,668
	59,757	66,619
<u>Gains</u>		
Fair value gain on financial assets at fair value through profit or loss	1,841	-
Foreign exchange differences, net	585	34,052
Gain on partial disposal of the equity interest in a subsidiary	199,491	-
Gain on disposal of the equity interests in associates	7,880	-
Gain on deemed partial disposal of the equity interests in associates	279,674	2,978
Gain on disposal of available-for-sale investments	-	28,058
Gain on disposal of financial assets at fair value through profit or loss	8,116	-
Others	2,823	1,259
	500,410	66,347
	560,167	132,966

4. Profit/(loss) before tax

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	3,420,964	2,734,606
Depreciation	77,544	62,674
Amortisation of prepaid land premiums	884	859
Amortisation of other intangible assets	22,913	13,765
Minimum lease payments under operating leases in respect of land and buildings	148,291	57,459
Provisions against inventories	65,568	45,455
Impairment of accounts and bills receivables	187,604	113,568
Impairment of investments in a joint venture	10,156	-
Impairment/(reversal of impairment) of finance lease receivables	18,921	(1,085)
Impairment of available-for-sale investments	-	227,941
Loss on disposal of items of property, plant and equipment	1,536	884
Foreign exchange differences, net	(585)	(34,052)

5. Income tax expense

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Mainland China		
Corporate income tax (“CIT”)	26,803	27,487
Land appreciation tax (“LAT”)	7,521	5,907
	<u>34,324</u>	<u>33,394</u>
Current – Hong Kong	-	384
Deferred	<u>(23,179)</u>	<u>(30,803)</u>
Total tax charge for the period	<u>11,145</u>	<u>2,975</u>

- (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 from sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.
- (c) During the six months ended 30 June 2018, Hong Kong profits tax had been provided at the rate of 16.5% (six months ended 30 June 2017: 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 jurisdiction in which the Group operates.
- (d) The share of tax charge attributable to the joint ventures of HK\$345,000 (six months ended 30 June 2017: HK\$8,807,000) and the share of tax charge attributable to the associates of HK\$17,352,000 (six months ended 30 June 2017: HK\$15,323,000) 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 unaudited condensed consolidated statement of profit or loss.

6. 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 six months ended 30 June 2018 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue less shares held under the restricted share award scheme of 1,677,246,738 (six months ended 30 June 2017: 1,292,794,454) during the six months ended 30 June 2018.

The calculations of the diluted earnings/(loss) per share amount for the six months ended 30 June 2018 is based on the profit/(loss) for the six months ended 30 June 2018 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 six months ended 30 June 2018, 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.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the six months ended 30 June 2018 and 2017 in respect of the dilution as the Company's share-based incentive schemes outstanding had no dilutive effect on the basic profit/(loss) per share amounts presented.

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<u>Earnings/(loss)</u>		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculation	137,493	(451,734)

7. Available-for-sale investments, other non-current financial assets and other current financial assets

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Notes:

- (a) The balance as at 31 December 2017 are wealth management financial products with an aggregate principal amount of approximately HK\$2.6 billion (RMB2.2 billion) (before deducting the impairment loss of approximately HK\$228 million (RMB200 million)) which were purchased from an affiliate to a state-owned financial institution. These wealth management financial products were due for repayment but have not yet been settled during the year ended 31 December 2017. On 28 June 2018, the Group has reached settlement arrangements with the counterparties that approximately HK\$0.65 billion (RMB0.55 billion) will be distributed to the Group as repayment of the corresponding principal of these wealth management financial products. Accordingly, approximately HK\$0.65 billion (RMB0.55 billion) was reclassified as other receivables during the six months ended 30 June 2018, which was subsequently received by the Group in July 2018.
- (b) The Group's available-for-sale investments of HK\$3,900,528,000 as at 31 December 2017 were reclassified to financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss, where appropriate, upon adoption of HKFRS 9.

8. 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:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within 30 days	1,997,315	2,733,417
31 to 60 days	295,339	391,351
61 to 90 days	129,256	108,864
91 to 180 days	970,592	486,228
Over 180 days	1,970,068	1,517,805
	5,362,570	5,237,665

9. 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:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within 30 days	1,455,992	1,765,901
31 to 60 days	320,284	390,947
61 to 90 days	260,658	163,513
Over 90 days	1,022,756	897,186
	3,059,690	3,217,547

10. Share capital

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Authorised:		
2,500,000,000 (31 December 2017: 2,500,000,000) ordinary shares of HK\$0.1 (31 December 2017: HK\$0.1) each (note)	<u>250,000</u>	<u>250,000</u>
Issued and fully paid:		
1,677,261,976 (31 December 2017: 1,677,261,976) ordinary shares of HK\$0.1 (31 December 2017: HK\$0.1) each	<u>167,726</u>	<u>167,726</u>

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 of HK\$0.1 each by the creation of an additional 500,000,000 new shares of HK\$0.1 each on 27 December 2017.

A summary of the movement in the Company's issued share capital and share premium account during the six months ended 30 June 2018 and 2017 is as follows:

	Number of ordinary shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2017	1,234,655,581	123,466	2,836,673	2,960,139
Issue of new shares (notes a and b)	<u>107,154,000</u>	<u>10,715</u>	<u>526,882</u>	<u>537,597</u>
At 30 June 2017	<u>1,341,809,581</u>	<u>134,181</u>	<u>3,363,555</u>	<u>3,497,736</u>
At 1 January 2018 and 30 June 2018	<u>1,677,261,976</u>	<u>167,726</u>	<u>4,665,095</u>	<u>4,832,821</u>

Notes:

- (a) 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 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. Subsequent to the issuance of 78,000,000 ordinary shares by the Company to Dragon City on 17 June 2016, on 26 April 2017, 71,940,000 ordinary shares were issued by the Company to Dragon City of HK\$5 per share.

- (b) On 5 September 2016, the Company entered into a subscription agreement with the directors, employees and a trust company (collectively named as “**Subscribers**”), pursuant to which the Subscribers have conditionally agreed to subscribe, and the Company has 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 the 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 18 January 2017, the Company issued 35,214,000 Subscription Shares at the subscription price of HK\$5.53 per share, for a total consideration of approximately, before expenses, HK\$194,733,000.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2018, DC Holdings adheres to the mission and prospects of “Digital China” and continues to transform itself from an integrated Information Technology services provider to a Data Technology services provider. Based on our extensive data resources and industrial experience in the area of industry informatization, DC Holdings starts with capital and technologies, relies on core capabilities such as Artificial Intelligence Technology and Big Data, and achieves several breakthroughs in key application scenarios of core industries such as Smart logistics, Sm@rt city, Smart finance and Smart health.

Meanwhile, to achieve long-term sustainable targets, DC Holdings has been improving and optimizing our internal corporate governance and business processes, establishing and improving scientific assessment system and risk control system. We will be bringing onboard professionals and continue to establish and enhance the professional level of the team with reference to international standard.

Results review: IT services (DCITS) and Smart Logistics businesses are driving revenue growth and the return to profitability

For the first half of 2018, revenue amounted to approximately HK\$6,986 million, representing an increase of HK\$1,253 million, and a year-on-year growth of 21.86% compared to the corresponding period of last financial year (six months ended 30 June 2017). The increase in turnover was mainly driven by the continued growth of IT services and Smart Logistics during the period. Gross profit increased by 11.26% to HK\$1,283 million compared to last financial year, and the gross profit margin was 18.37%. During the reporting period, the profit attributable to shareholders of the parent company was approximately HK\$137 million, a significant improvement from the loss of approximately HK\$452 million in the last financial year.

1.1. Breakthrough in applying AI Technology and Big Data Technology

1.1.1. The establishment of Smart Logistics and Smart Warehouse by “Human + Robot” business model

Instant Technology Logistics under DC Holdings has utilized AI Technology, and further promoted and upgraded the automatic sorting system of our self-developed business application model “Human + Robot”.

Being the first “goods-to-person” logistic sorting model in China, it has passed the elasticity test for the maximum order in the industry. The “Human + Robot” business model has adopted a sorting method by smart robotic operations together with a programmed manual work process, in order to satisfy the demand in high-volume operating environment with zero tolerance to errors. Under this new business model, about 40% of labor resources can be saved and selection handling efficiency per staff has been increased by 2 to 3 times. Several patents have been already applied.

With the technology upgrade, the application of “Human + Robot 2.0” has been recently commenced in Pinggu warehouse (平穀倉), Beijing. Being the first 3D high-density robotic Smart Warehouse in China, Instant Technology Logistics has applied the AI-driven orbital robot technology, of which the robot can operate at an elevated platform, as opposed to traditional robotic operation on the ground. Being able to fully utilize all three dimensions in the warehouse area is a very substantial breakthrough, leading to maximizing the efficiency of the warehouse. This is the first 3D high-density robotic Smart Warehouse in China, and has become the milestone in the history of smart automation in e-commerce and logistics.

1.1.2. “SHINEFLY” smart medical platform, a safe and reliable medical Big Data cloud application platform for medical institutions

Digital China Health Technologies Co., Ltd. (hereinafter referred to as “DC Health”), a company strategically invested by DC Holdings, has jointly launched “SHINEFLY”(神飛雲), a cloud-based precision healthcare platform driven by computerized smart diagnosis and AI Technology, with Philips. This has provided a safe and reliable medical Big Data cloud application platform for medical institutions. DC Health has provided “Shenbeikang”(神貝康) gene sequencing analysis platform for molecular diagnostic center at Children’s Hospital of Fudan University, which can conduct family analysis of Whole Exome Sequencing for the sick children and can provide genetic test reports, which would assist doctors to quickly and accurately make diagnosis. In the fourth session of Intel Life Science Information Technology Forum, DC Health was awarded the “Best Application Award”, an endorsement to DC Health’s track record in Precision Healthcare based on Big Data technology. During the reporting period, DC Health successfully completed its Series A Round funding with a group of new investors including leading Chinese and international institutional investor, achieving a post-investment valuation of approximately HK\$3.8 billion (RMB3.2 billion).

1.1.3. Yanyun DaaS is driving China’s Big Data strategy, breaking down isolated information islands

Beijing Internetware Limited, a company invested by DC Holdings and Peking University, has achieved remarkable results this year. Yanyun DaaS took the lead in adopting data interoperability, eliminating the issue with isolated information islands that restrict the development of Internet+Government Services, and realizing interconnection between systems and data sharing. In May 2017, the State Council passed the “Notice of the General Office of the State Council on Printing and Distributing the Implementation Plan for the Integration and Sharing of Government Information Systems” (hereinafter referred to “Circular 39”), and in June 2018 issued the guideline “Intensifying Internet+Government Services and the reform initiative to simplify government service provisions with only One Internet Portal, One Government Unit and One Procedure”(《關於進一步深化「互聯網+政務服務」推進政府服務「一網、一門、一次」改革實施方案》). These policy documents clearly set a schedule for local governments to accelerate the pace of information integration and sharing of information systems, presenting a huge business opportunity for Yanyun DaaS due to its leading big data resource management technology. Yanyun DaaS technology has been applied in 12 central ministries and 27 provinces, municipalities and autonomous regions, including the State Administration, Xinhua News Agency, the Ministry of Human Resources and Social Security, and government big data project in major cities in Zhejiang, Shandong, Guizhou, Shenzhen, Sichuan etc. The project has eliminated more than 5,000 government isolated information islands and has connected databases previously stored in fragmented and regionalized formats.

Yanyun DaaS has so far been the only product which has won the Special Invention Award by the China Electronics Society. It has been rated by professional experts as a “major disruptive inventions and innovations” in the field of information system interoperability technology. In the first half of the year, Internetware was also awarded the 2018 China E-Government Service Innovation Award, the “Galaxy Award” for Excellent Big Data Product, and the 2018 China Internet + Public Service Excellent Service Supplier.

1.1.4. X-DATA Smart Logistics Big Data platform empowers logistic industry

X-DATA System is a Big Data application platform self-developed by Instant Technology Logistics under DC Holdings based on its years of experiences. It is used for collection, supervision and in-depth data mining in aspect of procurement in supply chain, inventories, operation within warehouse, transportation and after-sale services, and enjoys a leading position in accumulation of Big Data in B2B logistic industry. Throughout the data collection process, the precise analysis on customers has greatly improved the service quality on upstream and downstream customers in the supply chain and enhanced customer retention. In the future, the Company will actively consider re-organizing the logistic Big Data operation as an independent business in the commercial market and launch the cloud service based on X-DATA. With the increasing number of users, continuous expansion in logistic Big Data and extensive data dimension, it has provided highly valued information resources and business foundation for application scenarios such as industrial market analysis and financial risk control in supply chain.

2.1. Smart Logistics Business (Instant Technology Logistics 科捷物流): a leading supply chain management brand in China, practicing its core strategy of “Warehouse+Big Data+AI Technology”. Based on a network of 231 nationwide warehouse facilities, and reliance on logistics management system of its own intellectual property right and supply chain Big Data application platform X-DATA, we can provide customized one-stop supply chain services for our customers and hence the Company can enjoy a leading position in IT, communication and e-commerce logistics industries.

During the reporting period, the Smart Logistics business continued to focus on developing businesses with key customers in various sectors in order to swiftly expand its market shares. For the first half of 2018, the Smart Logistics business recorded overall turnover of HK\$1,719 million, an increase of 48.48% over the same period last year. The overall gross profit margin was 14.69%. The three principal units of the Smart Logistics business, e-Commerce Supply Chain services, Logistics services and Maintenance services, accounted for 40.66%, 54.39% and 4.95% of the turnover, respectively.

2.1.1. e-Commerce Supply Chain Business

During the reporting period, the turnover of e-commerce supply chain business continued to maintain a high growth rate of 41.55%, and gross profit increased by 50.71%. The middle office support business of e-commerce supply chain is highly recognized by customers, with its business operation expanding rapidly. The services provided to Huawei Technology have been expanding from online operations to offline stores and from mobile phones to smart products. As a result, we see business growth despite the general downturn in the mobile phone market. Dell's e-commerce business, launched with multi-platform online stores, saw its business scale up rapidly. The operation of Panasonic Lighting (松下照明) has been launched, achieving breakthrough in sales volume during the “618” marketing campaign.

2.1.2. Logistics Business

During the reporting period, the turnover of the logistics business increased significantly by 62% and the gross profit increased by 83.69% compared to the corresponding period of last financial year. Both turnover and gross profit have been significantly improved.

In the B2B logistics segment, we have deepened the cooperation with key corporate clients such as Xiaomi, Schneider, China Mobile and Geely. In the B2C logistics segment, the businesses coverage has been expanding from the brand flagship stores to international businesses, as well as TMall businesses, and the order per day increased by 206%.

Logistics software has become a new source of profit for the Smart Logistics business. Digital China Gold Storage logistics software set, composed of WMS\TMS\OMS\BMS (warehousing, transportation, order and accounting management), has comprehensive functions and complete proprietary intellectual property rights. With years of practical experiences in the front-line operation being incorporated into the design of the system, the logistic software is well-recognized by customers and now has been offered to external clients in the commercial markets. The client base includes both the domestic and foreign Fortune 500 major customers such as Panasonic and Yangquan Coal (陽泉煤礦). This satisfies market demand for logistics software that can deal with complicated logistic planning processes with multiple scenarios.

As a leading brand in supply chain management, Instant Technology Logistics has received major awards in

relation to its performance in e-commerce and awarded honors such as China's Model Enterprises for Smart Logistics (中國智慧物流示範單位). Instant Technology Logistics has a comprehensive set of knowledge in managing and controlling transportation resources, with an in-depth coverage in 3300 cities and towns, 231 storage centers in China, and a warehouse portfolio with area of over 1 million square meters. It is one of the few service providers in China which can provide both B2B and B2C integrated services in warehousing at the same time.

2.1.3. Maintenance Services

As a leading maintenance service provider to original manufacturers, our Maintenance Services Business has continued to enhance its capability to serve multiple manufacturers. The allocation of our nationwide service network has been enhanced. We have also optimized the management of our onsite services to enhance customer experience and service quality. In the second half of the year, the market share of maintenance business will continue to expand. There will be further business development with manufacturers on exclusive engagement and exploration in low-cost and high-efficiency of new online-to-offline (O2O) delivery model.

2.2. Sm@rt City Business: Sm@rt City solution based on in-depth application of city Big Data has been launched and executed nationwide in China

Sm@rt City business has currently covered more than 100 million population, and our Sm@rt City solutions have been operated in 116 cities and more than 50 provinces and municipalities in China. After the issuance of Notice of the General office of the State Council on Implementation Plan of Integration and Sharing of Publication Government Information System, DC Holdings is promoting the Sm@rt City 3.0 model based on in-depth application of city Big Data and integration among city management and industries. Yanyun DaaS, our proprietary deep-web data extraction technology could break down the isolated information islands prevailing in legacy systems, greatly promote the information sharing and exchange, as well as further integrate the Big Data with all aspects of production to solve a series of issues such as healthcare, transportation, energy supply, emergency rescue and social security to support the economy.

During the reporting period, Sm@rt City 3.0 model has been applied nationwide. Meanwhile, the construction of city Big Data platform has been further promoted, including the city Big Data platform in Tongren city (銅仁市), Guizhou Province, the construction of internet cluster area "New Smart CBD" in Pazhou (琶洲), Guangzhou, and smart water foundation system in Guangzhou, Big Data platform project in Cangzhou, Hebei Province, the development of comprehensive citizen service platform "eLongyan" (e 龍岩) in Longyan city (龍岩市), Fujian Province, the launch of comprehensive citizen service platform "In Yantian" (在鹽田) in Yantian District, Shenzhen, and the launch of online comprehensive lease service operation platform "C1YJ" (城壹宜居) in Guangzhou. These projects provide practical benefits and effective support for local governments in government affairs management and citizen services.

Moreover, DC Holdings is driving the Sm@rt City business in Hong Kong, Macau and countries in "The Belt & Road" regions. We have responded proactively to "The Sm@rt City Blueprint for Hong Kong" advocated by the Hong Kong government and participated in Hong Kong Sm@rt City projects. DC Holdings has integrated our Sm@rt City concept with Big Data technology, making contribution to the urban management of Hong Kong. In April 2018, DC Holdings successfully acquired Wai On Services Limited (hereinafter "**Wai On**"), an IT service provider with experiences in providing solutions for large scale projects of the Hong Kong government and multinational enterprises. Wai On has comprehensive Microsoft cloud solution technology and extensive project experience in finance, government services, industrial and transportation sectors. We see the acquisition of Wai On as an important milestone, as it has provided a new impetus to promote Sm@rt City in Hong Kong, Macau and "The Belt & Road" countries and achieved resources integration and optimized distribution. DC Holdings and Wai On will continue to cooperate with the Hong Kong government and the Hong Kong University of Science and Technology in order to promote the Sm@rt City technology research projects in aspect of environment, transportation and finance.

In June 2018, the Scity (智慧神州) under DC Holdings served as a core member of national standard setting body of Sm@rt City and participated in the formation of: "GB/T 36333-2018 Sm@rt City Top-level Design Guideline" (GB/T 36333-2018 智慧城市頂層設計指南) and "Sm@rt City Domain Knowledge Model Core Concept Model" (智慧城市領域知識模型核心概念模型) (GB/T 36332-2018), which have been

published by the Standardization Administration of the PRC and will be officially implemented on 1 January 2019. Those two standards have set the best practices for Sm@rt City 3.0, and indicate that DC Holdings has become the standard setter and leader of China's Sm@rt City top-level designs.

2.3. IT Service Business (DCITS): a leading IT service provider in China's information technology industry, focusing on services such as proprietary software, service, Cloud Computing and Big Data analysis, with a strategic focus on financial technology area

In the first half of 2018, based on its Big Data strategy, DCITS (IT Services Business) continued to make progress in strategic businesses such as Big Data, quantum communication, financial technology and smart maintenance. During the reporting period, DCITS reported turnover of HK\$4,998 million, an increase of 20.09% over the same period last year. The business gross profit margin reached 18.61%, a slight decrease of 0.15 percentage points compared with the same period of last year. The profit attributable to shareholders of the parent company was HK\$332 million, an increase of HK\$225 million compared with the previous year's HK\$107 million.

2.3.1. Business expansion by leveraging existing advantages in financial technology

In recent years, the emergence and application of new technologies such as Cloud Computing, Big Data, AI Technology and Blockchain have greatly improved the operational efficiency of financial institutions. The adoption of new disruptive technologies by financial institutions presents new opportunities for the industry. According to the forecast from IDC, the market size of IT solutions for banks can reach RMB90 billion in 2022, with annual compound growth rate of more than 20%. As the market develops, the adoption of new financial technologies by customers has become increasingly apparent. Being the earliest explorer in driving the bank informatization business, the Company owns extensive proprietary technologies in a controllable format, having accumulated extensive experience in servicing customers. These would continue to set up the scenes to apply financial technologies. The Company always leads the development of the industry, maintaining its leading position.

During the reporting period, the Company has signed up four financial institutions such as the Export-Import Bank of China, Shanghai Pudong Development Bank and Ping An One Account Management Services (平安一賬通) for its core banking system and distributed platform, with a market share of 50%. Three among those financial institutions use the new generation of distributed system. The key features of the Company's distributed core products are scalability and economic usage. This could satisfy banks' demand to maintain a high degree of control over the systems. The new products are expected to gradually replace the traditional core banking systems and we have seen our customers base gradually expand from small-to-medium sized banks to large-scale joint-stock banks. The distributed structure has been widely recognized by customers in the bank sector. The Company has signed up nine customers such as ChinaBond and Industrial Bank for its Enterprise Service Bus ("ESB"), which continues to maintain the leading position in the market and becomes the sole player in state-owned and joint-stock bank markets, serving more than 70 customers. Meanwhile, the Company also promotes distributed ESB products such as Enterprise Service Cloud ("ESC") in order to reinforce its leading position. As a key application for banks to achieve digital transformation, ESB can connect various application systems of the banks together so that each system can be mutually accessible to each other, solving issues commonly seen in traditional integrated front-end systems such as stability issue and poor performance, as well as the difficulty in organizing a large-scale clustered operation. The Company's Internet solution has achieved massive breakthrough in serving the top five largest banks: the Internet open platform was signed up with six major customers such as China Construction Bank. By constructing a service open platform, making Open API (Application Programming Interface) available for the external developers, and fully enable banks' capabilities, such solution has become the best practice in solving financial issues. The Company has signed up major customers such as ICBC for our Internet financial platform, which can help banks to solve various business and technical issues arising from traditional IT application and Internet application, and provide assistance in commencing various types of internet finance business. Such solution has gained further recognition by the market. The Company's smart bank solutions enjoyed an explosive growth in the first half of year 2018, and has signed up the bank counter system of Bank of Guangzhou and Haikou United Rural Commercial Bank (海口聯合農村商業銀行). By applying smart technologies such as electronic voucher and biometrics, our solutions are accelerating the transformation towards paperless and intelligent operations in banking centers, shortening the distance between banking centers and customers, reconstructing experiences of services in banking centers and assisting the transformation and upgrade of banking centers. Besides that, the Company is highly recognized,

receiving multiple awards: the Company's distributed bank core system was awarded the "Top 10 Outstanding Product Award" by the 23th International Software China Conference (第二十三屆中國國際軟件博覽會). The Company also ranks the first in Bank Sector Core System and Channel Management System by IDC for six consecutive years.

2.3.2. Leading FinTech development by applying technology into practical scenarios

During the reporting period, Digital China Financial Cloud Service (融信雲) entered into strategic and capital partnership with JD Finance (京東金融). Using the financial cloud of the Company as a platform, we provide FinTech services to small and medium banks, leveraging not only the advantages of financial cloud in system building and operation services, but also the leading position of JD Finance in risk management, internet business platform and financial products, so as to assist small and medium banks to kickstart their internet finance business. We also make use of this opportunity to explore a new business model which connects our customers and expands our platform, making the financial technology business enter into a new stage. The Company conducted more extensive FinTech attempts by using the cooperation between the Company and JD Finance as a breakthrough, leveraging on the customers, application scenarios, data and human resources accumulated by the Company in the financial industry over the past 30 years, as well as combining the Company's data, industry know-how and algorithm capability in agricultural, industrial, supply-chain, taxation, and commercial sectors. While actively embracing new technologies, the Company keeps on exploring and realizes the application of artificial intelligence, blockchain, cloud computing and big data in the financial sector. Meanwhile, the Company also tries to use the existing financial IT business and risk management service as a foundation to consolidate its internal industrial data and scenes, thereby equipping small and medium banks by using our FinTech and assisting those banks to enhance their inclusive finance ability in a short time.

2.4. Smart Finance Business: Enabling DC Holdings' industry chain

Leveraging its own licenses for Internet small loan, commercial factoring and financial leasing, Smart Finance integrates resources of financial institutions, such as banking, insurance, securities and trust, utilizes the mobile internet, Big Data, AI and blockchain technology. The Smart Finance business provides the whole process and whole value chain customized financial service solutions, financial product design and financial resource allocation, empowering companies' major business, particularly Sm@rt City and Smart Logistics.

In the first half of 2018, we cooperated with the Sm@rt City business segment to create a new "Internet+Administration+Finance" citizen integrated service model, providing multi-scene financial services such as house leasing and consumer spending. At the same time, we collaborate with the smart logistics business segment to create supply chain financial products, based on X-DATA big data risk management+ blockchain technology, for the upstream and downstream manufacturers, dealers and end retailing customers of the Smart Logistic business segment services.

2.5. Strategic Investment Business: Breakthrough in the applying Big Data technology to health and manufacturing industry

2.5.1. Smart Health business:

Products of DC Health under DC Holdings have been gradually turning their technologies into effective uses in practical application scenarios.

SHINEFLY (神飛雲), jointly promoted by DC Health and Phillips, is a leading cloud-based precision healthcare platform driven by computer-aided diagnoses and AI Technology. It provides a safe and reliable big data application platform with customized and extendable cloud solutions for medical institutions. In addition, DC Health has strengthened the cooperation with medical institutions on clinical applications. During the reporting period, DC Health has already established cooperation in respect of clinical applications with three national medical institutions, including the Cancer Hospital, Chinese Academy of Medical Sciences, Peking Union Medical College Hospital and Children's Hospital of Fudan University and started research and information exchange with China National Cancer Centre and National Cancer Registration and Analysis Service in the United Kingdom in respect of jointly advancing the establishment of oncology big data platform by China and the United Kingdom. DC Health established in-depth cooperation with Congenica, a leading developer of genome analytics, in respect of the effective and precise analysis of clinical data and genome data.

2.5.2. Smart Manufacturing Business:

DC Holdings established iSESOL jointly with Shenyang Machine Tool Co., Ltd. and Everbright Financial Holding and launched the iSESOL industrial internet platform. The iSESOL industrial internet platform generates industrial data services based on the manufacturing process through the interconnection with smart devices, and realize a new form of manufacturing industry through the effective connection of industrial supply and demand, productivity synergy and customization, which effectively enhance the equipment utilization rate and improve the competitiveness of the manufacturing sector in China.

During the reporting period, the service of iSESOL industrial internet platform has covered 26 provinces and 161 cities, and has served over 3,000 corporate customers, connected more than 10,700 smart devices and with accumulated service hours of over 3,400 thousand hours.

In February 2018, the iSESOL industrial internet platform passed the “First batch of Industrial Internet Platform Reliable Service Assessment Certification” of the Ministry of Industry and Information Technology, and became one of the first five platforms providing reliable industrial internet cloud services, being the only industrial internet platform among them that focuses on the area of machining.

3. Outlook: Adherence to the mission of “Digital China” and empowering different industries

In the digital era with Big Data Technology as the key element of success, DC Holdings, as a leading Big Data technology service provider, will continue to adhere to “Digital China” as our mission, and proactively prepare ourselves for various core industries such as Sm@rt City, Smart Health, Smart Logistics, Smart Manufacturing and Financial Technology relying on Big Data and Artificial Intelligence (AI). We are seeking a type of ecosystem with high level of crossover between technology and finance, city infrastructure, culture and commerce, which helps realize the sustainable development of the harmony between the industry and resident, enterprises and people. Looking forward, DC Holdings will adhere to the original aspiration of “Digital China”, strive to promote the opening up and integration of the industry, empower the digitalization of corporations through Big Data and AI technology. While we strive for continuous growth of our business result, our profitability will further improve, enhancing the returns to our shareholders.

4. Corporate governance: Optimize the organization structure and business flow, and introduce high-end talents with an international vision to support the Company’s sustainable development.

The Company highly values the improvement of the governance structure composed of the Annual General Meeting, Board of Directors and Senior Management. Based on the principles of clearly defined rights and responsibilities, work division, coordination and effective checks and balances mechanism, we study, establish and continue to modify and improve the important elements of corporate governance, such as structural organization, business flow and power delegation policy. We also clarify the different roles and rights under the governance structure, established a corporate governance operation mechanism with scientific decision-making, effective supervision, and stable operation.

During the reporting period, the Company executed the adjustment and optimization of the organization and structure, and further improved the business flow and management system, strengthened the assessment system which combined the effectiveness and management, as well as the system supervision protection and risk control system, laying a solid foundation for promoting and implementing the strategic goals of the Company.

In the first half of 2018, the Company continued to put effort in team building, with the focus on the recruitment, training and deployment of highly-skilled talents. We optimize the staff allocation and enrich the management team to improve the general execution power of the team, push forward various measures to drive the company towards standardization and scientific management, improving management standard and efficiency.

5. Special update: Implementing settlement plans regarding certain wealth management plans purchased by the group

As disclosed in the announcement published by the Group on 28 June 2018, the Group has reached settlement arrangements (the “**Settlement Plans**”) with the issuer (the “**Issuer**”) in respect of certain wealth management plans purchased by the Group with an aggregate principal amount of approximately HK\$2.6 billion (RMB2.2 billion) (before impairment) (the “**WMP Plans**”) were due but were not repaid according to the agreed repayment schedule. In accordance with the Settlement Plans, among other thing, the WMP Plans have sold all interests in the relevant financial products held by the WMP Plans for a total consideration of HK\$0.65 billion (RMB0.55 billion). The consideration of the aforementioned disposal has been received by the Issuer and the Issuer has subsequently repaid a total amount of HK\$0.65 billion (RMB0.55 billion) worth of principal of the WMP Plans to the Company.

The remaining outstanding unpaid principal of the WMP Plans with a total amount of approximately HK\$1.95 billion (RMB1.65 billion) were invested in certain assets management plans and/or financial instruments, the ultimate underlying assets (the “**Underlying Assets**”) of which are certain debts and equity investments in a real estate project company and are secured by real estate properties owned by such project company (the “**Property Interests**”). Pursuant to a valuation issued by an independent valuer, the value of the Property Interests is sufficient to cover the principal and the interest of relevant debt investment. After consulting professional asset management firms and legal advisors, the disposal of the Property Interests does not have any substantial impediment. Pursuant to the Settlement Plans, the Group may give directions to the Issuer in connection with the management and disposal of the Underlying Assets.

Subsequent to the entry into the settlement arrangement and obtaining the power to direct and supervise the disposal plan (the “**Disposal Plan**”) relating to the Property Interests and equipped with a better understanding of the Property Interests, the Company has formed a task force composed of dedicated staff, senior lawyers and coordinated partners to accelerate the recovery of the WMP plans, working with the Issuer, the relevant project company and various professional parties to devise an action plan relating to the Disposal Plan. The Company has directed the Issuer that it shall take more proactive steps in managing the Underlying Assets and looking for potential buyers of the Property Interests.

The Company is also mindful that the execution of the Disposal Plan will also be subject to certain factors (including locating an appropriate purchaser and the negotiation of the purchase price). In order to ensure the recoverability of the WMP Plans, the Company plans to implement the Disposal Plan as soon as possible.

6. Awards and Honors

In the first half of 2018, DC Holdings won the honor of “Leading Government Big Data Service Providers in China 2017”. The Smart Cloud iSESOL Industrial Internet Platform under DC Holdings was selected as “China’s Top 10 Industrial Cloud Platform”. Internetwork Corporation Limited, which is under DC Holdings, was awarded “2018 Internet + Excellent Service Provider”. Instant Technology Logistics, a subsidiary of DC Holdings, was rated as AAAA logistics enterprise and selected as the “China’s Model Enterprises for Smart Logistics 2017”.

DCITS won the honors of “2017 China’s Most Influential Software and Information Service Enterprise”, “China IT Service Leadership in 2017” and “2018 China IT Service Innovation Industry Practice Award”, ranked third in the overall market for IT solutions in China’s banking industry. The core banking system business and channel management solutions are ranked first in the submarket (IDC 2017 Annual Report).

Mr. Guo Wei, Chairman and CEO of DC Holdings, was awarded the title of “2017 Zhongguancun Leading Entrepreneur”. This is another major honor that Mr. Guo Wei has won as a Chinese IT industry elite after being selected as one of the 40 “software celebrities” for the 40th anniversary of reform and opening-up.

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\$25,781 million at 30 June 2018 which were financed by total liabilities of HK\$12,689 million, non-controlling interests of HK\$3,847 million and equity attributable to equity holders of the parent of HK\$9,245 million. The Group's current ratio at 30 June 2018 was 1.30 as compared to 1.11 at 31 December 2017.

During the six months ended 30 June 2018, capital expenditure of HK\$60 million was mainly incurred for the acquisition of properties, office equipment and IT infrastructure facilities.

As at 30 June 2018, the Group had cash and bank balances of HK\$2,106 million, of which about HK\$1,977 million were denominated in Renminbi.

The aggregate borrowings of the Group as a ratio of equity attributable to equity holders of the parent was 0.73 at 30 June 2018 as compared to 0.87 at 31 December 2017. The computation of the said ratio was based on the total interest-bearing bank and other borrowings of HK\$6,724 million (31 December 2017: HK\$7,881 million) and equity attributable to equity holders of the parent of HK\$9,245 million (31 December 2017: HK\$9,110 million).

At 30 June 2018, the denomination of the interest-bearing bank and other borrowings of the Group was shown as follows:

	Denominated in United States dollars HK\$ '000	Denominated in Renminbi HK\$ '000	Denominated in Hong Kong dollars HK\$ '000	Total HK\$ '000
Current				
Interest-bearing bank borrowings, unsecured	194,207	1,083,606	247,525	1,525,338
Interest-bearing bank borrowings, secured	-	1,937,850	-	1,937,850
	<u>194,207</u>	<u>3,021,456</u>	<u>247,525</u>	<u>3,463,188</u>
Non-current				
Interest-bearing bank borrowings, unsecured	-	65,135	-	65,135
Interest-bearing bank borrowings, secured	-	2,599,510	-	2,599,510
Corporate bond	-	595,933	-	595,933
	<u>-</u>	<u>3,260,578</u>	<u>-</u>	<u>3,260,578</u>
Total	<u>194,207</u>	<u>6,282,034</u>	<u>247,525</u>	<u>6,723,766</u>

Certain of the Group's bank borrowings of:

1. HK\$3,199 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\$4,097 million at 30 June 2018;
2. HK\$1,338 million extended by financial institutions to certain subsidiaries of the Group were secured by pledge of 240,490,000 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\$3,782 million at 30 June 2018; 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 30 June 2018.

Included in the Group's current and non-current bank borrowings of HK\$419 million and HK\$3,261 million respectively represented the long-term loans which are repayable from the year 2018 to year 2027. All of the Group's bank borrowings were charged at floating interest rates except for the loan balances with an aggregate amount of HK\$3,724 million which were charged at fixed interest rates as at 30 June 2018.

In August 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 principal amount of RMB500 million (equivalent to approximately HK\$592 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.

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 of 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 available credit facilities of the Group at 30 June 2018 amounted to HK\$13,148 million, of which HK\$4,485 million were in long loan facilities, HK\$4,209 million were in trade lines and HK\$4,454 million were in short-term and revolving money market facilities. At 30 June 2018, the facility drawn down was HK\$3,214 million in long loan facilities, HK\$904 million in trade lines and HK\$1,800 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 an associate, 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\$206,066,000 as at 30 June 2018.

- (b) On 14 November 2017, 太極計算機股份有限公司(“太極計算機”) 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. On 13 July 2018, DC Rongxin entered into a settlement agreement with 太極計算機 pursuant to which DC Rongxin is required to pay the total outstanding amount of RMB4,650,000, save as provided above, DC Rongxin has no further obligations therein.
- (c) On 14 July 2017, 大唐軟件技術股份有限公司 (“**大唐軟件**”) 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. On 27 June 2018, the Court gave a judgement of the first instance to reject all demands in the lawsuit. On 20 July 2018, 大唐軟件 submitted an appeal to the Beijing No. 1 Intermediate People’s Court, and the second instance has been formally opened.

Capital Commitment

At 30 June 2018, the Group had the following capital commitments:

	<i>HK\$’000</i>
Land and buildings	178,518
Capital contributions payable to joint ventures	50,924
Capital contributions payable to associates	6,238
Capital contributions payable to financial assets at fair value through other comprehensive income	155,057
	<u>390,737</u>

Human Resources

At 30 June 2018, the Group had approximately 11,800 (30 June 2017: approximately 11,000) full-time employees. The majority of these employees work in the PRC. The Group offers remuneration packages in line with industry practice. Employees’ remuneration includes basic salaries and bonuses. The Group has recorded a 6.02% decrease in staff costs to approximately HK\$1,155 million for the six months ended 30 June 2018 as compared to approximately HK\$1,229 million for the corresponding period of the last financial year. In order to attract and retain a high caliber of capable and motivated workforce, the Company offers share-based incentive schemes to staff based on the individual performance and the achievements of the Company’s targets. The Group is committed to providing its staff with various in-house and external training and development programs.

Update on the use of proceeds from the Rights Issue

In September 2017, the Company completed a rights issue (the “**Rights Issue**”) and raised funds of approximately HK\$1.34 billion. The table below set out the use of net proceeds (the “**Net Proceeds**”) from the Rights Issue:

Intended use of the net proceeds from the Rights Issue	Net proceeds	Actual application as at 31 December 2017	Un-utilised amount as at 31 December 2017	Actual application for the six months ended 30 June 2018	Un-utilised amount as at 30 June 2018
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
(i) financing the Healthcare Big Data Investment or any other potential investments and acquisitions as and when any suitable opportunity is identified	782	(54) ¹	728	(157) ¹	571
(ii) repayment of debt and interest expenses					
(a) repayment of principal and interest expenses to Bank of Jiangsu Co., Ltd. (江蘇銀行股份有限公司) due in October 2017	183	(183)	-	-	-
(b) repayment of principal and interest expenses to Western Securities Co., Ltd. (西部證券股份有限公司) due in October 2017	286	(286)	-	-	-
(iii) general working capital purposes	84	(84)	-	-	-
Total	1,335	(607)	728	(157)	571

Note 1: As at the date of this announcement, the Healthcare Big Data Investment is still at its preliminary discussion stage and no legally binding agreement has been entered into by the Group. As at 30 June, 2018, an aggregate of HK\$211 million has been used as investments and acquisitions in relation to the Sm@rt City and other innovation related business.

The Company does not have any intention to change the purposes of the Net Proceeds as set out in the Rights Issue prospectus dated 23 August 2017, and will gradually utilize the un-utilised amount of the Net Proceeds in accordance with the intended purposes mentioned above.

For further details of the Rights Issue, please refer to the announcements dated 21 July 2017, 24 August 2017 and 15 September 2017, the rights issue prospectus dated 23 August 2017 and the annual report for the year ended 31 December 2017 of the Company.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) currently comprises three Independent Non-executive Directors, namely Mr. WONG Man Chung, Francis (who is the Chairman of the Audit Committee), Ms. NI Hong (Hope) and Ms. YAN Xiaoyan. 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 information of the Group for the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions (the “**Code Provision(s)**”) 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 “**Stock Exchange**”) (the “**Listing Rules**”) throughout the six months ended 30 June 2018, except the following deviations from certain Code Provisions with considered reasons as given below:

***Code Provision A.2.1** stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.*

Mr. GUO Wei was appointed as the Chairman of the Board since December 2007 and re-appointed as the Chief Executive Officer of the Company on 8 June 2018. Mr. GUO Wei has extensive experience in business strategic development and management and is responsible for overseeing the whole business, strategic development and management of the Group. The Board believes that the dual roles of Mr. GUO Wei will facilitate the consistency between the setting up and the implementation of the business strategy and benefit the Group and the shareholders of the Company (the “**Shareholder(s)**”) as a whole.

***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 new bye-laws of the Company (the “**New 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 New Bye-Laws has given the Shareholders 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 New 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 the listed 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 New 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. Listed 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 letter of appointment with its any Non-executive Directors or Independent Non-executive Directors. However, the Board recognises 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, 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 standards as set out in the Model Code throughout the six months ended 30 June 2018.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

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 2018.

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

Hong Kong, 29 August 2018

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

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

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. KING William

Website: www.dcholdings.com.hk

** For identification purpose only*