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

2017 中期報告
Interim Report

《宇宙之光系列－永恆》鄭鈺 布面綜合材料 160X120cm 2013

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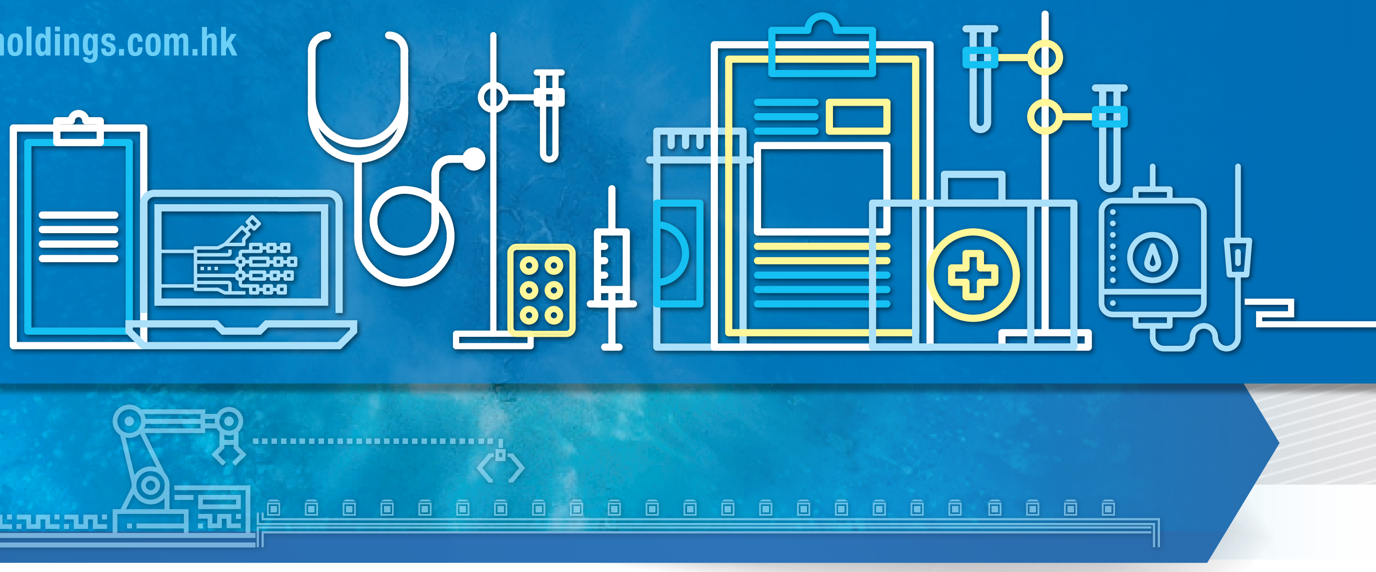

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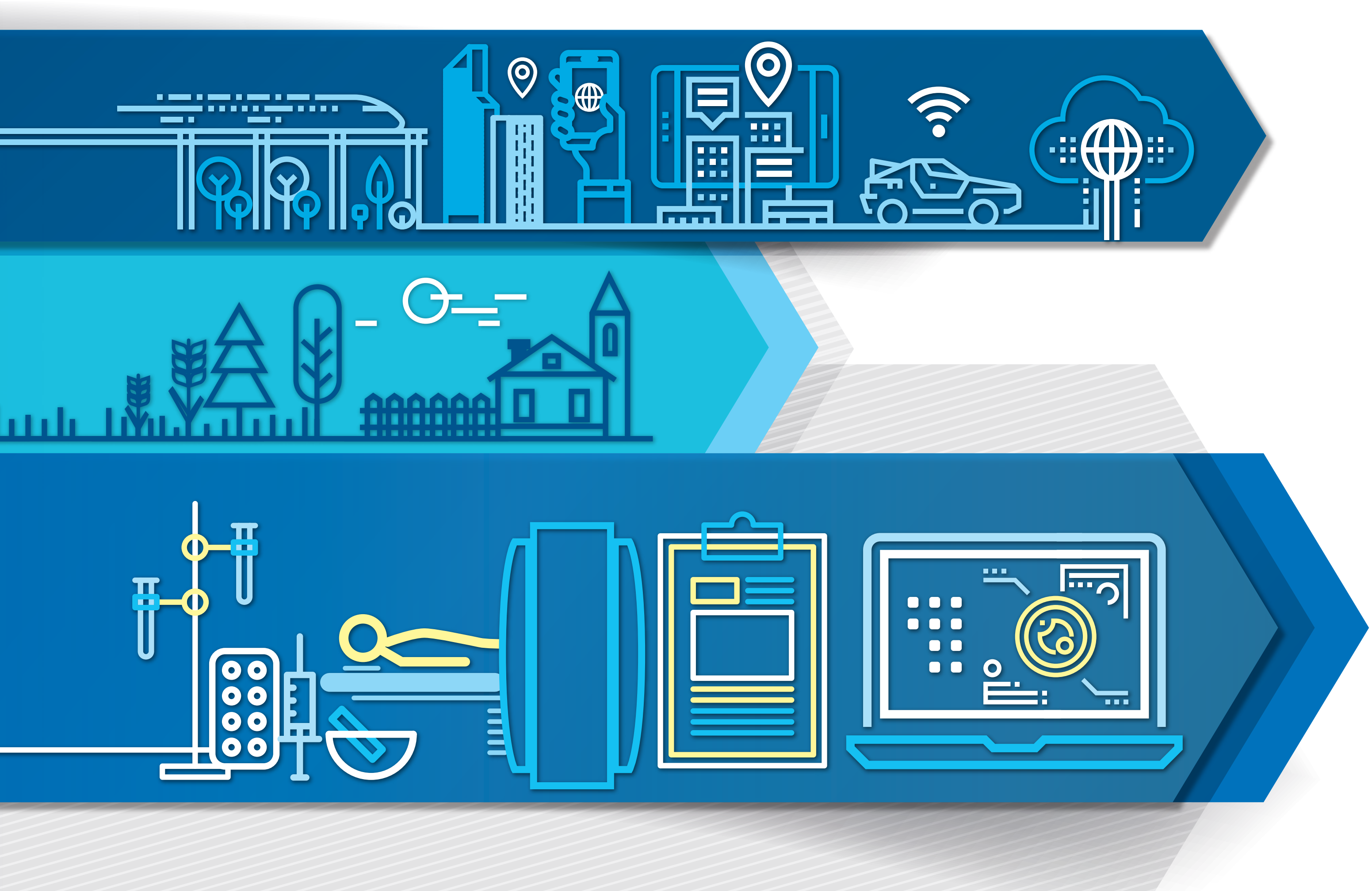

The board of directors (the "**Board**") of Digital China Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2017 together with comparative figures for the corresponding period of the last financial year as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
CONTINUING OPERATIONS			
REVENUE	3	**5,732,712**	5,428,947
Cost of sales		**(4,579,544)**	(4,452,959)
Gross profit		**1,153,168**	975,988
Other income and gains	3	**132,966**	76,955
Selling and distribution expenses		**(505,937)**	(429,068)
Administrative expenses		**(459,221)**	(109,710)
Other expenses, net		**(634,450)**	(484,652)
Finance costs		**(106,987)**	(111,211)
Share of profits and losses of:			
Joint ventures		**17,216**	602
Associates		**19,583**	6,185
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	4	**(383,662)**	(74,911)
Income tax expense	5	**(2,975)**	(4,829)
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		**(386,637)**	(79,740)
DISCONTINUED OPERATION			
Profit for the period from the discontinued operation	6	**—**	559,623
PROFIT/(LOSS) FOR THE PERIOD		**(386,637)**	479,883
Attributable to:			
Equity holders of the parent		**(451,734)**	432,598
Non-controlling interests		**65,097**	47,285
		(386,637)	479,883
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic			
— For profit/(loss) for the period		**HK cents (34.94)**	HK cents 39.97
— For loss from continuing operations		**HK cents (34.94)**	HK cents (11.73)
Diluted			
— For profit/(loss) for the period		**HK cents (34.94)**	HK cents 39.96
— For loss from continuing operations		**HK cents (34.94)**	HK cents (11.74)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
PROFIT/(LOSS) FOR THE PERIOD	**(386,637)**	479,883
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(7,342)**	(30,157)
Reclassification adjustments for gains included in the consolidated statement profit or loss:		
— impairment loss	**—**	3,599
	(7,342)	(26,558)
Exchange differences:		
Exchange differences on translation of foreign operations	**186,754**	(62,114)
Reclassification adjustments for foreign operations disposed of during the period	**—**	(45,348)
	186,754	(107,462)
Share of other comprehensive income/(loss) of an associate	**(11,992)**	5,309
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**167,420**	(128,711)
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	**167,420**	322,644
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(219,217)**	802,527
Attributable to:		
Equity holders of the parent	**(366,036)**	793,691
Non-controlling interests	**146,819**	8,836
	(219,217)	802,527

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,861,822	1,088,555
Investment properties		3,094,689	3,046,367
Prepaid land premiums		69,071	67,937
Goodwill		2,259,955	2,195,376
Other intangible assets		169,564	152,043
Investments in joint ventures		1,026,273	1,008,013
Investments in associates		1,631,636	1,629,520
Available-for-sale investments	8	961,672	952,239
Finance lease receivables		233,371	327,865
Accounts receivable	9	236,945	131,528
Deferred tax assets		95,966	68,176
Total non-current assets		11,640,964	10,667,619
CURRENT ASSETS			
Inventories		720,676	788,146
Properties under development		250,415	242,517
Completed properties held for sale		181,890	193,073
Accounts and bills receivables	9	5,210,681	3,872,087
Prepayments, deposits and other receivables		1,979,038	1,952,932
Available-for-sale investments	8	2,772,800	2,856,415
Finance lease receivables		362,464	386,264
Restricted bank balances		5,019	58,910
Cash and cash equivalents		2,908,845	2,698,158
Total current assets		14,391,828	13,048,502
CURRENT LIABILITIES			
Accounts and bills payables	10	2,485,840	2,124,347
Other payables and accruals		2,463,594	3,072,125
Tax payable		31,483	97,137
Interest-bearing bank and other borrowings		6,819,121	5,199,014
Total current liabilities		11,800,038	10,492,623
NET CURRENT ASSETS		2,591,790	2,555,879
TOTAL ASSETS LESS CURRENT LIABILITIES		14,232,754	13,223,498

	Note	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**2,747,032**	2,465,874
Deferred tax liabilities		**249,594**	247,522
Deferred income		**39,584**	38,189
Total non-current liabilities		**3,036,210**	2,751,585
NET ASSETS		**11,196,544**	10,471,913
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	11	**134,181**	123,466
Reserves		**7,512,179**	7,045,121
		7,646,360	7,168,587
Non-controlling interests		**3,550,184**	3,303,326
TOTAL EQUITY		**11,196,544**	10,471,913

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

* These reserve accounts comprise the consolidated reserves of HK$7,512,179,000 (31 December 2016: HK$7,045,121,000) 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	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	–	–	–	–	–	–	–	–	(22,497)	–	(22,497)	(39,617)	(62,114)
Reclassification adjustments for foreign operations disposed of during the period	–	–	–	–	–	–	–	–	(45,348)	–	(45,348)	–	(45,348)
Share of other comprehensive income of an associate	–	–	–	–	–	–	6,174	–	(2,033)	–	4,141	1,168	5,309
Gains 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	–	–	–	–	–	–	–	–	–	–	–	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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cash flows from operating activities		
Decrease/(increase) in inventories	**61,399**	(189,971)
Increase in accounts and bills receivables	**(1,557,579)**	(588,227)
Increase in accounts and bills payables	**361,493**	60,871
Additions to properties under development	**(764)**	(73,503)
Decrease in other working capital and adjustments for non-cash transactions	**85,070**	379,435
Net cash flows used in operating activities	**(1,050,381)**	(411,395)
Cash flows from investing activities		
Purchases of items of property, plant and equipment	**(445,900)**	(26,636)
Additions to investment properties	**1,905**	(34,965)
Proceeds from disposal of items of property, plant and equipment	**744**	294
Additions to other intangible assets	**(27,078)**	(29,249)
Acquisition of subsidiaries	**(170,278)**	(52,846)
Disposal of subsidiaries	**—**	1,891,334
Proceeds from disposal of a joint venture	**—**	22,841
Proceeds from disposal of available-for-sales investments	**70,986**	105,773
Dividends received from a joint venture	**—**	4,534
Dividends received from associates	**3,145**	—
Dividends received from available-for-sale investments	**7,956**	311
Investments in joint ventures	**(9,183)**	(25,929)
Investment in an associate	**(9,462)**	(4,736)
Investments in available-for-sale investments	**(137,265)**	(2,022,861)
Decrease in other receivables	**—**	171,960
Net cash flows used in investing activities	**(714,430)**	(175)

	Note	Six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
Cash flows from financing activities			
Proceeds from issue of new ordinary shares	11	**194,733**	390,000
Exercise of share options	11	**—**	12,787
New bank and other borrowings		**4,373,958**	9,300,696
Repayment of bank and other borrowings		**(2,986,727)**	(7,769,176)
Proceeds from issue of corporate bonds		**569,853**	—
Repayment of corporate bonds		**(221,428)**	—
Interest paid		**(106,987)**	(194,987)
Dividends paid		**—**	(3,515,317)
Dividends paid to non-controlling shareholders		**(16,808)**	(45,723)
Acquisition of non-controlling interests		**(4,581)**	—
Contribution from non-controlling shareholders of subsidiaries		**109,573**	2,017
Net cash flows from/(used in) financing activities		**1,911,586**	(1,819,703)
Net increase/(decrease) in cash and cash equivalents		**146,775**	(2,231,273)
Cash and cash equivalents at the beginning of the period		**2,698,158**	4,738,228
Effects of foreign exchange rate changes, net		**63,912**	(35,256)
Cash and cash equivalents at the end of the period		**2,908,845**	2,471,699
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the condensed consolidated statement of financial position		**2,908,845**	2,471,699

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 2017 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 2016 had been consistently applied except in relation to the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, HKASs and interpretations) that affect the Group and has adopted the first time for the current period's unaudited condensed consolidated interim financial statements:

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements 2014–2016 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 specialised 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/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) 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 operations for the six months ended 30 June 2017 and 2016:

	DCITS		Supply Chain Management Strategy Unit		New Business		Total continuing operations	
	Six months ended 30 June							
	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
Segment revenue:								
Sales to external customers	4,161,617	4,193,502	1,157,577	961,966	413,518	273,479	5,732,712	5,428,947
Segment gross profit	780,844	684,818	163,682	152,769	208,642	138,401	1,153,168	975,988
Segment results	150,968	115,612	(18,826)	34,512	(234,510)	(21,197)	(102,368)	128,927
Interest income, other unallocated revenue and gains	8,057	5,674					49,127	40,390
Other unallocated expenses	–	–					(260,233)	(139,804)
Finance costs	(40,976)	(35,207)					(106,987)	(111,211)
Share of profits and losses of:								
Joint ventures	(1,365)	(2,280)					17,216	602
Associates	6,723	4,074					19,583	6,185
Profit/(loss) before tax	123,407	87,873					(383,662)	(74,911)
Income tax expense	4,064	6,048					(2,975)	(4,829)
Profit/(loss) for the period	127,471	93,921					(386,637)	(79,740)

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, value-added 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue		
Systems integration business	**2,407,527**	2,542,781
Technical services business	**1,100,170**	1,022,370
Logistics business	**578,383**	514,478
Application software development business	**412,601**	370,137
E-commerce supply chain services business	**493,745**	332,792
Agricultural informatisation business	**109,002**	105,969
Financial specified equipment business	**132,317**	152,245
Finance services business	**195,910**	172,810
Others	**303,057**	215,365
	5,732,712	5,428,947
Other income		
Government grants	**18,330**	24,428
Interest income	**10,388**	9,743
Income from wealth management financial products	**19,794**	5,519
Dividend income from available-for-sale investments	**16,439**	8,450
Others	**1,668**	2,323
	66,619	50,463
Gains		
Foreign exchange differences, net	**34,052**	—
Gain on disposal of the equity interest in a joint venture	**—**	72
Gain on deemed partial disposal of the equity interest in a associate	**2,978**	—
Gain on disposal of available-for-sale investments	**28,058**	26,420
Others	**1,259**	—
	66,347	26,492
	132,966	76,955

4. Loss before tax

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**2,734,606**	2,859,698
Depreciation	**62,674**	46,142
Amortisation of prepaid land premiums	**859**	1,782
Amortisation of other intangible assets	**13,765**	4,565
Minimum lease payments under operating leases in respect of land and buildings	**57,459**	64,973
Provisions for and write-off of obsolete inventories	**45,455**	18,299
Impairment of accounts and bills receivables	**113,568**	91,537
Impairment/(reversal of impairment) of finance lease receivables	**(1,085)**	16,507
Impairment provision of available-for-sale investments	**227,941**	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	**884**	2,462
Foreign exchange differences, net	**(34,052)**	60,778
Loss on derivative financial instruments	**—**	322

5. Income tax expense

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current — Mainland China		
Corporate income tax ("**CIT**")	**27,487**	19,324
Land appreciation tax ("**LAT**")	**5,907**	321
	33,394	19,645
Current — Hong Kong	**384**	—
Deferred	**(30,803)**	(14,816)
Total tax charge for the period	**2,975**	4,829

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

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

(c) Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2017. Taxes on profit assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates. 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.

(d) The share of tax charge attributable to the joint ventures of HK$8,807,000 (six months ended 30 June 2016: HK$6,858,000) and the share of tax charge attributable to the associates of HK$15,323,000 (six months ended 30 June 2016: share of tax credit of HK$71,000) of the 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 operating segment information as a continuing operation. 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)
	3,973,339
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* (Unaudited) HK$'000
Revenue	12,913,654
Cost of sales	(12,189,837)
Gross profit	723,817
Other income and gains	92,573
Expenses	(654,444)
Finance cost	(83,776)
Share of profits and losses of a joint venture and an associate	269
Profit before tax from the discontinued operation	78,439
Income tax	(16,847)
	61,592
Gain on disposal of subsidiaries, net of tax and expenses	498,031
Profit for the period from the discontinued operation	559,623

* These numbers represent the activities of Digital China Group contributed to the Group in current period prior to its disposal.

6. Discontinued operation (Continued)

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

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

	Six months ended 30 June 2016 (Unaudited)
Profit attributable to ordinary equity holders of the parent from the discontinued operation	HK$559,623,000
Weighted average number of ordinary shares in issue less shares held under the restricted share award scheme during the period used in the basic earnings per share calculation (note 7)	1,082,386,484
Weighted average number of ordinary shares during the period used in the diluted earnings per share calculation (note 7)	1,082,490,332

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 2017 attributable to ordinary equity holders of the parent, and the weighted average of 1,292,794,454 (six months ended 30 June 2016: 1,082,386,484) ordinary shares in issue less shares held under the restricted share award scheme during the six months ended 30 June 2017.

The calculation of the diluted earnings/(loss) per share amount for the six months ended 30 June 2017 is based on the profit/(loss) for the six months ended 30 June 2017 attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue less shares held under the restricted share award scheme during the six months ended 30 June 2017, 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculation:		
From continuing operations	**(451,734)**	(127,025)
From the discontinued operation	**—**	559,623
	(451,734)	432,598

	Number of shares Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue less shares held under the restricted share award scheme during the period used in the basic earnings/(loss) per share calculation	**1,292,794,454**	1,082,386,484
Effect of dilution — weighted average number of ordinary shares:		
Share-based incentive schemes	**—**	103,848
Weighted average number of ordinary shares during the period used in the diluted earnings/(loss) per share calculation	**1,292,794,454**	1,082,490,332

8. Available-for-sale investments

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Current		
Wealth management financial products	**2,772,800**	2,856,415
Non-current		
Listed equity investments, at fair value	**165,113**	172,455
Unlisted equity investments, at cost	**796,559**	779,784
	961,672	952,239

Wealth management financial products of HK$2,772,800,000 (31 December 2016: HK$2,856,415,000) were issued by reputable financial institutions in Mainland China and had original maturity from eight days to one year (31 December 2016: three month to one year) when acquired.

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.

During the period, an impairment of HK$227,941,000 (six months ended 30 June 2016: Nil) was recognised for an available-for-sale investment because there are objective evidences indicating that such investment was impaired.

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 15 to 720 days, in which the credit period of factoring and micro-credit loans in New Business Segment is generally 90 to 720 days. An aged analysis of the accounts and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment is as follows:

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Within 30 days	**2,350,219**	2,048,714
31 to 60 days	**255,626**	342,964
61 to 90 days	**169,677**	115,122
91 to 180 days	**1,000,481**	440,582
Over 180 days	**1,671,623**	1,056,233
	5,447,626	4,003,615

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$134,029,000 (31 December 2016: HK$134,941,000), HK$107,000 (31 December 2016: HK$103,000) and HK$37,839,000 (31 December 2016: HK$26,445,000), respectively, which are repayable on credit terms similar 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 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Within 30 days	1,028,570	1,069,278
31 to 60 days	342,401	327,893
61 to 90 days	205,764	57,036
Over 90 days	909,105	670,140
	2,485,840	2,124,347

Included in the Group's accounts and bills payables are amounts due to a joint venture, an associate and related companies of the Group of approximately HK$117,000 (31 December 2016: Nil), HK$152,000 (31 December 2016: HK$148,000) and HK$22,347,000 (31 December 2016: HK$20,117,000), respectively, which are repayable on credit terms similar to those obtained from the major suppliers of the Group.

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

11. Share capital

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Authorised:		
2,000,000,000 (31 December 2016: 2,000,000,000) ordinary shares of HK$0.1 (31 December 2016: HK$0.1) each	**200,000**	200,000
Issued and fully paid:		
1,341,809,581 (31 December 2016: 1,234,655,581) ordinary shares of HK$0.1 (31 December 2016: HK$0.1) each	**134,181**	123,466

A summary of the movement in the Company's issued share capital and share premium account during the six months ended 30 June 2017 and 2016 is as follow:

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2016	1,096,365,581	109,637	2,080,480	2,190,117
Exercise of share options (note a)	2,171,000	217	16,568	16,785
Issue of new shares (notes b and c)	78,000,000	7,800	382,200	390,000
At 30 June 2016	1,176,536,581	117,654	2,479,248	2,596,902
At 1 January 2017	**1,234,655,581**	**123,466**	**2,836,673**	**2,960,139**
Issue of new shares (notes b and c)	**107,154,000**	**10,715**	**526,882**	**537,597**
At 30 June 2017	**1,341,809,581**	**134,181**	**3,363,555**	**3,497,736**

11. Share capital (Continued)

Notes:

(a) During the six months ended 30 June 2016, the subscription rights attaching to 2,171,000 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 ordinary shares of HK$0.1 each for a total cash consideration, before expenses, of HK$12,787,000. An amount of HK$3,998,000 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 Mainland China to the Group at a maximum total consideration of RMB630 million (equivalent of HK$749.7 million), which shall be satisfied by the allotment and issuance of shares of the Company. On 17 June 2016 and 26 April 2017, 78,000,000 and 71,940,000 ordinary shares were issued by the Company to Dragon City, respectively.

(c) On 5 September 2016, the Company entered into a subscription agreement with the directors, other employees and a trust company (collectively named as "**Subscribers**"), pursuant to which the Subscribers have conditionally agreed to subscribe, and the Company has conditionally agreed to allot and issue, an aggregate of 99,391,000 ordinary shares ("**Subscription Shares**") at the subscription price of HK$5.53 per share for an aggregate cash consideration of HK$549,632,230 ("**Subscription**"). The fair value of the Subscription Shares at the grant date was HK$659,956,240 with the share price of HK$6.64 per share. The directors of the Company considered that the Subscription will further strengthen the capital base and financial position of the Company for the Group's future business developments and investments. The Company intends to apply the net proceeds of the Subscription as working capital for further business development of the Group. For all the Subscription Shares, not more than 50% of shares will be released from the lock-up period of six months after the issuance date, and more than 50% of the shares will be released from the lockup period of twelve months after the issuance date.

On 21 December 2016 and 18 January 2017, the Company issued 58,119,000 and 35,214,000 Subscription Shares at the subscription price of HK$5.53 per share, for a total consideration of approximately, before expenses, HK$321,398,000 and HK$194,733,000, respectively.

12. Operating leases arrangements

(i) As lessor

At 30 June 2017, 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 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Within one year	177,795	118,031
In the second to fifth years, inclusive	310,671	304,047
After five year	123,263	41,544
	611,729	463,622

12. Operating leases arrangements (Continued)

(ii) As lessee

At 30 June 2017, the Group had total future minimum lease payments under non-cancellable operating leases of office properties and warehouses falling due as follows:

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Within one year	**78,641**	141,860
In the second to fifth years, inclusive	**53,367**	53,762
After five year	**476**	—
	132,484	195,622

13. Commitments

In addition to the operating leases commitments detailed in note 12 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Contracted, but not provided for:		
Land and buildings	**251,839**	281,626
Capital contributions payable to joint ventures	**47,892**	60,273
Capital contributions payable to associates	**20,960**	16,607
Capital contributions payable to available-for-sale investments	**208,470**	163,856
	529,161	522,362

14. 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:

		Six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Transactions with joint ventures			
Sales of IT products to joint ventures	(i)	**—**	71
Provision of IT services to joint ventures	(ii)	**2,141**	2,106
Purchases of IT products from joint ventures	(iii)	**117**	—
Rental income from joint ventures	(iv)	**465**	407
Interest income on loans from joint ventures	(v)	**9,147**	24,990
Transactions with associates			
Sales of IT products to associates	(i)	**—**	25,156
Rental income from associates	(iv)	**795**	911
Transactions with related companies (note (vi))			
Sales of IT products to related companies	(i)	**12,823**	16,833
Provision of IT services to related companies	(ii)	**146,092**	80,912
Purchases of IT products from related companies	(iii)	**77,332**	25,159
Provision of IT services by related companies	(ii)	**16,602**	88,164
Rental income from related companies	(iv)	**27,850**	13,112

14. Related party transactions (Continued)

(a) Transactions with related parties: (Continued)

Notes:

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

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

(iii) The purchases were made at prices mutually agreed between the Group and the corresponding related parties with reference to the listed price and conditions offered by the related parties to their major customers.

(iv) The rental income was determined at rates mutually agreed between the Group and the corresponding related parties with reference to the market rental.

(v) The interest income is calculated with reference to the market interest rates.

(vi) Digital China Group Co., Ltd. and its subsidiaries are the related companies of the Group, as the Chairman of Digital China Group Co., Ltd., Mr. GUO Wei, is also the Chairman and key management personnel of the Company.

(b) Other transactions with related parties:

During the year ended 31 December 2016, the Group had provided guarantees in favour of two financial institutions for certain asset-backed securities issued by a joint venture, Chongqing Digital China HC Microfinance Co., Ltd.*, up to an aggregate amount of RMB354,000,000. As at 30 June 2017, the value of the asset-backed securities issued attributable to the aforesaid guarantees amounted to approximately HK$198,309,000 (31 December 2016: HK$283,497,000).

* *For identification purpose only*

14. Related party transactions (Continued)

(c) 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 2017, the amounts due to the Group's joint ventures, associates and related companies included in the Group's other payables and accruals totalled HK$14,636,000 (31 December 2016: Nil), which are unsecured, interest-free and repayable within one year.

(iii) Included in the Group's prepayments, deposits and other receivables as at 30 June 2017 are the loans of HK$228,032,000 (31 December 2016: HK$383,900,000) to joint ventures of the Group, which are unsecured, bear interest at rates from 4.35% to 12% (31 December 2016: from 4.35% to 12%) per annum and are repayable within one year from the end of the reporting period.

As at 31 December 2016, included in the Group's prepayments, deposits and other receivables were a loan of HK$75,285,000 to a wholly-owned subsidiary of the Group's joint venture, Digital China Technology Industry Investment Co., Ltd.*, which were unsecured, bear interest at a rate of 16.15% per annum and were repayable during the six months 30 June 2017.

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short term employee benefits	**6,630**	6,440
Post-employment benefits	**82**	68
Share-based compensation	**166,379**	—
Total compensation paid to key management personnel	**173,091**	6,508

15. Events after the reporting period

On 21 July 2017, the Company announced a proposal to raise approximately HK$1.34 billion, before expenses, by way of a rights issue of 335,452,395 rights shares on the basis of one rights share for every four existing shares held by a shareholder on 18 August 2017 at a subscription price of HK$4 per rights share. Further details of the transaction have been set out in the announcement of the Company dated on 21 July 2017 and the prospectus of the Company dated on 23 August 2017.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

Digital China Holdings continued the transition from a traditional IT service provider to an innovative Big Data service provider in full force during the first half of 2017, in ongoing implementation of its "Cloud Computing+Big Data" strategy. We continued to optimize our operational processes and increase operational efficiency. Building on our experience and database generated from decades of diligent work in the IT services industry, significant breakthroughs have been made in core industries, including Sm@rt City, Precision Medicine and Modern Agriculture.

1.1 Core businesses back to profits & turnover continues to increase driven by new businesses

For the first half of 2017, turnover from Continuing Operations amounted to approximately HK$5,733 million, representing an increase of HK$304 million, and year-on-year growth of 5.60% compared to the corresponding period of last financial year (six months ended 30 June 2016) driven mainly by the increase in turnover from the new businesses for the period. Gross profit amounted to HK$1,153 million, representing year-on-year growth of 18.15%. Gross profit margin improved by 2.14 percentage points, year-on-year, to 20.12%. As new businesses commanding higher margins continued to account for an increasing share of total turnover, the overall gross profit margin rose accordingly since 2014. Loss attributable to equity holders of Continuing Operations of the Group for the reporting period amounted to approximately HK$452 million, which was primarily attributable to: (1) share-based payments expenses (non-cash items) of approximately HK$308 million (excluding the non-controlling interests effect) due to the grant of share options and restricted share units in the period; (2) the proposed provision of approximately HK$228 million to be made by the Group for the wealth management financial products for the sake of prudence, in light of the possible loss in the principal and interests. Excluding the effects of the aforesaid one-off items, the Continuing Operations would have recorded net profit attributable to the equity holders of the parent company of approximately HK$84 million for the period, which represented a turnaround to profit versus the corresponding period of last financial year[1] as business transformation shows notable outcomes.

1.2 Strategic businesses progressing on all fronts: ongoing innovation in Sm@rt City and Precision Medicine being the absolute vanguard

With the advancement of our new strategy, we have fulfilled our transition from an industry IT service provider to an industry operator through innovative business models developed on the back of Cloud Computing and Big Data technologies, in core industries where we claim advantages.

Digital China Holdings introduced the idea of Sm@rt City to China in 2010. Today, our Sm@rt City solutions cover more than 120 cities, and our city service platforms have been procured by more than 40 cities/districts and in operation in over 30 cities covering over more than 100 million residents. Digital China Holdings has grown from a pioneer into the undisputable leader in the Sm@rt City sector. Since this year, our Sm@rt City business has started to develop the cloud-based open city data platform. In cooperation with Peking University, we have developed and invested in Yanfeng (燕風) DaaS and Yanyun (燕雲) IaaS, exclusive deep-web data extraction technologies by Beijing Internetware Limited Corporation. The application of the new technologies has significantly accelerated the progress of various data sharing processes, including those in relation to government data, effectively breaking the isolation of individual information systems and giving us a huge improvement in our ability for data extraction and analysis. On this basis, we have launched respective business models for the operation of resources, scenarios and platforms providing government and corporate clients with products for the integration and convergence of API government information resources, service solutions and platform construction and operation. Currently, data service products for industrial operation, economic operation, defined poverty aid, citizen credit, transportation and education have been developed commercializing our technological achievements in multiple sectors.

1 Excluding the effect of one-off gain from the disposal of the distribution business, loss of approximately HK$127 million was reported for the corresponding period of last financial year.

With the rapid penetration of new service models, mobile Internet, Big Data and Cloud computing into various segments of the medical sector, the development and application of healthcare big data as an important as well as fundamental form of strategic resources of the nation will promise enormous commercial and social value. Following nearly 10 years' incubation and 3 years' preparation, Digital China Health was officially established in late 2016. As a pioneer in the precision medicine sector under the new strategy of Digital China Holdings, Digital China Health, on the back of its unrivaled ability in cancer data analysis in the domestic market, is developing China's largest oncologic data centre and oncology Big Data platform in cooperation with the Chinese Academy of Sciences, on the basis of which comprehensive tumor data services will be provided. The Group is planning to invest in the China Healthcare Big Data Technology Development Group Ltd. (中國健康醫療大數據科技發展集團公司) ("**Technology Development Group**") which is the first "national league" in healthcare big data. In future, Technology Development Group will consolidate the strengths of its member companies to drive innovation through capital investments, aiming to build national health and medical big data centers and industrial parks in major cities on a trial basis, eventually forming a healthcare big data service regime to drive the development of elementary healthcare big data for the nation.

2.1 IT Service Business (DCITS): leading IT service provider in China's IT industry specialized in proprietary software, services, Cloud Computing and Big Data analysis, with emphasis on cloud platform services for the agricultural, financial and taxation sectors on the back of its strengths in these industries

During the first half of 2017, DCITS announced its new strategy of "IT+" industrial integration under the framework of "Cloud Computing+Big Data" of Digital China Holdings. While assuring prudent business growth, DCITS has made a major effort to drive the development of strategic businesses such as Cloud Computing, Big Data, and quantum communication, with a view to nurturing profitable niches for the healthy and sustainable development of the company. Turnover for the reporting period amounted to HK$4,162 million, a slight setback of 0.76% year-on-year. Gross profit margin for the business improved by 2.43 percentage points, year-on-year, to 18.76%. Profit attributable to equity holders of the parent company amounted to HK$107 million, representing a 15.90% increase year-on-year. If excluding share-based payments expenses (non-cash items) arising from the grant of share options and restricted share units in the period, profit attributable to equity holders of the parent company amounted to HK$123 million, representing a significant increase of 33.90% year-on-year.

2.1.1 Technical Services; Application Software Development (including Cloud services)

Our technical services business continued to consolidate its industrial strengths by bolstering the development of data analysis and intelligent operation and maintenance. For the reporting period, the Group's Technical Services reported turnover of HK$1,100 million, representing year-on-year growth of 7.61% compared to the corresponding period of last year. Gross profit margin for the business was 25.58%, an improvement by 4.11 percentage points year-on-year. Service Jet, an automated maintenance platform developed by our in-house R&D and launched last year, has developed extensive applications for industry customers in the banking, securities, telecommunications and government and corporate service sectors. We have also signed up Xiamen International Bank as new customer for our automated testing services and China Mobile Guangxi Branch for our security and maintenance services.

In application software development (including Cloud services), the rapid applications of new-generation technologies have significantly boosted demands from industrial clients in the financial, telecommunications and government and corporate service sectors. For the reporting period, turnover from the Group's application software development business amounted to HK$413 million, representing an 11.47% growth year-on-year. Gross profit margin for the business was 29.86%, a slight decrease by 0.77 percentage points compared to the corresponding period of last year. During the first half of the year, the application software development business reported strong sales to banks and financial institutions. Our proprietary core banking systems were launched successfully for Zhongguancun Bank (the first privately-owned bank in Beijing region). The "Financial and Taxation Administration Information System Phase III" administration and decision-making platform constructed by DCITS supported the first ever nationwide centralization of taxation data. For taxation data services, following the sign-up of Anhui Province Local Tax Bureau last year, we further signed up Xinjiang and Shanxi Local Tax Bureaus during the first half of this year.

2.1.2 Agricultural Informatisation

During the first half of the year, the Company deepen the development in the post-registration market for farmland as well as smart agriculture sector on the back of its nationwide market presence in the farmland rights registration business. For the reporting period, the Group's agricultural informatisation business reported revenue of HK$109 million, a 2.86% growth compared to the corresponding period of last year. Gross profit margin for the business reached to 49.90% despite that it dropped by 2.16 percentage points year-on-year. As the flagship of the modern agricultural business segment of Digital China Holdings, Zhongnong Xinda has become China's premier brand in agricultural informatisation after three years' development, ranking first in the farmland rights registration market for 4 consecutive years in terms of market shares and having charted land sites with an aggregate area of close to 50 million mu. It leverages the strengths in IT technologies, industrial integration and value-added services to assist the reform and development of agriculture in China based on the "One Network, One Data Base and Three Services" model. In connection with agricultural big data, the "Big Data Command Module for Three Issues Concerning Agriculture, Rural Areas and Farmers" developed by the Company has commenced operation in Yangling Agricultural Hi-tech Industrial Demonstration Zone in Shaanxi, to the high acclaim of national leaders. In terms of village administration services, the Company has further advanced its farmland rights registration business and snatched additional market shares as it won tenders for large projects in Yunnan, Xinjiang and Chongqing, provincial platforms projects for Jilin and Gansu, as well as a national-level farmland rights registration data integration and database construction project. In agricultural production services, the Company's agricultural Internet of Things has enhanced the application of smart irrigation and products integrating irrigation and fertilization in smart industrial parks, signing up Luoning County, Henan for a pilot project in the integration of primary, secondary and tertiary industries. In agricultural trading services, the Company has enhanced the promotion of agricultural technologies based on its agricultural big data smart decision analysis system and the Yangling Agricultural Cloud Platform, assisting agricultural business owners improve efficiency and competitiveness.

2.1.3 Systems Integration Business

The demand for Cloud Computing infrastructure facilities has increased notably among the financial, telecommunications, government and corporate services and manufacturing sectors, with a broad need for the optimization of users' data centers. In the meantime, the enactment of the national Network Security Law has given rise to the demand for secured construction of industrial information system. The above two factors have become the major forces driving the development of systems integration business. Turnover from the Group's systems integration business amounted to HK$2,408 million for the reporting period, a 5.32% decrease year-on-year. Gross profit margin for the business was 11.17%, an improvement by 2.39 percentage points year-on-year. Following registration as one of the founding members of the National Quantum Communication Industry Union, the Company has become a member of the Quantum Communication and Information Technology Task Force of the China Communications Standards Association (CCSA) in June 2017 which will be qualified to take part in the formulation of the national standards for the quantum encrypted communication industry, as well as the construction of the Tianjin Quantum Communication Industrial Park. Moreover, the Company has also secured many significant projects, including the development of data centre and software development centre for the Industrial and Commercial Bank of China and payment and clearing platform for the Payment and Clearing Association of China, in a further increase of our strengths in services.

2.2 Supply Chain Management Business: leading supply chain management brand in China with extensive logistic network and comprehensive after-sale maintenance capability. Development of B2C services and O2O self-branded maintenance services on the back of the SaaS-based "intermediary platform" integrated e-commerce service model

During the reporting period, Digital China Holdings continues to foster large industrial clients, with a view to increase sales and expand market share. Thanks to the rapid development of the third-party logistics industry, the business segment demonstrated rapid growth with ongoing expansion. For the six months ended 30 June 2017, overall revenue amounted to approximately HK$1,158 million, a 20.33% growth compared to the corresponding period of last year, while overall gross profit margin was 14.14%. The three principal branches of the Supply Chain Management Business, namely, e-Commerce Supply Chain services, Logistics and Maintenance, accounted for 42.65%, 49.97% and 7.38%, respectively, of the revenue from this business segment for the first half of the year.

2.2.1 e-Commerce Supply Chain Business

The ongoing effort of building an "intermediary platform integrated service model" over the past few years has been well-recognized by the customers. For the reporting period, revenue from the business sustained a rapid 48.36% growth, while gross profit increased by 59.10%, year-on-year. We have signed up new customers including Cisco and Lexon.

2.2.2 Logistics Services

The logistics services business reported stable year-on-year growth in revenue and gross profit of 12.42% and 15.96% respectively for the first half of the year, amidst a low season for the industry in general. On the back of solid collaboration with the three leading telecommunications carriers, our logistics services segment conducted active business roll-out and customer development in the handset, auto accessories FMCG (fast moving consumer goods) and cosmetics sectors. During the reporting period, we have signed up various major clients such as Smartisan, Darlie and Schick. In connection with strategic development in the industry, we continue to enhance cooperation with Cainiao Network of Alibaba Group and have signed up as one of the first batch of logistics service mega-market strategic partners in Cainiao Network. In the future, our logistics business will be seamlessly connected to the Taobao and T-mall platforms to provide storage and logistics services for more branded customers.

2.2.3 Maintenance Services

During the reporting period, our maintenance business has won the tender to become Huawei's after-sales maintenance service provider for PC products in China. Meanwhile, we have made further efforts in Internet marketing to promote the "K-Boy" brand among retail customers and SMEs with optimized on-site service management to enhance customer experiences and service quality.

In the future, our supply chain service will continue to pursue sustainable development by introducing strategic and financial capital to support market share expansion and servicing capacity upgrading.

2.3 New Business: Exploring opportunities in "Internet+" sectors such as Sm@rt City, Precision Medicine, Modern Agriculture and Sm@rt Manufacturing to foster strategic new business growth niche on the basis of Cloud Computing and Big Data technologies

For the reporting period, the New Business comprised Sm@rt City, Financial Services and our self-incubating businesses Qicheng and Digital China Health. For the first half of 2017, turnover amounted to HK$414 million, representing year-on-year growth of 51.21%, while gross profit increased to HK$209 million or 50.75% as compared to the corresponding period of last year. The rapid growth in revenue and gross profit underpins the enormous market potential of Sm@rt City under the new model of "Internet+".

2.3.1 Sm@rt City Business

Since 2014, our Internet-based Sm@rt City service sustained rapid growth. For the first half of 2017, the business reported service revenue of approximately HK$47.25 million, growing by 60.87% as compared to the corresponding period of last year. During the first half of the year, we have commenced the operation of the Internet service platform of Guiyang City, taking the total number of cities/districts served by our operating platforms to 31 and the number of cities/districts which has entered into strategic cooperation agreement with us to 48. New contracts with an aggregate amount of RMB114 million were signed during the reporting period. With the increase in the number of signed-up cities and volume of operating data, our Sm@rt City business was actively developing innovative business models based on Big Data services and API platforms, on top of the existing model of Internet-based operation, with a view to extending the business chain of the Sm@rt City. During the reporting period, we have commenced operation of an API platform based on public data in Guiyang to provide solutions and services in platform construction and operation to government and corporate clients. In the future, we will promote this innovative business model to more cities, including the current ones which our Internet-based city services platforms are operating.

2.3.2 Financial Services Business

As an important segment underpinning Digital China Holdings' strategy, our Financial Services Business provides a broad range of financial services, such as micro-credit, commercial factoring and financial leasing, to corporate customers of the Company's various business segments with a persistent emphasis on risk control, in a full effort to drive the implementation of the new strategy. The macro-economic landscape continued to be challenging in the first half of 2017, marked by increasing volatility in the domestic financial market. The Company enhanced risk control with a special focus on risk evaluation and payback of existing loans, taking the initiative to scale down our outstanding loans.

2.3.3 Self-incubating Business

As one of the proprietary innovative brands created by the staff of Digital China Holdings, "Qicheng" focuses on serving industrial parks, small-medium enterprises and star-ups. Cooperating with government-run industrial parks and social service institutions, we have built up an online + offline one-stop industrial platform catering to micro and small-medium enterprises' requirements in business starting, operations and financing. Since its launch a year ago, "Qicheng" has covered over 100 tier-one to tier-three cities in the central and western regions, including but not limited to Beijing, Tianjin, Shanghai, Dalian, Changchun, Qingdao, Xi'an, Hangzhou, Nanjing, Changsha and Guangzhou. In industrial park services, we have signed up for general cooperation projects in Changsha and Tangshan during the reporting period to facilitate the industrial parks access to entrepreneurship services, match between investing and financing requirements, pay out governmental financial grants and conduct big data-based leasing. A notable increase in the number of projects signed is expected for the second half of the year. Our website serving start-up enterprises, www.weqicheng.com, recorded registration of 100,000 new corporate users during the first half of the year, while entering into strategic cooperation with 19 business incubators to provide services such as recommendations of premium projects, offline roadshows coordination and work space leasing, in exchange for service fees and swap of resources.

In the sector of precision medicine, Digital China Holdings has built an unrivaled ability in cancer data analysis in the domestic market on the back of its strong R&D team, technologies developed over the years and cooperation with reputable international as well as domestic colleges and research institutions. Our subsidiary Digital China Health is currently engaged in a comprehensive cooperation with the National Cancer Center to construct the largest nationwide oncologic data centre and oncology Big Data platform in China. By end of June 2017, the oncologic data centre has connected to 17 provincial oncology hospitals collecting more than 4 million sets of clinical, imaging and genetic oncology data, while entering into comprehensive strategic cooperation agreements with a number of reputable pharmaceutical manufacturers, medical equipment suppliers and insurance companies. Digital China Health is committed to building itself into the premier brand name in healthcare big data in China and even the world in the future through providing comprehensive and precise cancer data services. In the future, Digital China Holdings will continue to develop businesses relating to precision medicine and healthcare big data service through Digital China Health and China Healthcare Big Data Technology Development Group Ltd. (中國健康醫療大數據科技集團公司) as two main platforms, by way of external investment as well as internal growth.

Following a year of overcoming challenges in the reform and innovation of Digital China Holdings in 2016, we have welcomed a year of full implementation of our strategies and new businesses in 2017. In retrospect, Digital China Holdings has always pursued reform and innovation with utmost determination: from the channel business comprising mainly IT products distribution at the time of our IPO, we later shifted to the software services business comprising mainly IT solutions, before taking on the Big Data and Cloud Computing service businesses built upon the Sm@rt City. We have steered through every new turn on the back of the vigorous involvement of our staff, the diligent implementation of our management team and the understanding and support of investors, which have allowed us to act ahead of others and swiftly expand our new business by raising capital in the market. We firmly believe that Digital China Holdings will continue to progress against all odds on the way of its transformation to a Cloud and Big Data service provider and deliver ample rewards to the shareholders, given the depth of its technological strengths, its extensive presence in different sectors and its solid network of Sm@rt City operations.

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$26,032 million at 30 June 2017 which were financed by total liabilities of HK$14,836 million, non-controlling interests of HK$3,550 million and equity attributable to equity holders of the parent of HK$7,646 million. The Group's current ratio at 30 June 2017 was 1.22 as compared to 1.24 at 31 December 2016.

During the six months ended 30 June 2017, capital expenditure of HK$832 million was mainly incurred for the acquisition of properties, office equipment and IT infrastructure facilities.

As at 30 June 2017, the Group had cash and bank balances of HK$2,909 million, of which about HK$2,206 million were denominated in Renminbi.

The aggregate borrowings from continuing operations of the Group as a ratio of equity attributable to equity holders of the parent was 1.25 at 30 June 2017 as compared to 1.07 at 31 December 2016. The computation of the said ratio was based on the total interest-bearing bank and other borrowings of the Group of HK$9,566 million (31 December 2016: HK$7,665 million) and equity attributable to equity holders of the parent of HK$7,646 million (31 December 2016: HK$7,169 million).

At 30 June 2017, the denomination of the interest-bearing bank and other borrowings of the Group was shown as follows:

	Denominated in United States dollars HK$'000	Denominated in Renminbi HK$'000	Denominated in Hong Kong dollars HK$'000	Total HK$'000
Current				
Interest-bearing bank borrowings, unsecured	758,651	2,280,393	230,000	3,269,044
Interest-bearing bank borrowings, secured	—	2,980,224	—	2,980,224
Corporate bond	—	569,853	—	569,853
	758,651	5,830,470	230,000	6,819,121
Non-current				
Interest-bearing bank borrowings, unsecured	155,000	136,765	—	291,765
Interest-bearing bank borrowings, secured	—	1,885,414	—	1,885,414
Corporate bond	—	569,853	—	569,853
	155,000	2,592,032	—	2,747,032
Total	913,651	8,422,502	230,000	9,566,153

Certain of the Group's bank borrowings of:

1. HK$1,827 million extended by financial institutions to certain subsidiaries of the Group were secured by mortgages over the Group's buildings, investment properties, land use right, properties under development and completed properties held for sale with an aggregate carrying amount of HK$3,069 million at 30 June 2017;

2. HK$3,006 million extended by financial institutions to certain subsidiaries of the Group were secured by pledge of 288,717,698 issued shares of Digital China Information Service Company Ltd. ("**DCITS**"), a non-wholly-owned subsidiary of the Company, directly held by a wholly-owned subsidiary of the Company, with an aggregate carrying amount of HK$5,495 million at 30 June 2017;

3. HK$26 million extended by financial institutions to a non-wholly-owned subsidiary of the Group were secured by the pledge of certain of the Group's accounts receivable with an aggregate carrying amount of HK$26 million at 30 June 2017; and

4. HK$6 million extended by financial institutions to a non-wholly-owned subsidiary of the Group were secured by mortgages over a building of a non-controlling shareholder at 30 June 2017.

Included in the Group's current and non-current bank borrowings of approximately HK$134 million and HK$2,177 million respectively represented the term loans which are repayable from 2017 to 2027. All of the Group's bank borrowings were charged at floating interest rates except for the loan balances with an aggregate amount of HK$2,629 million which were charged at fixed interest rates as at 30 June 2017.

In August 2016, Digital China Software Limited* ("**DC Software**"), a wholly-owned subsidiary of the Company, obtained the relevant approval for issuing the medium-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB700 million. In September 2016, DC Software issued the first tranche of the short-term notes of 2016 with a total principle amount of RMB500 million (equivalent to approximately HK$570 million) with a maturity period of 5 years (with the investor's option to sell back the notes after the end of the third year from the issuance date) and at an interest rate of 4.9% per annum. The proceeds thereof were to be used for repaying the bank loans of the Group.

In January 2017, DC Software, a wholly-owned subsidiary of the Company, obtained the relevant approval for issuing the short-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB1,500 million. In April 2017, DC Software issued the first tranche of the short-term notes of 2017 with a total principle amount of RMB500 million (equivalent to approximately HK$570 million) with a maturity period of 90 days and at an interest rate of 5.48% per annum. The proceeds thereof were to be used for repaying the bank loans of the Group.

The total available credit facilities from the Group's continuing operations at 30 June 2017 amounted to HK$11,643 million, of which HK$3,637 million were in term loan facilities, HK$1,763 million were in trade lines and HK$6,243 million were in short-term and revolving money market facilities. At 30 June 2017, the facility drawn down from continuing operations was HK$2,655 million in term loan facilities, HK$645 million in trade lines and HK$2,974 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

(1) The Group provided guarantees in favour of one financial institution for certain asset-backed securities issued by a joint venture, Chongqing Digital China HC Microfinance Co., Ltd.*, with an aggregate amount of approximately HK$198,309,000 as at 30 June 2017.

(2) The Group made a provision for projected liabilities with an amount of RMB18.12 million (equivalent to approximately HK$21 million) for the six months ended 30 June 2017 in respect of the judgment handed down by Suzhuo Intermediary People's Court ((2015) Su Zhong Shang Chu Zhi No. 00145) for a case involving DCITS, a non-wholly owned subsidiary of the Group. DCITS, the first defendant and the plaintiff of the case has filed an appeal to Jiangsu Provincial Higher People's Court against the judgment of the first trial. As at 30 June 2017, a verdict has yet to be issued.

After considering the judgement of the first trial made by Suzhuo Intermediary People's Court and the legal advices given by the legal counsel, the directors of the Company are on the opinion that no further provision is considered necessary as at 30 June 2017.

* *For identification purpose only*

Capital Commitment

At 30 June 2017, the Group had the following capital commitments:

	HK$'000
Land and buildings	251,839
Capital contributions payable to joint ventures	47,892
Capital contributions payable to associates	20,960
Capital contributions payable to available-for-sale investments	208,470
	529,161

Human Resources

At 30 June 2017, the Group's continuing operations had approximately 11,000 (30 June 2016: approximately 7,100) full-time employees. The majority of these employees work in the PRC. The Group's continuing operations offers remuneration packages in line with industry practice. Employees' remuneration includes basic salaries and bonuses. With the increase in the total number of staff to cope with its business requirements, the Group's continuing operations has recorded a 51.46% increase in staff costs to approximately HK$1,229 million for the six months ended 30 June 2017 as compared to approximately HK$811 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 2017 (for the six months ended 30 June 2016: Nil).

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

At 30 June 2017, 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 (the "**Model Code**") adopted by the Company were as follows:

Name of Directors	Capacity	Personal interests	Corporate interests	Number of outstanding share options	Total *(Note 1)*	Approximate percentage of aggregate interests (%) *(Note 6)*
GUO Wei	Beneficial owner and interests of a controlled corporation	70,779,766	69,414,286 *(Note 2)*	12,500,000 *(Note 3)*	152,694,052	11.38
LIN Yang	Beneficial owner	3,345,734	—	12,500,000 *(Note 4)*	15,845,734	1.25
WANG Xinhui *(Note 5)*	Beneficial owner	2,029,924	—	12,512,000 *(Note 5)*	14,541,924	1.15
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 12,500,000 share options held by Mr. GUO Wei were granted on 25 January 2017. These share options are exercisable from 25 January 2017 to 24 January 2025 at an exercise price of HK$6.71 per share for subscription of ordinary shares of the Company.

4. These 12,500,000 share options held by Mr. LIN Yang were granted on 25 January 2017. These share options are exercisable from 25 January 2017 to 24 January 2025 at an exercise price of HK$6.71 per share for subscription of ordinary shares of the Company.

5. Out of these 12,512,000 share options in aggregate held by Mr. WANG Xinhui,

   i) 12,000 share options were granted on 11 January 2011. These share options are exercisable from 11 January 2012 to 10 January 2019 at an exercise price of HK$15.04 per share for subscription of ordinary shares of the Company; and

   ii) 12,500,000 share options were granted on 25 January 2017. These share options are exercisable from 25 January 2017 to 24 January 2025 at an exercise price of HK$6.71 per share for subscription of ordinary shares of the Company.

   Mr. WANG Xinhui has resigned as an Executive Director and the President of the Company with effect from 21 July 2017.

6. 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 2017, 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 2017, 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
Dragon City International Investment Limited	Beneficial owner	150,070,000 *(Note 3)*	11.18
YIP Chi Yu *(Note 3)*	Interests of a controlled corporation/ Interest of spouse	150,070,000/1,860	11.18
HUANG Shaokang *(Note 3)*	Beneficial owner/Interest of spouse	1,860/150,070,000	11.18
Guangzhou City Infrastructure Investment Group Limited* (廣州市城市建設投資集團有限公司) ("**GZ Infrastructure**")	Interests of a controlled corporation	258,877,000 *(Note 4)*	19.29
Guangzhou City Investment Co., Ltd.* (廣州市城投投資有限公司) ("**GZ Investment**")	Interests of a controlled corporation	258,877,000 *(Note 4)*	19.29
Guangzhou City Investment Jiapeng Industry Investment Fund Management Co., Ltd.* (廣州城投佳朋產業投資基金管理有限公司) ("**GZ Jiapeng**")	Interests of a controlled corporation	258,877,000 *(Note 4)*	19.29
Guangzhou City Investment Jiazi Investment Partnership (Limited Partnership)* (廣州城投甲子投資合夥企業(有限合夥)) ("**GZ Jiazi**")	Beneficial owner	258,877,000 *(Note 4)*	19.29
GRG Banking Equipment Co., Ltd.* (廣州廣電運通金融電子股份有限公司)	Beneficial owner	197,888,000 *(Note 5)*	15.58
Guangzhou Radio Group Co., Ltd.* (廣州無線電集團有限公司)	Interests of a controlled corporation	197,888,000 *(Note 5)*	15.58
Allianz SE	Interests of controlled corporations	90,628,000 *(Note 6)*	6.75

* *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. Out of the 150,071,860 shares of the Company in aggregate, 150,070,000 shares were held by Dragon City International Investment Limited, which is controlled by Ms. YIP Chi Yu, and 1,860 shares were held by Mr. HUANG Shaokang, a spouse of Ms. YIP Chi Yu.

4. GZ Jiazi is owned as to 99.96% by GZ Investment and 0.04% by GZ Jiapeng, which GZ Jiapeng is in turn wholly-owned by GZ Investment, which in turn, is owned as to 80.00% by GZ Infrastructure. GZ Infrastructure is deemed to be interested in 258,877,000 shares of the Company.

5. These 197,888,000 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.

6. Out of these 90,628,000 shares of the Company in aggregate, 1,447,000 shares were held by Allianz Global Investors Taiwan Ltd. and 89,181,000 shares were held by Allianz Global Investors Asia Pacific Limited. 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 2017, 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**") (the 2002 Share Option Scheme together with the 2011 Share Option Scheme, hereinafter collectively referred to as the "**Share Option Schemes**").

The following table shows the movements in the share options under the Share Option Schemes during the six months ended 30 June 2017 and the options outstanding at the beginning and end of the period:

Grantee	Number of share options Outstanding as at 1/1/2017	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding as at 30/6/2017	Subscription price per share HK$ *(Note 2)*	Date of grant	Exercisable period *(Note 1)*
2002 Share Option Scheme								
Director								
WANG Xinhui*	12,000	–	–	–	12,000	15.04	11/01/2011	11/01/2012–10/01/2019
Other employees	3,784,000	–	(30,000)	–	3,754,000	15.04	11/01/2011	11/01/2012–10/01/2019
In aggregate	3,796,000	–	(30,000)	–	3,766,000			
2011 Share Option Scheme								
Directors								
GUO Wei	–	12,500,000	–	–	12,500,000	6.71	25/01/2017	25/01/2017–24/01/2025
LIN Yang	–	12,500,000	–	–	12,500,000	6.71	25/01/2017	25/01/2017–24/01/2025
WANG Xinhui*	–	12,500,000	–	–	12,500,000	6.71	25/01/2017	25/01/2017–24/01/2025
Other employees	–	71,700,000	–	–	71,700,000	6.71	25/01/2017	25/01/2017–24/01/2025
In aggregate	–	109,200,000	–	–	109,200,000			

* Mr. WANG Xinhui has resigned as an Executive Director and the President of the Company with effect from 21 July 2017.

Notes:

1. All options granted under the 2002 Share Option Scheme 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 Share Option Schemes 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:	25 January 2017	11 January 2011
Dividend yield (%)	3 per annum	3.5 per annum
Expected volatility (%)	41 per annum	48 per annum
Risk-free interest rate (%)	1.7 per annum	2.1 per annum
Weighted average share price (HK$ per share)	6.71	14.98

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.

During the six months ended 30 June 2017, a total of 21,471,185 RSUs were granted to the Participants. These RSUs vested on 26 January 2017.

The fair values of the RSUs granted were calculated based on the market price of the Company's shares at the respective grant dates.

During the six months ended 30 June 2017, the Group recognised share-based payment expenses of HK$318,067,000 (six months ended 30 June 2016: Nil) 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
Mr. GUO Wei	—	Ceased to be the Chairman of the 6th Council of China Non-Governmental Science Technology Entrepreneurs Association
	—	Appointed as a Director of Value Global Investments Limited
	—	Appointed as the Acting President of Digital China Group Co., Ltd. (listed on The Shenzhen Stock Exchange)
Mr. LIN Yang	—	Ceased to be the Director of the IT Channel Profession Council, Ministry of Industry and Information Technology
Mr. Denis Shing Fai YIP	—	Appointed as the Chief Executive Officer, an Executive Director and the President of the Company
Mr. WONG Man Chung, Francis	—	Appointed as an Independent Non-executive Director, the Chairman of the Audit Committee and a Member of Nomination Committee of China New Higher Education Group Limited (listed on the Main Board of the Stock Exchange on 19 April 2017)
Mr. WANG Xinhui	—	Resigned as an Executive Director and the President of the Company

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 2017.

Review by Audit Committee

The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. WONG Man Chung, Francis (who is the Chairman of Audit Committee), Ms. NI Hong (Hope) and Prof. LAI Daniel, *BBS, JP*. 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 2017.

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 2017, 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 recognises that (i) the relevant Directors have already been subject to the laws and regulations applicable to directors of a company listed on the Stock Exchange, including the Listing Rules as well as the fiduciary duties to act in the best interests of the Company and its shareholders; (ii) all of them are well established in their professions and have held directorships in other listed companies; and (iii) the current arrangement has been adopted by the Company for years and has proved to be effective. Therefore, the Board considers that the relevant Directors are able to carry out their duties in a responsible and effective manner under the current arrangement.

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

During the six months ended 30 June 2017, 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 2017.

By Order of the Board
GUO Wei
Chairman

Hong Kong, 29 August 2017

Website: www.dcholdings.com.hk