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Interim Report

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

* for identification purpose only

DC HOLDINGS ADHERES

TO THE MISSION OF BUILDING A

"DIGITAL CHINA",

EMPOWERING DIFFERENT INDUSTRIES WITH

LEADING DATA TECHNOLOGY SERVICES.

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The board of directors (the "**Director(s)**" or the "**Board**") of Digital China Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2018 together with comparative figures for the corresponding period of the last financial year as follows:

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

	Notes	Six months ended 30 June **2018** **(Unaudited)** **HK$'000**	 2017 (Unaudited) HK$'000
REVENUE	3	**6,985,835**	5,732,712
Cost of sales and services		**(5,702,775)**	(4,579,544)
Gross profit		**1,283,060**	1,153,168
Other income and gains	3	**560,167**	132,966
Selling and distribution expenses		**(621,751)**	(505,937)
Administrative expenses		**(166,182)**	(459,221)
Other expenses, net		**(606,765)**	(634,450)
Finance costs		**(109,377)**	(106,987)
Share of profits and losses of:			
Joint ventures		**(5,126)**	17,216
Associates		**3,115**	19,583
PROFIT/(LOSS) BEFORE TAX	4	**337,141**	(383,662)
Income tax expense	5	**(11,145)**	(2,975)
PROFIT/(LOSS) FOR THE PERIOD		**325,996**	(386,637)
Attributable to:			
Equity holders of the parent		**137,493**	(451,734)
Non-controlling interests		**188,503**	65,097
		325,996	(386,637)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	6		
Basic		**HK cents 8.20**	HK cents (34.94)
Diluted		**HK cents 8.20**	HK cents (34.94)

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT/(LOSS) FOR THE PERIOD	**325,996**	(386,637)
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)
Exchange differences:		
Exchange differences on translation of foreign operations	**8,607**	186,754
Share of other comprehensive income/(loss) of an associate	**18,522**	(11,992)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**27,129**	167,420
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Financial assets:		
Changes in fair value	**(26,094)**	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	**(26,094)**	–
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**1,035**	167,420
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**327,031**	(219,217)
Attributable to:		
Equity holders of the parent	**121,453**	(366,036)
Non-controlling interests	**205,578**	146,819
	327,031	(219,217)

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,114,105**	1,167,160
Investment properties		**4,116,875**	4,102,327
Prepaid land premiums		**68,466**	69,279
Goodwill		**2,361,106**	2,346,218
Other intangible assets		**173,510**	181,387
Investments in joint ventures		**217,522**	228,639
Investments in associates		**3,468,383**	2,637,304
Available-for-sale investments	7	**—**	3,314,809
Other non-current financial assets	7	**2,142,709**	—
Finance lease receivables		**49,496**	113,493
Accounts receivable	8	**—**	23,428
Prepayments, deposits and other receivables		**123,503**	123,391
Deferred tax assets		**128,876**	102,354
Total non-current assets		**13,964,551**	14,409,789
CURRENT ASSETS			
Inventories		**755,941**	1,221,410
Properties under development		**260,338**	260,504
Completed properties held for sale		**45,047**	45,006
Accounts and bills receivables	8	**5,362,570**	5,214,237
Prepayments, deposits and other receivables		**2,913,057**	1,944,876
Available-for-sale investments	7	**—**	585,719
Other current financial assets	7	**117,666**	—
Finance lease receivables		**256,342**	341,735
Restricted bank balances		**35,337**	107,989
Cash and cash equivalents		**2,070,392**	3,784,296
Total current assets		**11,816,690**	13,505,772
CURRENT LIABILITIES			
Accounts and bills payables	9	**3,059,690**	3,217,547
Other payables and accruals		**2,569,823**	3,560,919
Tax payable		**6,819**	145,081
Interest-bearing bank and other borrowings		**3,463,188**	5,296,981
Total current liabilities		**9,099,520**	12,220,528
NET CURRENT ASSETS		**2,717,170**	1,285,244
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,681,721**	15,695,033

	Note	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,681,721**	15,695,033
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**3,260,578**	2,583,949
Deferred tax liabilities		**287,654**	273,112
Deferred income		**41,471**	43,098
Total non-current liabilities		**3,589,703**	2,900,159
NET ASSETS		**13,092,018**	12,794,874
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	10	**167,726**	167,726
Reserves		**9,077,256**	8,942,059
		9,244,982	9,109,785
Non-controlling interests		**3,847,036**	3,685,089
TOTAL EQUITY		**13,092,018**	12,794,874

Condensed Consolidated Statement of Changes in Equity

As at 30 June 2018

	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-to-sale investment revaluation reserve (Unaudited) HK$'000	Financial assets at fair value through other comprehensive income revaluation reserve (Unaudited) HK$'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 31 December 2017	167,726	4,665,095	1,929,976	(21,571)	51,503	480,072	(16,329)	–	393,297	104,462	1,355,554	9,109,785	3,685,089	12,794,874
HKFRS 9 adjustments	–	–	–	–	–	–	16,329	23,078	–	–	15,237	54,644	–	54,644
At 1 January 2018	167,726	4,665,095	1,929,976	(21,571)	51,503	480,072	–	23,078	393,297	104,462	1,370,791	9,164,429	3,685,089	12,849,518
Profit for the period	–	–	–	–	–	–	–	–	–	–	137,493	137,493	188,503	325,996
Other comprehensive income/ (loss) for the period:														
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–	(26,094)	–	–	–	(26,094)	–	(26,094)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	1,275	–	1,275	7,332	8,607
Share of other comprehensive income of an associate	–	–	5,061	–	–	–	–	2,722	–	996	–	8,779	9,743	18,522
Total comprehensive income/ (loss) for the period	–	–	5,061	–	–	–	–	(23,372)	–	2,271	137,493	121,453	205,578	327,031
Share-based payment expenses	–	–	–	–	560	–	–	–	–	–	–	560	–	560
Capital contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	1,184	1,184
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(5,784)	(5,784)
Capital reduction by a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(11,019)	(11,019)
Acquisition of non-controlling interests	–	–	(41,460)	–	–	–	–	–	–	–	–	(41,460)	(5,912)	(47,372)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(22,100)	(22,100)
At 30 June 2018	167,726	4,665,095*	1,893,577*	(21,571)*	52,063*	480,072*	–*	(294)*	393,297*	106,733*	1,508,284*	9,244,982	3,847,036	13,092,018

* These reserve accounts comprise the consolidated reserve of HK$9,077,256,000 (31 December 2017: HK$8,942,059,000) in the unaudited condensed consolidated statement of financial position.

	Attributable to equity holders of the parent												
	Issued share capital (Unaudited) HK$'000	Share premium account (Unaudited) HK$'000	Capital reserve (Unaudited) HK$'000	Employee share trust (Unaudited) HK$'000	Employee share-based compensation reserve (Unaudited) HK$'000	Asset revaluation reserve (Unaudited) HK$'000	Available-for-sale investment revaluation reserve (Unaudited) HK$'000	Reserve funds (Unaudited) HK$'000	Exchange fluctuation reserve (Unaudited) HK$'000	Retained profits (Unaudited) HK$'000	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 10)	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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cash flows from operating activities		
Decrease in inventories	**397,146**	61,399
Increase in accounts and bills receivables	**(320,245)**	(1,557,579)
Increase/(decrease) in accounts and bills payables	**(153,467)**	361,493
Additions to properties under development	**—**	(764)
Decrease/(increase) in other working capital and adjustments for non-cash transactions	**(937,767)**	85,070
Net cash flows used in operating activities	**(1,014,333)**	(1,050,381)
Cash flows from investing activities		
Purchases of items of property, plant and equipment	**(44,287)**	(445,900)
Additions to investment properties	**—**	1,905
Proceeds from disposal of items of property, plant and equipment	**685**	744
Additions to other intangible assets	**(15,259)**	(27,078)
Acquisition of subsidiaries	**(12,300)**	(170,278)
Disposal of subsidiaries	**64,774**	—
Proceeds from disposal of associates	**46,933**	—
Proceeds from disposal of available-for-sales investments	**—**	70,986
Dividends received from associates	**—**	3,145
Dividends received from an available-for-sale investment	**—**	7,956
Investments in joint ventures	**(4,737)**	(9,183)
Investment in an associate	**—**	(9,462)
Investments in available-for-sale investments	**—**	(137,265)
Investments in financial assets at fair value through other comprehensive income	**(22,145)**	—
Net cash flows from changes of financial assets at fair value through profit or loss	**594,969**	—
Net cash flows from/(used in) investing activities	**608,633**	(714,430)

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cash flows from financing activities		
Proceeds from issue of new ordinary shares	**–**	194,733
New bank and other borrowings	**2,410,433**	4,373,958
Repayment of bank and other borrowings	**(3,346,123)**	(2,986,727)
Proceeds from issue of corporate bonds	**–**	569,853
Repayment of corporate bonds	**(236,642)**	(221,428)
Interest paid	**(109,377)**	(106,987)
Dividends paid to non-controlling shareholders	**(22,100)**	(16,808)
Acquisition of non-controlling interests	**(47,372)**	(4,581)
Capital contribution from non-controlling shareholders of subsidiaries	**1,184**	109,573
Capital reduction by a non-controlling shareholder of a subsidiary	**(11,019)**	–
Net cash flows from/(used in) financing activities	**(1,361,016)**	1,911,586
Net increase/(decrease) in cash and cash equivalents	**(1,766,716)**	146,775
Cash and cash equivalents at the beginning of the period	**3,784,296**	2,698,158
Effects of foreign exchange rate changes, net	**52,812**	63,912
Cash and cash equivalents at the end of the period	**2,070,392**	2,908,845
Analysis of balances of cash and cash equivalents		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	**2,070,392**	2,908,845

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 2018 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 2017 had been consistently applied except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, HKASs and interpretations). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transaction*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarification to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investments Property*
HK(IFRIC)-Int 22	*Foreign Currency Transaction and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

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

The Group applies, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments* that require to apply retrospectively. As required by HKAS 34, the nature and effect of these changes are disclosed below.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 *Revenue from Contracts with Customers* supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

1. Basis of preparation (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at 1 January 2018. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The Group's principal activities consist of provision of financial technology services, smart logistics, Sm@rt City services and smart financial services. The impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

(a) Financing component of accounting receivables

The Group provides IT services and internet based integrated IT platform construction and operation services to customers. For contract where the period between the payment by the customer and the transfer of the promised service exceeds one year, the transaction price is adjusted for the effects of a significant financing component, by discounting the amount of promised consideration, as there is an implicit financing benefit provided to the customer with a contract with long payment term. The revenue from contracts with long payment terms was recognised at a point in time or over time when control of the asset was transferred to the customer, generally upon delivery of the goods or services, and considering the time value of money, the significant financing component was recognised. The Group uses the same discount rate that it would use if it were to enter into a separate financing transaction with the customer. The Group elected to apply the practical expedient and did not recognise the effects of a significant financing component with a customer if the time period is one year or less.

(b) Contracts with multiple performance obligations

The Group provides systems integration, technical service, application software development, and internet based integrated IT platform construction and operation service to customers. Certain contracts of these services comprise a variety of performance obligations including, but not limited to, delivery of goods and provision of services including transportation, development, installation, training and maintenance. The Group evaluates the separability of the multiple performance obligations based on whether they are "distinct", and allocate the transaction price to each performance obligation in the contract on a relative stand-alone selling price basis.

The application of HKFRS 15 has had no material impact on the amounts and/or disclosures reported in these unaudited condensed consolidated financial statements.

There is no material impact on the unaudited condensed consolidated statement of cash flows and basic and diluted earnings/loss per share.

1. Basis of preparation (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted HKFRS 9 using the modified retrospective method of adoption to items that existed at 1 January 2018 in accordance with the transition requirements. The impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("**FVPL**"), amortised cost, or fair value through other comprehensive income ("**FVOCI**"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "**SPPI criterion**").

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The following are the changes in the classification of the Group's financial assets:

(i) Accounts and bills receivables, deposits, other receivables and finance lease receivables previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortised cost.

(ii) Wealth management financial products previously classified as available-for-sale financial assets at cost are now classified and measured as debt instruments at FVPL whose cash flow characteristics fail the SPPI criterion; or the Group expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis, and the assets are designated upon initial recognition as at FVPL.

1. Basis of preparation (Continued)

HKFRS 9 Financial Instruments (Continued)

(a) Classification and measurement (Continued)

(iii) Equity investments in unlisted companies previously classified as available-for-sale financial assets are now classified and measured as equity instruments designated at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. The Group elected to classify irrevocably its unlisted equity investments under this category as it intends to hold these investments for the foreseeable future. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's unquoted equity instruments were classified as available-for-sale financial assets.

(iv) Listed equity investments previously classified as available-for-sale financial assets are now classified and measured as financial assets at FVPL. Under HKAS 39, the Group's listed equity securities were classified as available-for-sale financial assets. Upon transition the available-for-sale reserve relating to listed equity securities, which had been previously recognised under accumulated other comprehensive income, was reclassified to retained earnings.

As a result of the change in classification of the Group's listed equity investments, the accumulated fair value gain of HK$3,405,000 were reclassified from the available-for-sale investment revaluation reserve to retained profits as at 1 January 2018.

As a result of the change in classification of the Group's unlisted equity investments, the accumulated fair value gain of HK$54,644,000 were recorded in the financial assets at FVOCI revaluation reserve, and the accumulated impairment loss of HK$11,832,000 was reclassified from retained profits to the financial assets at FVOCI revaluation reserve at 1 January 2018.

The change did not have material impact on the cash flows from operating, investing and financing activities and the basic and diluted earnings/loss per share of the Group.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in profit or loss.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

1. Basis of preparation (Continued)

HKFRS 9 Financial Instruments (Continued)

(a) Classification and measurement (Continued)

In summary, upon the adoption of HKFRS 9, the Group had the following required or elected reclassifications for the balances of financial assets as at 1 January 2018.

	HKAS 39 measurement category	HKFRS 9 measurement category		
		FVPL	Amortised cost	FVOCI
	HK$'000	HK$'000	HK$'000	HK$'000
Loans and receivables				
— Accounts and bills receivables	5,237,665	—	5,237,665	—
— Financial assets included in prepayments, deposits and other receivables	1,824,328	—	1,824,328	—
— Finance lease receivables	455,228	—	455,228	—
Available for sale investments				
— Listed equity investments	98,440	98,440	—	—
— Unlisted equity investments	849,953	—	—	926,141
— Wealth management financial products	2,952,135	2,952,135	—	—

1. Basis of preparation (Continued)

HKFRS 9 Financial Instruments (Continued)

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("**ECL**") approach. HKFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at FVPL and contract assets.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

HKFRS 9 requires an impairment on accounts receivable, contract assets, other receivables and finance lease receivables that are not accounted for at fair value under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and calculated ECLs based on lifetime expected credit losses on its accounts receivable, contract assets and finance lease receivables, and has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group applied general approach and recorded 12-month expected losses on its other receivables. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

2. Operating segment information

The Group has three reportable operating segments as follows:

(a) "DCITS" segment: Digital China Information Service Company Ltd. (神州數碼信息服務股份有限公司) ("**DCITS**") is a leading financial technology service company in the banking sector in China. With core bank systems and enterprise service buses as its key products, DCITS provides services for customers in the banking industry such as system development, maintenance, industry cloud services and infrastructure development, and also provides technical services, application software development and industry cloud construction and operation services for key industries including government, enterprises and agriculture.

(b) The "Smart Logistics Business" segment: Instant Technology Logistics is the leading supply chain management brand in China, implementing the new logistics core strategy of "Warehouse + Big Data + Artificial Intelligence". With its own logistics management system and the big data application platform X-DATA, it provides customers with customized one-stop supply chain services and is an industry leader in IT, communications and e-commerce logistics, and actively expands the Internet-based own maintenance services.

(c) The "New Business" segment: including "Sm@rt City Business", which is based on the big data deep application, and builds a comprehensive urban-level big data platform for the city to solve medical, transportation, energy supply and social security issues; and "Smart Financial Business", relies on its various financial licenses, integrates resources of financial institutions such as banking, insurance, securities and trusts, provides of financial services, such as financing, leasing, guarantee, etc. to internal and external customers; and assets operations, other innovative businesses and incubation and strategic investments.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment results are 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 interest income, finance costs, unallocated corporate income and gains and unallocated corporate expenses are excluded from such measurement.

During the six months ended 30 June 2018, the Group considered it more appropriate to disclose certain gains and expenses in the segment results in order to better reflect the performance of each segment. Accordingly, the corresponding comparative amounts of the segment information have been revised to conform with the current period's presentation.

2. Operating segment information (Continued)

The following table presents revenue and results for the Group's operating segments for the six months ended 30 June 2018 and 2017:

	DCITS		Smart Logistics Business		New Business		Total	
	Six months ended 30 June							
	2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000 (Restated)	2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000	2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000 (Restated)	2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000 (Restated)
Segment revenue:								
Sales to external customers	4,997,761	4,161,617	1,718,800	1,157,577	269,274	413,518	6,985,835	5,732,712
Segment gross profit	930,265	780,844	252,460	163,682	100,335	208,642	1,283,060	1,153,168
Segment results	371,003	156,326	(20,877)	(18,826)	164,050	(193,000)	514,176	(55,500)
Interest income, other unallocated revenue and gains	6,911	8,057					10,289	37,666
Unallocated expenses	–	–					(77,947)	(258,841)
Finance costs	(46,549)	(40,976)					(109,377)	(106,987)
Profit/(loss) before tax	331,365	123,407					337,141	(383,662)
Income tax expense	(2,807)	4,064					(11,145)	(2,975)
Profit/(loss) for the period	328,558	127,471					325,996	(386,637)

3. Revenue, other income and gains

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

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue		
Systems integration business	**2,965,340**	2,491,974
Software development and technical services business	**2,032,421**	1,669,643
Logistics business	**934,859**	578,383
E-commerce supply chain services business	**698,875**	493,745
Financial services business	**60,531**	195,910
Others	**293,809**	303,057
	6,985,835	5,732,712
Other income		
Government grants	**33,755**	18,330
Interest income	**10,203**	10,388
Income from wealth management financial products	**14,131**	19,794
Dividend income from available-for-sale investments	**—**	16,439
Others	**1,668**	1,668
	59,757	66,619
Gains		
Fair value gain on financial assets at fair value through profit or loss	**1,841**	—
Foreign exchange differences, net	**585**	34,052
Gain on partial disposal of the equity interest in a subsidiary	**199,491**	—
Gain on disposal of the equity interests in associates	**7,880**	—
Gain on deemed partial disposal of the equity interests in associates	**279,674**	2,978
Gain on disposal of available-for-sale investments	**—**	28,058
Gain on disposal of financial assets at fair value through profit or loss	**8,116**	—
Others	**2,823**	1,259
	500,410	66,347
	560,167	132,966

4. Profit/(loss) before tax

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**3,420,964**	2,734,606
Depreciation	**77,544**	62,674
Amortisation of prepaid land premiums	**884**	859
Amortisation of other intangible assets	**22,913**	13,765
Minimum lease payments under operating leases in respect of land and buildings	**148,291**	57,459
Provisions against inventories	**65,568**	45,455
Impairment of accounts and bills receivables	**187,604**	113,568
Impairment of investments of a joint venture	**10,156**	—
Impairment/(reversal of impairment) of finance lease receivables	**18,921**	(1,085)
Impairment of available-for-sale investments	**—**	227,941
Loss on disposal of items of property, plant and equipment	**1,536**	884
Foreign exchange differences, net	**(585)**	(34,052)

5. Income tax expense

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current — Mainland China		
Corporate income tax ("**CIT**")	**26,803**	27,487
Land appreciation tax ("**LAT**")	**7,521**	5,907
	34,324	33,394
Current — Hong Kong	**—**	384
Deferred	**(23,179)**	(30,803)
Total tax charge for the period	**11,145**	2,975

5. Income tax expense (Continued)

(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) During the six months ended 30 June 2018, Hong Kong profits tax had been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong. Taxes on profit assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

(d) The share of tax charge attributable to the joint ventures of HK$345,000 (six months ended 30 June 2017: HK$8,807,000) and the share of tax charge attributable to the associates of HK$17,352,000 (six months ended 30 June 2017: HK$15,323,000) 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. 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 2018 attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue less shares held under the restricted share award scheme of 1,677,246,738 (six months ended 30 June 2017: 1,292,794,454) during the six months ended 30 June 2018.

The calculation of the diluted earnings/(loss) per share amount for the six months ended 30 June 2018 is based on the profit/(loss) for the six months ended 30 June 2018 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 2018, 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.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the six months ended 30 June 2018 and 2017 in respect of the dilution as the Company's share-based incentive schemes outstanding had no dilutive effect on the basic earnings/(loss) per share amounts presented.

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

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

	Six months ended 30 June	
	2018	2017
	(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	**137,493**	(451,734)

	Number of shares Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
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	**1,677,246,738**	1,292,794,454
Effect of dilution — weighted average number of ordinary shares:		
Share-based incentive schemes	**—**	—
Weighted average number of ordinary shares during the period used in the diluted earnings/(loss) per share calculation	**1,677,246,738**	1,292,794,454

7. Available-for-sale investments, other non-current financial assets and other current financial assets

	Notes	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Current			
Wealth management financial products		**80,531**	585,719
Listed equity investments		**37,135**	—
		117,666	585,719
Non-current			
Wealth management financial products	(a)	**1,717,216**	2,366,416
Listed equity investments		**—**	98,440
Unlisted equity investments		**425,493**	849,953
		2,142,709	3,314,809
Total		**2,260,375**	3,900,528
Classified as:			
Available-for-sale investments	(b)	**—**	3,900,528
Financial assets at fair value through other comprehensive income	(b)	**425,493**	—
Financial assets at fair value through profit or loss	(b)	**1,834,882**	—
Total		**2,260,375**	3,900,528

Notes:

(a) The balance as at 31 December 2017 are wealth management financial products with an aggregate principal amount of approximately HK$2.6 billion (RMB2.2 billion) (before deducting the impairment loss of approximately HK$228 million (RMB200 million)) which were purchased from an affiliate to a state-owned financial institution. These wealth management financial products were due for repayment but have not yet been settled during the year ended 31 December 2017. On 28 June 2018, the Group has reached settlement arrangements with the counterparties that approximately HK$0.65 billion (RMB0.55 billion) will be distributed to the Group as repayment of the corresponding principal of these wealth management financial products. Accordingly, approximately HK$0.65 billion (RMB0.55 billion) was reclassified as other receivables during the six months ended 30 June 2018, which was subsequently received by the Group in July 2018.

(b) The Group's available-for-sale investments of HK$3,900,528,000 as at 31 December 2017 were reclassified to financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss, where appropriate, upon adoption of HKFRS 9.

8. 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 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within 30 days	1,997,315	2,733,417
31 to 60 days	295,339	391,351
61 to 90 days	129,256	108,864
91 to 180 days	970,592	486,228
Over 180 days	1,970,068	1,517,805
	5,362,570	5,237,665

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$108,488,000 (31 December 2017: HK$111,798,000), HK$15,571,000 (31 December 2017: HK$12,505,000) and HK$67,087,000 (31 December 2017: HK$52,121,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

9. 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 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within 30 days	1,455,992	1,765,901
31 to 60 days	320,284	390,947
61 to 90 days	260,658	163,513
Over 90 days	1,022,756	897,186
	3,059,690	3,217,547

Included in the Group's accounts and bills payables are amounts due to an associate and related companies of the Group of approximately HK$998,000 (31 December 2017: Nil) and HK$36,373,000 (31 December 2017: HK$69,296,000), 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.

10. Share capital

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Authorised:		
2,500,000,000 (31 December 2017: 2,500,000,000) ordinary shares of HK$0.1 (31 December 2017: HK$0.1) each (note)	250,000	250,000
Issued and fully paid:		
1,677,261,976 (31 December 2017: 1,677,261,976) ordinary shares of HK$0.1 (31 December 2017: HK$0.1) each	167,726	167,726

Note: The authorised share capital has been increased from HK$200,000,000 divided into 2,000,000,000 shares of HK$0.1 each to HK$250,000,000 divided into 2,500,000,000 shares of HK$0.1 each by the creation of an additional 500,000,000 new shares of HK$0.1 each on 27 December 2017.

10. Share capital (Continued)

A summary of the movement in the Company's issued share capital and share premium account during the six months ended 30 June 2018 and 2017 is as follows:

	Number of ordinary shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2017	1,234,655,581	123,466	2,836,673	2,960,139
Issue of new shares (notes a and b)	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
At 1 January 2018 and 30 June 2018	**1,677,261,976**	**167,726**	**4,665,095**	**4,832,821**

Notes:

(a) 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. Subsequent to the issuance of 78,000,000 ordinary shares by the Company to Dragon City on 17 June 2016, on 26 April 2017, 71,940,000 ordinary shares were issued by the Company to Dragon City of HK$5 per share.

(b) On 5 September 2016, the Company entered into a subscription agreement with the directors, 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 18 January 2017, the Company issued 35,214,000 Subscription Shares at the subscription price of HK$5.53 per share, for a total consideration of approximately, before expenses, HK$194,733,000.

11. Operating leases arrangements

(i) As lessor

At 30 June 2018, 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 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within one year	280,155	227,542
In the second to fifth years, inclusive	390,042	368,063
After five year	122,935	130,226
	793,132	725,831

(ii) As lessee

At 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases of office properties and warehouses falling due as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within one year	187,201	168,924
In the second to fifth years, inclusive	99,420	90,153
	286,621	259,077

12. Commitments

In addition to the operating leases commitments detailed in note 11 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Contracted, but not provided for:		
Land and buildings	**178,518**	192,807
Capital contributions payable to joint ventures	**50,924**	41,412
Capital contributions payable to associates	**6,238**	6,232
Capital contributions payable to available-for-sale investments	**—**	181,031
Capital contributions payable to financial assets at fair value through other comprehensive income	**155,057**	—
	390,737	421,482

13. 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	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
Transactions with joint ventures			
Provision of IT services to joint ventures	(ii)	**273**	2,141
Purchases of IT products from joint ventures	(iii)	**—**	117
Rental income from joint ventures	(iv)	**682**	465
Interest income on loans from joint ventures	(v)	**5,430**	9,147
Transactions with associates			
Provision of IT services to associates	(ii)	**6,568**	—
Rental income from associates	(iv)	**6,503**	795
Transactions with related companies (note (vi))			
Sales of IT products to related companies	(i)	**934**	12,823
Provision of IT services to related companies	(ii)	**184,886**	146,092
Purchases of IT products from related companies	(iii)	**116,798**	77,332
Provision of IT services by related companies	(ii)	**17,217**	16,602
Rental income from related companies	(iv)	**27,024**	27,850

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.

13. Related party transactions (Continued)

(b) Other transactions with related parties:

During the six months ended 30 June 2018, the Group had provided guarantees in favour of a financial institution for certain asset-backed securities issued by Chongqing Digital China HC Microfinance Co., Ltd.*, up to an aggregate amount of RMB174,000,000 (31 December 2017: RMB174,000,000). As at 30 June 2018, the value of the asset-backed securities issued attributable to the aforesaid guarantees amounted to approximately HK$206,066,000 (31 December 2017: HK$205,878,000).

(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 8 and 9 to these unaudited condensed consolidated interim financial statements, respectively.

(ii) At 30 June 2018, included in the Group's prepayments, deposits and other receivables are the loans of HK$222,113,000 (31 December 2017: HK$208,836,000) to joint ventures of the Group, which are unsecured, bear interest at rates from 4.35% to 12% (31 December 2017: from 4.35% to 12%) per annum and are repayable within one year from the end of the reporting period.

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short term employee benefits	**2,881**	6,630
Post-employment benefits	**32**	82
Share-based compensation	**–**	166,379
Total compensation paid to key management personnel	**2,913**	173,091

* For identification purpose only

Management Discussion and Analysis

During the first half of 2018, DC Holdings adheres to the mission and prospects of "Digital China" and continues to transform itself from an integrated Information Technology services provider to a Data Technology services provider. Based on our extensive data resources and industrial experience in the area of industry informatization, DC Holdings starts with capital and technologies, relies on core capabilities such as Artificial Intelligence Technology and Big Data, and achieves several breakthroughs in key application scenarios of core industries such as Smart logistics, Sm@rt city, Smart finance and Smart health.

Meanwhile, to achieve long-term sustainable targets, DC Holdings has been improving and optimizing our internal corporate governance and business processes, establishing and improving scientific assessment system and risk control system. We will be bringing onboard professionals and continue to establish and enhance the professional level of the team with reference to international standard.

Results review: IT services (DCITS) and Smart Logistics Businesses are driving revenue growth and the return to profitability

For the first half of 2018, revenue amounted to approximately HK$6,986 million, representing an increase of HK$1,253 million, and a year-on-year growth of 21.86% compared to the corresponding period of last financial year (six months ended 30 June 2017). The increase in turnover was mainly driven by the continued growth of IT services and Smart Logistics during the period. Gross profit increased by 11.26% to HK$1,283 million compared to last financial year, and the gross profit margin was 18.37%. During the reporting period, the profit attributable to shareholders of the parent company was approximately HK$137 million, a significant improvement from the loss of approximately HK$452 million in the last financial year.

1.1. Breakthrough in applying AI Technology and Big Data Technology

1.1.1. The establishment of Smart Logistics and Smart Warehouse by "Human + Robot" business model

Instant Technology Logistics under DC Holdings has utilized AI Technology, and further promoted and upgraded the automatic sorting system of our self-developed business application model "Human + Robot". Being the first "goods-to-person" logistic sorting model in China, it has passed the elasticity test for the maximum order in the industry. The "Human + Robot" business model has adopted a sorting method by smart robotic operations together with a programmed manual work process, in order to satisfy the demand in high-volume operating environment with zero tolerance to errors. Under this new business model, about 40% of labor resources can be saved and selection handling efficiency per staff has been increased by 2 to 3 times. Several patents have been already applied.

With the technology upgrade, the application of "Human + Robot 2.0" has been recently commenced in Pinggu warehouse (平穀倉), Beijing. Being the first 3D high-density robotic Smart Warehouse in China, Instant Technology Logistics has applied the AI-driven orbital robot technology, of which the robot can operate at an elevated platform, as opposed to traditional robotic operation on the ground. Being able to fully utilize all three dimensions in the warehouse area is a very substantial breakthrough, leading to maximizing the efficiency of the warehouse. This is the first 3D high-density robotic Smart Warehouse in China, and has become the milestone in the history of smart automation in e-commerce and logistics.

1.1.2. "SHINEFLY" smart medical platform, a safe and reliable medical Big Data cloud application platform for medical institutions

Digital China Health Technologies Co., Ltd. (hereinafter referred to as "**DC Health**"), a company strategically invested by DC Holdings, has jointly launched "SHINEFLY" (神飛雲), a cloud-based precision healthcare platform driven by computerized smart diagnosis and AI Technology, with Philips. This has provided a safe and reliable medical Big Data cloud application platform for medical institutions. DC Health has provided "Shenbeikang" (神貝康) gene sequencing analysis platform for molecular diagnostic center at Children's Hospital of Fudan University, which can conduct family analysis of Whole Exome Sequencing for the sick children and can provide genetic test reports, which would assist doctors to quickly and accurately make diagnosis. In the fourth session of Intel Life Science Information Technology Forum, DC Health was awarded the "Best Application Award", an endorsement to DC Health's track record in Precision Healthcare based on Big Data technology. During the reporting period, DC Health successfully completed its Series A Round funding with a group of new investors including leading Chinese and international institutional investor, achieving a post-investment valuation of approximately HK$3.8 billion (RMB3.2 billion).

1.1.3. Yanyun DaaS is driving China's Big Data strategy, breaking down isolated information islands

Beijing Internetware Limited, a company invested by DC Holdings and Peking University, has achieved remarkable results this year. Yanyun DaaS took the lead in adopting data interoperability, eliminating the issue with isolated information islands that restrict the development of Internet+Government Services, and realizing interconnection between systems and data sharing. In May 2017, the State Council passed the "Notice of the General Office of the State Council on Printing and Distributing the Implementation Plan for the Integration and Sharing of Government Information Systems" (hereinafter referred to "Circular 39"), and in June 2018 issued the guideline "Intensifying Internet+Government Services and the reform initiative to simplify government service provisions with only One Internet Portal, One Government Unit and One Procedure" (《關於進一步深化「互聯網+政務服務」推進政府服務「一網、一門、一次」改革實施方案》). These policy documents clearly set a schedule for local governments to accelerate the pace of information integration and sharing of information systems, presenting a huge business opportunity for Yanyun DaaS due to its leading big data resource management technology. Yanyun DaaS technology has been applied in 12 central ministries and 27 provinces, municipalities and autonomous regions, including the State Administration, Xinhua News Agency, the Ministry of Human Resources and Social Security, and government big data project in major cities in Zhejiang, Shandong, Guizhou, Shenzhen, Sichuan etc. The project has eliminated more than 5,000 government isolated information islands and has connected databases previously stored in fragmented and regionalized formats.

Yanyun DaaS has so far been the only product which has won the Special Invention Award by the China Electronics Society. It has been rated by professional experts as a "major disruptive inventions and innovations" in the field of information system interoperability technology. In the first half of the year, Internetware was also awarded the 2018 China E-Government Service Innovation Award, the "Galaxy Award" for Excellent Big Data Product, and the 2018 China Internet + Public Service Excellent Service Supplier.

1.1.4. X-DATA Smart Logistics Big Data platform empowers logistic industry

X-DATA System is a Big Data application platform self-developed by Instant Technology Logistics under DC Holdings based on its years of experiences. It is used for collection, supervision and in-depth data mining in aspect of procurement in supply chain, inventories, operation within warehouse, transportation and after-sale services, and enjoys a leading position in accumulation of Big Data in B2B logistic industry. Throughout the data collection process, the precise analysis on customers has greatly improved the service quality on upstream and downstream customers in the supply chain and enhanced customer retention. In the future, the Company will actively consider re-organizing the logistic Big Data operation as an independent business in the commercial market and launch the cloud service based on X-DATA. With the increasing number of users, continuous expansion in logistic Big Data and extensive data dimension, it has provided highly valued information resources and business foundation for application scenarios such as industrial market analysis and financial risk control in supply chain.

2.1. Smart Logistics Business (Instant Technology Logistics 科捷物流): a leading supply chain management brand in China, practicing its core strategy of "Warehouse+Big Data+AI Technology". Based on a network of 231 nationwide warehouse facilities, and reliance on logistics management system of its own intellectual property right and supply chain Big Data application platform X-DATA, we can provide customized one-stop supply chain services for our customers and hence the Company can enjoy a leading position in IT, communication and e-commerce logistics industries

During the reporting period, the Smart Logistics business continued to focus on developing businesses with key customers in various sectors in order to swiftly expand its market shares. For the first half of 2018, the Smart Logistics business recorded overall turnover of HK$1,719 million, an increase of 48.48% over the same period last year. The overall gross profit margin was 14.69%. The three principal units of the Smart Logistics business, e-Commerce Supply Chain services, Logistics services and Maintenance services, accounted for 40.66%, 54.39% and 4.95% of the turnover, respectively.

2.1.1. e-Commerce Supply Chain Business

During the reporting period, the turnover of e-commerce supply chain business continued to maintain a high growth rate of 41.55%, and gross profit increased by 50.71%. The middle office support business of e-commerce supply chain is highly recognized by customers, with its business operation expanding rapidly. The services provided to Huawei Technology have been expanding from online operations to offline stores and from mobile phones to smart products. As a result, we see business growth despite the general downturn in the mobile phone market. Dell's e-commerce business, launched with multi-platform online stores, saw its business scale up rapidly. The operation of Panasonic Lighting (松下照明) has been launched, achieving breakthrough in sales volume during the "618" marketing campaign.

2.1.2. Logistics Business

During the reporting period, the turnover of the logistics business increased significantly by 62% and the gross profit increased by 83.69% compared to the corresponding period of last financial year. Both turnover and gross profit have been significantly improved.

In the B2B logistics segment, we have deepened the cooperation with key corporate clients such as Xiaomi, Schneider, China Mobile and Geely. In the B2C logistics segment, the businesses coverage has been expanding from the brand flagship stores to international businesses, as well as TMall businesses, and the order per day increased by 206%.

Logistics software has become a new source of profit for the Smart Logistics business. Digital China Gold Storage logistics software set, composed of WMS\TMS\OMS\BMS (warehousing, transportation, order and accounting management), has comprehensive functions and complete proprietary intellectual property rights. With years of practical experiences in the front-line operation being incorporated into the design of the system, the logistic software is well-recognized by customers and now has been offered to external clients in the commercial markets. The client base includes both the domestic and foreign Fortune 500 major customers such as Panasonic and Yangquan Coal (陽泉煤礦). This satisfies market demand for logistics software that can deal with complicated logistic planning processes with multiple scenarios.

As a leading brand in supply chain management, Instant Technology Logistics has received major awards in relation to its performance in e-commerce and awarded honors such as China's Model Enterprises for Smart Logistics (中國智慧物流示範單位). Instant Technology Logistics has a comprehensive set of knowledge in managing and controlling transportation resources, with an in-depth coverage in 3300 cities and towns, 231 storage centers in China, and a warehouse portfolio with area of over 1 million square meters. It is one of the few service providers in China which can provide both B2B and B2C integrated services in warehousing at the same time.

2.1.3. Maintenance Services

As a leading maintenance service provider to original manufacturers, our Maintenance Services Business has continued to enhance its capability to serve multiple manufacturers. The allocation of our nationwide service network has been enhanced. We have also optimized the management of our onsite services to enhance customer experience and service quality. In the second half of the year, the market share of maintenance business will continue to expand. There will be further business development with manufacturers on exclusive engagement and exploration in low-cost and high-efficiency of new online-to-offline (O2O) delivery model.

2.2. Sm@rt City Business: Sm@rt City solution based on in-depth application of city Big Data has been launched and executed nationwide in China

Sm@rt City business has currently covered more than 100 million population, and our Sm@rt City solutions have been operated in 116 cities and more than 50 provinces and municipals in China. After the issuance of Notice of the General office of the State Council on Implementation Plan of Integration and Sharing of Publication Government Information System, DC Holdings is promoting the Sm@rt City 3.0 model based on in-depth application of city Big Data and integration among city management and industries. Yanyun DaaS, our proprietary deep-web data extraction technology could break down the isolated information islands prevailing in legacy systems, greatly promote the information sharing and exchange, as well as further integrate the Big Data with all aspects of production to solve a series of issues such as healthcare, transportation, energy supply, emergency rescue and social security to support the economy.

During the reporting period, Sm@rt City 3.0 model has been applied nationwide. Meanwhile, the construction of city Big Data platform has been further promoted, including the city Big Data platform in Tongren city (銅仁市), Guizhou Province, the construction of internet cluster area "New Smart CBD" in Pazhou (琶洲), Guangzhou, and smart water foundation system in Guangzhou, Big Data platform project in Cangzhou, Hebei Province, the development of comprehensive citizen service platform "eLongyan" (e龍岩) in Longyan city (龍岩市), Fujian Province, the launch of comprehensive citizen service platform "In Yantian" (在鹽田) in Yantian District, Shenzhen, and the launch of online comprehensive lease service operation platform "C1YJ" (城壹宜居) in Guangzhou. These projects provide practical benefits and effective support for local governments in government affairs management and citizen services.

Moreover, DC Holdings is driving the Sm@rt City business in Hong Kong, Macau and countries in "The Belt & Road" regions. We have responded proactively to "The Sm@rt City Blueprint for Hong Kong" advocated by the Hong Kong government and participated in Hong Kong Sm@rt City projects. DC Holdings has integrated our Sm@rt City concept with Big Data technology, making contribution to the urban management of Hong Kong. In April 2018, DC Holdings successfully acquired Wai On Services Limited (hereinafter "**Wai On**"), an IT service provider with experiences in providing solutions for large scale projects of the Hong Kong government and multinational enterprises. Wai On has comprehensive Microsoft cloud solution technology and extensive project experience in finance, government services, industrial and transportation sectors. We see the acquisition of Wai On as an important milestone, as it has provided a new impetus to promote Sm@rt City in Hong Kong, Macau and "The Belt & Road" countries and achieved resources integration and optimized distribution. DC Holdings and Wai On will continue to cooperate with the Hong Kong government and the Hong Kong University of Science and Technology in order to promote the Sm@rt City technology research projects in aspect of environment, transportation and finance.

In June 2018, the Scity (智慧神州) under DC Holdings served as a core member of national standard setting body of Sm@rt City and participated in the formation of: "GB/T 36333–2018 Sm@rt City Top-level Design Guideline" (GB/T 36333–2018 智慧城市頂層設計指南) and "Sm@rt City Domain Knowledge Model Core Concept Model" (智慧城市領域知識模型核心概念模型) (GB/T 36332–2018), which have been published by the Standardization Administration of the PRC and will be officially implemented on 1 January 2019. Those two standards have set the best practices for Sm@rt City 3.0, and indicate that DC Holdings has become the standard setter and leader of China's Sm@rt City top-level designs.

2.3. IT Services Business (DCITS): a leading IT service provider in China's information technology industry, focusing on services such as proprietary software, service, Cloud Computing and Big Data analysis, with a strategic focus on financial technology area

In the first half of 2018, based on its Big Data strategy, DCITS (IT Services Business) continued to make progress in strategic businesses such as Big Data, quantum communication, financial technology and smart maintenance. During the reporting period, DCITS reported turnover of HK$4,998 million, an increase of 20.09% over the same period last year. The business gross profit margin reached 18.61%, a slight decrease of 0.15 percentage points compared with the same period of last year. The profit attributable to shareholders of the parent company was HK$332 million, an increase of HK$225 million compared with the previous year's HK$107 million.

2.3.1. Business expansion by leveraging existing advantages in financial technology

In recent years, the emergence and application of new technologies such as Cloud Computing, Big Data, AI Technology and Blockchain have greatly improved the operational efficiency of financial institutions. The adoption of new disruptive technologies by financial institutions presents new opportunities for the industry. According to the forecast from IDC, the market size of IT solutions for banks can reach RMB90 billion in 2022, with annual compound growth rate of more than 20%. As the market develops, the adoption of new financial technologies by customers has become increasingly apparent. Being the earliest explorer in driving the bank informatization business, the Company owns extensive proprietary technologies in a controllable format, having accumulated extensive experience in servicing customers. These would continue to set up the scenes to apply financial technologies. The Company always leads the development of the industry, maintaining its leading position.

During the reporting period, the Company has signed up four financial institutions such as the Export-Import Bank of China, Shanghai Pudong Development Bank and Ping An One Account Management Services (平安一賬通) for its core banking system and distributed platform, with a market share of 50%. Three among those financial institutions use the new generation of distributed system. The key features of the Company's distributed core products are scalability and economic usage. This could satisfy banks' demand to maintain a high degree of control over the systems. The new products are expected to gradually replace the traditional core banking systems and we have seen our customers base gradually expand from small-to-medium sized banks to large-scale joint-stock banks. The distributed structure has been widely recognized by customers in the bank sector. The Company has signed up nine customers such as ChinaBond and Industrial Bank for its Enterprise Service Bus ("**ESB**"), which continues to maintain the leading position in the market and becomes the sole player in state-owned and joint-stock bank markets, serving more than 70 customers. Meanwhile, the Company also promotes distributed ESB products such as Enterprise Service Cloud ("**ESC**") in order to reinforce its leading position. As a key application for banks to achieve digital transformation, ESB can connect various application systems of the banks together so that each system can be mutually accessible to each other, solving issues commonly seen in traditional integrated front-end systems such as stability issue and poor performance, as well as the difficulty in organizing a large-scale clustered operation. The Company's Internet solution has achieved massive breakthrough in serving the top five largest banks: the Internet open platform was signed up with six major customers such as China Construction Bank. By constructing a service open platform, making Open API (Application Programming Interface) available for the external developers, and fully enable banks' capabilities, such solution has become the best practice in solving financial issues. The Company has signed up major customers such as ICBC for our Internet financial platform, which can help banks to solve various business and technical issues arising from traditional IT application and Internet application, and provide assistance in commencing various types of internet finance business. Such solution has gained further recognition by the market. The Company's smart bank solutions enjoyed an explosive growth in the first half of year 2018, and has signed up the bank counter system of Bank of Guangzhou and Haikou United Rural Commercial Bank (海口聯合農村商業銀行). By applying smart technologies such as electronic voucher and biometrics, our solutions are accelerating the transformation towards paperless and intelligent operations in banking centers, shortening the distance between banking centers and customers, reconstructing experiences of services in banking centers and assisting the transformation and upgrade of banking centers. Besides that, the Company is highly recognized, receiving multiple awards: the Company's distributed bank core system was awarded the "Top 10 Outstanding Product Award" by the 23th International Software China Conference (第二十三屆中國國際軟件博覽會). The Company also ranks the first in Bank Sector Core System and Channel Management System by IDC for six consecutive years.

2.3.2. Leading FinTech development by applying technology into practical scenarios

During the reporting period, Digital China Financial Cloud Service (融信雲) entered into strategic and capital partnership with JD Finance (京東金融). Using the financial cloud of the Company as a platform, we provide FinTech services to small and medium banks, leveraging not only the advantages of financial cloud in system building and operation services, but also the leading position of JD Finance in risk management, internet business platform and financial products, so as to assist small and medium banks to kickstart their internet finance business. We also make use of this opportunity to explore a new business model which connects our customers and expands our platform, making the financial technology business enter into a new stage. The Company conducted more extensive FinTech attempts by using the cooperation between the Company and JD Finance as a breakthrough, leveraging on the customers, application scenarios, data and human resources accumulated by the Company in the financial industry over the past 30 years, as well as combining the Company's data, industry know-how and algorithm capability in agricultural, industrial, supply-chain, taxation, and commercial sectors. While actively embracing new technologies, the Company keeps on exploring and realizes the application of artificial intelligence, blockchain, cloud computing and big data in the financial sector. Meanwhile, the Company also tries to use the existing financial IT business and risk management service as a foundation to consolidate its internal industrial data and scenes, thereby equipping small and medium banks by using our FinTech and assisting those banks to enhance their inclusive finance ability in a short time.

2.4. Smart Finance Business: Enabling DC Holdings' industry chain

Leveraging its own licenses for Internet small loan, commercial factoring and financial leasing, Smart Finance integrates resources of financial institutions, such as banking, insurance, securities and trust, utilizes the mobile internet, Big Data, AI and blockchain technology. The Smart Finance business provides the whole process and whole value chain customized financial service solutions, financial product design and financial resource allocation, empowering companies' major business, particularly Sm@rt City and Smart Logistics.

In the first half of 2018, we cooperated with the Sm@rt City business segment to create a new "Internet + Administration + Finance" citizen integrated service model, providing multi-scene financial services such as house leasing and consumer spending. At the same time, we collaborate with the smart logistics business segment to create supply chain financial products, based on X-DATA big data risk management+blockchain technology, for the upstream and downstream manufacturers, dealers and end retailing customers of the Smart Logistic business segment services.

2.5. Strategic Investment Business: Breakthrough in the applying Big Data technology to health and manufacturing industry

2.5.1. Smart Health Business

Products of DC Health under DC Holdings have been gradually turning their technologies into effective uses in practical application scenarios.

SHINEFLY (神飛雲), jointly promoted by DC Health and Phillips, is a leading cloud-based precision healthcare platform driven by computer-aided diagnoses and AI Technology. It provides a safe and reliable big data application platform with customized and extendable cloud solutions for medical institutions. In addition, DC Health has strengthened the cooperation with medical institutions on clinical applications. During the reporting period, DC Health has already established cooperation in respect of clinical applications with three national medical institutions, including the Cancer Hospital, Chinese Academy of Medical Sciences, Peking Union Medical College Hospital and Children's Hospital of Fudan University and started research and information exchange with China National Cancer Centre and National Cancer Registration and Analysis Service in the United Kingdom in respect of jointly advancing the establishment of oncology big data platform by China and the United Kingdom. DC Health established in-depth cooperation with Congenica, a leading developer of genome analytics, in respect of the effective and precise analysis of clinical data and genome data.

2.5.2. Smart Manufacturing Business

DC Holdings established iSESOL jointly with Shenyang Machine Tool Co., Ltd. and Everbright Financial Holding and launched the iSESOL industrial internet platform. The iSESOL industrial internet platform generates industrial data services based on the manufacturing process through the interconnection with smart devices, and realize a new form of manufacturing industry through the effective connection of industrial supply and demand, productivity synergy and customization, which effectively enhance the equipment utilization rate and improve the competitiveness of the manufacturing sector in China.

During the reporting period, the service of iSESOL industrial internet platform has covered 26 provinces and 161 cities, and has served over 3,000 corporate customers, connected more than 10,700 smart devices and with accumulated service hours of over 3,400 thousand hours.

In February 2018, the iSESOL industrial internet platform passed the "First batch of Industrial Internet Platform Reliable Service Assessment Certification" of the Ministry of Industry and Information Technology, and became one of the first five platforms providing reliable industrial internet cloud services, being the only industrial internet platform among them that focuses on the area of machining.

3. Outlook: Adherence to the mission of "Digital China" and empowering different industries

In the digital era with Big Data Technology as the key element of success, DC Holdings, as a leading Big Data technology service provider, will continue to adhere to "Digital China" as our mission, and proactively prepare ourselves for various core industries such as Sm@rt City, Smart Health, Smart Logistics, Smart Manufacturing and Financial Technology relying on Big Data and Artificial Intelligence (AI). We are seeking a type of ecosystem with high level of crossover between technology and finance, city infrastructure, culture and commerce, which helps realize the sustainable development of the harmony between the industry and resident, enterprises and people. Looking forward, DC Holdings will adhere to the original aspiration of "Digital China", strive to promote the opening up and integration of the industry, empower the digitalization of corporations through Big Data and AI technology. While we strive for continuous growth of our business result, our profitability will further improve, enhancing the returns to our shareholders.

4. Corporate governance: Optimize the organization structure and business flow, and introduce high-end talents with an international vision to support the Company's sustainable development

The Company highly values the improvement of the governance structure composed of the Annual General Meeting, Board of Directors and Senior Management. Based on the principles of clearly defined rights and responsibilities, work division, coordination and effective checks and balances mechanism, we study, establish and continue to modify and improve the important elements of corporate governance, such as structural organization, business flow and power delegation policy. We also clarify the different roles and rights under the governance structure, established a corporate governance operation mechanism with scientific decision-making, effective supervision, and stable operation.

During the reporting period, the Company executed the adjustment and optimization of the organization and structure, and further improved the business flow and management system, strengthened the assessment system which combined the effectiveness and management, as well as the system supervision protection and risk control system, laying a solid foundation for promoting and implementing the strategic goals of the Company.

In the first half of 2018, the Company continued to put effort in team building, with the focus on the recruitment, training and deployment of highly-skilled talents. We optimize the staff allocation and enrich the management team to improve the general execution power of the team, push forward various measures to drive the company towards standardization and scientific management, improving management standard and efficiency.

5. Special update: Implementing settlement plans regarding certain wealth management plans purchased by the group

As disclosed in the announcement published by the Group on 28 June 2018, the Group has reached settlement arrangements (the "**Settlement Plans**") with the issuer (the "**Issuer**") in respect of certain wealth management plans purchased by the Group with an aggregate principal amount of approximately HK$2.6 billion (RMB2.2 billion) (before impairment) (the "**WMP Plans**") were due but were not repaid according to the agreed repayment schedule. In accordance with the Settlement Plans, among other thing, the WMP Plans have sold all interests in the relevant financial products held by the WMP Plans for a total consideration of HK$0.65 billion (RMB0.55 billion). The consideration of the aforementioned disposal has been received by the Issuer and the Issuer has subsequently repaid a total amount of HK$0.65 billion (RMB0.55 billion) worth of principal of the WMP Plans to the Company.

The remaining outstanding unpaid principal of the WMP Plans with a total amount of approximately HK$1.95 billion (RMB1.65 billion) were invested in certain assets management plans and/or financial instruments, the ultimate underlying assets (the "**Underlying Assets**") of which are certain debts and equity investments in a real estate project company and are secured by real estate properties owned by such project company (the "**Property Interests**"). Pursuant to a valuation issued by an independent valuer, the value of the Property Interests is sufficient to cover the principal and the interest of relevant debt investment. After consulting professional asset management firms and legal advisors, the disposal of the Property Interests does not have any substantial impediment. Pursuant to the Settlement Plans, the Group may give directions to the Issuer in connection with the management and disposal of the Underlying Assets.

Subsequent to the entry into the settlement arrangement and obtaining the power to direct and supervise the disposal plan (the "**Disposal Plan**") relating to the Property Interests and equipped with a better understanding of the Property Interests, the Company has formed a task force composed of dedicated staff, senior lawyers and coordinated partners to accelerate the recovery of the WMP plans, working with the Issuer, the relevant project company and various professional parties to devise an action plan relating to the Disposal Plan. The Company has directed the Issuer that it shall take more proactive steps in managing the Underlying Assets and looking for potential buyers of the Property Interests.

The Company is also mindful that the execution of the Disposal Plan will also be subject to certain factors (including locating an appropriate purchaser and the negotiation of the purchase price). In order to ensure the recoverability of the WMP Plans, the Company plans to implement the Disposal Plan as soon as possible.

6. Awards and Honors

In the first half of 2018, DC Holdings won the honor of "Leading Government Big Data Service Providers in China 2017". The Smart Cloud iSESOL Industrial Internet Platform under DC Holdings was selected as "China's Top 10 Industrial Cloud Platform". Internetware Corporation Limited, which is under DC Holdings, was awarded "2018 Internet + Excellent Service Provider". Instant Technology Logistics, a subsidiary of DC Holdings, was rated as AAAA logistics enterprise and selected as the "China's Model Enterprises for Smart Logistics 2017".

DCITS won the honors of "2017 China's Most Influential Software and Information Service Enterprise", "China IT Service Leadership in 2017" and "2018 China IT Service Innovation Industry Practice Award", ranked third in the overall market for IT solutions in China's banking industry. The core banking system business and channel management solutions are ranked first in the submarket (IDC 2017 Annual Report).

Mr. Guo Wei, Chairman and CEO of DC Holdings, was awarded the title of "2017 Zhongguancun Leading Entrepreneur". This is another major honor that Mr. Guo Wei has won as a Chinese IT industry elite after being selected as one of the 40 "software celebrities" for the 40th anniversary of reform and opening-up.

Capital Expenditure, Liquidity and Financial Resources

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

The Group had total assets of HK$25,781 million at 30 June 2018 which were financed by total liabilities of HK$12,689 million, non-controlling interests of HK$3,847 million and equity attributable to equity holders of the parent of HK$9,245 million. The Group's current ratio at 30 June 2018 was 1.30 as compared to 1.11 at 31 December 2017.

During the six months ended 30 June 2018, capital expenditure of HK$60 million was mainly incurred for the acquisition of properties, office equipment and IT infrastructure facilities.

As at 30 June 2018, the Group had cash and bank balances of HK$2,106 million, of which about HK$1,977 million were denominated in Renminbi.

The aggregate borrowings of the Group as a ratio of equity attributable to equity holders of the parent was 0.73 at 30 June 2018 as compared to 0.87 at 31 December 2017. The computation of the said ratio was based on the total interest-bearing bank and other borrowings of HK$6,724 million (31 December 2017: HK$7,881 million) and equity attributable to equity holders of the parent of HK$9,245 million (31 December 2017: HK$9,110 million).

At 30 June 2018, 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	194,207	1,083,606	247,525	1,525,338
Interest-bearing bank borrowings, secured	—	1,937,850	—	1,937,850
	194,207	3,021,456	247,525	3,463,188
Non-current				
Interest-bearing bank borrowings, unsecured	—	65,135	—	65,135
Interest-bearing bank borrowings, secured	—	2,599,510	—	2,599,510
Corporate bond	—	595,933	—	595,933
	—	3,260,578	—	3,260,578
Total	194,207	6,282,034	247,525	6,723,766

Certain of the Group's bank borrowings of:

1. HK$3,199 million extended by financial institutions to certain subsidiaries of the Group were secured by mortgages over the Group's buildings, investment properties, land use right and properties under development with an aggregate carrying amount of HK$4,097 million at 30 June 2018;

2. HK$1,338 million extended by financial institutions to certain subsidiaries of the Group were secured by pledge of 240,490,000 issued shares of Digital China Information Service Company Ltd. (神州數碼信息服務股份有限公司) ("**DCITS**"), a non-wholly-owned subsidiary of the Company, directly held by a wholly-owned subsidiary of the Company, with an aggregate carrying amount of HK$3,782 million at 30 June 2018; and

3. 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 2018.

Included in the Group's current and non-current bank borrowings of HK$419 million and HK$3,261 million respectively represented the long-term loans which are repayable from the year 2018 to year 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$3,724 million which were charged at fixed interest rates as at 30 June 2018.

In August 2016, Digital China Software Limited* (神州數碼軟件有限公司) ("**DC Software**"), a wholly-owned subsidiary of the Company, obtained the relevant approval for issuing the medium-term notes in the national inter-bank market in the PRC with a maximum principal amount of RMB700 million. In September 2016, DC Software issued the first tranche of the medium-term notes of 2016 with a total principal amount of RMB500 million (equivalent to approximately HK$592 million) with a maturity period of 5 years (with the investors' option to sell back the notes after the end of the third year from the issuance date) and at an interest rate of 4.9% per annum. The proceeds thereof were to be used for repaying the bank loans of the Group.

Pursuant to the "Capital Contribution and Shareholders' Agreement of Shenzhou Lingyun (Beijing) Technology Co., Ltd.", upon fulfillment of the condition pertaining to an undertaking regarding business results, investors subscribing for shares with new capital contributions shall provide, according to their capital contribution ratios, loans with a total amount of RMB33 million in the form of convertible bonds to Shenzhou Lingyun (Beijing) Technology Co., Ltd.* (神州靈雲(北京)科技有限公司) (a subsidiary of DCITS, which is in turn a non-wholly-owned subsidiary of the Company) ("**Shenzhou Lingyun**"). In the year of 2017, the investors provided the first tranche of convertible bond loans in the amount of RMB16 million, comprising RMB12.80 million provided by DCITS and RMB3.20 million (equivalent to approximately HK$4 million) provided by the remaining investors. Subject to the fulfillment of the undertaking regarding Shenzhou Lingyun's the business results for the years 2016 to 2020 in full, the investors have agreed to convert the full amount of the convertible bond loans into investments in Shenzhou Lingyun, which shall be credited, upon conversion, to Shenzhou Lingyun's capital reserve. In the event that the business result undertaking is not fulfilled, Shenzhou Lingyun shall repay the aforesaid convertible bond loans within 30 days upon receipt of notices from the investors.

The total available credit facilities of the Group at 30 June 2018 amounted to HK$13,148 million, of which HK$4,485 million were in long loan facilities, HK$4,209 million were in trade lines and HK$4,454 million were in short-term and revolving money market facilities. At 30 June 2018, the facility drawn down was HK$3,214 million in long loan facilities, HK$904 million in trade lines and HK$1,800 million in short-term and revolving money market facilities.

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

Contingent Liabilities

(a) The Group provided guarantee in favour of one financial institution for certain asset-backed securities issued by an associate, Chongqing Digital China HC Microfinance Co. Ltd.* (重慶神州數碼慧聰小額貸款有限公司), with an aggregate amount of approximately HK$206,066,000 as at 30 June 2018.

* For identification purpose only

(b) On 14 November 2017, 太極計算機股份有限公司 ("**太極計算機**") filed a lawsuit with Haidian District People's Court in Beijing to demand for the payment of an aggregate amount of RMB5,548,000, comprising RMB4,627,000 in settlement for overdue fees, RMB761,000 in default penalty relating to equipment payments and RMB160,000 in default penalty relating to construction work payments, together with litigation costs by Digital China Rongxin Software Limited* (神州數碼融信軟件有限公司) (one of the subsidiaries of DCITS, a non-wholly-owned subsidiary of the Company) ("**DC Rongxin**"), on the grounds that the contracting amounts payable by DC Rongxin had been partially overdue and outstanding. On 13 July 2018, DC Rongxin entered into a settlement agreement with 太極計算機 pursuant to which DC Rongxin is required to pay the total outstanding amount of RMB4,650,000, save as provided above, DC Rongxin has no further obligations therein.

(c) On 14 July 2017, 大唐軟件技術股份有限公司 ("**大唐軟件**") filed a lawsuit with the Shangdi Court of Haidian District People's Court in Beijing to demand for the payment of an aggregate amount of RMB3,105,000, comprising RMB2,349,000 in procurement costs relating to purchase orders, RMB204,000 in compensation for loss of profit otherwise available and RMB552,000 in compensation for loss arising from fund appropriation, together with litigation costs by Digital China Systems Integration Services Limited* (神州數碼系統集成服務有限公司) (one of the subsidiaries of DCITS, a non-wholly-owned subsidiary of the Company) ("**DCSIS**"), on the grounds that DCSIS had failed to honour payment of contract amounts as stipulated. On 27 June 2018, the Court gave a judgement of the first instance to reject all demands in the lawsuit. On 20 July 2018, 大唐軟件 submitted an appeal to the Beijing No. 1 Intermediate People's Court, and the second instance has been formally opened.

Capital Commitment

At 30 June 2018, the Group had the following capital commitments:

	HK$'000
Land and buildings	178,518
Capital contributions payable to joint ventures	50,924
Capital contributions payable to associates	6,238
Capital contributions payable to financial assets at fair value through other comprehensive income	155,057
	390,737

Human Resources

At 30 June 2018, the Group had approximately 11,800 (30 June 2017: approximately 11,000) full-time employees. The majority of these employees work in the PRC. The Group offers remuneration packages in line with industry practice. Employees' remuneration includes basic salaries and bonuses. The Group has recorded a 6.02% decrease in staff costs to approximately HK$1,155 million for the six months ended 30 June 2018 as compared to approximately HK$1,229 million for the corresponding period of the last financial year. In order to attract and retain a high caliber of capable and motivated workforce, the Company offers share-based incentive schemes to staff based on the individual performance and the achievements of the Company's targets. The Group is committed to providing its staff with various in-house and external training and development programs.

* For identification purpose only

Update on the use of proceeds from the Rights Issue

In September 2017, the Company completed a rights issue (the "**Rights Issue**") and raised funds of approximately HK$1.34 billion. The table below set out the use of net proceeds (the "**Net Proceeds**") from the Rights Issue:

Intended use of the net proceeds from the Rights Issue	Net proceeds HK$'million	Actual application as at 31 December 2017 HK$'million	Un-utilised amount as at 31 December 2017 HK$'million	Actual application for the six months ended 30 June 2018 HK$'million	Un-utilised amount as at 30 June 2018 HK$'million
(i) financing the Healthcare Big Data Investment or any other potential investments and acquisitions as and when any suitable opportunity is identified	**782**	(54)[1]	728	**(157)[1]**	**571**
(ii) repayment of debt and interest expenses					
(a) repayment of principal and interest expenses to Bank of Jiangsu Co., Ltd. (江蘇銀行股份有限公司) due in October 2017	**183**	(183)	–	**–**	**–**
(b) repayment of principal and interest expenses to Western Securities Co., Ltd. (西部證券股份有限公司) due in October 2017	**286**	(286)	–	**–**	**–**
(iii) general working capital purposes	**84**	(84)	–	**–**	**–**
Total	**1,335**	(607)	728	**(157)**	**571**

Note 1: As at the date of this report, the Healthcare Big Data Investment is still at its preliminary discussion stage and no legally binding agreement has been entered into by the Group. As at 30 June, 2018, an aggregate of HK$211 million has been used as investments and acquisitions in relation to the Sm@rt City and other innovation related business.

The Company does not have any intention to change the purposes of the Net Proceeds as set out in the Rights Issue prospectus dated 23 August 2017, and will gradually utilize the un-utilised amount of the Net Proceeds in accordance with the intended purposes mentioned above.

For further details of the Rights Issue, please refer to the announcements dated 21 July 2017, 24 August 2017 and 15 September 2017, the rights issue prospectus dated 23 August 2017 and the annual report for the year ended 31 December 2017 of the Company.

Other Information

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

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

At 30 June 2018, the interests and short positions of each Director and chief executive of the Company and their associates in the shares of the Company (the "**Share(s)**"), 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 of the Company 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" contained in Appendix 10 to the Rules Governing the Listing of Securities in the Stock Exchange (the "**Listing Rule(s)**") (the "**Model Code**") adopted by the Company were as follows:

Name of Director	Capacity	Personal interests	Corporate interests	Number of outstanding share options	Total (Note 1)	Approximate percentage of aggregate interests (%) (Note 5)
GUO Wei	Beneficial owner and interests of a controlled corporation	94,328,707	86,767,857 (Note 2)	13,116,974 (Note 3)	194,213,538	11.58
LIN Yang	Beneficial owner	3,571,734	—	13,116,974 (Note 4)	16,688,708	0.99

Notes:

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

2. These 86,767,857 Shares 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. On 25 January 2017, 12,500,000 share options were granted to Mr. GUO Wei. These share options are exercisable from 25 January 2017 to 24 January 2025 at an exercise price of HK$6.710 per Share for subscription of ordinary shares of the Company. With effect from 28 December 2017, upon the refreshment of the scheme mandate limit under the share option scheme adopted by the Company on 15 August 2011 which was approved by the shareholders of the Company (the "**Shareholder(s)**") at the special general meeting held on 27 December 2017, the share options granted to Mr. GUO Wei has been adjusted from 12,500,000 to 13,116,974 and the exercise price of each share option has been adjusted from HK$6.710 to HK$6.394 as a result of rights issue.

4. On 25 January 2017, 12,500,000 share options were granted to Mr. LIN Yang. These share options are exercisable from 25 January 2017 to 24 January 2025 at an exercise price of HK$6.710 per Share for subscription of ordinary shares of the Company. With effect from 28 December 2017, upon the refreshment of the scheme mandate limit under the share option scheme adopted by the Company on 15 August 2011 which was approved by the Shareholders at the special general meeting held on 27 December 2017, the share options granted to Mr. LIN Yang has been adjusted from 12,500,000 to 13,116,974 and the exercise price of each share option has been adjusted from HK$6.710 to HK$6.394 as a result of rights issue.

5. 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 2018, 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 of the Company 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 2018, to the best knowledge of the Directors, the following persons or corporations, not being a Director or chief executive of the Company, had the following interests and short positions in the Shares and underlying Shares 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	86,767,857	5.17
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 controlled corporations	419,356,928 (Note 4)	25.00
Guangzhou City Investment Co., Ltd.* (廣州市城投投資有限公司) ("**GZ Investment**")	Interests of controlled corporations	419,356,928 (Note 4)	25.00
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	387,735,000 (Note 4)	23.12
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	387,735,000 (Note 4)	23.12
GRG Banking Equipment Co., Ltd.* (廣州廣電運通金融電子股份有限公司) ("**GRG Banking Equip.**")	Beneficial owner	251,947,250 (Note 5)	15.02
Guangzhou Radio Group Co., Ltd.* (廣州無線電集團有限公司) ("**Guangzhou Radio Group**")	Interests of a controlled corporation	251,947,250 (Note 5)	15.02
Allianz SE	Interests of controlled corporations	117,870,750 (Note 6)	7.03

Notes:

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

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

3. Out of these 150,071,860 Shares 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. Out of these 419,356,928 Shares in aggregate, 387,735,000 Shares were held by GZ Jiazi and 31,621,928 Shares were held by Suitong Hong Kong Company Limited* (穗通(香港)有限公司) ("**Suitong HK**"). 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. Suitong HK is wholly-owned by GZ Investment. GZ Infrastructure is deemed to be interested in 419,356,928 Shares.

5. These 251,947,250 Shares were beneficially held by GRG Banking Equip. (a company listed on The Shenzhen Stock Exchange), in which Guangzhou Radio Group is a 52.52% controlling shareholder.

6. These 117,870,750 Shares were held by Allianz Global Investors Asia Pacific Limited, which is 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 2018, the Company had not been notified by any persons who had interests or short positions in Shares or underlying Shares 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 2018 and the outstanding share options at the beginning and end of the period:

Grantee	Number of share options					Exercise price per Share HK$	Date of grant	Exercisable period (Note)
	Outstanding as at 01/01/2018	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	Outstanding as at 30/06/2018			
2002 Share Option Scheme								
Other employees	2,909,767	–	(403,997)	–	2,505,770	14.333	11/01/2011	11/01/2012–10/01/2019
2011 Share Option Scheme								
Directors								
GUO Wei	13,116,974	–	–	–	13,116,974	6.394	25/01/2017	25/01/2017–24/01/2025
LIN Yang	13,116,974	–	–	–	13,116,974	6.394	25/01/2017	25/01/2017–24/01/2025
Other employees	88,355,936	–	–	–	88,355,936	6.394	25/01/2017	25/01/2017–24/01/2025
	–	9,100,000	–	–	9,100,000	4.818	21/05/2018	21/05/2019–20/05/2026
In aggregate	114,589,884	9,100,000	–	–	123,689,884			

Note:

Share options granted on 11 January 2011 with exercise price at HK$14.333 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 date of grant. Share options granted on 25 January 2017 with exercise price at HK$6.394 are exercisable in a whole or in part of anytime during the exercisable period. Share options granted on 21 May 2018 with exercise price at HK$4.818 are subject to a vesting period of five years with 20% becoming exercisable on the first anniversary, 20% on the second anniversary, 20% on the third anniversary, 20% on the fourth anniversary and 20% on the fifth anniversary of the date of grant.

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 share options were granted. The following table lists the inputs to the model used:

Granted on:	21 May 2018	25 January 2017	11 January 2011
Dividend yield (%)	3 per annum	3 per annum	3.5 per annum
Expected volatility (%)	40.2 per annum	41 per annum	48 per annum
Risk-free interest rate (%)	2.322 per annum	1.7 per annum	2.1 per annum
Weighted average share price (HK$ per Share)	4.818	6.71	14.98

The expected life of the share 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 share options granted was incorporated into the measurement of fair value.

(B) Restricted Share Award Scheme

The restricted share award scheme of the Company (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. 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 Shares by aligning their interests with those of the Shareholders.

Pursuant to the RSA Scheme, existing Shares 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 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.

The trustee of the RSA Scheme purchased 1,379,000 Shares at total cost of approximately HK$5,834,000 (including relevant transaction fees) (six months ended 30 June 2017: Nil) and no RSU was granted to the Participants during the six months ended 30 June 2018.

During the six months ended 30 June 2018, the Group recognised share-based payment expenses of HK$560,000 (six months ended 30 June 2017: HK$318,067,000) in the unaudited condensed consolidated statement of profit or loss.

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

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

Name of Directors		Details of Changes
Mr. GUO Wei	—	Appointed as the president and members of the strategic committee and the nomination committee of Digital China Group Co., Ltd.* (神州數碼集團股份有限公司) with effect from 26 April 2018
	—	Appointed as the Chief Executive Officer of the Company with effect from 8 June 2018
Mr. LIN Yang	—	Resigned as the vice chairman, director and member of the audit committee of Digital China Information Service Company Ltd.* (神州數碼信息服務股份有限公司)
	—	Appointed as the Vice Chairman of the Company and ceased to act as Chief Executive Officer of the Company with effect from 8 June 2018
Mr. PENG Jing	—	Appointed as the chairman of Guangzhou City Investment Micro Loan Co., Ltd.* (廣州市城投小額貸款有限公司) with effect from 7 March 2018
	—	Ceased to act as the supervisor of Guangzhou City Jiapeng Investment Fund Management Co., Ltd.* (廣州城投佳朋產業投資基金管理有限公司) with effect from 2 August 2018
Mr. WONG Man Chung, Francis	—	Appointed as the independent non-executive director, chairman of the audit and risk management committee and member of the remuneration committee of Qeeka Home (Cayman) Inc. with effect from 4 June 2018 (the company was listed on the Main Board of the Stock Exchange on 12 July 2018)
	—	Resignation as the independent non-executive director and chairman of the audit committee of Kunming Dianchi Water Treatment Co., Ltd. with effect from 18 August 2018
Ms. NI Hong (Hope)	—	Resigned as the director of ATA Online (Beijing) Education Technology Co., Ltd. with effect from 30 August 2018
	—	Ceased to act as the independent director, chairman of the audit committee and member of the compensation and nomination committee of JA Solar Holdings, Co. Ltd. with effect from 16 July 2018
Dr. LIU Yun, John	—	Resigned as the vice president and chief operating officer of Wanda Internet Technology Group with effect from 1 June 2018
Ms. YAN Xiaoyan	—	Appointed as a member of the audit committee of the Company (the "**Audit Committee**") with effect from 29 June 2018
Mr. KING William	—	Appointed as an Independent Non-executive Director and a member of the remuneration committee of the Company with effect from 29 June 2018

* For identification purpose only

Compliance with the Model Code

The Company has adopted the Model Code as its code of conduct for securities transactions of the Directors. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2018.

Review by Audit Committee

The Audit Committee currently comprises three Independent Non-executive Directors, namely Mr. WONG Man Chung, Francis (who is the Chairman of the Audit Committee), Ms. NI Hong (Hope) and Ms. YAN Xiaoyan. The Audit Committee has reviewed with the senior management of the Company their respective findings, the accounting principles and practices adopted by the Group, legal and regulatory compliance and discussed auditing, internal control, risk management and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018.

Corporate Governance

The Company has complied with all the code provisions (the "**Code Provision(s)**") 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 2018, except the following deviations from certain Code Provisions with considered reasons as given below:

Code Provision A.2.1 *stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.*

Mr. GUO Wei was appointed as the Chairman of the Board since December 2007 and re-appointed as the Chief Executive Officer of the Company on 8 June 2018. Mr. GUO Wei has extensive experience in business strategic development and management and is responsible for overseeing the whole business, strategic development and management of the Group. The Board believes that the dual roles of Mr. GUO Wei will facilitate the consistency between the setting up and the implementation of the business strategy and benefit the Group and the Shareholders as a whole.

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

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

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

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

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

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

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

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

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules throughout the six months ended 30 June 2018.

By Order of the Board
GUO Wei
Chairman and Chief Executive Officer

Hong Kong, 29 August 2018

Website: www.dcholdings.com.hk