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ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors (the “**Director(s)**” or the “**Board**”) of Digital China Holdings Limited (the “**Company**” or “**DC Holdings**”) 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 2021 together with the comparative figures for the corresponding period of the last financial year as follows:

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Year-on-year change
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	
Revenue	8,673,158	8,349,929	3.9%
Profit for the period	304,886	344,749	-11.6%
Profit for the period (excluding net gain and loss on disposal of equity interests in associates)	304,886	43,470	601.4%

The Board has declared an Interim Dividend of HK2 cents per Share for the six months ended 30 June 2021 to the Shareholders whose names appear on the register of members of the Company on Thursday, 16 September 2021. The Interim Dividend will be payable on or about Thursday, 7 October 2021.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	8,673,158	8,349,929
Cost of sales and services		<u>(7,057,814)</u>	<u>(7,024,160)</u>
Gross profit		1,615,344	1,325,769
Other income and gains	3	133,468	72,771
Selling and distribution expenses		(582,944)	(540,265)
Administrative expenses		(224,382)	(211,887)
Other expenses, net		(539,301)	(438,460)
Finance costs		(70,234)	(77,020)
Net gain and loss on disposal of equity interests in associates	4	-	301,279
Net share of loss of associates and joint ventures	5	<u>(5,484)</u>	<u>(51,946)</u>
Profit before tax	6	326,467	380,241
Income tax expense	7	<u>(21,581)</u>	<u>(35,492)</u>
Profit for the period		<u>304,886</u>	<u>344,749</u>
Attributable to:			
Equity holders of the parent		220,223	243,371
Non-controlling interests		<u>84,663</u>	<u>101,378</u>
		<u>304,886</u>	<u>344,749</u>
Earnings per share attributable to equity holders of the parent	9		
Basic (HK cents)		<u>14.24</u>	<u>14.82</u>
Diluted (HK cents)		<u>14.17</u>	<u>14.80</u>

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	304,886	344,749
Other comprehensive income (expense)		
<i>Other comprehensive income (expense) that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange translation differences	174,302	(250,280)
Share of other comprehensive income of associates	1,729	13,555
Net other comprehensive income (expense) that may be reclassified to profit or loss in subsequent periods	176,031	(236,725)
<i>Other comprehensive income (expense) that will not be reclassified to profit or loss in subsequent periods:</i>		
Net fair value changes on financial assets measured at fair value through other comprehensive income	1,504	12,215
Gain on property revaluation	-	6,379
Income tax effect	(193)	(6,066)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	1,311	12,528
Other comprehensive income (expense) for the period, net of tax	177,342	(224,197)
Total comprehensive income for the period	482,228	120,552
Attributable to:		
Equity holders of the parent	344,905	94,914
Non-controlling interests	137,323	25,638
	482,228	120,552

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2021

		30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		960,054	992,378
Right-of-use assets		275,286	202,970
Investment properties		5,251,507	5,126,601
Goodwill		1,900,771	1,877,561
Other intangible assets		203,902	195,700
Interests in joint ventures		69,080	73,725
Interests in associates		2,465,190	2,430,714
Financial assets at fair value through other comprehensive income		707,786	714,300
Finance lease receivables		277	788
Accounts receivables	<i>10</i>	136,696	130,513
Other receivables		1,015,003	883,936
Deferred tax assets		250,746	225,211
		13,236,298	12,854,397
Current assets			
Inventories		1,880,953	2,614,291
Completed properties held for sale		700,023	694,716
Accounts and bills receivables	<i>10</i>	4,137,980	3,631,843
Prepayments, deposits and other receivables		1,397,560	1,339,906
Contract assets		3,105,379	2,405,241
Financial assets at fair value through profit or loss		1,058,354	1,122,414
Finance lease receivables		53,219	53,154
Restricted bank balances		119,593	228,286
Cash and cash equivalents		1,549,792	3,076,717
		14,002,853	15,166,568
Current liabilities			
Accounts and bills payables	<i>11</i>	4,038,731	3,620,499
Other payables and accruals		2,049,931	2,517,610
Lease liabilities		104,933	83,215
Contract liabilities		1,956,656	2,407,732
Tax payable		71,654	120,216
Interest-bearing bank and other borrowings		1,553,387	2,077,309
		9,775,292	10,826,581
Net current assets		4,227,561	4,339,987
Total assets less current liabilities		17,463,859	17,194,384

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2021

		30 June 2021	31 December 2020
		(Unaudited)	(Audited)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Interest-bearing bank and other borrowings		1,989,702	2,301,295
Deferred tax liabilities		494,030	465,878
Deferred income		33,504	25,888
Lease liabilities		100,994	50,547
Other financial liability		866,013	586,144
		3,484,243	3,429,752
Net assets		13,979,616	13,764,632
Capital and reserves			
Share capital	12	167,310	167,250
Reserves		9,373,669	9,262,477
Equity attributable to equity holders of the parent		9,540,979	9,429,727
Non-controlling interests		4,438,637	4,334,905
Total equity		13,979,616	13,764,632

NOTES:

1. Basis of preparation

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2021 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 2020 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.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, *Interest Rate Benchmark Reform – Phase 2*
HKFRS 4 and HKFRS 16

The application of the new and amendments to HKFRSs in the current period has had no material effect on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated interim financial statements.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities as modifications, and (ii) discounting hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“IBOR reform”). The amendments did not have significant impact on the financial position and performance of the Group, the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

2. Segment information

Segments information of the five 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”) is primarily engaged in system integration, software development and technical service business, 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 cloud construction and operation services for key industries including government, enterprises and agriculture.
- (b) The “Smart Industry Chain Business” segment: primarily engaged in providing customers with one-stop end-to-end supply chain services through the implementation of a “Warehouse + Big Data + Artificial Intelligence” model, which generates big data insights across the upstream, midstream and downstream supply chain process, enhances the overall process efficiency and creates a new intelligent form of supply chain management. The Group primarily generated revenue from logistics services and e-commerce supply chain services in this segment.
- (c) The “Sm@rt City Business” segment: primarily engaged in the “Smart City” sector, providing big data software and solutions to build comprehensive city-wide big data platforms for the city to solve issues including but not limited to medical, transportation, energy supply and social security issues. The Group primarily generated revenue from big data related product sales and system integration, software development and technical services business in this segment.
- (d) The “Investing Business” segment: primarily engaged in improving the Group’s core products, services and capabilities of our supply chain offering, building the Group’s sustainable development through continuous innovation and incubation through investment, and supporting the wider construction of a big data ecosystem through mergers and acquisitions, equity investment and specialised capital operations such as investment incubation.
- (e) The “Other Business” segment: including property investment, sales of properties and “Smart Finance Business” which rely on its various financial licenses, integrates resources of financial institutions such as banking, insurance, securities and trusts, provision of financial services, such as micro-credit loan, leasing, factoring, etc. to internal and external customers.

The accounting policies of the operating segments are the same as the Group’s accounting policies. Segment results are evaluated based on the reportable segment profit, which is a measure of adjusted profit before tax. The segment results are 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 reported to the chief operating decision maker for the purposes of resource allocation and measurement of 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 2021 and 2020:

	DCITS		Smart Industry Chain Business		Sm@rt City Business		Investing Business Six months ended 30 June		Other Business		Elimination		Total	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Segment revenue:														
External	5,662,331	4,807,138	2,586,295	3,092,111	69,005	151,804	-	-	355,527	298,876	-	-	8,673,158	8,349,929
Inter-segment	705	1,155	7,601	42,385	28,153	1,762	-	-	23,928	16,407	(60,387)	(61,709)	-	-
	5,663,036	4,808,293	2,593,896	3,134,496	97,158	153,566	-	-	379,455	315,283	(60,387)	(61,709)	8,673,158	8,349,929
Segment gross profit	983,492	788,985	431,058	359,861	25,668	43,748	-	-	175,126	133,175			1,615,344	1,325,769
Segment results	107,127	147,018	130,987	77,811	(20,296)	(17,137)	(44,689)	227,045	265,740	58,845			438,869	493,582
Unallocated														
Interest income													1,580	1,667
Income and gains													237	416
Unallocated expenses													(69,519)	(70,418)
Profit from operating activities													371,167	425,247
Finance costs													(44,700)	(45,006)
Profit before tax													326,467	380,241

3. Revenue, other income and gains

Revenue represents revenue arising on the sale of goods after allowances for returns and trade discounts; provision of services, net of value-added tax and government surcharges; and rental income received and receivable from investment properties for the period.

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from contracts with customers	8,465,178	8,169,420
Revenue from other sources	207,980	180,509
Total revenue	8,673,158	8,349,929

(i) *Revenue from contracts with customers*

During the six months ended 30 June 2021, the Group continues to generate revenue from contracts with customers from four major sources: (i) System integration, (ii) Software development and technical services, (iii) Logistics services and (iv) E-commerce supply chain services. In order to help investors better understand the Group's business structure and financial performance and to better reflect current market trends, the Board disaggregated the Group's revenue from contracts with customers as follows:

Big data income mainly represents income from software development, sale of digital products and tailor-made service on digital products in which related to the data aggregation, data collection, data sharing, data security and data governance.

Service income mainly represents the income from provision of technical services and provision of logistics services.

Solutions income mainly represents the income from system integration business and software development.

Ecosystems income mainly represents the relevant income generated by the services covering upstream, midstream and downstream of the supply chain which in turn is complementary to the Group's other revenue streams. For instance, the business flow, monetary flow and information flow generated from e-commerce platforms' supply chain can be utilised to drive further growth in big data income and logistic services income.

Disaggregated by major products or services lines:

Six months ended 30 June 2021	Big data (Unaudited) HK\$'000	Services (Unaudited) HK\$'000	Solutions (Unaudited) HK\$'000	Ecosystems (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Systems integration business	-	-	3,456,230	-	3,456,230
Software development and technical service business	16,199	1,663,765	591,999	-	2,271,963
Logistics business	74,961	1,073,338	-	-	1,148,299
E-commerce supply chain services business	64,041	6,453	-	1,362,910	1,433,404
	155,201	2,743,556	4,048,229	1,362,910	8,309,896
Others					155,282
Total revenue from contracts with customers					8,465,178
Six months ended 30 June 2020	Big data (Unaudited) HK\$'000	Services (Unaudited) HK\$'000	Solutions (Unaudited) HK\$'000	Ecosystems (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Systems integration business	-	-	3,133,679	-	3,133,679
Software development and technical service business	20,677	1,305,408	500,031	-	1,826,116
Logistics business	21,953	872,449	-	-	894,402
E-commerce supply chain services business	11,782	5,907	-	2,018,730	2,036,419
	54,412	2,183,764	3,633,710	2,018,730	7,890,616
Others					278,804
Total revenue from contracts with customers					8,169,420

Disaggregated of revenue by timing of recognition:

	Six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
At a point in time	5,044,916	5,448,902
Over time	3,420,262	2,720,518
Total revenue from contracts with customers	8,465,178	8,169,420

(ii) **Revenue from other sources**

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Rental income from investment properties under operating leases	195,579	167,106
Financial services business	12,401	13,403
Total revenue from other sources	207,980	180,509

(iii) **Other income and gains**

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income		
Government grants	44,207	45,170
Interest on bank deposits	4,220	5,069
Income from wealth management financial products	15,158	11,834
Others	7,522	3,729
	71,107	65,802
Gains		
Fair value gains on investment properties	61,533	-
Gain on revaluation of inventories upon transfer to investment properties	-	6,969
Gain on disposal of financial assets at fair value through profit or loss	828	-
	62,361	6,969
Total other income and gains	133,468	72,771

4. **Net gain and loss on disposal of equity interests in associates**

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss on deemed partial disposal of equity interests in associates	-	(146,238)
Gain on partial disposal of equity interests in associates	-	344,148
Fair value gains on partial disposal of equity interests in an associate	-	103,369
Net gain and loss on disposal of equity interests in associates	-	301,279

5. Net share of loss of associates and joint ventures

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Share of profit (loss) of associates	3,052	(47,053)
Share of loss of joint ventures	(8,536)	(4,893)
Net share of loss of associates and joint ventures	(5,484)	(51,946)

6. Profit before tax

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Amount of inventories recognised as an expense	4,442,493	4,907,653
Depreciation of property, plant and equipment	62,342	63,049
Depreciation of right-of-use assets	66,215	62,321
Research and development costs ¹	338,501	221,154
Amortisation of other intangible assets ¹	26,055	18,737
Provisions for and write-off of obsolete inventories ¹	75,441	65,213
Impairment of accounts and bills receivables, other receivables and contract assets ¹	59,389	110,547
Reversal of impairment of finance lease receivables ¹	(17)	(509)
Loss on disposal of property, plant and equipment	1,540	951
Interest on bank loans and other loans	42,792	72,595
Interest on lease liabilities	6,355	4,425
Interest on other financial liabilities	21,087	-
Fair value loss on financial assets at fair value through profit or loss ¹	38,909	5,176
Net exchange loss ¹	3,072	16,302
COVID-19-related rent concession	-	(850)

1 The net amount of these income or expenses are included in "Other expenses, net" in the condensed consolidated statement of profit or loss.

7. Income tax expense

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – People's Republic of China ("PRC")		
Enterprise income tax ("EIT")	19,626	10,119
Land appreciation tax ("LAT")	180	-
	19,806	10,119
Deferred tax	1,775	25,373
Total tax charge for the period	21,581	35,492

- (a) 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 sales of properties less deductible expenditures including cost of land use rights, borrowing costs and all property development expenditures.
- (c) Hong Kong Profits Tax is charged 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 2021 and 2020, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates 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% of the estimated assessable profits.
- (d) The share of tax credit attributable to joint ventures of approximately HK\$3,007,000 (six months ended 30 June 2020: tax charge of HK\$22,000) and the share of tax charge attributable to the associates of approximately HK\$7,281,000 (six months ended 30 June 2020: HK\$3,696,000) are included in "Net share of loss of associates and joint ventures", in the unaudited condensed consolidated statement of profit or loss.

8. Dividends

	Six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Interim dividend	<u>30,444</u>	<u>58,567</u>

Subsequent to the end of the reporting period, the directors of the Company declared an interim dividend of HK2 cents per ordinary share for the six months ended 30 June 2021 (six months ended 30 June 2020: HK3.6 cents) to the shareholders of the Company. The interim dividend declared after the reporting period has not been recognised as liabilities in the unaudited condensed consolidated financial statements.

9. Earnings per share

The calculation of the basic and diluted earnings per share is based on the profit for the six months ended 30 June 2021 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 1,546,600,376 (six months ended 30 June 2020: 1,642,023,726) during the six months ended 30 June 2021.

The calculation of the diluted earnings per share is based on the profit for the six months ended 30 June 2021 attributable to equity holders of the parent with an adjustment on effect of dilutive potential ordinary shares of a subsidiary. 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 2021 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	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<u>Earnings</u>		
Profit for the period attributable to equity holders of the parent, used in the basic earnings per share calculation	220,223	243,371
Effect of dilutive potential ordinary shares of a subsidiary	(97)	(238)
Earnings for the purpose of diluted earnings per share	220,126	243,133

	Number of shares	
	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
<u>Shares</u>		
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	1,546,600,376	1,642,023,726
Effect of dilution potential ordinary shares: Share-based incentive schemes	6,576,329	688,736
Weighted average number of shares during the period used in the diluted earnings per share calculation	1,553,176,705	1,642,712,462

10. Accounts and bills receivables

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
<u>Receivables at amortised cost comprise:</u>		
Accounts and bills receivables	5,098,977	4,444,708
Less: loss allowance	(824,301)	(682,352)
Total	4,274,676	3,762,356

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 from 15 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 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Within 30 days	1,625,616	1,369,718
31 to 60 days	197,564	610,916
61 to 90 days	71,728	115,855
91 to 180 days	444,886	524,292
Over 180 days	1,934,882	1,141,575
	4,274,676	3,762,356

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\$56,234,000 (31 December 2020: HK\$64,829,000), HK\$5,281,000 (31 December 2020: HK\$3,019,000) and HK\$52,420,000 (31 December 2020: HK\$51,290,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

11. 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 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Within 30 days	1,544,683	1,507,471
31 to 60 days	286,260	808,988
61 to 90 days	456,413	137,255
Over 90 days	1,751,375	1,166,785
	4,038,731	3,620,499

The average credit period on purchase of goods is ranging from 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables settled within the credit timeframe.

As at 30 June 2021, included in the Group's accounts and bills payables are amounts due to joint ventures, associates and related companies of the Group of approximately HK\$1,493,000 (31 December 2020: HK\$1,475,000), HK\$49,983,000 (31 December 2020: HK\$42,384,000) and HK\$125,631,000 (31 December 2020: HK\$91,780,000), respectively, which are repayable on credit terms similar to those obtained from the major suppliers of the Group.

12. Share capital

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Authorised:		
2,500,000,000 (31 December 2020: 2,500,000,000) ordinary shares of HK\$0.1 (31 December 2020: HK\$0.1) each	250,000	250,000
Issued and fully paid:		
1,673,102,386 (31 December 2020: 1,672,497,376) ordinary shares of HK\$0.1 (31 December 2020: HK\$0.1) each	167,310	167,250

A summary of the movements in the Company's issued share capital and share premium account during the six months ended 30 June 2021 and 2020 is as follows:

	Number of ordinary shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2020	1,670,977,976	167,098	4,643,858	4,810,956
Exercise of share options (note a)	430,000	43	2,062	2,105
At 30 June 2020	1,671,407,976	167,141	4,645,920	4,813,061
At 1 January 2021	1,672,497,376	167,250	4,651,977	4,819,227
Exercise of share options (note b)	605,010	60	3,506	3,566
At 30 June 2021	1,673,102,386	167,310	4,655,483	4,822,793

Notes:

- (a) During the six months ended 30 June 2020, 430,000 share options were exercised at the exercise price of HK\$3.88 to HK\$4.32 per share. The total cash consideration received from the issuance of 430,000 shares was approximately HK\$1,682,000. An amount of HK\$423,000 was transferred from the employee share based compensation reserve to the share premium account upon the exercise of the share options.
- (b) During the six months ended 30 June 2021, 605,010 share options were exercised at the exercise price of HK\$4.17 to HK\$4.818 per share. The total cash consideration received from the issuance of 605,010 shares was approximately HK\$2,800,000. An amount of HK\$766,000 was transferred from the employee share based compensation reserve to the share premium account upon the exercise of the share options.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2 cents per ordinary share for the six months ended 30 June 2021 (“**Interim Dividend**”) (for the six months ended 30 June 2020: HK3.6 cents per ordinary share) to the Shareholders whose names appear on the register of members of the Company on Thursday, 16 September 2021. The Interim Dividend will be payable on or about Thursday, 7 October 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 16 September 2021 to Monday, 20 September 2021, both days inclusive for ascertaining Shareholders’ entitlement to the Interim Dividend. No transfer of Shares will be registered during the period. In order to qualify for the Interim Dividend, all transfer forms, accompanied by the relevant share certificates, must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 15 September 2021 for registration.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group embarked on an accelerated transformational journey at the beginning of 2021, setting up itself to be a full-fledged big data software enterprise with its own proprietary intellectual property and technology. The Group considers, amongst other elements, the re-balancing of its enterprise client and government client portfolios, improvement of client retention and significant margin improvement as key elements behind its transformation.

The management team is of the view that going forward the Group shall avoid rapid, unstable growth that may be sensitive to the wider macro environment or other factors which may distort the long-term development of the Group. Instead, the Group shall focus on quality growth, which will enable the management team to have better visibility on long-term profitability. Part of this strategy has been shown in our financial results for the six months ended 30 June 2021. For the six months ended 30 June 2021, the Group has recorded revenues of approximately HK\$8,673 million, which is the record high recorded for the first half of the year over the last five years, and net profit of approximately HK\$305 million (six months ended 2020: HK\$344 million). By excluding the net gain on disposal of equity interests in associates of approximately HK\$301 million recorded for the corresponding period in the previous year, the Group’s net profit saw a substantial increase from approximately HK\$43 million to approximately HK\$305 million for the six months ended 30 June 2021, representing an increase by 601%.

The Group’s Industry Big Data Model, driven by its Smart Industry Chain business, saw early signs of such transformation. The gross profit of the Group’s Smart Industry Chain business grew by 20% to HK\$431 million and recorded healthy gross margin increment to 16.6% from 11.5% compared to the same period of the last fiscal year.

Our City Big Data Usage Model, driven by our Smart City business, began to show early results of our product standardization and replication efforts. We look at our City Big Data Usage Model in two parts, the larger portion are cities that we have spent a larger amount of resources and time to customize products and solutions. Currently, approximately 10-20% of our total revenue represents new cities we have entered during the first half of 2021, where gross profit margins have ranged approximately 70-90%. The gross profit margins of this cohort is substantially higher than our overall portfolio gross profit margin of approximately 26%, and this is mainly attributable to the efficient deployment and replication of the technical know-how and increasing standardized products obtained from our previous project experience.

The Group has maintained its belief that our various business models, including City Big Data Usage and Industry Big Data, are key channels for the deployment of our big data software and solutions. Despite the challenging maneuver of business transformation, the Group’s big data related revenue saw explosive growth, with revenue reaching HK\$155 million, representing a 185% increase compared to the same period prior year.

In addition, leveraging its leading position in the field of big data technology, the Group has received much more attention and accolades compared to its peers. The Group won the "2021 Big Data Leading Enterprise" issued by authoritative organizations such as the "Internet Weekly" from the Chinese Academy of Sciences and the Chinese Academy of Social Sciences. The Group also won the Hong Kong Stocks "Best New Economy Company" award, reflecting the Group's development and investment potential.

1) **Industry Big Data Model: Early results from margin expansion efforts, gross margin improvement to 16.6%, recording 20% gross profit growth year-on-year**

As a big step towards the transformation of our business, we have made a challenging decision to re-balance our enterprise portfolio to focus on clients with better retention rates and healthier margins. While the cessation of low margin, high volume business has impacted revenues, gross profit margins have expanded to 16.6% from 11.5% compared to the same period of the last fiscal year. With this, gross profit has increased by 20% to HK\$431 million comparing to prior period, and segment results also saw strong improvement from HK\$78 million in the prior fiscal year to HK\$131 million for the six months ended 30 June 2021. After the first stage of re-balancing our portfolio, revenues have decreased by 17% to HK\$2,594 million, compared to HK\$3,134 million in the same period of the last fiscal year.

Our Key Accounts (or "KA") make up a bulk of our current re-balanced supply chain business, accounting for over 70% of overall revenue. Within the KA subset, our top paying customers account for over 85% of KA revenues and most of such customers have business relationships with us for over 4 years, showing a 92% retention rate since 2018. Gross margins for KA have gradually been improving due to the increased cross-selling of our software products which on average, achieve over 25-30% gross profit margins. We expect our KA revenue mix to gradually shift towards more software-based revenue, helping us to better retain our client base. Within our KA group, software related revenue has grown rapidly at a 66% CAGR ('18-'20), demonstrating success in our strategy of cross-selling into the KA group and furthermore for our top 50 largest enterprise clients, average revenue per client has grown strongly at 50% CAGR ('18-'20).

Historically, the Group has had a solid footing within the verticals of information technology, electronics, telecommunications, and consumer goods. With existing customers, the Group focuses on keeping retention rates high with our all-rounded services which accurately solves our client's issues, while also increasing the penetration of software revenue as a percentage of overall revenue. For 2021 so far, the Group has also diversified into newer verticals in bid to expand its current enterprise suite whereby we will offer end-to-end services including our core logistics and warehouse offering, coupled with our software solutions. In the six months ended 30 June 2021, the Group has been able to secure new clients such as Bytedance, Meituan, BYD as well as others.

As a direct outcome of our clients using our software increasingly, our big data related income within our Industry Big Data Model business had grown substantially in this period, increasing by approximately 312% compared to the same period of the last fiscal year. Together with the increasing deployment of our software and related services, we expect this to be an important driver in optimizing our overall supply chain business to achieve steady revenue growth, together with overall margin expansion.

2) **City Big Data Usage Model: Significant early results from replication of business model, with deployment of standardized products achieving approximately 70-90% gross margins in newest cities**

During the reporting period, the "14th Five-Year Plan for the National Economic and Social Development of the People's Republic of China and the Long-term Goals for 2035" was officially released. The outline mentions that the developmental strategy of the economy, digital society, digital government, and digital ecology have been thoroughly planned. Therefore, we believe the construction of smart cities in the near future will receive substantial new development opportunities.

As the pioneer of the smart city concept in China, we have long advocated for the concept of a "City

Chief Technology Officer” role within each selected city that we operate and provide services in. The “City CTO” should adopt a birds-eye view of the city’s required performance indicators set by the government, the city’s strengths and weaknesses, as well as the city’s aspirations and long-term development plan. The “City CTO” should advise and empower city managers to achieve their objectives as set out by the country’s leadership. In order to execute the role of a “City CTO”, we strongly believe that a deep expertise in how the government framework operates, coupled with the capability to continuously innovate proprietary technology, are amongst the crucial elements of success.

Our first flagship product, Yan Cloud Data-as-a-Service (“**Yan Cloud DaaS**”) was developed to meet what was then, and still is, a key pain point facing city managers. The existence of disparate data silos, which are a common phenomenon within traditional institutions, have long impaired the ability of city managers to access a uniform, consistent set of data to make better, informed decisions. Our know-how of the governmental infrastructure, accumulated over decades of working with the local governments through our prior generation business (such as distribution and systems integration), have given us a unique insight into the key issues faced by managers today.

When our City Big Data Usage Model business was first launched, much of our focus and effort was on obtaining real-time feedback from our clients, having our engineers on-site and provide high-touch services to ascertain the key issues faced by our users. With this feedback, we have continuously refined and improved our core flagship products, keeping in mind that better standardization will inevitably generate higher margins and hasten our deployment speed. As such, the majority of our current government portfolio is comprised of high-touch, high customization projects where we have had more focus on high-touch services for our clients. With our engineers and personnel on site, we were able to obtain real-time feedback from our end users. Therefore, our solutions and to a greater extent our core products, were optimized over several iterations. Feedback from different users were also considered, with the objective to ensure that our core products could cater to the widest range of common issues possible whilst maintaining fundamental aspects such as operability and security. We do believe that our initial investment of first understanding the landscape and refining our core product will ultimately pay dividends in the longer term. We believe that some of the early signs and dividends of such investment were made apparent during the six months ended 30 June 2021.

Currently, approximately 10-20% of our current government portfolio revenue comprises of new city projects we obtained during the first six months of 2021 where we deployed core products which were upgraded versions, based on enhancement and refinement of previous versions. Such new projects recorded gross profit margins of approximately 70-90%, showing signs of early success in our initial thesis of “early high touch, subsequent standardization”. Many of the deliverables for these new projects were focused on the delivery and implementation of our core big data software, which we were able to execute quickly without the need of additional man-hours or other resources.

As a result of these early results, we have focused on projects that would allow us to improve our profitability and we have de-prioritized large projects where most of the deliverables would require heavy investment with man-hours, or other resources. Our Smart City Business segment generated approximately HK\$97 million for the six months ended 30 June 2021, representing a decrease of 37% as compared to HK\$154 million in the same period of the last fiscal year. Gross profit margins have remained largely stable at approximately 26%.

3) **Big Data Related Income: Consecutively showing explosively triple-digit percentage growth, recording a 185% increase compared to the same period in the last fiscal year**

Data continues to be a key focus for the People’s Republic of China, as well globally. Both governments and enterprises have been increasingly focused on aspects such as data security, data ownership, to mention a few. Unlike some market participants who have also then subsequently made data products and services their recent “core” focus, data has been part of our current Chairman’s vision for the Group since it was established decades ago. By realizing a vision of a fully “Digital China”, data is an essential core element of this vision.

While recent regulatory events such as the introduction of the new “Data Security Law of the People’s

Republic of China” (“中華人民共和國數據安全法”) has brought potential uncertainty in various industries and verticals, it is our view that with the steady expansion of the Group’s Smart Industry Chain, Smart City and big data software businesses, coupled with the introduction and implementation of the Data Security Law of the PRC, will drive the deployment of the Group’s data security solutions around cryptography and privacy, which in turn can bring unique value to both government and enterprise customers. By enabling data sharing and circulation under strict security protocols, the Group’s core data engine will be further enhanced for steady expansion into the field of big data.

From our enterprise portfolio, our big data related income has grown by approximately 312%, signifying that we have increased our big data software penetration rate to our KA. This has represented a large part of our big data related income. The remaining part saw growth from our government portfolio, where big data software products were increasingly deployed in our new projects and we have also been able to increase our penetration in certain existing cities where new projects also had a bigger allocation to our big data products.

4) DCITS: Solid performance from our financial technology business, with revenues increasing by 18% and gross profit increasing 25% compared to the same period in the prior year

DCITS has long been a leader in the banking core business and channel management solutions market, with its proprietary products across Distributed Core Bank Systems, Enterprise-Level Microservice Platform and Smart Banking which continue to lead in their market segments driving overall growth and profitability.

During the reporting period, revenues for DCITS reached approximately HK\$5,663 million, representing an increase of approximately 18% as compared to the same period in the prior year. Gross profit also reached HK\$983 million, representing an increase of approximately 25% compared to the same period in the prior year. Leveraging on DCITS’ decade-long expertise at systems integration business, we are able to create additional synergies with our core big data software business. The customer network and reach that DCITS has accumulated over almost two decades provide a unique entry point to hasten the deployment of our standardized big data software. DCITS’ capability in software development also help ensure that we are constantly refining and developing new product suites in anticipation of the next product cycle as well as accounting for the feedback that we obtain from our clients.

During the reporting period, DCITS was involved in the digital renminbi initiative, helping more than ten customers, including China Construction Bank, China Guangfa Bank, and Bank of Beijing, to complete the development for the different stages of the digital renminbi-related application systems. On the other hand, DCITS was also piloting innovative applications of digital renminbi in various scenarios such as prepaid cards and logistics. In the field of quantum communication, DCITS has successively signed more than ten projects such as metropolitan area network projects of Beijing and Bengbu, the integration of innovative application platform projects of secure quantum communications for industrial internet and other emerging ICT fields. As a result, DCITS was selected for Forbes China’s “2021 China’s Most Innovative Enterprises List” and was included in the “Blockchain 50 Index.”

5) Business Outlook: Clear alignment between our core business and that of the evolving regulatory environment in the People’s Republic of China, driving potential upside for our shareholders

On June 10, 2021, the Data Security Law was officially passed during the 29th session of the Standing Committee of the 13th National People’s Congress and will come into force on September 1, 2021. Aiming to further strengthen the current protection regime for the country’s fast-growing digital economy, the law stipulates, amongst other things, how data is used, collected, developed, and protected in the PRC. Data has been deemed as a basic and strategic resource of the country and as such, we expect the law will play an important role in implementing data security and safeguard the core interests of the PRC.

We have long been of the view that in order to evolve into a full-stack big data software enterprise, our

own proprietary technology as well as our in-house innovation capability will be crucial to that evolution. When our first flagship product Yan Cloud DaaS was awarded the First Prize of National Technological Invention Awards in 2019, the Group achieved a very important milestone which was the fact that our self-developed proprietary technology was recognized as the best invention in that year. That gave our research and development team a strong momentum to push new development for the next phase of products, focusing on supply chain big data products, Digital Twin and spatial-temporal A.I. which would in turn drive further digitalization of the supply chain business as well as cities.

With data being deemed as a basic and strategic resource of the country, the Group is very confident that our long term research and development efforts will pay off, as the overall regulatory environment is pushing for both enterprise and government operators to put data security and operability as one of their highest priorities. This will in turn drive our overall business growth and profitability, boosting shareholder returns.

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

As at 30 June 2021, the outstanding unpaid principal of the WMP was approximately HK\$1,957 million (RMB1,634 million). The Group has obtained the right to proactively dispose of the ultimate underlying assets involved in the WMP and has set up disposal plans and specific action plans.

Despite the significant impacts brought by the outbreak of the COVID-19 pandemic on the progress of all aspects of work, the Group pushed forward with the disposal of the real estate residential project (the amount of the principal and interest involved is approximately HK\$231 million (RMB193 million)) in accordance with the action plans. The asset restructuring procedure has been substantially completed. Following the completion of the transfer of the operation and management rights of the project, the Group will be able to recover the amount due to it from the sale proceeds. Based on the current market price of the assets of the project, it is expected that the assets can fully cover the Group's claims in the project.

The remaining ultimate underlying assets of the WMP, which involves investments in a market and a commercial complex, amounts to approximately HK\$1,726 million (RMB1,441 million). In accordance with the realisation and repayment plans, certain supporting facilities in the properties have been upgraded with a view to improving the valuation in preparation for subsequent sale. At the same time, the Group is actively negotiating the sale with interested parties. During the reporting period, the court has confirmed the priority of the Group's claims amounting to approximately HK\$1,138 million (RMB 950 million), which further clarified the attributes of the creditors' rights and provided a legal basis for accelerating the settlement of creditors' claims. The Group will continue to pursue execution according to the action plans. Further announcement will be made by the Company as and when appropriate in the event of any material development on the action plans.

Based on its judgment of the recoverable amount of the relevant ultimate underlying assets of the WMP and understanding of the progress of disposal of assets, the Company's management is of the view that the corresponding amount of the WMP as set out in the interim financial statements of the Group for the six months ended 30 June 2021 is reasonable and appropriate.

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\$27,239 million at 30 June 2021 which were financed by total liabilities of HK\$13,259 million, non-controlling interests of HK\$4,439 million and equity attributable to equity holders of the parent of HK\$9,541 million. The Group's current ratio at 30 June 2021 was 1.43 as compared to 1.40 at 31 December 2020.

During the six months ended 30 June 2021, capital expenditure of HK\$183 million was incurred mainly for the acquisition of properties, office equipment and IT infrastructure facilities.

As at 30 June 2021, the Group had cash and bank balances of HK\$1,669 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 0.37 at 30 June 2021 as compared to 0.46 at 31 December 2020. The computation of the said ratio was based on the total interest-bearing bank and other borrowings of HK\$3,543 million (31 December 2020: HK\$4,379 million) and equity attributable to equity holders of the parent of HK\$9,541 million (31 December 2020: HK\$9,430 million).

At 30 June 2021, 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	80,600	506,281	50,000	636,881
Interest-bearing bank borrowings, secured	-	799,614	64,786	864,400
Other borrowings	-	52,106	-	52,106
	<u>80,600</u>	<u>1,358,001</u>	<u>114,786</u>	<u>1,553,387</u>
Non-current				
Interest-bearing bank borrowings, secured	-	1,948,273	41,429	1,989,702
Total	<u>80,600</u>	<u>3,306,274</u>	<u>156,215</u>	<u>3,543,089</u>

Certain of the Group's bank borrowings of:

1. Approximately HK\$2,256 million extended by financial institutions to certain subsidiaries of the Group were secured by mortgages over the Group's buildings, investment properties and land use rights with an aggregate carrying amount of approximately HK\$4,215 million at 30 June 2021; and
2. Approximately HK\$598 million extended by financial institutions to certain subsidiaries of the Group were secured by pledge of 94,160,000 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 approximately HK\$1,632 million at 30 June 2021.

Included in the Group's current and non-current bank borrowings of approximately HK\$323 million and HK\$1,990 million respectively represented the long-term loans which are repayable from the year 2021 to year 2036. As at 30 June 2021, approximately HK\$1,673 million and HK\$1,870 million of the Group's bank borrowing were charged at fixed interest rate and floating interest rates respectively.

The total available bank credit facilities for the Group at 30 June 2021 amounted to approximately HK\$10,200 million, of which approximately HK\$2,342 million were in long-term loan facilities, approximately HK\$3,522 million were in trade lines and approximately HK\$4,336 million were in short-term and revolving money market facilities. At 30 June 2021, the facility drawn down by the Group was approximately HK\$2,313 million in long-term loan facilities, approximately HK\$1,185 million in trade lines and approximately HK\$1,178 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

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 Shenzhen Shengwugang Investment Co., Ltd. (深圳市生物港投资有限公司) ("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. At the end of December 2018, DCITS filed jurisdiction objection litigation with Beijing's Second Intermediate People's Court, which has been rejected by Beijing's Second Intermediate People's Court. DCITS filed litigation with Beijing Municipal High People's Court against the ruling rejecting the jurisdiction objection, which has been rejected by Beijing Municipal High People's Court in May 2019. On 29 October 2019, Beijing Second Intermediate People's Court issued the civil judgment (2018) Jing 02 Min Chu No. 344, which stated that: DCITS shall undertake the supplementary liability for the unsettled part of the debt Shengwugang Company owed to China Potevio Co., Ltd. under Guangdong Shenzhen Intermediate People's Court (2007) Shen Zhong Fa Wei Zhi Zi No. 539 Enforcement Case after the enforcement (with the amount limited to RMB68,125,000), which is limited to the extent of the principal and interest of the advance totaling RMB35,120,000; Beijing Xinfu Investment (Group) Co., Ltd. (北京新富投资有限公司) and Kunshan Shenchang Technology Co., Ltd. (昆山市申昌科技有限公司), being other third-party defendants, shall bear their supplementary liabilities to the extent of the capital withdrawal amounting to RMB58,380,000 and the principal and interest of the advance totaling RMB60,250,000, respectively. DCITS refused to the judgement and filed the appeal. DCITS has appealed to the court, but it is necessary to make a provision of RMB21,382,000 (equivalent to HK\$23,948,000) for the judgement above in 2019.

On 18 November 2020, DCITS reached an agreement with China Potevio Co., Ltd ("Settlement Agreement"). Pursuant to the Settlement Agreement, DCITS and China Potevio Co., Ltd. agreed to settle the case at a compensation of RMB21,000,000 (equivalent to HK\$24,622,000). After DCITS has paid the aforementioned settlement sum of RMB21,000,000 (equivalent to HK\$24,622,000), China Potevio Co., Ltd waived other claims against DCITS. DCITS made a compensation of RMB21,000,000 (equivalent to HK\$24,622,000) on 23 November 2020 and China Potevio Co., Ltd has issued the "Supplementary Compensation Settlement Certificate". On 10 June 2021, Beijing Municipal High People's Court issued the civil judgement (2020) Jingmin Zhong No. 95, which dismissed the appeal and upheld the original judgement.

Commitment

At 30 June 2021, the Group had the following commitments:

HK\$'000

Contracted, but not provided for, in the unaudited condensed consolidated interim financial statement:

Land and buildings	-
Capital contributions payable to joint ventures	32,737
Capital contributions payable to associates	25,155
Capital contributions payable to financial assets at fair value through other comprehensive income	513
	<u>58,405</u>

Events After the Reporting Period

No significant event occurred after the reporting period of the Company and up to the date of this announcement.

Human Resources and Remuneration Policy

At 30 June 2021, the Group had approximately 14,100 (30 June 2020: approximately 12,300) 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 39% increase in staff costs to approximately HK\$1,504 million for the six months ended 30 June 2021 as compared to approximately HK\$1,082 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.

The remuneration of the directors and senior management are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each director and senior management member as well as their individual performance.

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\$1,335 million. 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 HK\$'million	Utilised amount as at 1 January 2021 HK\$'million	Actual application during the six months ended 30 June 2021 HK\$'million	Un-utilised amount as at 30 June 2021 HK\$'million	Expected to be utilised by 30 June 2022 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	(485)	(3)	294	294
(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	(1,038)	(3)	294	294

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.

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 purpose mentioned above. At 30 June 2021, an aggregate of approximately HK\$1,041 million has been utilised from the Net Proceeds.

As at 30 June 2021, the un-utilised Net Proceeds from the Rights Issue amounted to approximately HK\$294 million. In 2021, due to the impact of the COVID-19 pandemic, the investment atmosphere was relatively sluggish, and the management of the Company became more cautious in investing in mergers and acquisitions. Therefore, the un-utilised Net Proceeds had not been utilised in full as at 30 June 2021. All of such un-utilised Net Proceeds will be utilised for financing the Healthcare Big Data Investment or any other potential investments and acquisitions as and when any suitable opportunity is identified. It is expected that the un-utilised Net Proceeds will be fully utilised by 30 June 2022.

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 and 31 December 2019 and 31 December 2020 of the Company.

REVIEW BY AUDIT COMMITTEE

The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. WONG Man Chung, Francis (who is the Chairman of the Audit Committee), Ms. NI Hong (Hope) and Mr. KING William. The Audit Committee has reviewed with the senior management of the Company their respective findings, the accounting treatment, 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 results of the Group for the six months ended 30 June 2021, with no disagreement.

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 2021, except for 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 been taking up the dual role as Chairman and 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 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 securities transactions of the Directors. 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 2021.

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

During the six months ended 30 June 2021, 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 2021.

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 2021

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. PENG Jing and Mr. ZENG Shuigen

Independent Non-executive Directors: Mr. WONG Man Chung, Francis, Ms. NI Hong (Hope), Dr. LIU Yun, John, Mr. KING William and Mr. Timothy Yung-cheng CHEN

Website: www.dcholdings.com

** For identification purpose only*