神州数码
Digital China

Leading Sm@rt City in China

Digital China Holdings Limited

神州數碼控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 00861

Interim 2015 Report

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Contents

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

Condensed Consolidated Statement of Profit or Loss

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

Condensed Consolidated Statement of Comprehensive Income

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

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2015 (Unaudited) HK$'000	31 December 2014 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**892,416**	1,323,438
Investment properties		**1,918,175**	1,744,226
Prepaid land premiums		**137,246**	139,960
Goodwill		**1,268,677**	1,274,815
Other intangible assets		**38,636**	65,786
Investments in joint ventures		**933,064**	675,579
Investments in associates		**1,521,272**	1,191,959
Available-for-sale investments		**572,389**	1,916,433
Finance lease receivables		**66,671**	7,686
Prepayments, deposits and other receivables		**243,696**	—
Deferred tax assets		**115,556**	192,609
Total non-current assets		**7,707,798**	8,532,491
CURRENT ASSETS			
Inventories		**497,995**	6,175,416
Properties under development		**662,276**	562,445
Trade and bills receivables	8	**4,120,045**	9,601,923
Prepayments, deposits and other receivables		**1,275,437**	3,683,099
Derivative financial instruments		**—**	32,841
Available-for-sale investments		**6,954**	1,000,000
Cash and cash equivalents		**2,470,846**	4,119,557
		9,033,553	25,175,281
Assets of a disposal group classified as held for sale	6	**18,065,630**	—
Total current assets		**27,099,183**	25,175,281
CURRENT LIABILITIES			
Trade and bills payables	9	**2,479,931**	10,301,179
Other payables and accruals		**1,641,211**	4,021,434
Tax payable		**23,734**	359,318
Interest-bearing bank borrowings		**2,209,484**	7,060,139
		6,354,360	21,742,070
Liabilities directly associated with the assets classified as held for sale	6	**16,087,033**	—
Total current liabilities		**22,441,393**	21,742,070
NET CURRENT ASSETS		**4,657,790#**	3,433,211
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,365,588**	11,965,702

The unaudited net current assets of the Company as at 30 June 2015 was HK$4,657,790,000. In the Company's announcement of interim results for the six months ended 30 June 2015 published on 25 August 2015, there was a typographical error on the figure presented (in HK$'000) as the unaudited net current assets as at 30 June 2015 in the condensed consolidated statement of financial position, which was misstated as 4,901,486.

	30 June 2015 (Unaudited) HK$'000	31 December 2014 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES	**12,365,588**	11,965,702
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**1,211,838**	1,064,848
Deferred tax liabilities	**61,826**	—
Deferred income	**56,438**	36,679
Total non-current liabilities	**1,330,102**	1,101,527
NET ASSETS	**11,035,486**	10,864,175
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**109,419**	109,374
Reserves	**8,652,839**	8,276,528
Proposed final dividend	**—**	214,454
	8,762,258	8,600,356
Non-controlling interests	**2,273,228**	2,263,819
TOTAL EQUITY	**11,035,486**	10,864,175

Condensed Consolidated Statement of Changes in Equity

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

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

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

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

Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cash flows from operating activities		
Decrease/(increase) in inventories	**122,312**	(32,636)
Decrease/(increase) in trade and bills receivables	**(738,171)**	1,566,032
Decrease in trade and bills payables	**(664,228)**	(1,541,405)
Decrease in other working capital and adjustments for non-cash transactions	**345,661**	627,011
Net cash flows from/(used in) operating activities	**(934,426)**	619,002
Cash flows from investing activities		
Purchases of items of property, plant and equipment	**(60,010)**	(90,497)
Additions to investment properties	**(148,181)**	(97,504)
Additions to properties under development	**(109,931)**	(42,253)
Proceeds from disposal of items of property, plant and equipment	**291**	360
Additions to other intangible assets	**(3)**	(2,792)
Disposal of a subsidiary	**62,289**	—
Proceeds from disposal of a joint venture	**—**	2,294
Proceeds from disposal of available-for-sales investments	**172,413**	—
Dividends received from a joint venture	**4,823**	6,175
Dividends received from associates	**9,599**	—
Investments in joint ventures	**(261,753)**	(280,797)
Investment in an associate	**(337,512)**	—
Investments in available-for-sale investments	**(232,387)**	(1,445,224)
Decrease/(increase) in other receivables	**(542,732)**	124,799
Net cash flows used in investing activities	**(1,443,094)**	(1,825,439)

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cash flows from financing activities		
Exercise of share options	**2,686**	—
New bank loans	**12,146,165**	5,591,937
Repayment of bank loans	**(10,134,649)**	(4,148,366)
Interest paid	**(120,221)**	(121,014)
Dividends paid	**(214,454)**	(190,037)
Dividends paid to non-controlling shareholders	**(27,452)**	—
Contribution from non-controlling shareholders of subsidiaries	**2,613**	8,237
Net cash flows from financing activities	**1,654,688**	1,140,757
Net decrease in cash and cash equivalents	**(722,832)**	(65,680)
Cash and cash equivalents at the beginning of the period	**4,119,557**	3,894,211
Effects of foreign exchange rate changes, net	**(16,757)**	(49,108)
Cash and cash equivalents at the end of the period	**3,379,968**	3,779,423
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	**2,470,846**	3,779,423
Cash and cash equivalents attributable to a discontinued operation	**909,122**	—
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	**3,379,968**	3,779,423

Notes to the Condensed Consolidated Interim Financial Statements

1. Basis of preparation

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2015 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). In preparing the unaudited condensed consolidated interim financial 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 2014 had been consistently applied except in relation to the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, HKASs and interpretations) that affect the Group and has adopted the first time for the current period's unaudited condensed consolidated interim financial statements:

Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*
Annual Improvements 2010–2012 Cycle	Amendments to a number of HKFRSs
Annual Improvements 2011–2013 Cycle	Amendments to a number of HKFRSs

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

2. Operating segment information

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

(1) the business of investing in financial products with surplus funds of the Distribution segment is transferred from the Financial Service Strategy Unit under the New Business Segment and aggregated under the discontinued Digital China Group segment; and

(2) the service fee-based businesses in the discontinued Digital China Group is transferred to and aggregated under the Supply Chain Management Strategy Unit segment.

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

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

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

2. Operating segment information (Continued)

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

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

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

2. Operating segment information (Continued)

The following table presents revenue and results for the Group's operating segments from continuing operation for the six months ended 30 June 2015 and 2014:

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

3. Revenue, other income and gains

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

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

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

4. Profit before tax

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

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

5. Income tax expense

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

(a) No provision for Hong Kong profits tax has been made as the continuing operations of the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

(b) Corporate income tax of the People's Republic of China ("**PRC**") represents tax charged on the estimated assessable profits arising in Mainland China. In general, the Group's subsidiaries operating in Mainland China are subject to the PRC corporate income tax rate of 25% except for certain subsidiaries which are entitled to preferential tax rates.

5. Income tax expense (Continued)

(c) The share of tax charge attributable to the joint ventures from continuing operations of the Group of approximately HK$5,734,000 (six months ended 30 June 2014 (restated): HK$401,000) and the share of tax charge attributable to the associates from continuing operations of the Group of approximately HK$5,666,000 (six months ended 30 June 2014 (restated): HK$6,018,000) are included in "Share of profits and losses of joint ventures" and "Share of profits and losses of associates", respectively, in the unaudited condensed consolidated statement of profit or loss.

6. Discontinued operation

On 7 August 2015, the Company published an announcement in relation to its proposed disposal of the subsidiaries engaged in the distribution business (namely, "Digital China Group") to Shenzhen Shenxin Taifeng Group Co., Ltd.* (深圳市深信泰豐(集團)股份有限公司) ("**Shenxin Taifeng**"), the details of which have been set out in the circular entitled "Very Substantial Disposal and Connected Transaction and Notice of Special General Meeting" published on 9 August 2015. The disposal of Digital China Group is subject to the approval of the shareholders of the Company and those of Shenxin Taifeng. Following completion of the transaction, the entities engaged in the distribution business will cease to be the Company's subsidiaries. Digital China Group was classified as a disposal group held for sale and as a discontinued operation, and accordingly the distribution business is no longer included in the note for the continuing segment information.

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

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

* *For identification purpose only*

6. Discontinued operation (Continued)

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

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

Notes:

(a) Included in the assets classified as held for sale of the Group as at 30 June 2015 were trade and bills receivables due from a joint venture and associates of the Group approximately HK$162,000 (31 December 2014: Nil) and HK$619,000 (31 December 2014: Nil).

(b) Included in the assets classified as held for sale of the Group as at 30 June 2015 were (i) loans of HK$155,498,000 (31 December 2014: Nil) to joint ventures of the Group, which are unsecured, bear interest at rates ranged from 9% to 10% (31 December 2014: Nil) per annum and are repayable within one year from the end of the reporting period; and (ii) loans of HK$87,079,000 (31 December 2014: Nil) to a wholly-owned subsidiary of the Group's joint venture, Digital China Technology Industry Investment Co., Ltd., which are unsecured, bear interest at rates ranged from 15.35% to 16.15% (31 December 2014: Nil) per annum and are repayable within one year from the end of the reporting period.

6. Discontinued operation (Continued)

Notes: (Continued)

(c) Included in the liabilities directly associated with the assets classified as held for sale of the Group as at 30 June 2015 were trade and bills payables due to a joint venture of the Group approximately HK$6,650,000 (31 December 2014: Nil).

(d) Included in the liabilities directly associated with the assets classified as held for sale of the Group as at 30 June 2015 were other payables and accruals due to an associate of the Group approximately HK$18,000 (31 December 2014: Nil).

The net cash flows incurred by Digital China Group are as follows:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Operating activities	**(343,774)**	719,359
Investing activities	**1,336,900**	(1,833,163)
Financing activities	**(1,974,719)**	922,094
Net cash flows	**(981,593)**	(191,710)
Earnings per share:		
Basic, from the discontinued operation	**20.82 HK cents**	25.58 HK cents
Diluted, from the discontinued operation	**20.78 HK cents**	25.12 HK cents

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

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

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

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

The calculation of the diluted earnings per share amount for the six months ended 30 June 2015 is based on the profit for the six months ended 30 June 2015 attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue less shares held the restricted share award scheme during the six months ended 30 June 2015, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares related to the Group's share-based incentive schemes into ordinary shares.

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

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

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

8. Trade and bills receivables

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

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

Included in the Group's trade and bills receivables are amounts due from joint ventures and associates of the Group of approximately HK$106,000 (31 December 2014: HK43,349,000) and HK$185,000 (31 December 2014: HK$1,802,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

9. Trade and bills payables

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

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

9. Trade and bills payables (Continued)

At 31 December 2014, included in the Group's trade and bill payables were amounts due to a joint venture and an associate of the Group of approximately HK$48,967,000 and HK$478,000, respectively.

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

10. Operating leases arrangements

(i) As lessor

At 30 June 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with the tenant of the Group's properties falling due as follows:

	30 June 2015 (Unaudited) HK$'000	31 December 2014 (Audited) HK$'000
Within one year	35,090	22,422
In the second to fifth years, inclusive	103,885	73,815
After five year	22,235	17,719
	161,210	113,956

(ii) As lessee

At 30 June 2015, the Group had total future minimum lease payments under non-cancellable operating leases of office properties and warehouses falling due as follows:

	30 June 2015 (Unaudited) HK$'000	31 December 2014 (Audited) HK$'000
Within one year	110,168	100,081
In the second to fifth years, inclusive	83,846	52,136
After five year	1,378	—
	195,392	152,217

11. Commitments

In addition to the operating leases commitments detailed in note 10 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2015 (Unaudited) HK$'000	31 December 2014 (Audited) HK$'000
Contracted, but not provided for:		
Land and buildings	**439,872**	651,073
Capital contributions payable to joint ventures	**18,224**	10,313
Capital contributions payable to an associate	**18,660**	—
Capital contributions payable to an available-for-sale investment	**—**	31,250
	476,756	692,636

12. Related party transactions

(a) Transactions with related parties:

The Group had the following material transactions with related parties during the period:

	Notes	Six months ended 30 June 2015 (Unaudited) HK$'000	2014 (Unaudited) HK$'000
DigiWin Software Co., Ltd.+ and its subsidiaries, associates of the Group:			
Provision of IT services by the Group	(i)	**1,800**	3,550
Digital China Chengdu Sobey Science & Technology Company Limited+, a joint venture of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	**1,705**	6,669
Purchase of goods by the Group	(iii)	**2,373**	4,933
China Information Development Co., Ltd.+, a joint venture of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	**12,862**	—
Chongqing Digital China HC Microfinance Ltd.+, a joint venture of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	**3,629**	—
Suzhou Digital China JieTong Technology Co., Ltd.+, a joint venture of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	**—**	4,927
Digital China Technology Industry Investment Co., Ltd.+ ("**DCTII**") and its subsidiary, joint ventures of the Group:			
Interest income of the loan	(iv)	**7,798**	17,330
Beijing China New Energy Co., Ltd.+, a joint venture of the Group:			
Interest income of the loan	(iv)	**6,560**	—

12. Related party transactions (Continued)

(a) Transactions with related parties: (Continued)

Notes:

(i) The prices for provision of IT services were determined at rates mutually agreed between the Group and the corresponding related parties.

(ii) The sales were made with reference to the listed prices and conditions offered to the major customers of the Group.

(iii) The purchases were made at prices mutually agreed between the Group and the corresponding related parties.

(iv) Interest income is calculated with reference to the market interest rates.

+ The English names of these companies are direct transliterations of their Chinese registered names.

(b) Outstanding balances with related parties:

(i) Details of the Group's trade balances with the joint ventures and associates as at the end of the reporting period are included in notes 8 and 9 to these unaudited condensed consolidated interim financial statements, respectively.

(ii) At 30 June 2015, the amounts due to the Group's joint ventures and associates included in the Group's other payables and accruals totalled approximately HK$12,000 (31 December 2014: HK$589,000).

(iii) Included in the Group's prepayments, deposits and other receivables as at 30 June 2015 are (i) loans of HK$149,278,000 (31 December 2014: HK$125,000,000) to joint ventures of the Group, which are unsecured, bear interest at a rate of 6% (31 December 2014: 9.50%) per annum and are repayable within one year from the end of the reporting period; and (ii) a loan of HK$124,398,000 (31 December 2014: HK$62,500,000) to a wholly-owned subsidiary of the Group's joint venture, DCTII, which is unsecured, bears interest at a rate of 15.10% (31 December 2014: 16.15%) per annum and is repayable within one year from the end of the reporting period. At 31 December 2014, the loan was secured by the entire interests of DCTII held by another joint venturer of DCTII.

(iv) Details of the balances of the discontinued operation with the joint ventures and associates of the Group as at the end of the reporting period are included in notes 6 to these unaudited condensed consolidated interim financial statements.

12. Related party transactions (Continued)

(c) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short term employee benefits	**9,604**	5,921
Post-employment benefits	**79**	72
Share-based compensation	**5**	3,032
Total compensation paid to key management personnel	**9,688**	9,025

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

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

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

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

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

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

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

1. The business of investment in financial products with surplus funds of the Distribution Business segment is transferred from the Financial Service Strategy Unit under the New Business segment and aggregated under Digital China Group; and

2. The service fee-based businesses in Digital China Group is transferred to and aggregated under the Supply Chain Management Strategy Unit segment.

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

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

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

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

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

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

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

Continuing Operations

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

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

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

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

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

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

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

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

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

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

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

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

Multiple financial licenses providing capital support: The financial institution business leverages Digital China's brand advantage, channel resources and advanced technologies and the licenses that it has already obtained for various financial businesses, such as micro-credit finance, third-party payment, commercial factoring, and finance leasing, so as to provide financial support for the Company's vigorous development of Internet-based services, and facilitate rapid development of Internet-based financial business by rendering strong support. Chongqing Digital China HC Micro-credit finance Co., Ltd., our joint venture with HC International, made great progress to develop its micro-credit finance business on the back of its qualifications in nationwide micro-credit finance operations, leveraging on the online membership base and transaction information of HC International. Loan balance as at the end of June 2015 amounted to approximately RMB1.2 billion among which RMB1 billion comes from its funding and RMB200 million comes from shareholders' loan. Net profit of the joint venture company for the first half of the year amounted to over RMB22 million. Loan balance of the commercial factoring and finance leasing operations as at the end of June 2015 was in excess of RMB200 million for the company itself.

Discontinued Operation

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

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

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

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

3. Management Outlook

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

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

Capital Expenditure, Liquidity and Financial Resources

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

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

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

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

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

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

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

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

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

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

Human Resources

At 30 June 2015, the Group's continuing operations had approximately 5,400 (30 June 2014 (restated): approximately 5,100) full-time employees. The majority of these employees work in the PRC. The Group's continuing operations offers remuneration packages in line with industry practice. Employees' remuneration includes basic salaries and bonuses. With the increase in the total number of staff to cope with its business requirements, the Group's continuing operations has recorded a 3.64% increase in staff costs to approximately HK$639 million for the six months ended 30 June 2015 as compared to approximately HK$616 million (restated) for the corresponding period of the last financial year. In order to attract and retain a high caliber of capable and motivated workforce, the Company offers share-based incentive schemes to staff based on the individual performance and the achievements of the Company's targets. The Group's continuing operations is committed to providing its staff with various in-house and external training and development programs.

Interim Dividends

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

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

At 30 June 2015, the interests and short positions of each Director and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have taken under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company (the "**Model Code**") were as follows:

Name of Director	Capacity	Personal interests	Corporate interests	Number of outstanding share options	Total *(Note 1)*	Approximate percentage of aggregate interests (%) *(Note 7)*
GUO Wei	Beneficial owner and interests of a controlled corporation	2,170,600	69,414,286 *(Note 2)*	960,000 *(Note 3)*	72,544,886	6.63
Andrew Y. YAN	Interests of a controlled corporation	—	59,111,744 *(Note 4)*	—	59,111,744	5.40
LIN Yang	Beneficial owner	389,300	—	1,000,000 *(Note 5)*	1,389,300	0.13
YAN Guorong	Beneficial owner	383,300	—	793,000 *(Note 6)*	1,176,300	0.11

Notes:

1. All of the interests disclosed herein represent long position in the shares of the Company.

2. These 69,414,286 shares of the Company were beneficially held by Kosalaki Investments Limited ("**KIL**"), of which Mr. GUO Wei is the controlling shareholder and also a director of KIL, therefore, Mr. GUO Wei was deemed to be interested in such shares in which KIL was interested.

3. These 960,000 share options held by Mr. GUO Wei were granted on 21 May 2008. These share options are exercisable from 21 May 2009 to 20 May 2016 at an exercise price of HK$5.89 per share for subscription of ordinary shares of the Company.

4. These 59,111,744 shares of the Company were beneficially held by Sparkling Investment (BVI) Limited ("**SIBL**"), which is wholly-owned by SAIF Partners III L.P.. SAIF Partners III L.P. is controlled by SAIF III GP, L.P., and SAIF III GP, L.P. is indirectly controlled by Mr. Andrew Y. YAN through SAIF III GP Capital Ltd., therefore, Mr. Andrew Y. YAN was deemed to be interested in such shares in which SIBL was interested.

5. These 1,000,000 share options held by Mr. LIN Yang were granted on 21 May 2008. These share options are exercisable from 21 May 2009 to 20 May 2016 at an exercise price of HK$5.89 per share for subscription of ordinary shares of the Company.

6. Out of these 793,000 share options in aggregate held by Mr. YAN Guorong,

    i. 125,000 share options were granted on 21 May 2008. These share options are exercisable from 21 May 2009 to 20 May 2016 at an exercise price of HK$5.89 per share for subscription of ordinary shares of the Company; and

    ii. 668,000 share options were granted on 11 January 2011. These share options are exercisable from 11 January 2012 to 10 January 2019 at an exercise price of HK$15.04 per share for subscription of ordinary shares of the Company.

7. The approximate percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under Section 352 of the SFO.

Save as disclosed above, at 30 June 2015, none of the Directors and chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors and chief executive were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of Part XV of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2015, to the best knowledge of the Directors, the following persons, not being a Director or chief executive of the Company, had the following interests and short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO:

Name	**Capacity**	**Number of shares** *(Note 1)*	**Approximate percentage of aggregate interests (%)** *(Note 8)*
Kosalaki Investments Limited *(Note 2)*	Beneficial owner	69,414,286	6.35
Sparkling Investment (BVI) Limited	Beneficial owner	59,111,744 *(Note 3)*	5.40
SAIF III GP Capital Ltd.	Interests of a controlled corporation	59,111,744 *(Note 3)*	5.40
Allianz SE	Interests of controlled corporations	87,929,000 *(Note 4)*	8.04
International Value Advisers, LLC	Investment manager	62,878,000 *(Note 5)*	5.75
Legend Holdings Corporation 聯想控股股份有限公司 *(Note 6)*	Beneficial owner/Interests of a controlled corporation	35,013,077/ 21,368,642 *(Note 7)*	5.15

Notes:

1. All of the interests disclosed herein represent long position in the shares of the Company.

2. KIL is controlled by Mr. GUO Wei who is a director of the Company and KIL.

3. These 59,111,744 shares of the Company were beneficially held by SIBL, which is wholly-owned by SAIF Partners III L.P.. SAIF Partners III L.P. is controlled by SAIF III GP, L.P., and SAIF III GP, L.P. is indirectly controlled by Mr. Andrew Y. YAN through SAIF III GP Capital Ltd., therefore, Mr. Andrew Y. YAN was deemed to be interested in such shares in which SIBL was interested.

4. Out of these 87,929,000 shares of the Company in aggregate, 85,225,000 shares were held by RCM Asia Pacific Ltd., 2,414,000 shares by Allianz Global Investors Taiwan Ltd., 185,000 shares by Allianz Global Investors Europe GmbH and 105,000 shares by Allianz Global Investors Fund Management LLC. All of the aforementioned companies were indirectly controlled by Allianz SE.

5. International Value Advisers, LLC was interested in an aggregate of 62,878,000 shares of the Company by virtue of the SFO. Those interests were held in the capacity of investment manager.

6. The English name is direct transliteration of its Chinese registered name.

7. These 21,368,642 shares of the Company were held by Right Lane Limited, a wholly-owned subsidiary and a controlled corporation of Legend Holdings Corporation, and therefore Legend Holdings Corporation was deemed to be interested in such shares by virtue of the SFO.

8. The approximate percentage of interests is based on the aggregate nominal value of the shares/underlying shares comprising the interests held as a percentage of the aggregate nominal value of all the issued share capital of the Company of the same class immediately after the relevant event and as recorded in the register maintained under Section 336 of the SFO.

Save as disclosed above, at 30 June 2015, the Company had not been notified by any persons who had interests or short positions in shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO.

Share-Based Incentive Schemes

(A) Share Option Schemes

The Company operates two share option schemes. One of the share option schemes was adopted on 18 July 2002 (the "**2002 Share Option Scheme**") and the other share option scheme was adopted on 15 August 2011 (the "**2011 Share Option Scheme**").

Since the adoption of the 2011 Share Option Scheme, no options were granted, lapsed and cancelled under the 2011 Share Option Scheme.

The following table shows the movements in the share options under the 2002 Share Option Scheme during the six months ended 30 June 2015 and the options outstanding at the beginning and end of the period:

	Number of share options							
Grantee	Outstanding as at 1/1/2015	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding as at 30/6/2015	Subscription price per share HK$ *(Note 2)*	Date of grant	Exercisable period *(Note 1)*
Directors								
GUO Wei	960,000	–	–	–	960,000	5.89	21/05/2008	21/05/2009–20/05/2016
LIN Yang	1,000,000	–	–	–	1,000,000	5.89	21/05/2008	21/05/2009–20/05/2016
YAN Guorong	125,000	–	–	–	125,000	5.89	21/05/2008	21/05/2009–20/05/2016
YAN Guorong	668,000	–	–	–	668,000	15.04	11/01/2011	11/01/2012–10/01/2019
Other employees	2,717,000	–	–	(456,000)	2,261,000	5.89	21/05/2008	21/05/2009–20/05/2016
	3,487,000	–	(120,000)	–	3,367,000	15.04	11/01/2011	11/01/2012–10/01/2019
In aggregate	8,957,000	–	(120,000)	(456,000)	8,381,000			

Notes:

1. All options granted are subject to a vesting period of four years with 25% becoming exercisable on the first anniversary, 25% on the second anniversary, 25% on the third anniversary and 25% on the fourth anniversary of the respective dates of grant.

2. The subscription price of the options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair values of share options granted under the 2002 Share Option Scheme were estimated as at the dates of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Granted on:	11 January 2011	21 May 2008
Dividend yield (%)	3.5 per annum	3.5 per annum
Expected volatility (%)	48 per annum	45 per annum
Historical volatility (%)	48 per annum	45 per annum
Risk-free interest rate (%)	2.1 per annum	2.6 per annum
Weighted average share price (HK$ per share)	14.98	5.89

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

(B) Restricted Share Award Scheme

The Company's restricted share award scheme (the "**RSA Scheme**") was adopted on 28 March 2011 for the purpose of rewarding and motivating, among others, directors (including executive and non-executive) and employees of the Company and its subsidiaries (the "**Participants**") with the shares of the Company. The RSA Scheme is intended to attract and retain the best available personnel, and encourage and motivate the Participants to work towards enhancing the value of the Group and the Company's shares by aligning their interests with those of the shareholders of the Company.

Pursuant to the RSA Scheme, existing shares of the Company will be purchased by the trustee of the RSA Scheme from the market out of cash contributed by the Group and be held in trust for the relevant Participants until such shares are vested with the relevant Participants in accordance with the provisions of the RSA Scheme. The shares of the Company granted under the RSA Scheme and held by the trustee until vesting are referred to as restricted share units ("**RSU(s)**") and each RSU shall represent one ordinary share of the Company.

No RSU were granted to the Participants during the six months ended 30 June 2015.

During the six months ended 30 June 2015, the Group recognised the share-based compensation expenses of HK$32,000 (six months ended 30 June 2014: HK$19,347,000) in the unaudited condensed consolidated statement of profit or loss.

Disclosure of Directors' Information Pursuant to Rule 13.51B(1) of the Listing Rules

Changes in the information of Directors required to be disclosed under Rule 13.51B(1) of the Rules Governing the Listing of Securities in the Stock Exchange (the "**Listing Rules**") are set out as below:

Name of Director	Details of Changes
GUO Wei	Appointed as an Independent Non-executive Director of China Southern Airlines Company Limited, a company listed on the Main Board of the Stock Exchange, The Shanghai Stock Exchange and The New York Stock Exchange
Andrew Y. YAN	Appointed as: — an Independent Director of TCL Corporation, a company listed on The Shenzhen Stock Exchange — an Independent Director of Sky Solar Holdings, Ltd., a company listed on the NASDAQ, USA
WONG Man Chung, Francis	— Became a Fellow Member of The Institute of Chartered Accountants in England and Wales — Appointed as an Independent Non-executive Director, Chairman of Audit Committee, Member of Remuneration Committee and Member of Nomination Committee of Greenheart Group Limited, a company listed on the Main Board of the Stock Exchange
YAN Xiaoyan	Ceased to be the President of the 6th Executive Committee of Beijing Banking Association since the association exchanged to the 7th Executive Committee

Compliance with the Model Code

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as its code of conduct for Directors' securities transactions. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2015.

Review by Audit Committee

The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. WONG Man Chung, Francis (who is the Chairman of Audit Committee), Ms. NI Hong (Hope) and Mr. ONG Ka Lueng, Peter. The Audit Committee has reviewed with the senior management of the Company their respective findings, the accounting principles and practices adopted by the Group, legal and regulatory compliance and discussed auditing, internal control, risk management and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2015.

Corporate Governance

The Company has complied with all the code provisions as set out in the "Corporate Governance Code and Corporate Governance Report" contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2015, except the following deviations from certain code provisions with considered reasons as given below:

Code Provision A.4.1 *stipulates that non-executive directors should be appointed for a specific term, subject to re-election.*

All of the Non-executive Directors of the Company were not appointed for any specific term. Since all Directors (save for the Chairman of the Board or the Managing Director) are subject to retirement by rotation at each annual general meeting in accordance with the bye-laws of the Company (the "**Bye-Laws**") and shall be eligible for re-election. The Board considers that the retirement of Directors by rotation at each annual general meeting in accordance with the Bye-Laws has given the shareholders of the Company the right to approve the continuation of the service of the Directors.

Code Provision A.4.2 *stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.*

Under the Bye-Laws, at each annual general meeting one-third of the Directors for the time being or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office, the Chairman of the Board or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation. Therefore, Mr. GUO Wei, the Chairman of the Board, shall not be subject to retirement by rotation. Given the existing number of Directors of the Company, not less than one-third of the Directors are subject to retirement by rotation at each annual general meeting, by which each Director (other than the Chairman of the Board) will retire by rotation once every three years at the minimum.

Code Provision A.5.1 *stipulates that company should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.*

The Company does not establish a Nomination Committee at present. The Company considers that the setting up of a Nomination Committee may not be necessary as the Board has the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as addition to the Board according to the Bye-Laws, therefore, the Board has been able to assume the responsibilities of a Nomination Committee. The Board will identify and assess whether the candidate has the balanced composition of skills and experience appropriate for the requirements of the businesses of the Company and suitably qualified to become board members.

Code Provision D.1.4 *stipulates that directors should clearly understand delegation arrangements in place. Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.*

The Company has not entered into any written letters of appointment with its Non-executive Director or any Independent Non-executive Directors. However, the Board recognizes that (i) the relevant Directors have already been subject to the laws and regulations applicable to directors of a company listed on The Stock Exchange of Hong Kong Limited, including the Listing Rules as well as the fiduciary duties to act in the best interests of the Company and its shareholders; (ii) all of them are well established in their professions and have held directorships in other listed companies; and (iii) the current arrangement has been adopted by the Company for years and has proved to be effective. Therefore, the Board considers that the relevant Directors are able to carry out their duties in a responsible and effective manner under the current arrangement.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules throughout the six months ended 30 June 2015.

By Order of the Board
GUO Wei
Chairman

Hong Kong, 25 August 2015

Website: www.digitalchina.com.hk