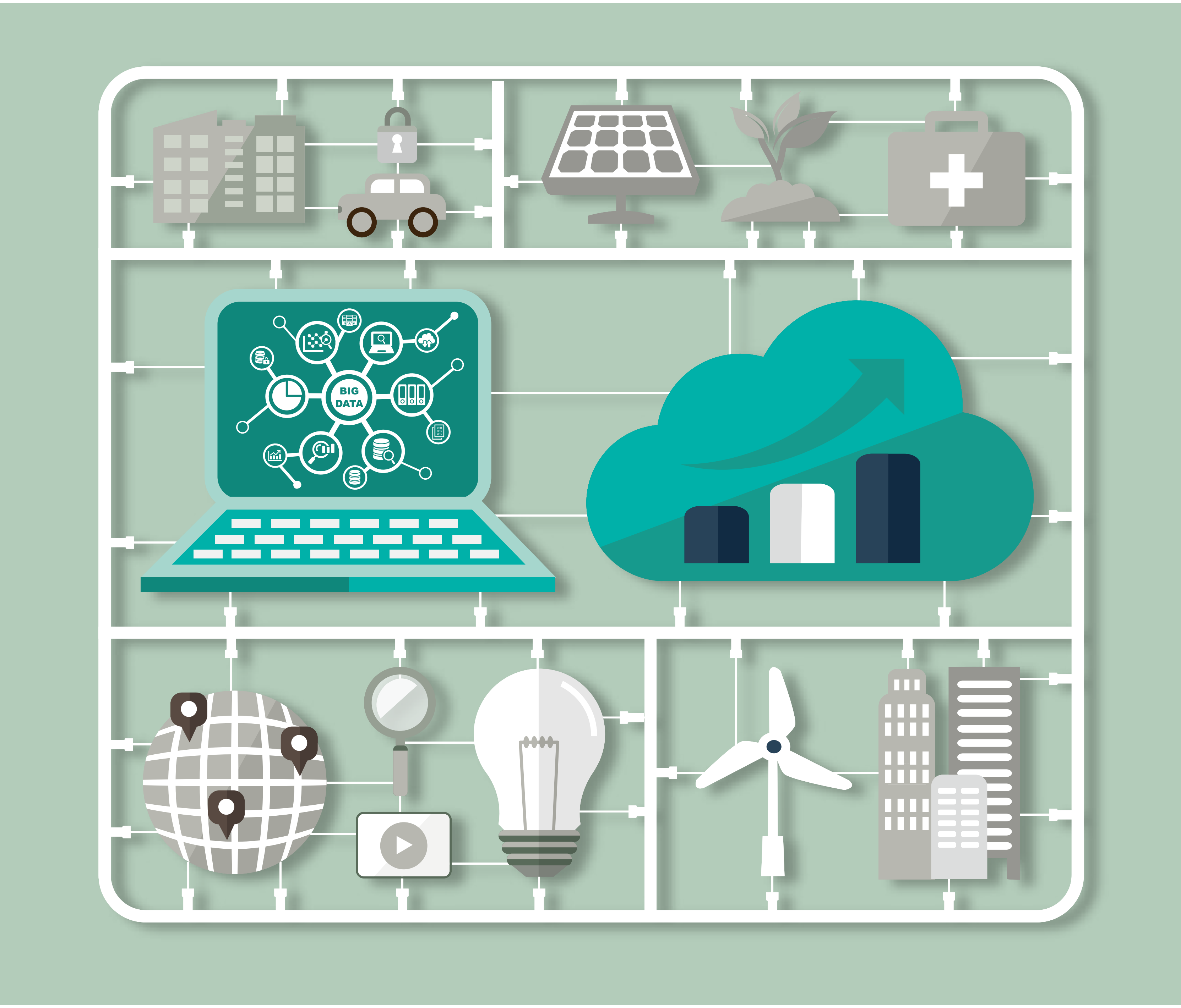
神州控股
DC Holdings

Digital China Holdings Limited
神州數碼控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 00861



INTERIM REPORT 2016

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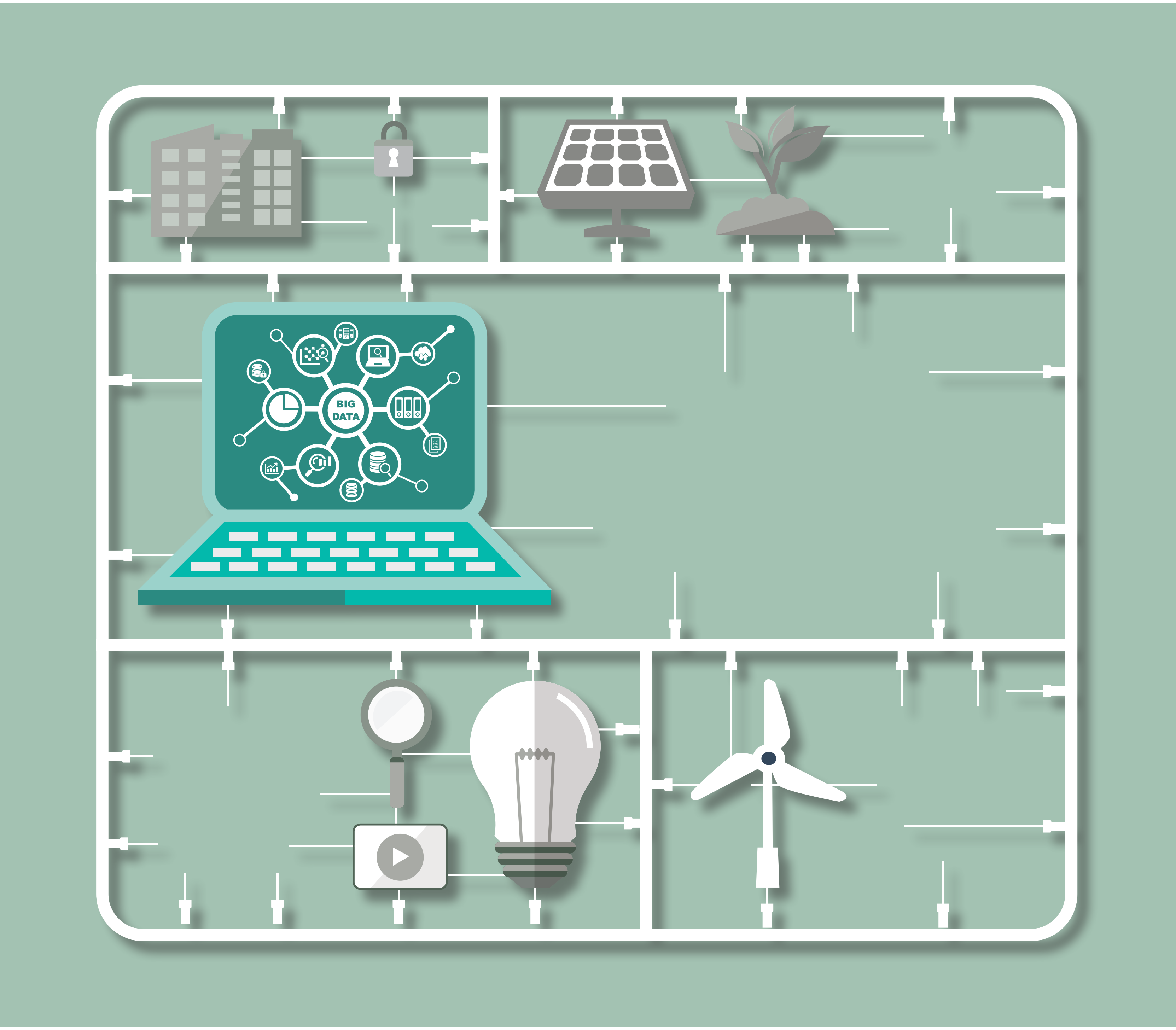

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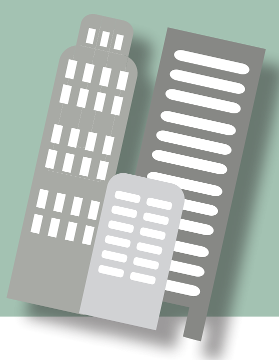

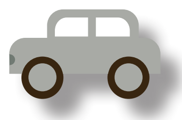

The board of directors (the "**Board**") of Digital China Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2016 together with comparative figures for the corresponding period of the last financial year as follows:

Condensed Consolidated Statement of Profit or Loss

		Six months ended 30 June	
	Notes	**2016** **(Unaudited)** **HK$'000**	2015 (Unaudited) HK$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	3	**5,428,947**	4,698,838
Cost of sales		**(4,452,959)**	(3,832,963)
Gross profit		**975,988**	865,875
Other income and gains	3	**76,955**	114,049
Selling and distribution expenses		**(429,068)**	(371,718)
Administrative expenses		**(109,710)**	(58,903)
Other expenses, net		**(484,652)**	(337,616)
Finance costs		**(111,211)**	(21,690)
Share of profits and losses of:			
Joint ventures		**602**	16,208
Associates		**6,185**	17,735
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	4	**(74,911)**	223,940
Income tax expense	5	**(4,829)**	(39,377)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		**(79,740)**	184,563
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	6	**559,623**	223,208
PROFIT FOR THE PERIOD		**479,883**	407,771
Attributable to:			
Equity holders of the parent		**432,598**	350,643
Non-controlling interests		**47,285**	57,128
		479,883	407,771
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic			
— For profit for the period		**39.97 HK cents**	32.70 HK cents
— For profit/(loss) from continuing operations		**–11.73 HK cents**	11.88 HK cents
Diluted			
— For profit for the period		**39.96 HK cents**	32.64 HK cents
— For profit/(loss) from continuing operations		**–11.74 HK cents**	11.86 HK cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**479,883**	407,771
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	**(30,157)**	48,235
Reclassification adjustments for gains included in the consolidated statement profit or loss:		
— impairment loss	**3,599**	—
— gain on disposal	**—**	(17,313)
	(26,558)	30,922
Exchange differences on translation of foreign operations	**(107,462)**	(33,488)
Share of other comprehensive income of an associate	**5,309**	2,681
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**(128,711)**	115
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Gains on property revaluation	**601,807**	—
Income tax effect	**(150,452)**	—
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**451,355**	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**322,644**	115
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**802,527**	407,886
Attributable to:		
Equity holders of the parent	**793,691**	373,638
Non-controlling interests	**8,836**	34,248
	802,527	407,886

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**927,766**	792,836
Investment properties		**3,027,098**	2,123,249
Prepaid land premiums		**72,547**	115,682
Goodwill		**1,290,671**	1,215,976
Other intangible assets		**81,272**	58,385
Investments in joint ventures		**932,407**	929,439
Investments in associates		**1,598,955**	1,623,804
Available-for-sale investments	8	**1,239,240**	591,714
Finance lease receivables		**389,099**	371,703
Prepayments, deposits and other receivables		**205,965**	639,477
Deferred tax assets		**92,501**	78,450
Total non-current assets		**9,857,521**	8,540,715
CURRENT ASSETS			
Inventories		**808,043**	812,451
Properties under development		**211,566**	437,788
Completed properties held for sale		**315,683**	80,600
Accounts and bills receivables	9	**4,256,203**	3,700,923
Prepayments, deposits and other receivables		**1,745,044**	1,583,573
Available-for-sale investments	8	**2,472,195**	4,889
Restricted bank balances		**49,706**	69,654
Cash and cash equivalents		**2,471,699**	3,272,212
		12,330,139	9,962,090
Assets of a disposal group classified as held for sale	6	**—**	18,983,558
Total current assets		**12,330,139**	28,945,648
CURRENT LIABILITIES			
Accounts and bills payables	10	**2,635,215**	2,005,817
Other payables and accruals		**2,355,551**	2,254,933
Tax payable		**16,671**	84,216
Interest-bearing bank borrowings		**4,311,076**	4,334,778
		9,318,513	8,679,744
Liabilities directly associated with the assets classified as held for sale	6	**—**	15,194,751
Total current liabilities		**9,318,513**	23,874,495
NET CURRENT ASSETS		**3,011,626**	5,071,153
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,869,147**	13,611,868

Condensed Consolidated Statement of Financial Position

	Note	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**3,607,532**	2,176,903
Deferred tax liabilities		**234,771**	84,963
Deferred income		**46,270**	55,685
Total non-current liabilities		**3,888,573**	2,317,551
NET ASSETS		**8,980,574**	11,294,317
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	11	**117,654**	109,637
Reserves		**6,436,074**	8,762,930
		6,553,728	8,872,567
Non-controlling interests		**2,426,846**	2,421,750
TOTAL EQUITY		**8,980,574**	11,294,317

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	Total (Unaudited) HK$'000	Non-controlling interests (Unaudited) HK$'000	Total equity (Unaudited) HK$'000
At 1 January 2016	109,637	2,080,480	1,498,902	(302,457)	30,305	4,669	36,481	647,594	126,690	4,640,266	8,872,567	2,421,750	11,294,317
Profit for the period	–	–	–	–	–	–	–	–	–	432,598	432,598	47,285	479,883
Other comprehensive income/(loss) for the period:													
Available-for-sale investments:													
– Changes in fair value	–	–	–	–	–	–	(30,157)	–	–	–	(30,157)	–	(30,157)
– Impairment loss	–	–	–	–	–	–	3,599	–	–	–	3,599	–	3,599
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(67,845)	–	(67,845)	(39,617)	(107,462)
Share of other comprehensive income of an associate	–	–	–	–	–	–	6,174	–	(2,033)	–	4,141	1,168	5,309
Gain on property revaluation, net of tax	–	–	–	–	–	451,355	–	–	–	–	451,355	–	451,355
Total comprehensive income/(loss) for the period	–	–	–	–	–	451,355	(20,384)	–	(69,878)	432,598	793,691	8,836	802,527
Issue of new shares (note 11)	7,800	382,200	–	–	–	–	–	–	–	–	390,000	–	390,000
Exercise of share options (note 11)	217	16,568	–	–	(3,998)	–	–	–	–	–	12,787	–	12,787
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	2,017	2,017
Disposal of subsidiaries	–	–	–	–	–	–	–	(381,197)	–	381,197	–	–	–
Acquisition of subsidiaries (note 12)	–	–	–	–	–	–	–	–	–	–	–	39,966	39,966
2015 special dividend	–	–	–	–	–	–	–	–	–	(3,515,317)	(3,515,317)	–	(3,515,317)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(45,723)	(45,723)
At 30 June 2016	117,654	2,479,248*	1,498,902*	(302,457)*	26,307*	456,024*	16,097*	266,397*	56,812*	1,938,744*	6,553,728	2,426,846	8,980,574

* These reserve accounts comprise the consolidated reserves of HK$6,436,074,000 (31 December 2015: HK$8,762,930,000) in the unaudited condensed consolidated statement of financial position.

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 (Restated)	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	4,263,682	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 (note 11)	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

Condensed Consolidated Statement of Cash Flows

	Note	Six months ended 30 June 2016 (Unaudited) HK$'000	 2015 (Unaudited) HK$'000
Cash flows from operating activities			
Decrease/(increase) in inventories		**(178,609)**	122,312
Increase in accounts and bills receivables		**(588,227)**	(738,171)
Increase/(decrease) in accounts and bills payables		**60,871**	(664,228)
Decrease in other working capital and adjustments for non-cash transactions		**348,125**	345,661
Net cash flows used in operating activities		**(357,840)**	(934,426)
Cash flows from investing activities			
Purchases of items of property, plant and equipment		**(26,636)**	(60,010)
Additions to investment properties		**(34,965)**	(148,181)
Additions to properties under development		**(73,503)**	(109,931)
Proceeds from disposal of items of property, plant and equipment		**294**	291
Additions to other intangible assets		**(29,249)**	(3)
Acquisition of subsidiaries	12	**(52,846)**	—
Disposal of subsidiaries		**1,891,334**	62,289
Proceeds from disposal of a joint venture		**22,841**	—
Proceeds from disposal of available-for-sales investments		**105,773**	172,413
Dividends received from a joint venture		**4,534**	4,823
Dividends received from associates		**—**	9,599
Dividends received from an available-for-sale investment		**311**	—
Investments in joint ventures		**(25,929)**	(261,753)
Investment in an associate		**(4,736)**	(337,512)
Investments in available-for-sale investments		**(2,022,861)**	(232,387)
Decrease/(increase) in other receivables		**171,960**	(542,732)
Net cash flows used in investing activities		**(73,678)**	(1,443,094)

Condensed Consolidated Statement of Cash Flows

	Note	Six months ended 30 June 2016 (Unaudited) HK$'000	2015 (Unaudited) HK$'000
Cash flows from financing activities			
Proceeds from issue of new ordinary shares	11	**390,000**	—
Exercise of share options	11	**12,787**	2,686
New bank loans		**9,300,696**	12,146,165
Repayment of bank loans		**(7,769,176)**	(10,134,649)
Interest paid		**(194,987)**	(120,221)
Dividends paid		**(3,515,317)**	(214,454)
Dividends paid to non-controlling shareholders		**(45,723)**	(27,452)
Contribution from non-controlling shareholders of subsidiaries		**2,017**	2,613
Net cash flows from/(used in) financing activities		**(1,819,703)**	1,654,688
Net decrease in cash and cash equivalents		**(2,251,221)**	(722,832)
Cash and cash equivalents at the beginning of the period		**4,738,228**	4,119,557
Effects of foreign exchange rate changes, net		**(15,308)**	(16,757)
Cash and cash equivalents at the end of the period		**2,471,699**	3,379,968
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the condensed consolidated statement of financial position		**2,471,699**	2,470,846
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		**2,471,699**	3,379,968

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 2016 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 2015 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 HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entitles: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 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

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

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

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

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

2. Operating segment information (Continued)

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

The following table presents revenue and results for the Group's operating segments from continuing operation for the six months ended 30 June 2016 and 2015:

	DCITS		Supply Chain Management Strategy Unit		New Business		Total continuing operations	
	Six months ended 30 June							
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	(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)
Segment revenue:								
Sales to external customers	**4,193,502**	3,538,929	**961,966**	1,119,869	**273,479**	40,040	**5,428,947**	4,698,838
Segment gross profit	**684,818**	674,075	**152,769**	155,731	**138,401**	36,069	**975,988**	865,875
Segment results	**115,612**	107,165	**34,512**	45,182	**(21,197)**	17,616	**128,927**	169,963
Interest income, other unallocated revenue and gains	**5,674**	28,626					**40,390**	62,448
Other unallocated expenses	**–**	–					**(139,804)**	(20,724)
Finance costs	**(35,207)**	(12,182)					**(111,211)**	(21,690)
Share of profits and losses of:								
Joint ventures	**(2,280)**	2,100					**602**	16,208
Associates	**4,074**	4,139					**6,185**	17,735
Profit/(loss) before tax	**87,873**	129,848					**(74,911)**	223,940
Income tax expense	**6,048**	(12,861)					**(4,829)**	(39,377)
Profit/(loss) for the period	**93,921**	116,987					**(79,740)**	184,563

3. Revenue, other income and gains

Revenue represents net invoiced value of goods and properties sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue; gross rental income received and receivable from investment properties; and the value of services rendered to customers, net of business tax and government surcharges.

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Restated)
Revenue		
Systems integration business	**2,542,781**	2,113,666
Technical services business	**1,022,370**	934,383
E-commerce supply chain services business	**332,792**	618,939
Logistics business	**514,478**	370,837
Application software development business	**370,137**	244,614
Agricultural informatisation business	**105,969**	60,597
Financial specified equipment business	**152,245**	185,668
Finance services business	**172,810**	13,204
Others	**215,365**	156,930
	5,428,947	4,698,838
Other income		
Government grants	**24,428**	18,036
Bank interest income	**9,743**	38,533
Income from wealth management financial products	**5,519**	7,855
Dividend income from an available-for-sale investment	**8,450**	8,864
Others	**2,323**	1,281
	50,463	74,569
Gains		
Fair value gains on investment properties, net	**—**	24,394
Gain on disposal of a subsidiary	**—**	35
Gain on partial disposal of the equity interest in a joint venture	**72**	—
Gain on disposal of available-for-sale investments	**26,420**	15,051
	26,492	39,480
	76,955	114,049

4. Profit/(loss) before tax

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
		(Restated)
Cost of inventories sold	**2,859,698**	2,760,949
Depreciation	**46,142**	50,923
Amortisation of prepaid land premiums	**1,782**	2,041
Amortisation of other intangible assets	**4,565**	7,305
Impairment loss on other intangible assets	**—**	19,586
Minimum lease payments under operating leases in respect of land and buildings	**64,973**	36,812
Provisions for and write-off of obsolete inventories	**18,299**	11,755
Impairment of accounts and bills receivables	**91,537**	74,813
Impairment of finance lease receivables	**16,507**	—
Impairment of an available for sale investment	**3,599**	—
Loss on deemed partial disposal of the equity interest in an associate	**35,965**	—
Loss on disposal of items of property, plant and equipment	**2,462**	1,949
Foreign exchange differences, net	**60,778**	8,157
Loss on derivative financial instruments	**322**	—

5. Income tax expense

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current — Mainland China		
Corporate income tax ("**CIT**")	**19,324**	74,699
Land appreciation tax ("**LAT**")	**321**	—
	19,645	74,699
Deferred	**(14,816)**	(35,322)
Total tax charge for the period	**4,829**	39,377

(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 2016 (six months ended 30 June 2015: Nil).

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

(c) PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sale of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

(d) The share of tax charge attributable to the joint ventures of HK$6,858,000 (six months ended 30 June 2015: HK$5,734,000) and the share of tax credit attributable to the associates of HK$71,000 (six months ended 30 June 2015: share of tax charge of HK$5,666,000) of continuing operations of the Group are included in "Share of profits and losses of joint ventures" and "Share of profits and losses of associates", respectively, in the unaudited condensed consolidated statement of profit or loss.

6. 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.* ("**Shenxin Taifeng**"), the details of which have been set out in the circular of the Company dated on 9 August 2015. Following completion of the transaction, the entities engaged in the distribution business will cease to be the Company's subsidiaries. The disposal of Digital China Group was approved by shareholders of the Company at the special general meeting held on 26 August 2015 and the approval from PRC regulatory authorities was received by Shenxin Taifeng on 18 December 2015. Digital China 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 disposal of the Digital China Group has been completed on 28 March 2016.

The net assets of Digital China Group disposed of as at the date of disposal were as follows:

	(Unaudited) HK$'000
Property, plant and equipment	370,011
Investment in an associate	43,668
Available-for-sale investments	75,464
Deferred tax assets	309,768
Inventories	5,803,416
Accounts and bills receivables	6,084,877
Prepayments, deposits and other receivables	3,314,765
Derivative financial instruments	2,954
Cash and cash equivalents	2,534,688
Accounts and bills payables	(5,621,913)
Other payables and accruals	(1,805,219)
Tax payable	(122,669)
Interest-bearing bank borrowings	(6,818,296)
Deferred tax liabilities	(198,175)
Exchange fluctuation reserve	(45,348)
	3,927,991
Gain on disposal of subsidiaries	842,047
Tax and expenses	(344,016)
Gain on disposal of subsidiaries, net of tax and expenses	498,031
	4,426,022
Satisfied by:	
Cash	4,426,022

* For identification purpose only

6. Discontinued operation (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	(Unaudited) HK$'000
Cash consideration	**4,426,022**
Cash and cash equivalents disposed of	**(2,534,688)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**1,891,334**

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	
	2016*	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue	**12,913,654**	28,621,829
Cost of sales	**(12,189,837)**	(27,165,284)
Gross profit	**723,817**	1,456,545
Other income and gains	**92,573**	262,310
Expenses	**(654,444)**	(1,301,197)
Finance cost	**(83,776)**	(98,531)
Share of profits and losses of a joint venture and an associate	**269**	(11,993)
Profit before tax from the discontinued operation	**78,439**	307,134
Income tax	**(16,847)**	(83,926)
	61,592	223,208
Gain on disposal of subsidiaries, net of tax and expenses	**498,031**	—
Profit for the period from the discontinued operation	**559,623**	223,208

* These numbers represent the activities in current period prior to disposal of discontinued operation.

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 the end of reporting period are as follows:

	Notes	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Assets			
Property, plant and equipment		–	379,707
Investment in an associate		–	43,398
Available-for-sale investments		–	1,267,771
Deferred tax assets		–	181,232
Inventories		–	5,697,842
Accounts and bills receivables	(a)	–	6,218,664
Prepayments, deposits and other receivables	(b)	–	3,728,928
Cash and cash equivalents		–	1,466,016
Assets classified as held for sale		–	18,983,558
Liabilities			
Accounts and bills payables	(c)	–	6,189,781
Other payables and accruals	(d)	–	1,967,673
Derivative financial instruments		–	64,147
Tax payable		–	88,084
Interest-bearing bank borrowings		–	6,741,689
Deferred tax liabilities		–	93,539
Deferred income		–	49,838
Liabilities directly associated with the assets classified as held for sale		–	15,194,751
Net assets directly associated with the disposal group		–	3,788,807

6. Discontinued operation (Continued)

Notes:

(a) Included in the assets classified as held for sale of the Group as at 31 December 2015 were accounts and bills receivables due from a joint venture of the Group of HK$10,748,000.

(b) Included in the assets classified as held for sale of the Group as at 31 December 2015 was a loan of HK$5,962,000 to a joint venture of the Group, which was unsecured, bear interest at a rate of 4.62% per annum and was repayable within one year from the end of the reporting period.

(c) Included in the liabilities directly associated with the assets classified as held for sale of the Group as at 31 December 2015 were accounts and bills payables due to a joint venture of the Group of HK$95,000.

(d) Included in the liabilities directly associated with the assets classified as held for sale of the Group as at 31 December 2015 were other payables and accruals due to associates of the Group of HK$43,752,000.

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Earnings per share:		
Basic, from the discontinued operation	**51.70 HK cents**	20.82 HK cents
Diluted, from the discontinued operation	**51.70 HK cents**	20.78 HK cents

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the parent from the discontinued operation	**HK$559,623,000**	HK$223,208,000
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)	**1,082,386,484**	1,072,457,098
Weighted average number of ordinary shares during the period used in the diluted earnings per share calculation (note 7)	**1,082,490,332**	1,074,210,734

7. Earnings/(loss) per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the six months ended 30 June 2016 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,082,386,484 (six months ended 30 June 2015: 1,072,457,098) in issue less shares held the restricted share award scheme during the six months ended 30 June 2016.

The calculation of the diluted earnings/(loss) per share amount for the six months ended 30 June 2016 is based on the profit/(loss) for the six months ended 30 June 2016 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 2016, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares related to the Group's share-based incentive schemes into ordinary shares.

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Earnings/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculation:		
From continuing operations	**(127,025)**	127,435
From a discontinued operation	**559,623**	223,208
	432,598	350,643

	Number of shares	
	Six months ended 30 June	
	2016	2015
	(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/(loss) per share calculation	**1,082,386,484**	1,072,457,098
Effect of dilution — weighted average number of ordinary shares:		
Share-based incentive schemes	**103,848**	1,753,636
Weighted average number of ordinary shares during the period used in the diluted earnings/(loss) per share calculation	**1,082,490,332**	1,074,210,734

8. Available-for-sale investments

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Current		
Wealth management financial products, at cost	**2,472,195**	4,889
Non-current		
Listed equity investments, at fair value	**156,769**	186,926
Unlisted equity investments, at cost	**370,719**	404,788
Wealth management financial products, at cost	**711,752**	—
	1,239,240	591,714

Wealth management financial products of HK$3,183,947,000 (31 December 2015: HK$4,889,000) were issued by reputable financial institutions in Mainland China and had original maturity from one month to two years (31 December 2015: one month to three months) when acquired. These wealth management financial products matured from July 2016 to February 2018.

The Group's unlisted equity investments and wealth management financial products are measured at cost less impairment. The directors consider that fair values of these investments cannot be measured reliably because the probabilities of various estimates within the range cannot be reasonably assessed and used in estimating fair values.

9. Accounts and bills receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 360 days, in which the credit period of factoring and micro-credit loans in New Business Segment is generally 90 to 360 days. An aged analysis of the accounts and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment is as follows:

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Within 30 days	**1,554,870**	1,767,807
31 to 60 days	**497,292**	305,622
61 to 90 days	**223,659**	209,369
91 to 180 days	**675,252**	745,987
Over 180 days	**1,305,130**	672,138
	4,256,203	3,700,923

9. Accounts and bills receivables (Continued)

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$132,682,000 (31 December 2015: HK$141,142,000), HK$109,000 (31 December 2015: HK$179,000) and HK$48,299,000 (31 December 2015: Nil), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

10. Accounts and bills payables

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

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Within 30 days	**773,299**	1,246,761
31 to 60 days	**468,942**	245,030
61 to 90 days	**413,942**	108,376
Over 90 days	**979,032**	405,650
	2,635,215	2,005,817

Included in the Group's accounts and bills payables are amounts due from related companies of the Group of approximately HK$178,607,000 (31 December 2015: Nil).

At 31 December 2015, included in the Group's accounts and bills payables was an amount due to an associate of the Group of approximately HK$1,239,000.

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

11. Share Capital

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Authorised:		
2,000,000,000 (31 December 2015: 2,000,000,000) ordinary shares of HK$0.1 (31 December 2015: HK$0.1) each	**200,000**	200,000
Issued and fully paid:		
1,176,536,581 (31 December 2015: 1,096,365,581) ordinary shares of HK$0.1 (31 December 2015: HK$0.1) each	**117,654**	109,637

A summary of the movement in the Company's issued share capital and share premium account during the six months ended 30 June 2016 and 2015 is as follow:

	Number of shares in issue	**Issued capital HK$'000**	**Share premium account HK$'000**	**Total HK$'000**
At 1 January 2015	1,093,738,581	109,374	2,060,433	2,169,807
Exercise of share options (note a)	450,000	45	3,481	3,526
At 30 June 2015	1,094,188,581	109,419	2,063,914	2,173,333
At 1 January 2016	**1,096,365,581**	**109,637**	**2,080,480**	**2,190,117**
Issue of new shares (note b)	**78,000,000**	**7,800**	**382,200**	**390,000**
Exercise of share options (note a)	**2,171,000**	**217**	**16,568**	**16,785**
At 30 June 2016	**1,176,536,581**	**117,654**	**2,479,248**	**2,596,902**

11. Share Capital (Continued)

Notes:

(a) During the six months ended 30 June 2016, the subscription rights attaching to 2,171,000 (six months ended 30 June 2015: 450,000) share options were exercised at a subscription price of HK$5.89 per share, resulting in the issue of a total of 2,171,000 (six months ended 30 June 2015: 450,000) ordinary shares of HK$0.1 each for a total cash consideration, before expenses, of HK$12,787,000 (six months ended 30 June 2015: HK$2,686,000). An amount of HK$3,998,000 (six months ended 30 June 2015: HK$840,000) was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

(b) On 1 June 2016, the Group entered into the conditional sale and purchase agreement with Dragon City International Investment Limited ("**Dragon City**"), pursuant to which the Group conditionally agreed to acquire and Dragon City conditionally agreed to sell the entire interest in a property located in PRC to the Group at a maximum total consideration of RMB630 million (equivalent of HK$749.7 million), which shall be satisfied by the allotment and issuance of shares of the Company. The initial consideration of HK$390,000,000 was settled by the issue of 78,000,000 ordinary shares by the Company at issuance price of HK$5 per share on 17 June 2016.

12. Business combination

During the six months ended 30 June 2016, the Group entered into the acquisition agreements for the acquisition of the equity interests in subsidiaries.

The fair values of the identifiable assets and liabilities of the subsidiaries as at the date of acquisition were as follows:

	(Unaudited) HK$'000
Property, plant and equipment	**302**
Other intangible assets	**499**
Inventories	**908**
Accounts and bills receivables	**2,826**
Prepayments, deposits and other receivables	**8,673**
Available-for-sale investments	**11,872**
Cash and cash equivalents	**74,613**
Accounts and bills payables	**(659)**
Other payables and accruals	**(6,212)**
Tax payable	**(2,837)**
Total identifiable net assets at fair value	**89,985**
Non-controlling shareholders' interests on acquisition	**(39,966)**
Goodwill on acquisition	**101,190**
	151,209
Satisfied by:	
Cash	**151,209**

12. Business combination (Continued)

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	(Unaudited) HK$'000
Cash consideration	**(151,209)**
Other receivables	**23,750**
Cash and cash equivalents acquired	**74,613**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(52,846)**

13. Operating leases arrangements

(i) As lessor

At 30 June 2016, 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 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Within one year	**118,654**	65,765
In the second to fifth years, inclusive	**279,751**	169,081
After five year	**30,597**	22,871
	429,002	257,717

13. Operating leases arrangements (Continued)

(ii) As lessee

At 30 June 2016, the Group had total future minimum lease payments under non-cancellable operating leases of office properties and warehouses falling due as follows:

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Within one year	**63,417**	111,434
In the second to fifth years, inclusive	**35,209**	66,646
	98,626	178,080

14. Commitments

In addition to the operating leases commitments detailed in note 13 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2016 (Unaudited) HK$'000	31 December 2015 (Audited) HK$'000
Contracted, but not provided for:		
Land and buildings	**264,531**	288,985
Capital contributions payable to joint ventures	**77,957**	91,474
Capital contributions payable to associates	**21,032**	26,231
Capital contributions payable to an available-for-sale investment	**—**	3,577
	363,520	410,267

15. Related party transactions

(a) Transactions with related parties:

In addition to the transactions and balances detailed elsewhere in these unaudited condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period:

	Notes	Six months ended 30 June **2016** **(Unaudited)** **HK$'000**	 2015 (Unaudited) HK$'000
DigiWin Software Co., Ltd.+ and its subsidiaries, associates of the Group:			
Provision of IT services by the Group	(i)	**1,014**	1,800
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
Purchase of goods by the Group	(iii)	**—**	2,373
China Information Development Co., Ltd.+, a joint venture of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	**25,149**	12,862
Chongqing Digital China HC Micro-credit Finance Co., Ltd.+, a joint venture of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	**—**	3,629
Interest income of a loan	(iv)	**7,247**	996
Weihai Wisdom Northern Information Technology Co., Ltd.+, a joint venture of the Group:			
Sales of goods and provision of IT services by the Group	(i), (ii)	**1,530**	—
Digital China Technology Industry Investment Co., Ltd.+ ("**DCTII**") and its subsidiary, joint ventures of the Group:			
Interest income of a loan	(iv)	**9,072**	7,798
Beijing China New Energy Co., Ltd.+, a joint venture of the Group:			
Interest income of a loan	(iv)	**8,142**	6,560
Digital China Group Co., Ltd.+ and its subsidiaries, related companies of the Group:			
Provision of IT services by the Group	(i)	**110,857**	—
Provision of IT services to the Group	(i)	**113,323**	—

15. Related party transactions (Continued)

(a) Transactions with related parties: (Continued)

Notes:

(i) The prices for provision of IT services/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) The 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, associates and related companies as at the end of the reporting period are included in notes 9 and 10 to these unaudited condensed consolidated interim financial statements, respectively.

(ii) At 30 June 2016, the amounts due to the Group's joint ventures, associates and related companies included in the Group's other payables and accruals totalled HK$26,066,000 (31 December 2015: HK$26,000), which are unsecured, interest-free and repayable within one year.

(iii) Included in the Group's other payables and accruals as at 31 December 2015 was a loan of HK$35,769,000 from a subsidiary of a joint venture of the Group, which was unsecured, bore interest at a rate of 4.6% per annum and was fully settled in February 2016.

(iv) Included in the Group's prepayments, deposits and other receivables as at 30 June 2016 are (1) loans principal and interests of HK$228,103,000 (31 December 2015: loans principal of HK$217,000,000) due from joint ventures of the Group, which are unsecured, bear interest at rates from 6% to 8% (31 December 2015: from 6% to 8%) per annum and are repayable within one year from the end of the reporting period; (2) loans of HK$79,452,000 (31 December 2015: HK$178,846,000) to a wholly-owned subsidiary of the Group's joint venture, DCTII, which were secured by the entire interests of DCTII held by another joint venturer of DCTII, bear interest at a rate of 16.15% (31 December 2015: from 15.10% to 16.15%) per annum and is repayable within one year from the end of the reporting period; and (3) advances to the related companies of the Group of HK$951,000 (31 December 2015: Nil), which are unsecured, interest-free and repayable within one year from the end of the reporting period.

(v) 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 note 6 to these unaudited condensed consolidated interim financial statements.

15. Related party transactions (Continued)

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short term employee benefits	**6,440**	9,604
Post-employment benefits	**68**	79
Share-based compensation	**–**	5
Total compensation paid to key management personnel	**6,508**	9,688

16. Comparative amounts

Certain comparative amounts have been restated to conform with the current period's presentation and disclosure.

Management Discussion and Analysis

In the first half of 2016, Chinese economy is facing lots of burdens while various industries are experiencing challenges brought by the structural reform. Year 2016 marks the 15th anniversary of the IPO of Digital China Holdings; it is also a year of transition for our full-scale business transformation. With the official completion of traditional distribution business disposal during the first half of the year, the Company continues to evolve into a pure Internet-service play in all aspects from strategy, corporate culture, and operational procedures to capital structure. Digital China Holdings is, and will continue to focus on the provision of technical services with high added value in the areas of Smart City, smart agriculture, smart healthcare and supply chain logistics through the Internet leveraging its technological expertise in Big Data and Cloud Computing services. In future, as an innovated company, based on the IT expertise advantages, we will actively integrate with various industrial applications to breed new business which will operate independently and yet complement each other under the Digital China Holdings brand.

1.1 Increasing investment in new ventures at the critical point for transformation

The Company completed the disposal of 100% equity interests in its traditional consumer and corporate distribution business (the “Discontinued Operation”, namely, Digital China Group) in March 2016 and booked a one-off gain of approximately HK$498 million from the disposal for the first half of the financial year (six months ended 30 June 2016). The one-off gain was computed by reference to the consideration of RMB4.01 billion (equivalent to approximately HK$4.77 billion) less: (i) the net asset value of the Target Company (Digital China Group) as at or before the completion date, and (ii) the transaction costs and expenses of the disposal, and booked in the discontinued operation section.

For the first half of the financial year, revenue from the Continuing Operations amounted to approximately HK$5.429 billion, representing year-on-year growth of 15.54% compared to the corresponding period of last financial year (six months ended 30 June 2015) driven mainly by the increase in turnover from DCITS and the new businesses for the period. Loss attributable to shareholders of Continuing Operations for the period amounted to approximately HK$127 million, decreasing by 199.68% as compared with the corresponding period of last financial year. Excluding the effects of exchange rate changes and the dilution of shareholdings in HC International, Inc., the Continuing Operations would have recorded loss of approximately HK$30 million for the period, which was 122.33% less compared with the corresponding period of last financial year. Gross profit of the Continuing Operations for the period increased by approximately 12.72% on the back of a 17.98% gross profit margin. The loss of the Continuing Operations for the period was primarily attributable to: (1) the increase in research and development expenses and staff expenses by approximately HK$113 million in line with new businesses expansion; (2) the increase in financing costs by approximately HK$90 million owing to higher loan interest rates and increased outstanding loans; (3) a negative effect on profit of approximately HK$63 million as a result of the decrease in investment gains generated from investee companies and the dilution of shareholdings in HC International, Inc.; and (4) the increase in exchange loss of approximately HK$52 million owing to RMB devaluation.

In view of the fact that exposure to foreign currency of the Continuing Operations would be minimal in the future after the disposal of Digital China Group, the Company substantially lowered the ratio of non-RMB bank loans to total bank loans to approximately 21% as at the end of the second quarter of the financial year, and such ratio is expected to be further lowered in the second half of the year. Given the rapid increase of RMB loans, which carried interests are much higher than USD loans, as well as increased amount of total loans, there was a notable increase of interest expenses for the reporting period. Nevertheless, there was also a corresponding decrease in exchange losses and moreover any exchange risk in the future will be within control.

1.2 Diverse incentive schemes drive reform and innovation while cooperation with academia and research institutes expedites commercialization

While innovation is the driving force for corporate development, the incentive regime serves as the engine empowering innovation. As a first-mover, the Company's Sm@rt City corporate service business has introduced an equity-based employee participation scheme which has enormously enhanced staff motivation. In future, the Company will continue to launch different incentive programs, such as employees' shareholdings, options and innovative venture fund supporting internal business ventures, according to the characteristics and development stages of its various businesses. While improving its internal regime for innovation, Digital China Holdings is also building a more extensive cooperation network: In May, Digital China Holdings entered into a framework agreement for long-term partnership with Shanghai Jiao Tong University; in June, the "Peking University — Digital China Innovation Centre" was established in association with Peking University. The Company will work with leading scientific research academies institutions through strategic development, focusing primarily on areas such as Sm@rt City and intelligent information procession to expedite the commercialization of technological research.

1.3 New business shows momentum: Sm@rt agriculture outperforming; Sm@rt City in rapid development; and Sm@rt healthcare well-positioned

After two-year development, Zhongnong Xinda has become China's prime brand name for agricultural informatisation, ranking first in market shares of software services of farmland rights registration and land exchange and transaction. As a very substantial driver of Chinese economy, and backed by the strong efforts of governments, agriculture informatisation is showing enormous opportunities and market potential. Leveraging valuable data regarding the agricultural households and farmland from farmland rights registrations and land transactions, Zhongnong Xinda has worked closely with local governments and various agricultural service providers to facilitate interconnection among different industry chains by linking up agricultural suppliers, manufacturers, e-commerce and financial services through Big Data application and explore a new business model of "Internet Agriculture" underpinned by the integration of various participants.

As a pioneer in China's Sm@rt City sector, Digital China Holdings has amassed solid processing capabilities in data integration, abundant customer resources and strong brand awareness, after going through the initial stage of urban informatisation underpinned by the provision of contract-based project solutions. After long-term implementation and investment, we have preempted in the establishment of a whole new business model, under which a broad range of urban services are provided to the government, enterprises and citizens via the Internet, on the basis of an informative platform that deals with the integration, application and output of data generated across different government departments. Early this year, partnering with professional investment funds and inputting specialists, we began to set up specialized investment fund to focus on smart city related projects such as data services and public services. Currently, our established citizen service platforms are primarily providing visa application, traffic fine bills payment, social welfare account enquiries and other municipal services which brought in steadily increasing usage volume for the platform. Based on this, we are exploring more commercialized services like home appliance repair, automobile maintenance, party place leasing and etc. Those service providers are not only sharing the users of our platforms, but also forming a perfect pool of investment targets for our specialized investment fund. The business model of Sm@rt city also involves from a standalone platform operator to an integrator of real business conducts and capital. The company is not only enjoying the continuous operational service fee paid by the government, but also well positioned to enjoy the potential high return brought by investing in those outstanding projects. In the true sense, Digital China Holdings is forming a win-win eco system based on the Sm@rt City platforms by using capital/investment funds to motivate various city service providers.

In addition, Digital China Holdings has also been actively engaged in smart healthcare business. Supported by our technical team, the Company is developing a national Big Data platform for cancer and tumor in cooperation with the tumor hospitals of the Chinese Academy of Sciences. With the aim of facilitating precision medicine development with the aid of Big Data in clinical cases, genetics and imaging, we are committed to becoming China's leading brand in precision medicine.

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 and persisting with the strategy of integrating Sm@rt City and Sm@rt Agriculture.

As an important pillar in technology underpinning the industrial Internet service strategy of Digital China Holdings, DCITS benefitted from the transformation, upgrade and informatisation of the financial, telecommunications, government and corporation and agriculture sectors and made solid progress in its business development. For the first half of the financial year, DCITS reported revenue of approximately HK$4.194 billion, representing an 18.50% growth comparing to the corresponding period of last financial year. Gross profit margin was 16.33%, 2.72 percentage points down from the corresponding period of last financial year due to revenue mix changes for the period. Net profit attributable to shareholders of the parent company amounted to approximately HK$92 million, which was 33% lower as compared with the corresponding period of last financial year. The decline was attributable mainly to an increase in financing cost caused by larger business scale. During the second quarter, the Company announced the acquisition of Nanjing Howso Technology Co., Ltd. (南京華蘇科技股份有限公司), an enterprise specialized in telecommunications network optimization and Big Data analysis services. Following the completion of the acquisition, the Company will be well-positioned to provide a wider range of value-added services to telecommunication carriers to further solidify its leading positions in the Big Data service.

Technical Services, Application Software Development and Agricultural Informatisation

For the reporting period, revenue from value-added services, including technical services, application software development and agricultural informatisation, increased by approximately 16%, year-on-year, and accounted approximately 39% of the total revenue of DCITS. As an important component of enterprise informatisation, our technical service segment has gradually shifted its focus from products to systems and data centers. To address changes in the requirements of industrial customers, the Company has been working towards the integration of upstream and downstream resources and vigorously advancing the strategy of providing technical services on a platform basis, with a view of transformation from a provider of specialized technical services to an integrator of industry chains. New breakthroughs have been achieved by our testing technical service segment in the telecommunications sector and securities sector, while China Aerospace Science and Technology Corporation and Xicheng District Government in Beijing have been signed up as new customers by our maintenance and outsourcing technical service segment, respectively.

In connection with application software development and Cloud services, the Company has made strong efforts to drive the expansion of our SaaS Cloud services and Big Data business. For the financial institution customers, the Company has launched the new-generation distributed core banking system to help foster "Internet+" service capabilities for banking customers. We won new tenders from Chong Hing Bank of Hong Kong, Baoding Bank and others for our core banking systems. In taxation areas, the Company increased its efforts to promote the "China Taxation Administration Information System Phase III" management and decision-making platform and successfully marketed the product to 22 provinces; seizing opportunities arising from taxation system upgrade requirements, Cloud Computing and Big Data applications.

Agricultural Informatisation

Riding on opportunities of agricultural reforms in China, our agricultural informatisation business sustained rapid growth in the first half of the year, as revenue almost doubled compared to the corresponding period of last year with a gross profit margin of 52%. During the period, our market share for farmland rights registration was further extended with the addition of the Gansu province. As of now, the Company has provided farmland rights registration services to close to 500 counties in 28 provinces/municipalities in China.

Systems Integration Business

Our system integration business reported year-on-year growth of 20.3% in revenue as it secured contracts in the financial, telecommunications, energy and state-owned enterprises during the first half of the year, signing up China Unicom, Industrial and Commercial Bank of China and other customers. Satisfied progress has been reported for the "Beijing-Shanghai Telecommunication Main Line" construction project featuring quantum encrypted communication, and revenue has been partially booked.

2.2. Supply Chain Management Strategy Unit: creation of the "intermediary platform" integrated e-commerce service model, development of logistics services for corporate customers and actively expansion of O2O self-branded maintenance services.

From the first half of the financial year, overall revenue of the Supply Chain Management Business decreased by HK$158 million or 14.10% to approximately HK$962 million, while gross profit margin was 1.97 percentage points higher at 15.88%, as compared to the corresponding period of last year. Segment results amounted to HK$34.51 million, decreasing by HK$10.67 million or 23.62%, year-on-year. The decline in revenue was mainly attributable to the discontinuation of certain low-profit e-commerce operations during the period. E-commerce supply chain, logistics and maintenance services, the three principal segments accounted for 34.6%, 53.5% and 11.9%, respectively, of total revenue. The ongoing growth in gross profit margin indicated the high added value offered by the Digital China brand in its software, storage and transportation services. During the first half of the year, our logistics business increased its input in human resources to handle increasing customer orders and actively expand its scope of service. Coupled with the decrease in profit mainly due to the discontinuation of low-profit operations, this has resulted in a decrease in the segment profit of the supply chain business.

Our e-commerce supply chain service successfully replicated the “intermediary platform” business model and signed up e-commerce service of Panasonic, Electrolux, Mizuno, www.kugou.com and other customers. In connection with our logistics business, the Company signed up new customers like Mi Mobile during the first half of the year to extend its coverage of smart phone sector. Meanwhile, we were also actively expanding our service scope to personal care, apparel, baby care and beauty sectors. Instant Logistics, our brand for logistics operations, also won the contract for the operation of North China warehouse on fast moving consumer goods (FMCG) owned by Cainiao Network of Alibaba Group. Our logistics software business also signed up some large-scale companies as it worked vigorously to develop the SaaS business model. Our maintenance business continued to enhance its marketing on the Internet to provide a broader range of services and products to consumers and SMEs through a variety of marketing approaches under its “K-Boy” brand, while optimizing the management of its home delivery services to improve customers’ experience and service quality.

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

The “New Business” segment comprised Sm@rt City services and financial services. As it further establishes its presence in various industries, the segment is expected to gradually cover all new businesses of Digital China Holdings, such as Internet healthcare. For the first six months of the financial year, revenue for the New Business grew more than five times to approximately HK$273 million. Overall gross profit increased by HK$102 million to HK$138 million, as compared to the corresponding period of last year. The fast growth in revenue and gross profit indicated the enormous market potential and the soundness of the sustainable business model. There was notable increase in labor, research and development costs and marketing expenses, as the Sm@rt City service, which was provided through the Internet and smart phone applications based on the integrated government service platform, increased its effort in commercialization while continuing to sign up new customers. Meanwhile, our financial service business, which was principally engaged in the provision of financing services serving customers from other divisions of the Company has been focusing on risk control and management.

Sm@rt City Service Business

As at the end of the first half of the year, 7 cities including Longyan, Tangshan and Huizhou, had been signed up for integrated citizen or enterprise services. The successive construction and platform operation are scheduled to commence shortly. By far, 21 integrated citizen and enterprise service platforms have commenced operation, and the pace is expected to accelerate in the second half of the year. During the reporting period, the Company entered into a strategic cooperation agreement on the smart city operation with the Jiangsu Government and China Telecom, representing another strategic collaboration at provincial level following similar agreement with Hebei Province and Henan Province. Such cooperation is expected to expedite the city expansion in Jiangsu market. Regarding commercialization, the Company entered into strategic cooperation with China Chengxin Credit Rating Company, the largest credit management institution in China, while building the Changshu Credit Enquiry Platform in association with the Changshu Municipal Government to facilitate the effective integration of data resource solutions and credit enquiry services for more efficient data application in credit enquiry and the construction of credit systems. Moreover, the Company introduced third-party service providers like car-washing and phone repair services on the citizen service platform in addition to basic administrative services and increased income for the platform through revenue-sharing. In the future, the Company will endeavor to enhance its ability to commercialize platform data, and actively investigate business models beyond contractual operations of Internet-based platforms.

Financial Service Business

Currently, the Company's proprietary financial service business comprises mainly the financial leasing and the factoring business targeted primarily at the agricultural sector. In the meantime, active efforts have been made to explore complementary financial services for our supply chain business and Sm@rt City business, while stringent risk control measures are in place to safeguard ongoing business development. Our agricultural financial service business has developed several standardized products, such as agricultural machinery leasing and supply chain financing for breeding and plantation businesses. By end of first half this year, the outstanding loan balance of our factoring business and finance leasing business amounted to over RMB600 million, while project financing requirements with an aggregate amount of over RMB200 million are currently undergoing the approval process. Submitted proposals have been more than 200.

Chongqing Digital China HC Micro-credit Finance Co., Ltd. ("**HC Micro-credit**"), a joint venture formed by the Company and HC International, reported stable growth in the scale of its lending business leveraging the membership of and information on transactions conducted on the platform. Loan balance as at the end of the first half of the year exceeded RMB1.8 billion, and net profit for the period amounted to approximately RMB28 million, while non-performing loan ratio stood at 1.3%, which was lower than the industry average. In the future, HC Micro-credit will diversify its capital sources by using various financing channels including securitization to facilitate asset flow. During the period, approximately RMB300 million was raised through the issue of asset-backed securities.

3. Business risks

As at the end of first half year, approximately 20.84% of the bank loans of the Continuing Operations were denominated in US Dollar or Hong Kong Dollar while substantially all of the company's businesses were operated in Mainland China. Hence, the depreciation of RMB against foreign currency will result in the company incurring foreign exchange losses. As the foreign exchange trade exposure of the Continuing Operations would be minimal, the management is actively adjusting its loan policy, which will determine the currency of its new loans by taking into full consideration factors such as interest rates, exchange rates and the nature of businesses concerned. We expect any exchange risks in future to be within our control. Moreover, the company and its subsidiaries are actively investing in or forming joint ventures in the sectors of Sm@rt City, Internet agriculture, Internet healthcare, Internet manufacturing and relevant financial services. Given exceptional volatility in the capital market, impairment in such investments might occur. The company has established an investment committee comprising mainly the chairman, directors and senior management of the company, which conducts comprehensive due diligence and voting processes in respect of material investments. The company has also set up a post-investment management department to conduct regular inspections and analysis on the investment projects and investee companies and to report to the investment committee regarding the progress of various projects. The company continued to improve its internal information security administration system during the period, as all departments across the company showed stronger risk awareness.

4. Environmental policy and performance

The mission of Digital China Holdings is informatisation and digitalization of the country. In this process, the company is governed by two main principles: a strong sense of responsibility and the pursuit of sustainable innovation, to the ends that the community will benefit as a whole. As such, the company is committed to the most strict environmental and social standards, striving to assure compliance with all laws and regulatory provisions relating to its operations, including those relating to health and safety, workplace conditions, employment and environment, so that a firm foundation is provided for the sustainable development of its business. Currently the company is not involved in any environmental lawsuit. The company also commits its resources on an ongoing basis to upgrade its office air-conditioning and heating systems and other network equipment, to increase its energy efficiency while lowering power consumption and carbon emission. We encourage our employees to actively participate in third-party environmental groups, while our primary Sm@rt City operation and service also hold the construction of smart, digitalized, low-carbon cities as its mission.

5. Important relationships with staff, customers, suppliers and other parties

Since its establishment, the number of business partners of Digital China Holdings has grown from 25 to almost 300, while major clients are from telecommunications, financial, government, energy and transportation sectors. As the company drives the expansion of new businesses, it always keeps in mind the interests of its stakeholders, including its employees, customers, suppliers, and business partners.

People represent the most crucial factor contributing to the success of an enterprise. The company persists in the implementation of an employee hiring and incentive regime that is originated from corporate culture. It is dedicated to set up internal and external trainings for employees, while a staff club has been established to organize recreational activities regularly and enhance the internal communications. The company was named in the “Best Employers 2013” nomination hosted by CCTV. With one of the most sophisticated IT systems employed in the industry, the company provides an efficient workplace and smart office setting for all staff. It is one of the first companies to advance from traditional OA to a synergized system based on Web 2.0, while actively adopting various applications on the mobile terminal.

As a customer-oriented service supplier, the company treats customers as an important aspect of its value. All employees are required to abide with the most rigorous code of ethical and professional conduct in their interaction with customers, while multiple channels for feedback have been set up to enhance customer satisfaction and loyalty. The customers of the company as a whole are diversely distributed in different industries. Its IT services focus mainly on large customers in the telecommunications, financial and government sectors, while Sm@rt City serves mainly local governments. The major customers of the supply chain services are branded manufacturers, as compared to SMEs for the financial services. The recognition of revenue generated from the government and state-owned enterprises is subject to turnover periods for procurement and anti-corruption initiatives, while SME customers are associated with greater risks in trade receivables as they are more subject to macro-economic fluctuations. Nevertheless, the company has made thorough preparations in terms of contract recognition and accounting treatment to deal with the aforesaid issues.

The company works with a broad range of suppliers, including soft/hardware IT manufacturers and upstream/downstream suppliers of the logistic services value chain. The company has formulated rigorous procurement policies and uniform standards, on the basis of which regular reviews of the performance of suppliers and contractors are conducted. Measures have been taken to lower supply chain risks by minimizing concentration of suppliers.

6. Management Outlook

In retrospect of our 15 years development, initially from the channel business involving mainly the distribution of IT products at the time of our IPO, through the system integration business based primarily on IT solutions, and now we have evolved into a Big Data and Cloud Computing service business based on the Sm@rt City platforms. From the peripheral to the mainstream, and from the mainstream to the frontier, each of us at Digital China Holdings has always borne the mark of reform and innovation. Notwithstanding, transformation is always tough for a traditional enterprise, requiring nothing less than the commitment of time, courage and the willingness to pay the price. As much as we need dedicated motivation and strong execution abilities of our staff, we also need the understanding and support of the capital market.

Since the commencement of our organizational restructuring in 2014, the Company has implemented reforms on all fronts from strategy, corporate culture, technology, human resources to incentive schemes, so that each business division can have opportunities to release full potential. For Digital China Holdings, 2016 is a year of conquest in reform and innovation. As a listed company, we do need the mandate of the capital market and investors, so that we can leverage capital resources to increase investment in new businesses and facilitate fast expansion. Reform and innovation is the soul of an IT enterprise and the inevitable path for a company that looks to response changes in the industry and enhance its core competitiveness. On the back of our massive accumulation in technologies and clientele for the IT hardware and software industries, Digital China Holdings will continue to march forward steadfastly on the path of transformation into a Big Data and Cloud Computing service provider.

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$22,188 million at 30 June 2016 which were financed by total liabilities of HK$13,207 million, non-controlling interests of HK$2,427 million and equity attributable to equity holders of the parent of HK$6,554 million. The Group's current ratio at 30 June 2016 was 1.32 as compared to 1.21 at 31 December 2015.

During the six months ended 30 June 2016, capital expenditure of HK$547 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 1.21 at 30 June 2016 as compared to 0.73 at 31 December 2015. The computation of the said ratio was based on the total interest-bearing bank borrowings from continuing operations of the Group of HK$7,919 million (31 December 2015: HK$6,512 million) and equity attributable to equity holders of the parent of HK$6,554 million (31 December 2015: HK$8,873 million).

At 30 June 2016, the denomination of the interest-bearing bank 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
Continuing operations				
Current				
Interest-bearing bank borrowings, unsecured	914,544	1,403,211	230,591	2,548,346
Interest-bearing bank borrowings, secured	—	1,762,730	—	1,762,730
	914,544	3,165,941	230,591	4,311,076
Non-current				
Interest-bearing bank borrowings, unsecured	505,050	—	—	505,050
Interest-bearing bank borrowings, secured	—	3,102,482	—	3,102,482
	505,050	3,102,482	—	3,607,532
Total	1,419,594	6,268,423	230,591	7,918,608

Certain of the Group's bank borrowings from continuing operations of HK$1,477 million extended by financial institutions to certain subsidiaries of the Group were secured by land use right and properties with an aggregate carrying amount of HK$2,760 million at 30 June 2016.

Certain of the Group's bank borrowings from continuing operations of HK$3,388 million extended by financial institutions to certain subsidiaries of the Group were secured by the Company's 271,527,900 issued shares of Digital China Information Service Company Ltd., a non-wholly owned subsidiary of the Company, directly held by a wholly-owned subsidiary of the Company, with an aggregate carrying amount of HK$10,276 million at 30 June 2016.

Included in the Group's current and non-current bank borrowings from continuing operations of approximately HK$620 million and HK$3,608 million respectively represented the term loans which are repayable from 2016 to 2026. All of the Group's bank borrowings from continuing operations were charged at floating interest rates except for the loan balances with an aggregate amount of HK$4,891 million which were charged at fixed interest rates as at 30 June 2016.

The total available credit facilities from the Group's continuing operations at 30 June 2016 amounted to HK$14,710 million, of which HK$4,561 million were in term loan facilities, HK$4,455 million were in trade lines and HK$5,694 million were in short-term and revolving money market facilities. At 30 June 2016, the facility drawn down from continuing operations was HK$4,144 million in term loan facilities, HK$1,287 million in trade lines and HK$3,672 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

At 30 June 2016, the Group had no material contingent liabilities.

Human Resources

At 30 June 2016, the Group's continuing operations had approximately 7,100 (30 June 2015: approximately 5,400) 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 27.01% increase in staff costs to approximately HK$811 million for the six months ended 30 June 2016 as compared to approximately HK$639 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's continuing operations is committed to providing its staff with various in-house and external training and development programs.

Other Information

Interim Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Nil).

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

At 30 June 2016, 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	Total	Approximate percentage of aggregate interests (%)
				(Note 1)	*(Note 4)*
GUO Wei	Beneficial owner and interests of a controlled corporation	2,958,044	69,414,286 *(Note 2)*	72,372,330	6.15
Andrew Y. YAN	Interests of a controlled corporation	–	55,591,744 *(Note 3)*	55,591,744	4.73
LIN Yang	Beneficial owner	1,316,734	–	1,316,734	0.12
LAI Daniel, *BBS, JP*	Beneficial owner	4,000	–	4,000	0.00

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 55,591,744 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. Mr. Andrew Y. YAN resigned as a Non-Executive Director of the Company with effect from 1 July 2016.

4. 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 2016, 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 2016, 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 7)*
Kosalaki Investments Limited *(Note 2)*	Beneficial owner	69,414,286	5.90
GRG Banking Equipment Co., Ltd.* (廣州廣電運通金融電子股份有限公司)	Beneficial owner	177,553,000 *(Note 3)*	15.09
Guangzhou Radio Group Co., Ltd.* (廣州無線電集團有限公司)	Interests of a controlled corporation	177,553,000 *(Note 3)*	15.09
Dragon City International Investment Limited	Beneficial owner	150,070,000 *(Note 4)*	13.66
Yip Chi Yu *(Note 5)*	Interests of a controlled corporation/ Interest of spouse	150,070,000/1,860	13.66
Huang Shaokang *(Note 5)*	Beneficial owner/Interest of spouse	1,860/150,070,000	13.66
Allianz SE	Interests of controlled corporations	94,895,000 *(Note 6)*	8.07

* For identification purpose only

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 177,553,000 shares of the Company were beneficially held by GRG Banking Equipment Co., Ltd.* (廣州廣電運通金融電子股份有限公司) (listed on The Shenzhen Stock Exchange), in which Guangzhou Radio Group Co., Ltd.* (廣州無線電集團有限公司) is a 52.52% controlling shareholder.

4. On 1 June 2016, an indirect wholly-owned subsidiary of the Company (the "**Purchaser**") entered into a sale and purchase agreement with Dragon City International Investment Limited ("**Dragon City**"), a company wholly owned by Ms. Yip Chi Yu, pursuant to which the Purchaser conditionally agreed to acquire and Dragon City conditionally agreed to sell 100% interests in a property through the acquisition by the Purchaser of the entire issued share capital of Ford Star Pacific Limited, with consideration of the transaction to be settled by the Company issuing consideration shares to Dragon City. Details of the transaction are set out in an announcement of the Company of the same date. As at the date of this report, the transaction had not been completed. Out of a maximum of 149,940,000 consideration shares of the Company, 78,000,000 shares were issued to Dragon City on 17 June 2016. The remaining consideration shares are yet to be issued pending completion.

5. Ms. Yip Chi Yu is the spouse of Mr. Huang Shaokang.

6. Out of these 94,895,000 shares of the Company in aggregate, 1,447,000 shares by Allianz Global Investors Taiwan Ltd., 93,320,000 shares by Allianz Global Investors Asia Pacific Limited, 128,000 shares by Allianz Global Investors U.S. Holdings LLC. All of the aforementioned companies were indirectly controlled by Allianz SE.

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 336 of the SFO.

Save as disclosed above, at 30 June 2016, 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.

* For identification purpose only

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 2016 and the options outstanding at the beginning and end of the period:

Grantee	Number of share options Outstanding as at 1/1/2016	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding as at 30/6/2016	Subscription price per share HK$ *(Note 2)*	Date of grant	Exercisable period *(Note 1)*
Directors								
YAN Guorong *(Resigned on 8 March 2016)*	668,000	–	–	–	668,000	15.04	11/01/2011	11/01/2012-10/01/2019
Other employees	2,175,000	–	(4,000)	(2,171,000)	–	5.89	21/05/2008	21/05/2009-20/05/2016
	3,310,000	–	(47,000)	–	3,263,000	15.04	11/01/2011	11/01/2012-10/01/2019
In aggregate	6,153,000	–	(51,000)	(2,171,000)	3,931,000			

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 2016.

During the six months ended 30 June 2015, the Group recognised the share-based compensation expenses of HK$32,000 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	— Ceased to be an Independent Director of Shanghai Pudong Development Bank Co., Ltd. (listed on The Shanghai Stock Exchange) since its board of directors exchanged after its shareholders meeting held on 28 April 2016
	— Resigned as a Non-executive Director of HC International, Inc. (listed on the Main Board of the Stock Exchange)
WONG Man Chung, Francis	— Appointed as Member of Strategy and Investment Committee of GCL-Poly Energy Holdings Limited (listed on the Main Board of the Stock Exchange)
	— Appointed as an Independent Non-executive Director and Chairman of Audit Committee of Kunming Dianchi Water Treatment Co., Ltd., which has submitted an application for listing of its shares to the Stock Exchange
LIU Yun, John	Appointed as Senior Vice President, Greater China Field Division of Conservation International

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 2016.

Rule 3.21 of the Listing Rules

Rule 3.21 of the Listing Rules stipulates that the audit committee must comprise a minimum of three members. Following the retirement of Mr. Ong Ka Lueng, Peter on 30 June 2016, the number of the audit committee members fell below the minimum number required under Rule 3.21 of the Listing Rules. In order to comply with the Listing Rules, the Company is endeavoring to identify and appoint a member of the Audit Committee as soon as practicable and in any event within three months from 30 June 2016.

Review by Audit Committee

The Audit Committee currently comprises two Independent Non-executive Directors, namely Mr. WONG Man Chung, Francis (who is the Chairman of Audit Committee) and Ms. NI Hong (Hope). 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 2016.

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 2016, 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, 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.

During the year ended 31 December 2015, the Company followed the recommended best practices set out in Code Provision C.1.6 by publishing quarterly financial results. In order to reduce the administrative burden of the Group and allow the Group to devote more of resources towards development of its business, the Board, on 29 March 2016, resolved not to continue such practices for the first three-month and nine-month periods of each financial years and announced the reasons on the same date in accordance with the Code Provision C.1.7.

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

During the six months ended 30 June 2016, 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 2016.

By Order of the Board
GUO Wei
Chairman

Hong Kong, 30 August 2016

Website : www.dcholdings.com.hk