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神州控股
DC Holdings

DIGITAL CHINA HOLDINGS LIMITED
(神 州 數 碼 控 股 有 限 公 司*)
(*Incorporated in Bermuda with limited liability*)
(Stock Code: 00861)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

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 2019 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 2019

	Notes	**Six months ended 30 June 2019 (Unaudited) *HK$'000***	2018 (Unaudited) *HK$'000* *(Restated)*
REVENUE	*3*	**7,569,721**	7,029,951
Cost of sales and services		**(6,210,828)**	(5,731,770)
Gross profit		**1,358,893**	1,298,181
Other income and gains	*3*	**94,348**	560,167
Selling and distribution expenses		**(602,247)**	(621,751)
Administrative expenses		**(182,494)**	(166,182)
Other expenses, net		**(402,764)**	(621,360)
Finance costs		**(117,117)**	(109,377)
Share of loss of joint ventures		**(3,232)**	(5,126)
Share of (loss) profit of associates		**(46,927)**	3,115
PROFIT BEFORE TAX	*4*	**98,460**	337,667
Income tax expense	*5*	**(10,630)**	(12,657)
PROFIT FOR THE PERIOD		**87,830**	325,010
Attributable to:			
Equity holders of the parent		**264**	138,583
Non-controlling interests		**87,566**	186,427
		87,830	325,010
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	*6*		
Basic (HK cents)		**0.02**	8.26
Diluted (HK cents)		**0.02**	8.26

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
PROFIT FOR THE PERIOD	**87,830**	325,010
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation of financial statements of foreign operations	**1,587**	8,607
Share of other comprehensive income of associates	**8,034**	18,522
Other comprehensive income may be reclassified to profit or loss in subsequent periods	**9,621**	27,129
Other comprehensive income (loss) not be reclassified to profit or loss in subsequent periods:		
Net fair value changes on financial assets measured at fair value through other comprehensive income *(loss)*	**4,157**	(18,346)
Other comprehensive income (loss) will not be reclassified to profit or loss in subsequent periods	**4,157**	(18,346)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**13,778**	8,783
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**101,608**	333,793
Attributable to:		
Equity holders of the parent	**12,320**	131,188
Non-controlling interests	**89,288**	202,605
	101,608	333,793

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Notes	30 June 2019 (Unaudited) HK$'000	31 December 2018 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**956,437**	1,017,356
Right-of-use assets		**239,223**	-
Investment properties		**4,730,082**	4,712,932
Prepaid land premiums		**-**	65,035
Goodwill		**2,057,937**	2,057,937
Other intangible assets		**161,380**	161,520
Interests in joint ventures		**189,960**	197,662
Interests in associates		**3,391,695**	3,427,004
Financial assets at fair value through other comprehensive income		**441,197**	427,293
Finance lease receivables		**2,520**	6,204
Prepayments, deposits and other receivables		**924,635**	924,635
Deferred tax assets		**174,551**	175,710
Total non-current assets		**13,269,617**	13,173,288
CURRENT ASSETS			
Inventories		**969,050**	1,052,773
Properties under development		**250,501**	250,501
Completed properties held for sale		**23,093**	23,093
Accounts and bills receivables	*7*	**5,344,273**	4,889,158
Prepayments, deposits and other receivables		**1,549,670**	1,224,466
Contract assets		**1,350,219**	1,151,469
Financial assets at fair value through profit or loss		**607,113**	1,286,340
Finance lease receivables		**90,564**	162,597
Restricted bank balances		**55,501**	69,617
Cash and cash equivalents		**1,571,374**	2,204,872
Total current assets		**11,811,358**	12,314,886
CURRENT LIABILITIES			
Accounts and bills payables	*8*	**3,864,312**	3,212,562
Other payables and accruals		**1,385,060**	1,656,352
Lease liabilities		**102,945**	-
Contract liabilities		**1,097,314**	1,612,372
Tax payable		**12,809**	43,625
Interest-bearing bank and other borrowings		**3,392,685**	3,592,314
Total current liabilities		**9,855,125**	10,117,225
NET CURRENT ASSETS		**1,956,233**	2,197,661
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,225,850**	15,370,949

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2019

	Note	**30 June 2019 (Unaudited)** ***HK$'000***	31 December 2018 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**2,325,172**	2,606,352
Deferred tax liabilities		**344,647**	339,004
Deferred income		**25,473**	28,897
Lease liabilities		**60,430**	-
Total non-current liabilities		**2,755,722**	2,974,253
NET ASSETS		**12,470,128**	12,396,696
CAPITAL AND RESERVE			
Share capital	*9*	**167,098**	167,726
Reserves		**8,679,396**	8,682,617
Equity attributable to equity holders of the parent		**8,846,494**	8,850,343
Non-controlling interests		**3,623,634**	3,546,353
TOTAL EQUITY		**12,470,128**	12,396,696

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 30 June 2019

	Attributable to equity holders of the parent													
	Issued 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*	Investment revaluation reserve (Unaudited) *HK$'000*	Other reserve (Unaudited) *HK$'000*	Reserve funds (Unaudited) *HK$'000*	Exchange fluctuation reserve (Unaudited) *HK$'000*	Retained earnings (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*	Non-controlling interests (Unaudited) *HK$'000*	Total equity (Unaudited) *HK$'000*
At 1 January 2019	167,726	4,665,095	1,893,117	(21,571)	54,917	480,980	43,078	(1,326)	426,875	(212,913)	1,354,365	8,850,343	3,546,353	12,396,696
Profit for the period	-	-	-	-	-	-	-	-	-	-	264	264	87,566	87,830
Other comprehensive income (loss) for the period:														
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	1,556	-	-	-	-	1,556	2,601	4,157
Exchange differences arising on translation of financial statements of foreign operations	-	-	-	-	-	-	-	-	-	(539)	-	(539)	2,126	1,587
Share of other comprehensive income (loss) of associates	-	-	-	-	-	-	8,543	-	-	2,496	-	11,039	(3,005)	8,034
Total comprehensive income for the period	-	-	-	-	-	-	10,099	-	-	1,957	264	12,320	89,288	101,608
Shares buy-back *(note9)*	(628)	(21,237)	-	-	-	-	-	1,326	-	-	-	(20,539)	-	(20,539)
Share-based compensation	-	-	-	-	4,370	-	-	-	-	-	-	4,370	-	4,370
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	14,377	14,377
Capital reduction by a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(3,495)	(3,495)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(22,889)	(22,889)
At 30 June 2019	167,098	4,643,858	1,893,117	(21,571)	59,287	480,980	53,177	-	426,875	(210,956)	1,354,629	8,846,494	3,623,634	12,470,128

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
As at 30 June 2019

	Attributable to equity holders of the parent (Restated)												
	Issued 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$'000*	Investment revaluation reserve (Unaudited) *HK$'000*	Reserve funds (Unaudited) *HK$'000*	Exchange fluctuation reserve (Unaudited) *HK$'000*	Retained earnings (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*	Non-controlling interests (Unaudited) *HK$'000*	Total equity (Unaudited) *HK$'000*
At 31 December 2017 as originally stated	**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**
Effect of changes in accounting policies	-	-	-	-	-	-	16,329	5,459	-	-	(117,198)	(95,410)	(41,042)	(136,452)
At 1 January 2018 as restated	**167,726**	**4,665,095**	**1,929,976**	**(21,571)**	**51,503**	**480,072**	**-**	**5,459**	**393,297**	**104,462**	**1,238,356**	**9,014,375**	**3,644,047**	**12,658,422**
Profit for the period	-	-	-	-	-	-	-	-	-	-	138,583	138,583	186,427	325,010
Other comprehensive income (loss) for the period:														
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	(17,449)	-	-	-	(17,449)	(897)	(18,346)
Exchange differences arising on translation of financial statements 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 (loss) for the period	-	-	5,061	-	-	-	-	(14,727)	-	2,271	138,583	131,188	202,605	333,793
Share-based compensation	-	-	-	-	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**	**-**	**(9,268)**	**393,297**	**106,733**	**1,376,939**	**9,104,663**	**3,803,021**	**12,907,684**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Operating activities		
Decrease in inventories	**54,381**	397,146
Increase in accounts and bills receivables	**(593,942)**	(320,245)
Increase (Decrease) in accounts and bills payables	**651,750**	(153,467)
Increase in other working capital and adjustments for non-cash transactions	**(710,693)**	(937,767)
Net cash used in operating activities	**(598,504)**	(1,014,333)
Investing activities		
Purchases of property, plant and equipment	**(13,342)**	(44,287)
Proceeds from disposal of property, plant and equipment	**3,856**	685
Additions to other intangible assets	**(24,239)**	(15,259)
Acquisition of a subsidiary	**-**	(12,300)
Disposal of a subsidiary	**-**	64,774
Proceeds from disposal of investments in associates	**25,306**	46,933
Dividend received from an associate	**25,413**	-
Investments in a joint venture	**-**	(4,737)
Investment in an associate	**(39,200)**	-
Investments in financial assets at fair value through other comprehensive income	**-**	(22,145)
Dividends income from financial assets at fair value through profit or loss	**475**	-
Proceeds from disposal of financial assets at fair value through profit or loss	**1,116,563**	712,635
Purchase of financial assets at fair value through profit or loss	**(446,553)**	(117,666)
Net cash from investing activities	**648,279**	608,633
Financing activities		
Shares buy-back	**(20,539)**	-
New bank and other borrowings	**2,994,217**	2,410,433
Repayment of bank and other borrowings	**(3,501,985)**	(3,346,123)
Repayment of corporate bonds	**-**	(236,642)
Interest paid	**(117,117)**	(109,377)
Dividends paid to non-controlling shareholders	**(22,889)**	(22,100)
Acquisition of non-controlling interests	**-**	(47,372)
Capital contribution from non-controlling shareholders of subsidiaries	**14,377**	1,184
Payment of lease liabilities	**(49,658)**	-
Capital reduction by a non-controlling shareholder of a subsidiary	**(3,495)**	(11,019)
Net cash used in financing activities	**(707,089)**	(1,361,016)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net decrease in cash and cash equivalents	**(657,314)**	(1,766,716)
Cash and cash equivalents at the beginning of the period	**2,204,872**	3,784,296
Effects of foreign exchange rate changes, net	**23,816**	52,812
Cash and cash equivalents at the end of the period	**1,571,374**	2,070,392
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows	**1,571,374**	2,070,392

NOTES:

1. Basis of preparation

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2019 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 statements, 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 2018 had been consistently applied except for adoption in the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, HKASs and interpretations). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to HKFFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*

Except as explained below, the adoption of these revised HKFRSs has had no significant financial effect on the unaudited condensed consolidated interim financial statements.

Impact on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described below. The Group has applied HKFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 17 Leases.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The major impacts of the adoption of HKFRS 16 on the Group's condensed consolidated financial statements are described below.

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was arranging from 4.46% to 6.18%. In addition, the previously recognised prepaid land premiums have been reclassified as part of the right-of-use assets.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments - the Group applied this approach to all leases.

The Group as lessor

The Group leases some of the properties. The accounting policies applicable to the Group as lessor are not different from those under HKAS 17.

The following table summarises the impact of transition of HKFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported at 31 December 2018	Impact on adoption of HKFRS 16	Carrying amount as restated at 1 January 2019
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)		(Unaudited)
Right-of-use assets	-	270,506	270,506
Prepaid land premiums	65,035	(65,035)	-
Prepayment, deposits and other receivables	2,149,101	(11,509)	2,137,592
Lease liabilities	-	193,962	193,962

Practical expedients applied

On the date of initial application of HKFRS 16, the Group has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) - 4 Determining whether an arrangement contains a lease,
- reliance on previous assessments on whether leases are onerous by applying HKAS 37 as an alternative to performing an impairment review,
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

Change in accounting policies

Definition of lease

Under HKFR 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

<u>Lease liabilities</u>
At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

<u>Right-of-use assets</u>
The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment property"

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, plant and equipment" policy as stated in the Group's annual consolidated financial statements for the year ended 31 December 2018.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Administrative expenses" in the condensed consolidated statement of profit or loss and other comprehensive income.

<u>Lease modification</u>
The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

<u>Allocation of consideration to components of a contract</u>
For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

The Group as lessor

<u>Allocation of consideration to components of a contract</u>
When a contract includes lease and non-lease components, the Group applies HKFRS 15 to allocate the consideration under the contract to each component. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

<u>Lease modification</u>
The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2. Segment information

Segments information of the four continuing business groups are summarised as follows:

(a) The "DCITS" segment: Digital China Information Service Company Ltd. (神州數碼信息服務股份有限公司) ("**DCITS**") with core bank systems and enterprise service buses as its key products, 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 Industry Chain Business" segment: IT Logistics is China's leading industrial chain service brand, which is committed to providing customers with one-stop end-to-end services through the strategy of Warehouse + Big Data + Artificial Intelligence, and through the big data of the supply chain to coordinate the upstream and downstream enterprises, enhance the overall efficiency in the industry chain and create a new form of Smart Industry Chain under the overall ecosystem of the entire industry chain.

(c) "Sm@rt City Business" segment: "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.

(d) "Other Business" segment: including "Smart Finance 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.

During the six months ended 30 June 2019, segment information presentation was amended and consistent with the presentation for the year ended 31 December 2018. Accordingly, the corresponding comparative amounts of the segment information have been restated to conform with the current period's presentation.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results are evaluated based on the reporting segment profit, which is a measure of adjusted profit before tax. The segment results is measured consistently with the Group's profit before tax except that certain interest income, certain finance costs, unallocated corporate income and gains and unallocated corporate expenses are excluded from such measurement. This is the measure for the purpose of making decisions about resources allocation and performance assessment.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following table presents revenue and results for the Group's operating segments for the six months ended 30 June 2019 and 2018:

	DCITS		Smart Industry Chain Business		Sm@rt City Business		Other Business		Elimination		Total	
	Six months ended 30 June											
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)		(Restated)		(Restated)				(Restated)
Segment revenue:												
External	**4,830,878**	5,041,877	**2,350,395**	1,633,734	**89,411**	64,663	**299,037**	289,677	**-**	-	**7,569,721**	7,029,951
Inter-segment	**1,432**	9,589	**3,982**	6,490	**4,920**	1,070	**14,222**	12,752	**(24,556)**	(29,901)	**-**	-
	4,832,310	5,051,466	**2,354,377**	1,640,224	**94,331**	65,733	**313,259**	302,429	**(24,556)**	(29,901)	**7,569,721**	7,029,951
Segment gross profit	**901,564**	945,386	**292,700**	210,255	**14,822**	26,209	**149,807**	116,331	**-**	-	**1,358,893**	1,298,181
Segment results	**154,665**	329,384	**42,955**	(8,754)	**(34,342)**	(70,312)	**49,708**	224,747			**212,986**	475,065
Unallocated												
Interest income											**1,577**	3,292
Income and gains											**628**	85
Unallocated expenses											**(52,018)**	(77,947)
Profit from operating activities											**163,173**	400,495
Finance costs											**(64,713)**	(62,828)
Profit before tax											**98,460**	337,667

3. Revenue, other income and gains

Revenue represents revenue arising on the net invoiced value of goods and properties sold, after allowances for returns and trade discounts; an appropriate of contract revenue; net 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 the Group's revenue, other income and gains is as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
Revenue		
Revenue from contracts with customers within the scope of HKFRS15		
Disaggregated by major products or services lines:		
System integration business	**2,656,443**	2,964,173
Software development and technical services business	**2,256,696**	2,136,712
Logistics business	**1,203,337**	934,859
E-commerce supply chain services business	**1,147,058**	698,875
Others	**100,738**	90,736
Total revenue from contracts with customers	**7,364,272**	6,825,355
Revenue from other sources		
Financial services business	**30,138**	60,531
Others	**175,311**	144,065
Total revenue from other sources	**205,449**	204,596
Total revenue	**7,569,721**	7,029,951
Other income		
Government grants	**21,942**	33,755
Interest income	**6,948**	10,203
Income from wealth management financial products	**21,745**	14,131
Dividend income from financial assets at fair value through profit or loss	**475**	-
Others	**4,423**	1,668
	55,533	59,757
Gains		
Fair value gain on investment properties, net	**17,292**	-
Fair value gain on financial assets at fair value through profit or loss	**-**	1,841
Foreign exchange differences, net	**-**	585
Gain on deemed partial disposal of the equity interests in associates	**6,726**	279,674
Gain on partial disposal of equity interest in a subsidiary	**-**	199,491
Gain on disposal of equity interests in associates	**9,316**	7,880
Gain on partial disposal of equity interest in an associate	**5,046**	-
Gain on disposal of financial assets at fair value through profit or loss	**-**	8,116
Others	**435**	2,823
	38,815	500,410
	94,348	560,167

Disaggregation of revenue by timing of recognition	**Six months ended 30 June**	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Timing of revenue recognition		
At a point of time	**4,143,811**	3,771,265
Over time	**3,220,461**	3,054,090
Total revenue from contracts with customers	**7,364,272**	6,825,355

4. Profit before tax

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories sold	**3,777,589**	3,420,964
Depreciation of property, plant and equipment	**69,244**	77,544
Depreciation of right-of-use assets	**50,367**	-
Amortisation of prepaid land premiums	**-**	884
Amortisation of other intangible assets	**24,612**	22,913
Provisions for and write-off of obsolete inventories	**29,342**	65,568
Impairment of accounts and bills receivables	**138,827**	194,780
Impairment of interests in joint ventures	**-**	10,156
Impairment of finance lease receivables	**533**	18,921
Loss on disposal of property, plant and equipment	**2,250**	1,536
Impairment of prepayments and other receivables	**1,691**	7,420
Interest on bank borrowings and other borrowings	**111,807**	109,377
Interest expense on lease liabilities	**5,310**	-
Fair value loss on financial assets at fair value through profit or loss	**9,217**	-
Foreign exchange differences, net	**1,404**	-

5. Income tax expense

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
Current – Mainland China		
Enterprise income tax ("**EIT**")	**13,418**	26,803
Land appreciation tax ("**LAT**")	**187**	7,521
	13,605	34,324
Current – Hong Kong	**70**	-
Deferred tax	**(3,045)**	(21,667)
Total tax charge for the period	**10,630**	12,657

(a) People's Republic of China ("**PRC**") EIT 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 EIT 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 sale of properties less deductible expenditures including cost of land use rights, borrowing costs and all property development expenditures.

(c) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the six months ended 30 June 2019 and 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rate regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

(d) The share of tax charge attributable to the joint ventures of approximately HK$290,000 (six months ended 30 June 2018: HK$345,000) and the share of tax charge attributable to the associates of approximately HK$11,077,000 (six months ended 30 June 2018: HK$17,352,000) are included in "Share of loss of joint ventures" and "Share of (loss) profit of associates", respectively, in the unaudited condensed consolidated statement of profit or loss.

6. Earnings per share

The calculation of the basic earnings per share is based on the profit for the six months ended 30 June 2019 attributable to equity holders of the parent, and the weighted average number of ordinary shares in issue less shares held under the restricted share award scheme (the "**RSA Scheme**") of 1,650,994,633 (six months ended 30 June 2018: 1,677,246,738) during the six months ended 30 June 2019.

The calculation of the diluted earnings per share is based on the profit for the six months ended 30 June 2019 attributable to 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 RSA Scheme during the six months ended 30 June 2019, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares related to the Group's share-based incentive schemes into ordinary shares.

The calculations of basic and diluted earnings per share are based on the following data:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Profit for the period attributable to equity holders of the parent, used in the basic and diluted earnings per share calculation	**264**	138,583

	Number of shares Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of shares in issue less shares held under the RSA Scheme during the period, used in the basic earnings per share calculation	**1,650,994,633**	1,677,246,738
Effect of dilution – weighted average number of shares:		
Share-based incentive schemes	**106,329**	-
Weighted average number of shares during the period used in the diluted earnings per share calculation	**1,651,100,962**	1,677,246,738

7. 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 days to 720 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. The following is an aged analysis of accounts and bills receivables net of allowance for impairment of accounts and bills receivables present based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Within 30 days	**2,139,713**	2,480,586
31 to 60 days	**288,783**	409,358
61 to 90 days	**172,993**	107,517
91 to 180 days	**737,902**	459,011
Over 180 days	**2,004,882**	1,432,686
	5,344,273	4,889,158

Included in the Group's accounts and bills receivables are amounts due from joint ventures, associates and related companies of the Group of approximately HK$78,002,000 (31 December 2018: HK$99,878,000), HK$7,118,000 (31 December 2018: HK$11,469,000) and HK$16,307,000 (31 December 2018: HK$32,775,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

8. Accounts and bills payables

The following is an aged analysis of the accounts and bills payables presented based on the invoice date at the end of the reporting period.

	30 June 2019 (Unaudited) ***HK$'000***	31 December 2018 (Audited) *HK$'000*
Within 30 days	**1,728,669**	1,807,988
31 to 60 days	**201,062**	265,480
61 to 90 days	**193,638**	59,317
Over 90 days	**1,740,943**	1,079,777
	3,864,312	3,212,562

Included in the Group's accounts and bills payables are amounts due to associates and related companies of the Group of approximately HK$5,203,000 (31 December 2018: HK$5,464,000) and HK$136,676,000 (31 December 2018: HK$46,060,000), respectively, which are repayable on credit terms similar to those obtained from the major suppliers of the Group.

The accounts payables are non-interest bearing and are normally settled for a period of 30 days to 180 days.

9. Share capital

	30 June 2019 (Unaudited) ***HK$'000***	31 December 2018 (Audited) *HK$'000*
Authorised:		
2,500,000,000 (31 December 2018: 2,500,000,000) ordinary shares of HK$0.1 (31 December 2018: HK$0.1) each	**250,000**	250,000
Issued and fully paid:		
1,670,977,976 (31 December 2018: 1,677,261,976) ordinary shares of HK$0.1 (31 December 2018: HK$0.1) each	**167,098**	167,726

A summary of the movements in the Company's issued share capital and share premium account during the six months ended 30 June 2019 and 2018 is as follows:

	Number of ordinary shares in issue	Issued capital *HK$'000*	Share premium account *HK$'000*	Total *HK$'000*
At 1 January 2018 and 30 June 2018	1,677,261,976	167,726	4,665,095	4,832,821
At 1 January 2019	1,677,261,976	167,726	4,665,095	4,832,821
Share repurchase *(note)*	(6,284,000)	(628)	(21,237)	(21,865)
At 30 June 2019	1,670,977,976	167,098	4,643,858	4,810,956

Note:

During the six months ended 30 June 2019, the Company purchased its own shares of HK$0.10 each with highest and lowest prices of HK$3.60 and HK$3.37 per share respectively for an aggregate cash consideration (including transaction cost) of approximately HK$20.54 million through The Stock Exchange of Hong Kong Limited.

The shares repurchased during the year ended 31 December 2018 of 373,000 and during the six months ended 30 June 2019 of 5,911,000 totalling 6,284,000 shares were cancelled in March 2019.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Digital China Holdings adheres to the mission and vision of "Digital China". The Group, which started as a IT (Information Technology) service provider, successfully evolved and become a DT (Data Technology) big data technology operator today. With big data, cloud computing, Internet of Things ("IoT"), artificial intelligence and other self-developed innovative core technologies, the group empowers urban development as a high-tech industry group, focusing on promoting industrial informationization and digital transformation. Digital China Holdings focuses on the field of big data technology operations, and each of its subsidiaries offers enabling services driven by big data. The Sm@rt City business combines the application of new technologies such as big data and IoT with the smart city industry development strategy to provide solutions to a series of problems such as citizen service, medical care, transportation, environmental protection, and government isolated information islands. Smart Industry Chain Business provides one-stop supply chain services for B2B and B2C customers, including warehousing management services, import and export services, omni-channel e-commerce O2O operation services, supply chain management software, supply chain SaaS service platform, AI-driven big data analytics products and so on. With its financial institution resources and technology, the Smart Finance Business mainly focuses on the smart industry chain and Sm@rt City to empower the company's main businesses.

In the first half of 2019, the Group achieved remarkable results in key usage models within the ecosystem of big data technologies. In cooperation with Peking University (PKU), our subsidiary Beijing Internetware Company Limited (北京因特睿軟件有限公司; "Internetware") has developed "Resource Reflection Mechanism and Efficient Interoperability Technology in Cloud-Client-Convergence Systems" and won the First Prize of National Technology Invention Award 2018 in January this year. This is a major recognition to the Company's big data technology. Based on the abovementioned technologies, Yan Cloud DaaS, is developed as a product, which is widely used in the big data business and becomes the new driver for performance improvement.

During the reporting period, the Group's overall revenue was approximately HK$7,570 million, an increase of HK$540 million over the same period of the last financial year (for the six months ended 30 June 2018), representing a year-on-year increase of 7.68%. The revenue increase was mainly driven by the sustained growth of Smart Industry Chain and Sm@rt City during the period. The gross profit was HK$1,359 million, an increase of 4.68% from the last financial period, and the gross profit margin was 17.95%. The profit attributable to shareholders of the parent company of the Group was approximately HK$264,000, which has improved significantly as compared with the recurring loss of approximately HK$201 million after deducting one-off gains for the same period of the last year.

1) **Smart Industry Chain: revenue rose significantly by 43.87% ; Segment earnings turns around with HK$42.96 million profit, a 591% increase from the earning level last year; the order volume rose by 51% during the 6.18 e-commerce promotion period**

   IT Logistics, as a leading enterprise in the supply chain big data field, implements the strategy of "Warehouse + Big Data + Artificial Intelligence" to conduct continuous iteration and optimization of big data applications and intelligent warehousing solutions to provide customers with end-to-end one-stop supply chain services and achieve supply chain-based industrial chain integration. During the reporting period, Smart Industry Chain business recorded overall turnover of HK$2,350 million, a substantial increase of 43.87% over the same period of the last financial year; the gross profit was HK$293 million and the gross profit margin was 12.45%. Business growth and improving efficiency significantly lifted the segmental earnings, driving the unit back to profitability with a HK$42.96 million segment profit, up from HK$8.75 million segment loss in the same financial period last year.

   In terms of logistics business, IT Logistics has tapped potentials in IT digital, communication, auto parts, fast moving consumer goods, shoes and clothing, beauty makeup and home furnishing industries, and expanded the cooperation with its core customers including China Mobile, Xiaomi, ZTE, Changchun FAW, Bestseller, Yishang Yujie and so on. IT Logistics combines warehouse automation operation and refined management to effectively improve warehouse utilization rate and per capita efficiency and significantly improve B2C business performance. During the 6.18 e-commerce promotion period, the order volume rose by 51%, successfully passing the highest flexibility ratio test in the industry. As a leading supply chain service provider in the PRC, its market position and brand value have been widely recognized in the industry. It has successively won the 2019 Best Service Award of Cainiao Global Partner, 2019 Excellent Platform Enterprise of Smart Logistics Innovation Service by China Federation of Logistics and Purchasing, 2019 Artificial Intelligence Pioneer Award at China Finance Summit and 2019 Brand of Industry Influence and other honours.

   In terms of software and intelligent transformation business, IT Logistics drives intelligent transformation of warehousing solutions and big data platform and continues to conduct optimization and iteration. The Human + Robot 3.0 collaboration work mode was launched in Chongqing. It is the first intelligent sorting program integrating B2B and B2C operations. The work mode adopts two storage and sorting methods, i.e. whole pallet sorting and bulk parts sorting, and combines high-density storage layout and AGV reuse, which greatly saves labour and robot costs, significantly reduces storage space, and effectively improves the operation efficiency of supply chain. The KXDATA big data platform as independently developed and launched by IT Logistics integrates the big data service requirements in the supply chain scenario, realizes intelligent data-extraction and real-time push of visual decision-making support information, and assists the industry chain decision makers to make more precise decisions responsive to market changes, thereby enhancing the overall operational efficiency of the industry chain.

As to the e-Commerce Supply Chain Business, the services provided to Huawei Honor have been expanding from online operations to offline stores and the operation of e-commerce and offline stores has contributed to a significant business growth; due to the rapid increase in the orders from Dell Technologies and acquisition of large scale operation customers, the overall business growth reached 82%. By leveraging on the development opportunities brought about by the Belt and Road, IT Logistics rapidly developed overseas logistics business including winning the bid successively for business of ZTE in Malaysia, opening a store on the Lazada platform in Southeast Asia, entering into contracts in relation to Huawei business on AliExpress in Russia and the export transport business of Inspur Power Systems.

2) <u>Sm@rt City: the solutions centering on “Yan Cloud DaaS” drove revenue growth by 38.27% with major contract awards in Changchun New District and Tangshan</u>

DC Holdings constantly engages in smart development of city and digital transformation of industries with self-developed innovative technologies. During the reporting period, Sm@rt City recorded overall turnover of HK$89.41 million, representing a substantial increase of 38.27% over the same period of the last financial year; the gross profit was HK$14.82 million and the gross profit margin was 16.58%. In cooperation with Peking University (PKU), Internetware, a subsidiary of DC Holdings, has developed “Resource Reflection Mechanism and Efficient Interoperability Technology in Cloud-Client-Convergence Systems” and won the First Prize of National Technology Invention Award. Based on the abovementioned technologies, “Yan Cloud DaaS” can realize the real-time flow of information and the seamless integration of functions, which solves the bottleneck of isolated information islands that restrict the development of “Internet + Government Services”, and can reduce user’s project implementation cycle on average by 50%. "Yan Cloud DaaS" is highly recognized by the market and is a key factor for profit growth.

On 12 March 2019, the Group entered into a service agreement with Changchun New District Management Committee for the Phase I of “Digital New District” project, pursuant to which the Group will team up with our ecosystem partners for the Phase I construction of the “Digital New District” project in Changchun New District under a contract of approximately RMB174 million. On 23 July 2019, the Group and Tangshan Municipal Government signed a contract in relation to the "Smart Tangshan" construction project in an amount of RMB140 million. DC Holdings will fully support the construction of Tangshan into a new Sm@rt City as the general operator of Sm@rt City. Therefore, the construction of a new Sm@rt City integrating innovation-driven development, regional coordinated development and sustainable development has been fully launched in Tangshan.

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. Smart Finance collaborates with the Sm@rt City and Smart Industry Chain business segment to create supply chain financial products, based on KX-DATA big data risk management+blockchain technology, for the upstream and downstream manufacturers, dealers and end retailing customers of the Smart Industry Chain business segment services.

Looking forward, DC Holdings will cooperate with our ecosystem partners in Sm@rt City 3.0 by using Yan Cloud DaaS converted from the technological achievement which won the First Prize of National Technology Invention Award to break down isolated information islands and achieve data integration and sharing and the world leading IoT technology will be used to realize perception and regulation of connection in terms of things, digital and intelligence, in order to construct smart usage models based on big data. The Sm@rt City 3.0 covers the service of smart environmental protection, smart water services, smart transportation, and smart industrial parks, and provides full-cycle solutions from planning, design, construction, implementation and city big data operation by industries. DC Holdings is committed to becoming an international leading enabler in the digital industry, enabling the development of digital economy and improvement of citizen services.

3) **DCITS: Strategic focus on financial technology; the number of contracts with financial customers doubled from the last corresponding period**

In the first half of 2019, under the framework of the big data strategy of DC Holdings, DCITS, with the focus placed on big data, empowered industry value upgrading using financial technology. During the reporting period, DCITS realized revenue of approximately HK$4,831 million, a decrease of 4.18% over the same period of last financial year, and reached a gross margin of 18.66%. After deducting the effects of exchange rate, the revenue was basically flat with that of the same period of last year. The profit attributable to the shareholders of the parent company was approximately HK$157 million, which was a HK$171 million reduction compared to HK$328 million profit attributable to the shareholders in the same period of the last financial year, mainly due to the non-recurring profit and loss of investment income of HK$199 million from DCITS's partial disposal of its subsidiary Digital China Financial Cloud Service in the last year. However, the recurring profit after deducting one-off gains rose 21.71%, as compared to the same period last year.

DCITS's new generation of distributed application platform and banking core system continued to accelerate its expansion during the reporting period, and were awarded contracts from a number of financial institutions including SPIC Finance Company, Guangxi Beibu Gulf Bank, Bank of Tianjin, Bank of Beijing, Wuhan Z-Bank, Bank of Ningxia, Cambodian Ruili Bank, etc. The number of contracted customers doubled as compared with the same period of last year. While DCITS is maintaining its leading market share in the domestic market, it has also extended the industry-leading banking information system solution to the Southeast Asian market.

Enterprise Service Bus ("ESB") was awarded contracts from important bank customers including Bank of Guangzhou, Yingkou Coastal Bank, Hakka Bank, Bank of Guizhou, Bank of East Asia, Guangxi Beibu Gulf Bank, etc. and the number of contracted customers doubled as compared with the same period of last year. It continued to maintain the absolute leading position in the market with the accumulative number of customers served exceeding 100. The mature system capability and service combination function of "ESB" greatly enhance the data processing and analysis capabilities of commercial banks' IT systems, helping banks to differentiate themselves in the fierce market competition in terms of interest rate liberalization, internet finance, third-party payment, and mixed operation.

Integration of Quantum Communication and Financial Scenes - The Company strengthened the operation and maintenance services of quantum communication networks and the development of industrial application solutions in terms of government, finance, military industry and national defense through in-depth strategic cooperation with QuantumCTek and CAS Quantum. In addition, during the reporting period, the Company officially released a new generation of enterprise-class instant encryption communication tool "Liangxintong" product independently researched and developed by the Company. Up to now, more than 20 financial institutions have joined the national backbone network and metropolitan area network constructed by DCITS, realizing combination of quantum technology and business system, including the RMB cross-border collection and payment system of the People's Bank of China and the banking information regulation of the China Banking Regulatory Commission.

4) **Strategic investment: Digital China Health released ShineFly 2.0; the number of industrial machines connected to iSESOL rose by 48%**

Digital China Health Technologies Co., Ltd. ("Digital China Health"), an associate of DC Holdings, takes the lead in the national key research and development program, i.e. "Solution of artificial intelligence-based clinical decision-making support for new service model". The layout of Digital China Health and participating support units will focus on the major demand of "solving the scarcity of medical resources, improving the efficiency of medical services, and improving the synergy of medical system". At the China International Medical Equipment Fair held in the Spring of 2019, Digital China Health and Philips jointly released ShineFly2.0, another important product of Digital China Health in the field of clinical diagnosis and treatment of cancer. ShineFly2.0 has developed a set of integrated solutions for the clinical application of early screening of lung cancer to improve the clinical diagnosis and treatment of lung cancer.

iSESOL, a joint venture jointly established by DC Holdings, Shenyang Machine Tool Co., Ltd. and Everbright Financial Holding, is a domestic leading industrial internet platform operator focusing on machining. Guided by the blueprint of “Internet + advanced manufacturing” and based on manufacturing equipment interconnection, the joint venture is upholding the concept of "making manufacturing simpler". iSESOL industrial internet platform is built relying on the "Intelligent Terminal + Industrial Interconnection + Cloud Service" innovation model and the "Cloud Smart Manufacturing Strategy" as the action plan to provide a wide range of data-driven one-stop industrial services. As at June 2019, the service of iSESOL industry Internet platform had covered 26 provinces and 161 cities, and the platform had served more than 3,000 corporate customers and connected to more than 28,000 smart devices, up 48% over the same period of last year. During the reporting period, iSESOL completed the product building for iSESOL open platform, developer center and iSESOL DNC, and improved the product system; it was successfully selected by the industrial interconnection resource pools in Guangdong, Shandong, Hebei, Chongqing, Zhejiang, Hubei, Liaoning, Shanghai and other provinces and cities. In January 2019, iSESOL was rated as the "2018 Outstanding Industrial Internet Solution" by Shanghai Branch of the Alliance of Industrial Internet of the Ministry of Industry and Information Technology.

5) **Business outlook: Practicing "Digital China" with core technologies of independent innovation to enhance returns to shareholders**

Every technological change gives birth to huge market opportunities. DC Holdings constantly seeks breakthroughs in independent innovation amidst technological change. Looking forward, DC Holdings will remain committed to its original aspiration and endeavor to fulfill the dream of "Digital China" through introduction of resources of scientific and technological industries and enabling smart city development and digital transformation of industries by big data operation services relying on the core technologies of independent innovation including “Yan Cloud DaaS”, Internet of Things, Biometric identification, security technologies, to achieve profit growth and enhance returns to shareholders.

6) **Update on the settlement plans regarding certain wealth management financial products purchased by the Group (the “WMP”)**

As at 30 June 2019, the outstanding unpaid principal of the WMP was approximately HK$1,862 million (RMB1,634 million). As disclosed in the 2018 annual report, the Group has made specific action plans on the planning for the sale of the ultimate underlying assets involved in the WMP.

In accordance with the action plans, the Company and its partners have dispatched personnel to the ultimate underlying assets of the WMP to directly engage in asset management and disposal processes. The real estate residential projects in the ultimate underlying assets (involving principal and interest of approximately HK$220 million (RMB193 million) have now entered into the asset restructuring and disposal procedure. At present, the works on asset restructuring and disposal procedure have been carried out smoothly. The construction works on residential project were basically completed and the preparation works on commencement of project sales were being accelerated. It is clear that, in accordance with relevant laws and regulations, the Group will recover the amount involved in the real estate residential projects, which are parts of the relevant assets, according to the realisation and repayment plans, totaling approximately HK$220 million (RMB 193 million). The Group is urging relevant parties to refine the realisation plans and strive to recover as soon as possible.

The realisation and repayment plans of the remaining ultimate underlying assets (involving approximately HK$1,642 million (RMB 1,441 million) is still being pushed forward and the partial resistance during disposal was resolved. The Group will continue to pursue its execution according to the action plans. In the event of significant progress in the actions plans, the Company will issue an announcement in due course.

The carrying amount of WMP, as disclosed in the audited financial statements of the Group in 2018, was determined with reference to the valuation report by an independent valuer. The management of the Company was not aware of the existence of any provisions that should be accrued but not yet accrued. Based on the management's judgment on the current status of the assets and the disposal process of the assets, it is currently expected that no adjustment to provision is needed in 2019 for the WMP.

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$25,081 million at 30 June 2019 which were financed by total liabilities of HK$12,611 million, non-controlling interests of HK$3,624 million and equity attributable to equity holders of the parent of HK$8,846 million. The Group’s current ratio at 30 June 2019 was 1.20 as compared to 1.22 at 31 December 2018.

During the six months ended 30 June 2019, capital expenditure of HK$69 million was mainly incurred for the acquisition of properties, office equipment and IT infrastructure facilities.

As at 30 June 2019, the Group had cash and bank balances of HK$1,627 million, of which about HK$1,488 million were denominated in Renminbi.

The aggregate borrowings of the Group as a ratio of equity attributable to equity holders of the parent was 0.65 at 30 June 2019 as compared to 0.70 at 31 December 2018. The computation of the said ratio was based on the total interest-bearing bank and other borrowings of HK$5,718 million (31 December 2018: HK$6,199 million) and equity attributable to equity holders of the parent of HK$8,846 million (31 December 2018: HK$8,850 million).

At 30 June 2019, the denomination of the interest-bearing bank and other borrowings of the Group was shown as follows:

	Denominated in Renminbi	**Denominated in Hong Kong dollars**	**Total**
	HK$’000	*HK$’000*	*HK$’000*
Current			
Interest-bearing bank borrowings, unsecured	1,123,107	169,525	1,292,632
Interest-bearing bank borrowings, secured	2,047,634	-	2,047,634
Other borrowings	52,419	-	52,419
	3,223,160	169,525	3,392,685
Non-current			
Interest-bearing bank borrowings, secured	1,750,328	-	1,750,328
Corporate bond	574,844	-	574,844
	2,325,172	-	2,325,172
Total	5,548,332	169,525	5,717,857

Certain of the Group's bank borrowings of:

1. HK$2,362 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$4,038 million at 30 June 2019; and

2. HK$1,436 million extended by financial institutions to certain subsidiaries of the Group were secured by pledge of 256,040,483 issued shares of 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$3,320 million at 30 June 2019.

Included in the Group's current and non-current bank and other borrowings of HK$675 million and HK$1,750 million respectively represented the long-term loans which are repayable from the year 2019 to year 2029. All of the Group's bank borrowings were charged at floating interest rates except for the loan balances with an aggregate amount of HK$2,488 million which were charged at fixed interest rates as at 30 June 2019.

In May 2016, Digital China Software Limited* (神州數碼軟件有限公司) ("**DC Software**"), a wholly-owned subsidiary of the Company, obtained the relevant approval for issuing the medium-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB700 million (equivalent to approximately HK$798 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$570 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 (equivalent to approximately HK$37.6 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 (equivalent to approximately HK$18.2 million), comprising RMB12.80 million (equivalent to approximately HK$14.60 million) provided by DCITS and RMB3.20 million (equivalent to approximately HK$3.6 million) provided by the remaining investors. In the year 2018, the investors provided the second tranche of convertible bond loans in the amount of RMB14.85 million (equivalent to approximately HK$16.90 million), comprising RMB13.60 million (equivalent to approximately HK$15.5 million) provided by DCITS and RMB1.25 million (equivalent to approximately HK$1.4 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 2019 amounted to HK$9,397 million, of which HK$2,465 million were in long loan facilities, HK$2,495 million were in trade lines and HK$4,437 million were in short-term and revolving money market facilities. At 30 June 2019, the facility drawn down from the Group was HK$2,425 million in long loan facilities, HK$1,003 million in trade lines and HK$1,893 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$198,279,000 as at 30 June 2019.

(b) On 7 November 2018, China Potevio Co., Ltd. filed a litigation with Beijing's Second Intermediate People's Court on the grounds that DCITS assisted Shengwugang Company in capital withdrawal, requiring DCITS to bear joint and several liability for compensation in relation to the assistance given to Shengwugang Company for capital withdrawal of RMB25,000,000 together with interests. As at the date of this announcement, the case was in the court investigation stage.

Capital Commitment

At 30 June 2019, the Group had the following capital commitments:

	HK$'000
Contracted, but not provided for:	
Land and buildings	156,134
Capital contributions payable to joint ventures	35,417
Capital contributions payable to associates	6,837
Capital contributions payable to financial assets at fair value through other comprehensive income	120,140
	318,528

Human Resources

At 30 June 2019, the Group had approximately 11,600 (30 June 2018: approximately 11,800) 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 0.95% decrease in staff costs to approximately HK$1,144 million for the six months ended 30 June 2019 as compared to approximately HK$1,155 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	**Un-utilised amount as at 1 January 2018** *HK$'million*	**Actual application for the year ended 31 December 2018** *HK$'million*	**Un-utilised amount as at 31 December 2018** *HK$'million*	**Actual application for the six months ended 30 June 2019** *HK$'million*	**Un-utilised amount as at 30 June 2019** *HK$'million*
Financing the Healthcare Big Data Investment or any other potential investments and acquisitions as and when any suitable opportunity is identified	**728**	**(157)**	**571**	**(39)**	**532**

Note: 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 2019, an aggregate of HK$250 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 utilise 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 and 31 December 2018 of the Company.

* For identification purpose only

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 2019.

CORPORATE GOVERNANCE

The Company has complied with the code provisions (the "**Code Provision(s)**") 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 2019, 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, the Chairman of the board of directors of the Company (the "Board"), has taken up the dual role as Chairman and the Chief Executive Officer of the Company since 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 role of Mr. GUO Wei will enable 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 A.5.5 (2) *stipulates that where a board proposes a resolution to elect an individual as an independent non-executive director at the general meeting and the proposed director will be holding their seventh (or more) listed company directorship, the board should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why the board believes the individual would still be able to devote sufficient time to the board.*

The Company did not disclose in its circular dated 30 April 2019 the fact that Mr. Wong Man Chung Francis ("Mr. Wong"), an Independent Non-executive Director, holds more than seven listed company directorships and the reasons why the Board believes that Mr. Wong should be re-elected due to an inadvertent oversight. Since the appointment of Mr. Wong on 23 August 2006, he has been devoting sufficient time and attention to the Company, which can be demonstrated by his high attendance rate for board meetings (23 out of 25) , audit committee meetings (8 out of 8) and annual and special general meetings (4 out of 5) of the Company for the financial years of 2016, 2017 and 2018. The Board believes that Mr. Wong's valuable knowledge and experience in the Group's business and his accounting expertise and experience in other organisations will continue to contribute to the success of the Group.

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 2019.

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

During the six months ended 30 June 2019, the Company purchased an aggregate of 5,911,000 ordinary shares of the Company, which represented approximately 0.35% of the total shares of the Company in issue, at an aggregate consideration (including transaction cost) of approximately HK$20.54 million.

The purchase was effected by the Directors pursuant to the mandate from shareholders of the Company received at the last annual general meeting, with a view to beneficing shareholders of the Company as a whole by enhancing the net asset value per share and earnings per share of the Group.

Saved as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2019.

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 2019.

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, 30 August 2019

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

** For identification purpose only*