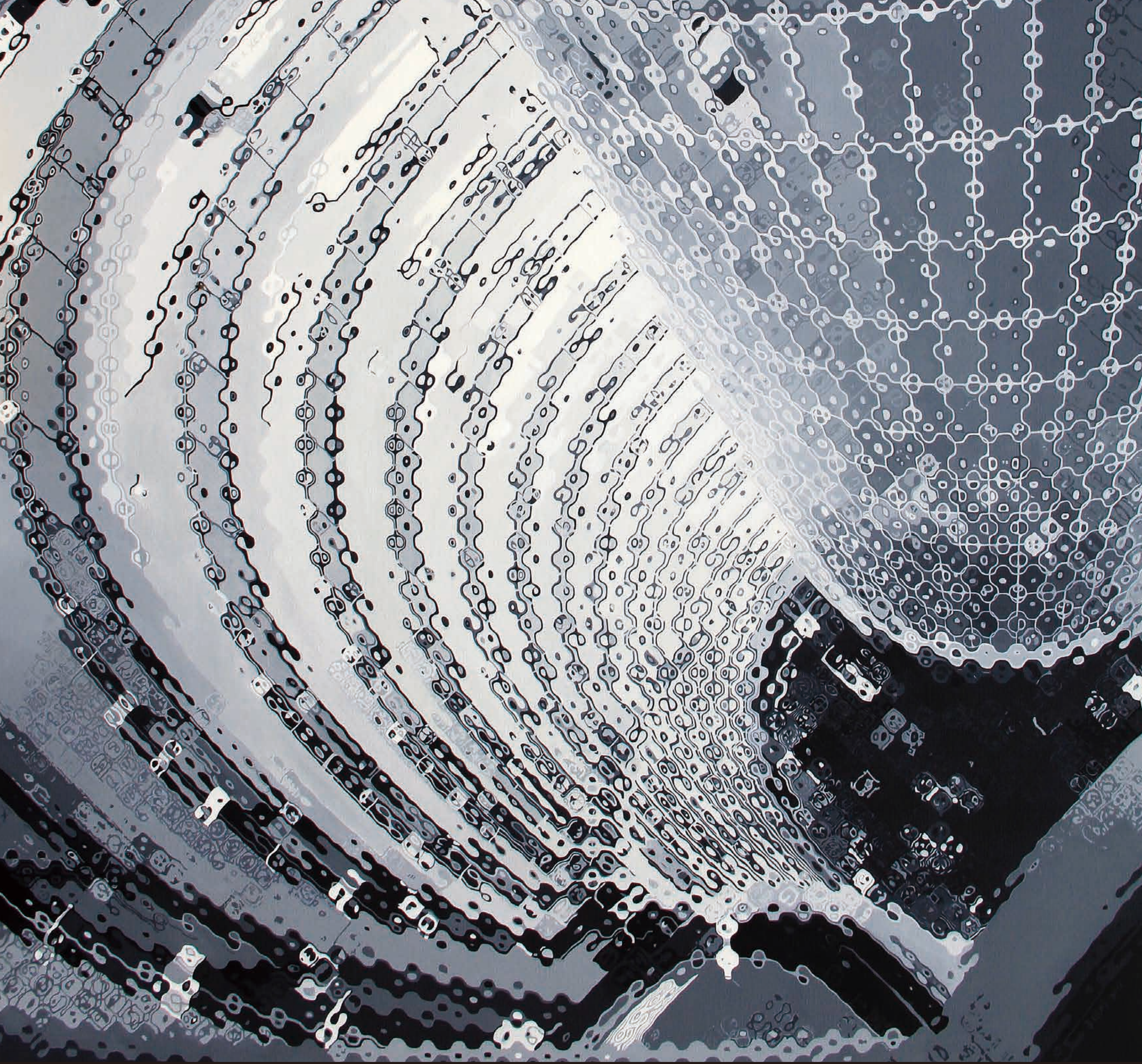


2019年報

Annual Report

Digital China Holdings Limited

神州數碼控股有限公司

Incorporated in Bermuda with Limited Liability

於百慕達註冊成立之有限公司

Stock Code 股份代號:00861

神州控股
DC Holdings

Content

Company Profile

Digital China Holdings Ltd. ("DC Holdings") was founded in 2000 and listed on the Main Board of The Stock Exchange of Hong Kong Limited in 2001 (Stock Code: 00861.HK).

For the past 20 years, we have consistently achieved innovations and breakthroughs, living up to our corporate culture of "Responsibility, Passion and Innovation" as we continued to fulfill the mission of building a "Digital China". From a dominant distributor of IT product in China, we have completed a strategic upgrade to transform ourselves into a leading integrated IT service provider, information specialist and Sm@rt City specialist in China. Now, we are taking a future turn in transformation through digitalisation, in a bid to become a world-leading Big Data service group.

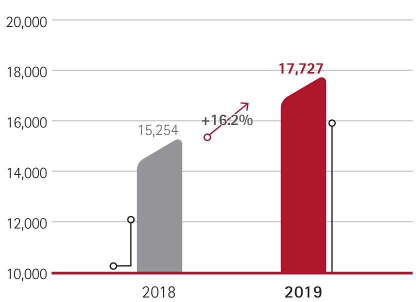
DC Holdings is a high-tech company which empowers enterprises from all walks of life by virtue of world-beating technologies. By integrating Big Data, Cloud Computing, Security Technology, Blockchain, Artificial Intelligence and the Internet of Things through Cloud-Edge collaboration Framework, it is committed to creating values for various professions. Its subsidiaries, based on cutting-edge integrated technologies and focused on homegrown "InternetWare", principally engage in the fields of government, supply chain, finance, medical treatment, manufacturing, agriculture that are undergoing digital transformation and reform and provide comprehensive solutions of whole industry chain by combining cloud services with big data operations. DC Holdings has completed its business deployment with illustrious accomplishments in core sectors such as Sm@rt City, Smart Industry Chain, Financial Technology, Smart Health, Smart Manufacturing, Smart Agriculture, Smart Maintenance and Quantum Communication.

Financial Highlights

	FY2019 HK$m	FY2018 HK$m
For the Year		
Revenue	**17,727**	15,254
Profit before Tax	**547**	282
Profit Attributable to Equity Holders of the Parent	**302**	150
Earnings per Share (HK cents)	**18.31**	8.96
Dividend per Share (HK cents)	**6.4**	3.1
Operating Cash Flow	**989**	270
At Year-end		
Total Assets	**25,551**	25,488
Shareholders' Funds	**8,936**	8,850
Financial Ratio		
Return on Equity (%)	**3.38**	1.69
Interest Cover (times)	**3.4**	2.30
Total Interest Bearing Debts to Shareholders' Funds Ratio (times)	**0.57**	0.70

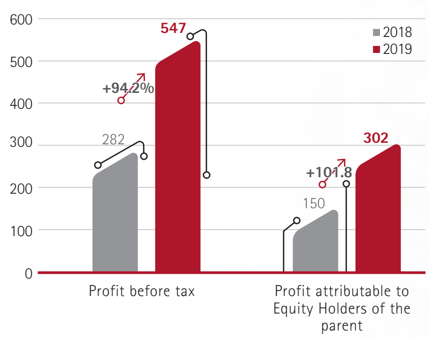
Revenue

HK$m



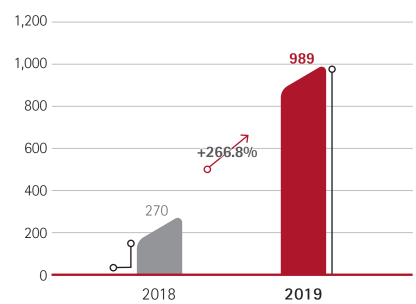
Profit

HK$m



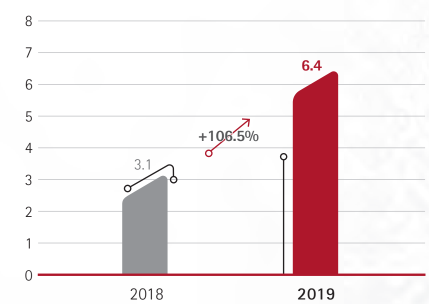
Operating cash flow

HK$m



Dividend per share

HK cents



Significant Events

2019

8 January

"Resource Reflection Mechanism and Efficient Interoperability Technology in Cloud-Client-Convergence Systems" jointly developed by Internetware, a subsidiary of DC Holdings, and Peking University won the First Prize of National Technology Invention Award 2018.

12 March

DC Holdings and Changchun New District signed an agreement on the first phase of the "Digital New District" service project. According to the agreement, DC Holdings will team up with ecosystem partners to construct the first phase of the "Digital New District" project in Changchun New District, with a contractual value of approximately RMB174 million.

28 March

DC Holdings released its operating results for 2018: achieving remarkable breakthrough for 2018 results, with big data driving long-term growth.

9 May

DC Holdings entered into a strategic cooperative agreement with the Longyan Municipal People's Government.

10 May

DC Holdings entered into a strategic cooperative agreement with Yanqing District, Beijing.

21 May

"Micro Services Platform for Enterprises Sm@rtEMSP", a new generation of platform-based product internally developed by DC Holdings, was first unveiled, featuring flexible, light, cloud-based micro services middle office platform structure, with an aim to fully support the adaptable business development of financial institutions. It won the bid for important clients such as Shanghai Pudong Development Bank Co., Ltd., Industrial Bank, China Guangfa Bank.

26 June

DC Holdings, Tianjin Nankai Municipal People's Government and Tianjin University entered into a tripartite strategic cooperative agreement.

The National Institute of Finance and Development Laboratory entered into a contract with DCITS, a subsidiary of DC Holdings, to build the world's top financial technology innovation case aggregation base.

23 July

"e Sanming (e三明)", an online public services platform developed by DC Holdings, was launched and commenced operation.

DC Holdings and Tangshan Municipal Government signed a contract in relation to the "Smart Tangshan" construction project in an amount of RMB140 million.

27 August

Changchun Municipal People's Government and DC Holdings solemnly held the "Digital Interconnection of Things and Intelligent Integration (數聯萬物•智在融合)"— 2019 China Northeast Asia International Internet of Things Industry Summit in Changchun, during which DC Holdings entered into a strategic cooperative agreement with Changchun Municipal People's Government and a IoT industry strategic cooperative framework agreement with Changchun University of Science and Technology. In addition, DC Holdings, Changchun Municipal People's Government and CrucialTrak of Korea also signed a tripartite "Memorandum of Understanding Regarding Joint Promotion of IoT Industry Development Alliance between the PRC and South Korea". DC Holdings officially launched the first four in one biometric identification security technology products series in the world.

30 August

Two National Standards of "GB/T 37700-2019 Information Technology Industrial Cloud Reference Model" and "GB/T 37699-2019 Information Technology Industrial Cloud Services General Technical Requirements", compiled by iSESOL, an associate of DC Holdings, were officially approved and released.

28 October

DC Holdings entered into a memorandum of understanding regarding the development of smart industry chain, smart city, cloud services and digital transformation for enterprises in China with Samsung SDS (Beijing) Co., Ltd.

Significant Events

8 November

DCITS, a subsidiary of DC Holdings, signed a contract with MOE Key Laboratory of Mathematics, Informatics and Behavioral Semantics (LMIB), BUAA（北京航空航天大學數學、信息與行為教育部重點實驗室）to jointly build a blockchain innovation laboratory.

DCITS, a subsidiary of DC Holdings, signed a contract with Big Data Software Engineering Laboratory, Tsinghua University（清華大學大數據軟件工程實驗室）to jointly build a big data innovation laboratory.

18 December

DC Holdings entered into a strategic cooperative agreement with Qujing Municipal People's Government.

DCITS, a subsidiary of DC Holdings, officially signed a contract with Shenzhen Stock Exchange to commence cooperation concerning the "localized and automatic operation and maintenance platform" project.

"Distributed Technical Specifications on Online Trading Systems of the Financial Industry（金融行業聯機交易系統分佈式技術規範）" and "Open Bank Application System Technical Specifications（開放銀行應用系統技術規範）" prepared by DCITS, a subsidiary of DC Holdings, obtained the approval from Chinese Electronics Standardization Association（中國電子工業標準化技術協會）and was officially activated.

2020

7 January

IT Logistics, a subsidiary of DC Holdings, officially launched two types of "Supply Chain+Big Data+AIoT" new strategic products, naming "Jieyunbao（捷運寶）" and "Jieyun Express Signing（捷雲快簽)", and launched the "Jiemeng（捷盟）" Ecosystem Partnership Program.

15 January

DC Holdings disposed partial equity interest in Digital China Health（神州醫療）in an amount of RMB500 million to focus on core technologies and integration scenarios.

18 January

Grand opening was successfully held at the new headquarter of DC Holdings in Hong Kong.

Awards

8 January 2019, "Resource Reflection Mechanism and Efficient Interoperability Technology in Cloud-Client-Convergence Systems" jointly developed by Internetware, a subsidiary of DC Holdings, and Peking University won the First Prize of National Technology Invention Award 2018.

Ministry of Science and Technology.

9 January 2019, DCITS, a subsidiary of DC Holdings, won "Top Ten Leading Enterprises of Ten-year Development Achievements of China's Information Technology Service Industry".

Chinese Electronics Standardization Association Information Technology Service Standards Sub-Association.

7 March 2019, The "Gold Storage WMS" of IT Logistics, a subsidiary of DC Holdings, won the 2018 "Annual Product Award".

The CIWEEK magazine of the Chinese Academy of Sciences & the Information Research Center of the Chinese Academy of Social Sciences.

June 2019, the "Sm@rtIDF"of DCITS, a subsidiary of DC Holdings, won the 2019 Galaxy Award for "Excellent Products Award of Big Data".

China Academy of Information and Communications Technology & China Communications Standards Association.

26 June 2019, IT Logistics, a subsidiary of DC Holdings, won the Excellent Platform Enterprise of Smart Logistics Innovation Service.

China Federation of Logistics and Purchasing.

July 2019, the Distributed Application Platform Sm@rtGalaxy of DCITS, a subsidiary of DC Holdings, won the "2019 Outstanding Software Product Awards".

China Software Industry Association.

11 July 2019, IT Logistics, a subsidiary of DC Holdings, won the 2019 Artificial Intelligence Pioneer Award and 2019 Brand of Industry Influence.

China Finance Summit.

Awards

21 September 2019, DC Holdings won the 2019 Snowball Most Valuable New Economy Company Award.

2019 Snowball Hong Kong Stock Summit Forum.

23 September 2019, DCITS, a subsidiary of DC Holdings, ranked 38th among the 2019 IDC Top 100 Global Financial Technology Companies and ranked 1st in China's List of Companies.

IDC (International Data Corporation).

26 September 2019, Beijing Yanqing District was granted the "2019 China-Europe Green and Smart City Awards – Technology Innovation Award" and Tangshan City was granted the "2019 China-Europe Green and Smart City Awards – Industry Innovation Award" under DC Holdings' assistance.

The China Urban Center for Urban Development and the "Prospect and Innovation Foundation" in France.

October 2019, IT Logistics, a subsidiary of DC Holdings, won the Digital Transformation Pioneer Award.

IDC (International Data Corporation).

18 October 2019, Longyan won the "2019 IDC China Digital Transformation Award–All-round Experience Innovation Leader" and "2019 IDC Government Industry Technology Application Scenarios-Best Innovation Award", Guiyang won the "2019 IDC China Digital Transformation Award-Information and Data Transformation Leader" and "2019 IDC Government Industry Technology Application Scenarios – Best Innovation Award ", Weihai won the "2019 IDC Government Industry Technology Application Scenarios – Best Innovation Award" under DC Holdings' assistance.

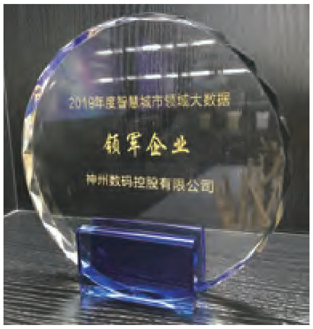
IDC (International Data Corporation).

8 November 2019, DC Holdings won the Most Growing Technology Listed Company of the 2019 Most Reputable Listed Chinese Companies.

National Business Daily.

12 November 2019, iSESOL, an associate of DC Holdings, was listed on the "2019 List of Pilot Demonstration Projects for the Integrated Development of Manufacturing and the Internet".

Ministry of Industry and Information Technology.



21 November 2019, IT Logistics, a subsidiary of DC Holdings, won the "2019 Technology Leadership Award" and "2019 Smart Innovation Award".

China Finance Summit Winter Forum – Global New Business Conference.

6 December 2019, DC Holdings won the honour of "2019 China Smart City Big Data Leading Enterprise".

China Center for Information Industry Development.

19 December 2019, the multiple biometric recognition products of DC Holdings, won the "2019 Product Innovation Award".

The CIWEEK magazine of the Chinese Academy of Sciences & the Information Research Center of the Chinese Academy of Social Sciences & eNet.

9 January 2020, "Xiangxi Datacom Microservice Platform" developed by Internetware, a subsidiary of DC Holdings, won the 2019-2020 Big Data Outstanding Application Solution Award.

China Electronic Chamber of Commerce.

17 January 2020, iSESOL, an associate of DC Holdings, was listed on the "2019 List of Pilot Demonstration Projects for Industry and the Internet".

Ministry of Industry and Information Technology.

11 March 2020, Electronic Signing Cloud Platform under Jieyun Express Signing of IT Logistics, a subsidiary of DC Holdings, won the 2019 Annual Logistics Product.

The CIWEEK magazine of the Chinese Academy of Sciences & the Information Research Center of the Chinese Academy of Social Sciences & eNet Institute.

Chairman's Statement

Dear Shareholders of DC Holdings,

The rapid development of Big Data, Artificial Intelligence and the IoT technology around the world is enabling digital transformation and upgrading of various industries. DC Holdings is taking a mission to enable Big Data to empower the industries in a world of the Internet of Things and let Big Data drive industry upgrading. 2019 was a year in which DC Holdings made stunning progress as a leading Big Data service group. We have achieved remarkable growth in key industries such as Sm@rt City, Smart Industry Chain, Fintech and Smart Manufacturing significantly increasing the returns to its shareholders. The outbreak of the COVID-19 pandemic since the Spring Festival of 2020 put global economy at risk of deceleration. At the same time, the Big Data technology was widely used to help win the battle against the pandemic by providing scientific and accurate data. The value of the Big Data technology industry was undoubtedly revealed.

The big data technology of Yan Cloud DaaS, a Big Data product invested and developed by DC Holdings, won the first prize of the National Science and Technology Invention Award, affirming our consistent adherence to the independent technological innovation. The technology has surpassed western developed countries in terms of the principle-level innovation in information technology, and has achieved a world-leading position in deep mining of internet data. The amazing features of this technology are that it can intelligently generate an application program interface (API) for the given systems, build a "pipeline" of data and functions and realize real-time data flow and seamless integration of functions in the case of closed databases, missing of source codes and lack of original factory support, thereby effectively breaking information silos and achieving system interconnection and data sharing. This is a unique competitive advantage for us to penetrate into the fields of smart cities and Fintech today.

The outbreak of the COVID-19 pandemic as a public health emergency highlighted the value of the Big Data technology and Yan Cloud DaaS. The State Council issued the "Work Plan for Recent Prevention and Control of COVID-19 Infection", which clearly states that new technologies including "Big Data + Network" should be fully applied in various places to properly carry out early warning, monitoring, inspection and detection of the pandemic. In this battle, DC Holdings used Big Data and Yan Cloud DaaS, as its flagship product, to empower the digital services of local governments and various industries. Based on the Yan Cloud DaaS technology, DC Holdings has intelligently combated against the pandemic through cloud computing, Big Data, Artificial Intelligence and other advanced technologies, and successively assisted Fujian Longyan, Shandong Weihai, Jiangsu Xuzhou and Hebei Tangshan providing support to fight against the pandemic as well as work and production resumption in personnel information, materials procurement, online collaboration, etc. The system provided strong supports in comprehensive registration, full-tracking, real-time monitoring and scientific analysis of the COVID-19 infection, and helped local governments to accurately understand the spreading situation of the pandemic and improve their capability in prevention and control of the pandemic, thus realizing the goal of "early detection, early reporting, early isolation, early diagnosis and early treatment " in preventing the spread of the pandemic. In addition, DC Holdings also released a series of four-in-one biometric security technology solution. Such solution integrates the four biometric technologies on human face, iris, fingerprint and palm vein. It boasts of the 100% ultra-high accuracy based on million samples, the high-speed recognition completed within one second, the reliable anti-counterfeiting with multiple identifications, contactless security solution and other strong features. The access control solution based on this technology is suitable for hospitals, laboratories, industries, smart communities, financial institutions, schools, hotels, prisons and other multi-scenario fields. The contactless access control solution can help companies to isolate and identify their employees, thus greatly reducing the risk of cross infection.

Mr. GUO Wei

The application of the Big Data technology is the key to the success of today's supply chain management. IT Logistics, the main operator of the smart industry chain business, has formed a complete digital logistics system based on the "supply chain + Big Data + AIoT" strategy, providing various industries with the end-to-end one-stop supply chain services, and is one of the few domestic technology-based logistics companies which can simultaneously provide the B2B/B2C integrated services. In 2019, IT Logistics achieved rapid growth in overall businesses, substantial improvement in operating efficiency and drastic increase in profit. During the "Double Eleven" period in 2019, 98% of IT Logistics' all warehouse orders nationwide were delivered within five days, creating a new industry record of delivering 3 million orders in a single warehouse. IT Logistics' sales on all e-commerce platforms during the "Double Eleven" period also encouragingly exceeded RMB3.6 billion, with a remarkable result.

The human-robot operation model and the supply chain Big Data capability of IT Logistics have received high recognition in the industry. Based on its in-depth accumulation in the technology logistics and supply chain industries, IT Logistics has packaged the core supply chain management system containing Big Data and Artificial Intelligence capability into various high-value Big Data products, including the KINGKOO DATA Big Data platform launched in the industry to empower the entire industry chain. The most difficult breakthrough in supply chain management today is planning management. The use of data and prediction of consumption trends directly affect the response speed of supply chains. The benefits generated by logistics data were particularly prominent during the "Double Eleven" period when there were massive increase in orders and in the special logistics environment with the COVID-19 outbreak. In terms of improving the supply chain efficiency for customers, IT Logistics set out to mainly provide the operation services for customers' entire supply chains, accumulate data through the self-developed system and optimize businesses and supply chains. It provided customers with timely and visualized supply chain data to improve each process performance, thereby improving the overall supply chain efficiency.

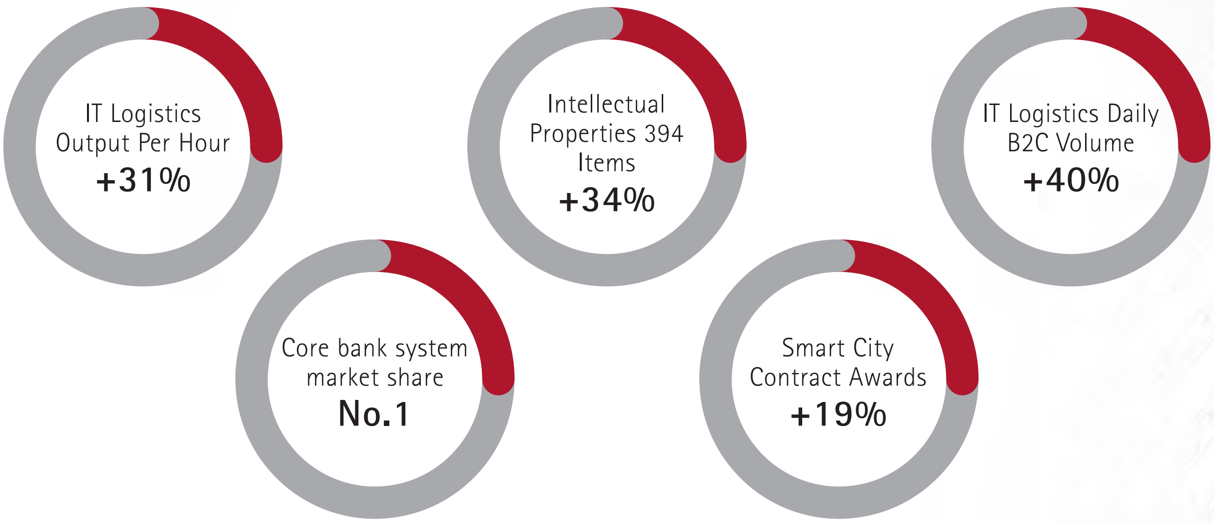
DCITS, a subsidiary of DC Holdings, is a leading integrated service provider for the entire Fintech industry chain, and once again achieved fruitful results in 2019. DCITS ranked 38th in the Top 100 Global Financial Technology Companies Rankings of "IDC FINTECH RANKINGS" in 2019. According to the IDC report, DCITS has ranked first in the core banking business and channel management solution market for seven consecutive years. Our self-developed distributed core business system was recognized by the People's Bank of China and academia: it has won the "Jinding Award of China International Finance Exhibition 2019 – Excellent Fintech Solution" issued by China Financial Computerization Corp., a company directly under the People's Bank of China, and the "Science and Technology Award of Chinese Institute of Electronics 2019" issued by Chinese Institute of Electronics.

On the backdrop of the increasingly complicated financial market environment today, the PRC industry policy for independently controlled information security will provide unprecedented market opportunities for DCITS. The People's Bank of China issued the "Fintech Development Plan (2019-2021)", and proposed that by 2021, we should promote Fintech development and achieve the internationally leading position, fully establish the Fintech application system which is safe, controllable, advanced and efficient, and construct the information infrastructure architecture which enables the coordinated development of centralized and distributed systems. The distributed system architecture is the consensus choice of financial institutions and the key to accelerate the independently controlled development. Relying on its industry experience and technological advantages accumulated in the financial field for more than three decades, DCITS has independently developed the innovative distributed application platform and the distributed core banking business system, which is helping more financial institutions to migrate to the distributed architecture and forge a solid distributed system, so as to use the industry Big Data to connect financial services with more industry scenarios and solve the financial supply and demand issues in various industries.

Imbalance and uncertainty are normally expected. The crisis itself is also a testing time for cultivating and expanding new drivers for economic growth. In the battle against the pandemic, we are also seeing a great number of new market opportunities while facing the challenge. As a result, the demand for Smart City, Smart Industry Chain and financial digital transformation will be stimulated. In the 5G era of the Internet of Things, Artificial Intelligence, Edge Computing, Blockchain and other new technologies will be increasingly applied in the Internet of Things, and the application hotspots will continue to emerge. The special environment under the pandemic will definitely accelerate integrated innovation and scaled development into a new stage. Looking forward into the future, DC Holdings will build the infrastructure for digital connections of cities and governments through its independently innovated "Software Internet" technology in the field of smart city, making government services more convenient and business processing more efficient and agile. IT Logistics will be committed to offering the product lifecycle management solutions and the end-to-end smart supply chain services. In adhering to the "people-oriented" concept, DC Holdings will endeavour to empower the intelligent development of cities and the digital transformation of industries by introducing technology industry resources and offering the Big Data operation services, thus realizing the great dream of Digital China.

Management Discussion and Analysis

In 2019, the Group achieved a remarkable growth in the key usage models within the ecosystem of big data technologies, with its overall revenue and profits rising rapidly. The "Resource Reflection Mechanism and Efficient Interoperability Technology in Cloud-Client-Convergence Systems" developed by Beijing Internetware Company Limited ("Internetware", a subsidiary of the Company) in cooperation with Peking University won the First Prize of the National Technology Invention Award in January 2019, which is an honorable acknowledgement of our big data technology. The Yan Cloud DaaS series products derived from the abovementioned technologies have been widely used in the construction of the big data infrastructure and successful in bidding for a number of high-value projects. The operating efficiency of our intelligent warehousing solutions and big data platform in the smart industry chain continued to improve and lifted our profitability significantly. During the reporting period, the Group's overall revenue was approximately HK$17,727 million, representing an increase of approximately HK$2,473 million or approximately 16.21% over the same period of the last financial year, of which the revenue contributed by big data services amounted to approximately HK$78.39 million; the gross profit was approximately HK$3,155 million, representing an increase of approximately 8.43% over the same period of the last financial year, with a gross profit margin of approximately 17.80%. The profit attributable to the shareholders of the parent company of the Group was approximately HK$302 million, representing an increase of approximately HK$152 million or approximately 101.78% over the same period of the last financial year.



1) SMART INDUSTRY CHAIN: REVENUE ROSE SIGNIFICANTLY BY APPROXIMATELY 42.26%, WITH ITS SEGMENT PROFIT TURNING AROUND TO A PROFIT OF MORE THAN HK$100 MILLION

IT Logistics, the operating entity of our smart industry chain business, is a leader in the field of supply chain big data, which applies its strategy of "Supply Chain + Big Data + Artificial Intelligence Internet of Things (AIoT)" in continuous optimization of its big data applications and intelligent warehousing solutions, aiming to provide its customers with end-to-end one-stop supply chain services and help them achieve industrial chain integration. During the reporting period, our Smart Industry Chain business recorded an overall turnover of approximately HK$5,374 million, a substantial increase of approximately 42.26% over the same period of the last financial year; the gross profit was approximately HK$690 million and the gross profit margin was approximately 12.84%. Business growth and improving efficiency significantly boosted the earnings of IT Logistics, driving it back to profitability with a segment profit of approximately HK$106 million, as compared with a loss of approximately HK$6.03 million for the same period of the last financial year.

During the reporting period, IT Logistics set another new record of 3 million orders per warehouse in the industry during the Double Eleven Shopping Festival, playing a leading role among all smart warehouse logistics players. IT Logistics aggressively tapped the potentials of such industries as IT digital, communication, auto parts, fast moving consumer goods, shoes and clothing, cosmetics and home furnishing to deepen its cooperation with the core customers, as a result of which, it's business with BYD, ZTE, China Mobile, Songlian, HIKVISION and other B2B customers maintained its growth momentum, while the number of newly signed online education key customers also underwent a rapid growth. Our business with

Huawei Honor series mobile phones and Dell Technologies-related business accelerated, with the revenue from the related e-commerce supply chain business rising by 96% year-on-year. IT Logistics aggressively exploited the opportunities arising from the development of the Belt and Road Initiative to rapidly expand its presence in the overseas logistics sector. During the reporting period, it successfully won the bid for ZTE's projects in Malaysia, and contracted to build warehouses in Hong Kong, Kuala Lumpur, Kuching and Kota Kinabalu, as well as a new NVG central warehouse in Jarkata, Indonesia.

In line with its core strategy of "Supply Chain + Big Data + Artificial Intelligence Internet of Things (AIoT)", IT Logistics has been continuously increasing its R&D investment for the development of the Digital China Gold Storage Logistics Software set, "KINGKOO DATA" big data products, and the Human + Robot artificial intelligence solutions based on its Cloud Service Platform. With the successful launch of the electronic signature service "Jieyun Express Signing（捷雲快簽）" and a new IoT product "Jieyunbao（捷運寶）" at the end of 2019, its service competitiveness has been improved. IT Logistics is now able to provide its customers with end-to-end one-stop supply chain service. Being the first B2B and B2C integrated intelligent sorting solution in China, the Human + Robot 3.0 model that is well suited for dual businesses scenarios and adopts key features including high density storage and Goods-to-Person format. This could significantly reduce labor and robot involvement, increasing warehouse capacity utilization by 30% and saving labor cost by 50%. The Human + Robot 3.0 has been put into operation in IT Logistics' Chongqing warehouse during the reporting period. IT Logistics combined the automated operation of warehouse robots with streamlined management, which has effectively improved the warehouse utilization and per capita efficiency, significantly improving its B2C business performance, leading to a 31% increase in the output value per hour during the reporting period as compared with the previous year.

The KINGKOO DATA big data platform integrates the demand for big data services in the supply chain, providing intelligent research and real-time visualized information for assisting decision making, helping the industry chain decision makers to make more accurate decisions based on market changes, and thereby improving the overall operating efficiency of the industry chain. At the 2019 China Finance Summit Winter Forum, IT Logistics' KINGKOO DATA Supply Chain Big Data System won two major awards – the "2019 Technology Leadership Award" and "2019 Intelligent Innovation Award".

2) SM@RT CITY: "YAN CLOUD DAAS" PLAYED A KEY ROLE IN THE FIGHT AGAINST COVID-19 PANDEMIC IN VARIOUS PROVINCIAL REGIONS, WITH MAJOR CONTRACT AWARDS IN CHANGCHUN NEW DISTRICT AND TANGSHAN

DC Holdings constantly engages in smart development of city and digital transformation of industries with self-developed innovative technologies, based on Sm@rt City 3.0 model. The model is designed to be a comprehensive management of industry, city and citizen, based on the unique characteristics of each city and constructs Sm@rt City top-level design by assuming the role of the "City CTO". During the reporting period, Sm@rt City recorded overall turnover of approximately HK$327 million; the gross profit was approximately HK$74.69 million and the segment profit was approximately HK$11.49 million. In cooperation with Peking University (PKU), Internetware, a subsidiary of DC Holdings, has developed "Resource Reflection Mechanism and Efficient Interoperability Technology in Cloud-Client-Convergence Systems" and won the First Prize of National Technology Invention Award. Based on the abovementioned technologies, "Yan Cloud DaaS" can realize software and data integration, quickly break down the isolated information islands, rapidly recreate business process and can reduce user's project implementation cycle on average by 50%. "Yan Cloud DaaS" is highly recognized by the market and brings lots of high value projects for the Group. On March 2019, the Group entered into a service agreement with Changchun New District Management Committee for the Phase I of "Digital New District" project, pursuant to which the Group will team up with our ecosystem partners for the Phase I construction of the "Digital New District" project in Changchun New District under a contract of approximately RMB174 million. On July 2019, the Group and Tangshan Municipal Government signed a contract in relation to the "Smart Tangshan" construction project in an amount of RMB140 million. The Group will fully support the construction of Tangshan into a new Sm@rt City as the general operator of Sm@rt City and make great efforts to develop digital industry with Tangshan Municipal Government. On December 2019, the Group and the People's Government of Qujing signed a strategic corporation agreement, pursuant to which, the Group will participate in the comprehensive planning and project construction of "Digital Qujing", focusing on the applications including construction of middle office platform, citizen services platform and municipal operation and administration.

The recent outbreak of the COVID-19 Pandemic is accelerating the digitalization of municipal governance and "Yan Cloud DaaS" will play a key role in applying big data technology for pandemic prevention and control. Leveraging the "Yan Cloud DaaS" big data technology, Sm@rt City launched big data services such as "COVID-19 Pandemic Prevention and Control System", "Personal Data Registration System for Persons Involved in COVID-19 Pandemic", "Key Daily Consumer Product Prices Monitoring Platform" and "COVID-19 Pandemic Prevention and Control Information Service Platform" in various regions such as Sanming, Weihai and Longyan. Compared with the traditional top-down management model of the government, DC Holdings makes efforts to include citizens to the city governance system, safeguards the quality and efficiency of services by adding feedback mechanism and connects citizens, city and government through big data technology. With the continuously upgrading of platforms and products of "Yan Cloud DaaS" and introducing them to more cities and enterprises, the operation results of Sm@rt City is expected to experience a significant growth in future.

3) WITH A STRATEGIC FOCUS ON FINANCIAL TECHNOLOGY, DCITS IS RANKED THE FIRST IN THE CORE BANKING BUSINESS AND CHANNEL MANAGEMENT SOLUTION MARKET FOR SEVEN CONSECUTIVE YEARS

Under the framework of the big data strategy of DC Holdings, DCITS, with the focus placed on big data, empowered industry value upgrading using financial technology. In 2019, DCITS ranked the 38th of the "IDC FINTECH RANKINGS" Top 100 financial technology firm and ranked the first in the core bank system business and channel management solution market for seven consecutive years. During the reporting period, DCITS realized revenue of approximately HK$11,504 million, representing an increase of approximately 9.33% over the same period of last financial year. Gross profit was approximately HK$2,102 million, an increase of 8.4% year-on-year, and gross profit margin was approximately 18.27%. Segment profit was approximately HK$301 million, an increase of 101.98% year-on-year.

According to the relevant IDC report, the core business system, as the largest sub-market in the IT solution market of the Chinese banking industry, will maintain a stable growth outlook in the next 3 to 5 years. During the reporting period, the products and solutions of DCITS maintained rapid growth in terms of the number of customers including large state-owned banks, joint-stock banks, urban commercial banks with increasing product penetration rate. The Chinese banking industry is in the process of transformation from a traditional centralized IT structure to a new structure featuring in decentralization and micro-services. Benefiting from the substantial investments in technology research and development, the new-generation distributed core application platform independently developed by DCITS has been highly recognized in the market, and the core application products have also completed its integration with various cloud environments and database environments such as Huawei, Ant Financial, JD Digits and others. The bank core system business achieved a record high in the number of project wins and contracts signed during the year. The newly added projects include those projects from 16 financial institutions including Postal Savings Bank Of China, Bank of Beijing, Bank of Tianjin, Yingkou Coastal Bank, Guangxi Beibu Gulf Bank, Rui Li (Cambodia) Bank, etc.. The corporate service buses and micro-service products of DCITS has maintained its leading position in the industry, winning bids from and entering into contracts with 19 banks including Bank of Guangzhou, Guangxi Beibu Gulf Bank, Guiyang Rural Commercial Bank, The Macau Chinese Bank Ltd., etc.. Our Internet open platform and Internet financial platform also have won bids, and entered into contracts with 13 banks including Bank of Beijing, Bank of Lanzhou, Bank of Guangzhou, Jiujiang Bank, Bank of Qinhuangdao, Bank of Ningbo and Bank of Fuxin, maintaining its leading position in the industry.

In support of the state's "new infrastructure" investment plan, in the field of quantum communication, DCITS has successfully won the bids for "Beijing-Hangzhou Trunk Route", "Wuhan-Guangzhou Trunk Route", "Guangdong-Hong Kong-Macao Greater Bay Area Trunk Route" and the quantum-secured metro network projects such as various extension along the truck routes in key cities, expanding its leading position in the field of quantum communication.

4) ISESOL'S STRONG SUPPORT FOR MANUFACTURERS TO FIGHT AGAINST THE COVID-19 PANDEMIC

iSESOL, an affiliate of the Company, is a leading industrial Internet platform operator. It has developed the iSESOL industrial Internet platform to offer the data-driven one-stop industrial services. During the reporting period, iSESOL BOX was launched as an industrial IoT terminal which, thanks to its edge computing capability, together with its collaboration capability with the edge cloud of the iSESOL industrial Internet platform, has realized the real-time interaction of data between devices and cloud platforms, helping enterprises improve their production efficiency. During the COVID-19 pandemic period, iSESOL provided various industrial apps to the manufacturers which have resumed production. In combination with iSESOL BOX, an industrial IoT terminal, it can provide enterprises with equipment operating status monitoring, remote machine checkups, and remote time-sharing leasing of equipment, remote visualization of workshop production, transparent management of the entire process of the production supply chain and other services. Users can understand the production progress, equipment status, inventory information, quality information, logistics and distribution of their workshops without leaving home. The iSESOL industrial Internet platform have covered 26 provinces and 161 cities, serving more than 3,000 corporate customers, and connecting nearly 30,000 smart devices, representing an increase of 20% as compared with the corresponding period of the previous year. The interconnection project between the processing equipment and industrial big data of iSESOL has been successfully enlisted into the "Public List of 2020 Big Data Industry Development Pilot Demonstration Projects" released by the Ministry of Industry and Information Technology. This is another special honour of iSESOL in 2020, in addition to being selected in the "List of 2019 Industrial Internet Pilot Demonstration Projects" released by the Ministry of Industry and Information Technology.

5) BUSINESS OUTLOOK: FULFILLING OUR "DIGITAL CHINA" MISSION WITH SELF-INNOVATED CORE TECHNOLOGIES TO ENHANCE SHAREHOLDERS' RETURNS

Stepping into 2020, the global economy will face with the risk of slowdown under the COVID-19 pandemic. The Chinese economy is still in a critical period of adapting to the new environment, and the benefits of the big data technology empowering various industries will become more pronounced in special times. While facing with the challenges, the Group has also seen huge market opportunities and will constantly seek breakthroughs in innovation on the backdrop of technological changes. Looking forward, the Group will adhere to its original aspirations and keep its mission in mind. Relying on its self-innovated core technologies such as "Yan Cloud DaaS", the Internet of Things ("IoT"), biometrics and security technology, and through the introduction of technology industry resources and the big data operation services empowering cities' intelligent development and industries' digital transformation, it will achieve profit growth and increase shareholders' returns while striving to realize the dream of "Digital China".

6) UPDATE ON THE SETTLEMENT PLANS REGARDING CERTAIN WEALTH MANAGEMENT FINANCIAL PRODUCTS PURCHASED BY THE GROUP (THE "WMP")

As at 31 December 2019, the outstanding unpaid principal of the WMP was approximately HK$1,830 million (RMB1,634 million). The Group has made specific action plans on the planning for the sale of the ultimate underlying assets involved in the WMP. In accordance with the action plans, the Company will prioritize the disposal of the real estate residential projects in the ultimate underlying assets (involving principal and interest of approximately HK$216 million (RMB193 million)).

The real estate residential projects have entered into the asset restructuring and disposal procedure. The construction works on the projects were substantially completed and the sales have been launched with good progress. The real estate projects have already commenced the delivery process. Due to the impact of the COVID-19 pandemic, the completion and acceptance procedures and the property rights certificates will be processed successively. In accordance with the relevant laws and regulations, the Group will recover the amount involved in the real estate residential projects, according to the realisation and repayment plans, totaling approximately HK$216 million (RMB193 million).

The realisation and repayment plans of the remaining ultimate underlying assets (involving approximately HK$1,614 million (RMB1,441 million) are still being pushed forward with positive progress. The Group will continue to pursue its execution according to the action plans. In the event of significant progress in the action plans, the Company will issue an announcement in due course.

The carrying amount of WMP, as disclosed in the financial statements of the Group in 2019, was determined with reference to the valuation report by an independent valuer. Based on the management's judgment on the assets and the disposal process of the assets, no adjustment is required to be made in 2019 to the provision for the WMP.

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 approximately HK$25,551 million at 31 December 2019 which were financed by total liabilities of approximately HK$12,988 million, non-controlling interests of approximately HK$3,627 million and equity attributable to equity holders of the parent of approximately HK$8,936 million. The Group's current ratio at 31 December 2019 was 1.17 as compared to 1.22 at 31 December 2018.

During the year ended 31 December 2019, capital expenditure of approximately HK$332 million was mainly incurred for the acquisition of properties, office equipment and IT infrastructure facilities.

As at 31 December 2019, the Group had cash and bank balances of approximately HK$2,006 million, of which about approximately HK$1,720 million were denominated in Renminbi.

The aggregate borrowings of the Group as a ratio of equity attributable to equity holders of the parent was 0.57 at 31 December 2019 as compared to 0.70 at 31 December 2018. The computation of the said ratio was based on the total interest-bearing bank and other borrowings of approximately HK$5,095 million (31 December 2018: approximately HK$6,199 million) and equity attributable to equity holders of the parent of approximately HK$8,936 million (31 December 2018: approximately HK$8,850 million).

At 31 December 2019, 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	79,733	1,156,158	150,000	1,385,891
Interest-bearing bank borrowings, secured	–	1,968,048	63,500	2,031,548
Other borrowings	–	51,520	–	51,520
	79,733	3,175,726	213,500	3,468,959
Non-current				
Interest-bearing bank borrowings, secured	–	1,571,970	46,832	1,618,802
Corporate bond	–	6,939	–	6,939
	–	1,578,909	46,832	1,625,741
Total	79,733	4,754,635	260,332	5,094,700

Certain of the Group's bank borrowings of:

1. Approximately HK$2,274 million extended by financial institutions to certain subsidiaries of the Group were secured by mortgages over the Group's buildings, investment properties and land use rights with an aggregate carrying amount of approximately HK$3,733 million at 31 December 2019; and

2. Approximately HK$1,376 million extended by financial institutions to certain subsidiaries of the Group were secured by pledge of 247,869,570 issued shares of DCITS, a non-wholly-owned subsidiary of the Company, directly held by a wholly-owned subsidiary of the Company, with an aggregate carrying amount of approximately HK$4,111 million at 31 December 2019.

Included in the Group's current and non-current bank borrowings of approximately HK$643 million and HK$1,619 million respectively represented the long-term loans which are repayable from the year 2020 to year 2034. All of the Group's bank borrowings were charged at floating interest rates except for the loan balances with an aggregate amount of approximately HK$2,225 million which were charged at fixed interest rates as at 31 December 2019.

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 (equivalent to approximately HK$36.96 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"). During the year ended 31 December 2019, the investors provided convertible bond loans in the amount of RMB1.74 million (2018: RMB14.85 million) (equivalent to approximately HK$1.95 million (2018: approximately HK$16.90 million)), comprising RMB nil (2018: RMB13.60 million) (equivalent to HK$ nil (2018: approximately HK$15.50 million) provided by DCITS and RMB1.74 million (2018: RMB1.25 million) (equivalent to approximately HK$1.95 million (2018: approximately HK$1.40 million) provided by the remaining investors. Subject to the fulfillment of the undertaking regarding Shenzhou Lingyun's 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 bank credit facilities for the Group at 31 December 2019 amounted to approximately HK$12,546 million, of which approximately HK$2,317 million were in long-term loan facilities, approximately HK$3,797 million were in trade lines and approximately HK$6,432 million were in short-term and revolving money market facilities. At 31 December 2019, the facility drawn down from the Group was approximately HK$2,261 million in long-term loan facilities, approximately HK$679 million in trade lines and approximately HK$2,775 million in short-term and revolving money market facilities.

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

Contingent Liabilities

On 7 November 2018, China Potevio Co., Ltd. filed a litigation with Beijing's Second Intermediate People's Court on the grounds that DCITS assisted Shenzhen Shengwugang Investment Co., Ltd.（深圳市生物港投資有限公司）("Shengwugnag Company") in capital withdrawal, requiring DCITS to bear joint and several liability for compensation in relation to the assistance given to Shengwugang Company for capital withdrawal of RMB25,000,000 together with interests. At the end of December 2018, DCITS filed jurisdiction objection litigation with Beijing's Second Intermediate People's Court, which has been rejected by Beijing's Second Intermediate People's Court. DCITS filed litigation with Beijing Municipal High People's Court against the ruling rejecting the jurisdiction objection, which has been rejected by Beijing Municipal High People's Court in May 2019. On 29 October 2019, Beijing Second Intermediate People's Court issued the civil judgment (2018) Jing 02 Min Chu No. 344, which stated that: DCITS shall undertake the supplementary liability for the unsettled part of the debt Shengwugang Company owned to China Potevio Co., Ltd. under Guangdong Shenzhen Intermediate People's Court (2007) Shen Zhong Fa Wei Zhi Zi No. 539 Enforcement Case after the enforcement (with the amount limited to RMB68,125,000), which is limited to the extent of the principal and interest of the advance totaling RMB35,120,000; Beijing Xinfu Investment (Group) Co., Ltd.（北京新富投資有限公司）and Kunshan Shenchang Technology Co., Ltd.（昆山市申昌科技有限公司）, being other third-party defendants, shall bear their supplementary liabilities to the extent of the capital withdrawal amounting to RMB58,380,000 and the principal and interest of the advance totaling RMB60,250,000, respectively. DCITS has appealed to the court, but it is necessary to make a provision of RMB21,382,000 for the judgement above.

* For identification purpose only

Capital Commitment

At 31 December 2019, the Group had the following capital commitments:

	HK$'000
Contracted, but not provided for, in the consolidated financial statements:	
Land and buildings	30,209
Capital contributions payable to joint ventures	33,969
Capital contributions payable to associates	23,520
Capital contributions payable to financial assets at fair value through other comprehensive income	480
	88,178

Events after reporting period

On 14 January 2020, the Group entered into a sale and purchase agreement with SK China Company Limited (the "Transferee") pursuant to which the Group has agreed to sell the entire equity interest in Beijing Lizhi Weixin Technology Co., Ltd ("BLW"), being an indirect non-wholly owned subsidiary of the Company, which in turn holds 32,720,636 shares in Digital China Health Technologies Co., Ltd*（神州數碼醫療科技股份有限公司）("Digital China Health"), representing approximately 14.05% of the entire issued share capital of Digital China Health. Under the agreement, the total consideration for the disposal payable by the Transferee shall be the U.S. dollar equivalent of RMB500,000,000 (equivalent to approximately HK$559,998,000). After completion of the disposal, the total issued shares of the Group in Digital China Health decreased from 20.04% to 5.99%, and Digital China Health ceased to be an associate of the Company. The related interest will be accounted for a financial asset at fair value through other comprehensive income. The Group also ceased to have any equity interest in BLW, and BLW will cease to be a subsidiary of the Company.

Since the outbreak of COVID-19 pandemic in the PRC in January 2020, the Group has closely monitored the development of such outbreak, assessed and actively responded to its impact on the financial status and operating results of the Group. The Group expects that the COVID-19 pandemic outbreak will have a temporary impact on the Group's operating activities but it will also bring new business opportunities to the Group, including in the Smart City and e-commerce areas. No material adverse impact has been noted as at the date of this report. The Group will also continue to monitor other potential risks to our operations and manage such risks as they arise.

Human Resources

At 31 December 2019, the Group had approximately 11,800 full-time employees (31 December 2018: approximately 11,000). 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 0.23% increase in staff costs to approximately HK$2,575 million for the year ended 31 December 2019 as compared to approximately HK$2,569 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$1,335 million. The table below set out the use of net proceeds (the "Net Proceeds") from the Rights Issue:

Intended use of the net proceeds from the Rights Issue	Un-utilised amount as at 1 January 2018 HK$'million	Actual application as at 31 December 2018 HK$'million	Un-utilised amount as at 31 December 2018 HK$'million	Actual application for the year ended 31 December 2019 HK$'million	Un-utilised amount as at 31 December 2019 HK$'million	Expected to be utilised for the year ended 31 December 2020 HK$'million
Financing the Healthcare Big Data Investment or any other potential investments and acquisitions as and when any suitable opportunity is identified	728	(157)	571	(198)	373	373

Note: 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.

The Company does not have any intention to change the purposes of the Net Proceeds as set out in the Rights Issue prospectus dated 23 August 2017, and will gradually utilise the un-utilised amount of the Net Proceeds in accordance with the intended purposes mentioned above. As at 31 December 2019, an aggregate of HK$962 million has been utilised from the Net Proceeds.

For further details of the Rights Issue, please refer to the announcements dated 21 July 2017, 24 August 2017 and 15 September 2017, the rights issue prospectus dated 23 August 2017 and the annual report for the year ended 31 December 2017 and 31 December 2018 of the Company.

Directors and Company Secretary

EXECUTIVE DIRECTORS

Mr. GUO Wei

Mr. GUO Wei, aged 57, is the Chairman, Chief Executive Officer and an Executive Director of the Group and is responsible for the strategic development and the overall business management of the Group. Mr. Guo had been the Vice Chairman, the President and the Chief Executive Officer of the Group since February 2001 and was appointed as the Chairman of the Board of the Company in December 2007. In June 2018, Mr. Guo was re-appointed as the Chief Executive Officer of the Group. He is also a Director of certain subsidiaries and associates of the Company. Mr. Guo obtained a Master's Degree from the Graduate School of the Chinese Academy of Science (formerly known as Graduate School of the University of Science and Technology of China) in 1988. He joined the Legend group in 1988 and was once an Executive Director and Senior Vice President. Mr. Guo was awarded such major prizes included China's Top Ten Outstanding Youths (2002), 求是傑出青年成果轉化獎 (**Practical and Outstanding Youth of Achievement**) (2002) by the China Association for Science and Technology, China's Top Ten Outstanding Youths in Technology Innovation (1998), Future Economic Leader of China (2003), and the First Annual China Young Entrepreneurs Creative Management Golden Honour (2005). He was also selected as the 50 Most Powerful Business people in China by Fortune Magazine (Chinese version) in 2011 and 2012.

Mr. Guo is currently the Chairman of Digital China Information Service Company Ltd. and the Chairman and the President and members of the Strategic Committee and the Nomination Committee of Digital China Group Co., Ltd. (formerly known as Shenzhen Shenxin Taifeng Group Co., Ltd.) (all listed on The Shenzhen Stock Exchange). In addition, he is a Director of Kosalaki Investments Limited which is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Guo was a Non-executive Director of HC GROUP INC. (formerly known as HC International, Inc.) (listed on the Main Board of The Stock Exchange of Hong Kong Limited), an Independent Director of Shanghai Pudong Development Bank Co., Ltd. (listed on The Shanghai Stock Exchange), a Director of DigiWin Software Co., Ltd. (listed on the ChiNext of The Shenzhen Stock Exchange) and an Independent Non-executive Director of China Southern Airlines Company Limited (listed on the Main Board of The Stock Exchange of Hong Kong Limited, The Shanghai Stock Exchange and The New York Stock Exchange). Besides, Mr. Guo is currently a member of the 4th Advisory Committee for State Informatization and Vice Chairman of Digitalized China Industry Development Alliance. He was a Standing Committee Member of the 11th & 12th National Committee of the Chinese People's Political Consultative Conference, the Chairman of Beijing Informatization Association and the Chairman of the 6th Council of China Non-Governmental Science Technology Entrepreneurs Association, the Chairman of China Smart City Industry Technology Innovation Strategic Alliance and other social positions. He has over 32 years of experience in business strategy development and business management.

Mr. LIN Yang

Mr. LIN Yang, aged 53, is the Vice Chairman and an Executive Director of the Group. He is also a Director of certain subsidiaries of the Company. Mr. Lin graduated in 1988 with a Bachelor's Degree in Computing Communications from the Xidian University and in 2005 with a Master's Degree in Business Administration from Cheung Kong Graduate School of Business. He joined the Group in February 2001 and was previously the Executive Vice President and the President of the Group and was also the Chief Executive Officer of the Group from April 2011 to June 2018. Mr. Lin was the Vice Chairman, Director and a member of the Audit Committee of Digital China Information Service Company Ltd. (listed on The Shenzhen Stock Exchange). He joined the Legend group in 1990 and has over 29 years of management experience in IT business. Mr. Lin was awarded the Lifetime Achievement Award by the IT Channel Elite Panel in 2001 and recognised as the Most Influential Figure in IT Distribution of 20 Years in 2005. In 2013, he was also selected as one of the Leaders of the Year 2012 of the China Information Industry and Top-10 Annual Icons of the Year 2012 of Zhongguancun. Besides, Mr. Lin was the Director of IT Channel Profession Council, under the MIIT (Ministry of Industry and Information Technology).

NON-EXECUTIVE DIRECTORS

Mr. YU Ziping

Mr. YU Ziping, aged 48, has been a Non-executive Director of the Company since 27 December 2017. Mr. Yu currently serves as the Director and General Manager of Guangzhou Environment Energy CCI Capital Ltd. ("**GEE**"), the Legal Representative and Chairman of Guangzhou Wisdom City Science and Technology Development Co., Ltd. (a joint venture of the Company and GEE), a director of Guangzhou Chengtou Runze Technology Co., Ltd. and Guangzhou Chengtou Information Technology Co., Ltd., and the Legal Representative, Director and General Manager of Guangzhou Wisdom Shipping Marketing Data Services Ltd.. Since 19 January 2020, Mr. Yu act as the Chairman & General Manager of Guangzhou Smart City Investment Operation Co. Ltd.. Mr. Yu graduated from Northeastern University in 1994 with a Bachelor's Degree in Engineering and graduated from Jinan University in 2003 with MBA Degree. He obtained architect qualification in 2000.

Mr. Yu had worked at several large state-owned enterprises and multinational joint ventures. During the period, he was responsible for the formation of companies, port shipping, urban infrastructure construction and investment operation and management, as well as the development of new industries and other business. In recent years, he mainly focused on the smart city and big data business. He was the Commercial Manager of Business Development Department at Guangzhou Container Terminal Co., Ltd. from 2001 to 2003. He was the Manager of Investment Management Department, Plan Purchasing and Contract Management Department and Business Management Department at Guangzhou University City Investment & Management Co., Ltd. from 2003 to 2010. He was a member of the Investment Committee of GZ Investment Group.

Mr. PENG Jing

Mr. PENG Jing, aged 33, has been a Non-executive Director of the Company since 27 December 2017. Mr. Peng serves as the Vice General Manager of Guangzhou City Investment Co., Ltd. and the Chairman of Guangzhou City Investment Micro Loan Co., Ltd.. Mr. Peng received a Bachelor's Degree in Literature from Guangzhou University in 2008 and received a Master's Degree in Business Administration from Guangdong University of Finance and Economics in 2017.

Mr. Peng has served several large listed financial institutions and state-owned conglomerates, and has had nearly 12 years' experience on financial investment and financing experience since 2008. During the period, he was responsible for bank credit, trade finance, international business and corporate financial investment. He has established several companies to invest in funds, finance lease, small loans, urban infrastructure construction and investment operation management, as well as the development of emerging industries. In recent years, he has focused on financial investment and financing, participated in the establishment of big data funds and construction funds, and participated in the relevant investment projects of the group's smart cities.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WONG Man Chung, Francis

Mr. WONG Man Chung, Francis, aged 55, has been an Independent Non-executive Director of the Company since 23 August 2006. He holds a Master Degree in Management conferred by Guangzhou Jinan University, the People's Republic of China. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom, the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England and Wales and The Society of Chinese Accountants and Auditors, and a Certified Tax Advisor of the Taxation Institute of Hong Kong. He is a Certified Public Accountant (Practising) and has over 32 years of experience in auditing, taxation, corporate internal control and governance, acquisition and financial advisory, corporate restructuring and liquidation, family trust and wealth management. Previously, Mr. Wong worked for KPMG, an international accounting firm, for 6 years and the Hong Kong Securities Clearing Company Limited for 2 years. Mr. Wong has the appropriate professional qualifications, accounting and related financial management expertise as required under Rule 3.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Mr. Wong is currently an Independent Non-executive Director, the Chairman of the Audit Committee and the Remuneration Committee as well as a member of the Nomination Committee of China Oriental Group Company Limited and Greenheart Group Limited (all listed on the Main Board of The Stock Exchange of Hong Kong Limited); an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee of Wai Kee Holdings Limited and Integrated Waste Solutions Group Holdings Limited (all listed on the Main Board of The Stock Exchange of Hong Kong Limited); an Independent Non-executive Director and a member of the Audit Committee and the Strategy and Investment Committee of GCL-Poly Energy Holdings Limited (listed on the Main Board of The Stock Exchange of Hong Kong Limited); an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Remuneration Committee of Hilong Holding Limited and IntelliCentrics Global Holdings Ltd. (all listed on the Main Board of The Stock Exchange of Hong Kong Limited); an Independent Non-executive Director, the Chairman of the Audit and Risk Management Committee and a member of the Remuneration Committee of Qeeka Home (Cayman) Inc. (listed on the Main Board of The Stock Exchange of Hong Kong Limited); and an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Risk Management Committee and the Remuneration and Evaluation Committee of Shanghai Dongzheng Automotive Finance Co., Ltd. (listed on the Main Board of The Stock Exchange of Hong Kong Limited). He was an Independent Non-executive Director and the Chairman of the Audit Committee of Kunming Dianchi Water Treatment Co., Ltd. (listed on the Main Board of The Stock Exchange of Hong Kong Limited) and an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Nomination Committee of China New Higher Education Group Limited (listed on the Main Board of The Stock Exchange of Hong Kong Limited). Mr. Wong is Non-executive Chairman of Union Alpha C.P.A. Limited and a Non-executive Director of Union Alpha CAAP Certified Public Accountants Limited, both being professional accounting firms. Mr. Wong is a Founding Director and member of Francis M C Wong Charitable Foundation Limited, a charitable institution.

Ms. NI Hong (Hope)

Ms. NI Hong (Hope), aged 47, has been an Independent Non-executive Director of the Company since 29 September 2010. Ms. Ni received her J.D. Degree from the University of Pennsylvania Law School and her Bachelor's Degree in Applied Economics and Business Management from Cornell University. Ms. Ni joined the Company in September 2010. Currently, Ms. Ni is an Executive Director and the Chief Investment Officer of Cogobuy Group (listed on the Main Board of The Stock Exchange of Hong Kong Limited) and an Independent Director, the Chairman of the Audit Committee and a member of the Compensation Committee of ATA Inc., a NASDAQ-listed company (NASDAQ: ATAI). Ms. Ni has been the Chairman of Inspire Capital since 2009. From August 2004 to January 2008, Ms. Ni served as the Chief Financial Officer and Director for Viewtran Group, Inc. ("**Viewtran**"), and subsequently served as its Vice Chairman until early 2009. Prior to joining Viewtran, Ms. Ni spent six years as a Practicing Attorney at Skadden, Arps, Slate, Meagher & Flom LLP in New York and Hong Kong, specializing in corporate finance. Prior to that, Ms. Ni worked at Merrill Lynch's investment banking division in New York.

Ms. Ni was an Independent Director,the Chairman of the Audit Committee and a member of the Compensation and Nomination Committee at JA Solar Holdings, Co. Ltd., a NASDAQ-listed company (NASDAQ: JASO), a Director of ATA Online (Beijing) Education Technology Co., Ltd. (delisted from the National Equities Exchange and Quotations System of China (also known as the New Third Board) on 11 October 2017) and an Independent Director at KongZhong Corporation, a formerly NASDAQ-listed company (NASDAQ: KZ).

Dr. LIU Yun, John

Dr. LIU Yun, John, aged 56, has been an Independent Non-executive Director of the Company since 25 March 2014. Dr. Liu is the board member of the Board of Directors and the Chief Executive Officer of VOSS (an international bottled water brand) since 1 January 2020. Dr. Liu also the Chief Advisor of Reignwood Holdings Pte Ltd. (Singapore) since 1 August 2019. He was the Vice President and Chief Operating Officer of Wanda Internet Technology Group from March 2017 to May 2018. He was an Independent Non-Executive Director of ARM Holdings Plc. (listed on the London Stock Exchange) from December 2014 to September 2016. He was also a Senior Vice President of Greater China Field Division of Conservation International from June 2016 to September 2016. He was the Chief Business Officer of Qihoo 360 Technology Co. Ltd. from January 2014 to August 2015. Prior to that, he held senior positions in various renowned companies in the communication or networking or software arena as follows: Corporate Vice President and Head of Greater China of Google Inc. from 2008 to 2013; Chief Executive Officer, China Operations of SK Telecom Co., Ltd. from 2002 to 2007; General Manager, Greater China of FreeMarkets Inc. from 2000 to 2002; Chief Executive Officer, China Operations of SITA Communication from 1999 to 2000; General Manager, Telecommunication Group of The Lion Group from 1997 to 1999 and Country Director, Greater China of Singapore Telecommunications Limited from 1994 to 1997.

Dr. Liu graduated from Beijing Normal University with a Bachelor's Degree in Mathematics in 1983 and obtained his Ph.D in Telecommunications Network Management from Technical University of Denmark in 1997. In 2011, Dr. Liu undertook a Senior Executive Program of Harvard Business School.

Ms. YAN Xiaoyan

Ms. YAN Xiaoyan, aged 68, has been an Independent Non-executive Director of the Company since 27 May 2014. Ms. Yan has served in the financial sector for about 41 years. She has taken up senior positions at The People's Bank of China and Industrial and Commercial Bank of China and served as a Director and a Vice President of Bank of Beijing (listed on The Shanghai Stock Exchange) since 1996 and appointed as the President and the Vice Chairperson since 2002 and 2010 respectively. Ms. Yan was also the President of the 6th Executive Committee of Beijing Banking Association. She was also the Chairperson of Bank of Beijing Consumer Finance Company, an Advisor to The People's Government of Beijing Municipality, the Vice President of the Listed Companies Association of Beijing, the Assistant Secretary General of the China Volunteer Service Federation and the Vice Director General and Secretary General of the China Volunteer Service Foundation. Ms. Yan is a female financial entrepreneur with outstanding acumen and leadership rarely seen in the banking sector.

Ms. Yan is a senior economist, holding a Master's Degree in Economics from Southwestern University of Finance and Economics and a Master's Degree in Management from Xiamen University. She is a tutor to graduate students and visiting professor at the Central University of Finance and Economics, a school-level part-time professor at Xi'an Jiaotong University and an instructor at the post-doctorate research station of Bank of Beijing.

Mr. KING William

Mr. KING William, aged 53, was appointed as an Independent Non-executive Director of the Company with effect from 29 June 2018. Mr. King was the Managing Director of Russell Reynolds Associates, Hong Kong from October 2018 to December 2019 and a partner at Egon Zehnder International (Shanghai) Company Limited, a leading executive search firm, from January 2007 to May 2016. Prior to that, Mr. King held several leadership roles with some of the global technology companies as follows: Chief Operating Officer at eBay China from April 2005 to November 2006, General Manager of AT&T Greater China from August 2002 to April 2005, Director of Telecommunications and Media at Credit Suisse First Boston (CSFB), Hong Kong from September 2001 to April 2002, Head of Corporate Planning and Development at Hong Kong Telecom and PCCW from September 1999 to September 2001; Senior Associate at Booz Allen & Hamilton from 1995 to September 1999 and Senior Systems Consultant with IBM Corporation in the US from February 1988 to July 1993.

Mr. King received a Bachelor of Science Degree in Electrical Engineering from University of Michigan and MBA with Finance major from the Wharton School of Business at the University of Pennsylvania.

COMPANY SECRETARY

Mr. WONG Chi Keung

Mr. WONG Chi Keung, aged 53, is the Company Secretary of the Company. Mr. Wong is mainly responsible for the financial reporting and listing issues of the Group. Mr. Wong graduated from The University of Hong Kong with a Bachelor's Degree in Social Sciences and is a fellow member of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Wong was a Non-executive Director and a member of the Remuneration Committee of HC International, Inc. (listed on the Main Board of The Stock Exchange of Hong Kong Limited). Previously, Mr. Wong worked for Ernst & Young, an international accounting firm, for 6 years. Mr. Wong has over 30 years of experience in financial management and corporate administration.

Corporate Governance Report

The Group is committed to promote the highest standards of corporate governance and to maintain sound and well-established corporate governance practices so as to enhance its transparency, accountability and corporate value to the shareholders of the Company (the "**Shareholders**").

The Company abides strictly by the governing laws and regulations of the jurisdictions where it operates and observes the applicable guidelines and rules issued by regulatory authorities.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices set out in the "Corporate Governance Code and Corporate Governance Report" (the "**Code**") and contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

During the year ended 31 December 2019 (the "**Reporting Period**"), the Company has complied with the code provisions (the "**Code Provision(s)**") set out in the Code throughout the Reporting Period, 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, the Chairman of the board of directors of the Company (the "**Board**"), has been taking up the dual role as Chairman and Chief Executive Officer of the Company since 8 June 2018. Mr. GUO Wei has extensive experience in business strategic development and management and is responsible for overseeing the whole business, strategic development and management of the Group. The Board believes that the dual role of Mr. GUO Wei will enable the consistency between the setting up and the implementation of the business strategy and benefit the Group and the Shareholders 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct for Directors' securities transactions. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the Reporting Period.

BOARD OF DIRECTORS

Composition

As at the end of the Reporting Period, the Board comprised nine Directors, including two Executive Directors, two Non-executive Directors and five Independent Non-executive Directors. To the best knowledge of the Company, the Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has a coherent framework with clearly defined responsibilities and accountabilities to safeguard and enhance shareholder values and provide a robust platform to realize the strategy of the Group.

Biographical details of the Directors are set out under the heading "**Directors and Company Secretary**" on pages 22 to 31 of this annual report.

Role and Function

The Board takes responsibility for the formulation of the overall strategy and the leadership and control of the Group such as the Group's long term objectives and strategies, the approval of the Group's corporate and capital structure, financial reporting and controls, internal controls and risk management, material contracts, communication with the Shareholders, the Board membership and other appointments, remuneration of Directors and other key senior management, delegation of authority to Board committees and corporate governance matters.

During the Reporting Period, an annual general meeting and an adjourned annual general meeting were held and the Board held four regular Board meetings at approximately quarterly intervals and three ad hoc Board meetings where the Directors attended the Board meetings either in person or by means of electronic communication.

Appointments and Re-election

The Board is empowered under the New Bye-Laws to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Only the qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications, experience and their possible contribution to the Group.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed five Independent Non-executive Directors, one of whom has appropriate professional qualifications or accounting or related financial management expertise.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that they are independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. GUO Wei, the Chairman of the Board, has been taking up the dual role as Chairman and Chief Executive Officer of the Company since 8 June 2018. Mr. GUO Wei has extensive experience in business strategic development and management and is responsible for overseeing the whole business, strategic development and management of the Group. The Board believes that the dual role of Mr. GUO Wei will enable the consistency between the setting up and the implementation of the business strategy and benefit the Group and the Shareholders as a whole.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established in 2001 with specific written terms of reference. The Audit Committee comprises three members and all of them are Independent Non-executive Directors. The Audit Committee is currently chaired by Mr. WONG Man Chung, Francis (who possesses the appropriate professional qualification or accounting or related financial management expertise), with Ms. NI Hong (Hope) and Ms. YAN Xiaoyan as members.

The latest Terms of Reference for Audit Committee re-adopted by the Board was effective on 21 December 2018 and is available on the websites of the Stock Exchange and the Company respectively.

The Audit Committee assists the Board in carrying out its oversight responsibilities in relation to financial reporting, risk management and internal control, and in maintaining a relationship with external auditors.

The Audit Committee is responsible for, among others, the following:

(i) monitoring the integrity of the financial statements of the Group;

(ii) reviewing the Group's financial controls, risk management and internal control systems;

(iii) reviewing the Group's financial and accounting policies and practices;

(iv) reviewing and monitoring the effectiveness of the Group's internal audit function and ensuring coordination between the internal and external auditors; and

(v) performing the Group's corporate governance function delegated by the Board.

Corporate Governance Function

Under the Terms of Reference for Audit Committee now in place, the Audit Committee has been delegated by the Board to perform the following corporate governance function:

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with the Code and the disclosure in this report as set out under Appendix 14 of the Listing Rules.

During the Reporting Period, the Audit Committee held two meetings where the members attended either in person or by means of electronic communication.

For the Reporting Period, the Audit Committee has reviewed with the senior management and the Auditor of the Company (the "**Auditor**") their respective audit findings, the half-yearly and annual financial results before recommending them to the Board for consideration and approval, the accounting principles and practices adopted by the Group, legal and regulatory compliance, and discussed auditing, internal control, risk management and financial reporting matters. The Board has, through the Audit Committee, conducted regular reviews on the effectiveness of the internal control system of the Group and discussed matters related to corporate governance function during the Reporting Period.

The Audit Committee has no disagreement with the Board on the selection, appointment, resignation or dismissal of the Auditor.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "**Remuneration Committee**") was established on 31 August 2006 with specific written terms of reference. The Remuneration Committee comprises three members and all of them are Independent Non-executive Directors. The Remuneration Committee is currently chaired by Dr. LIU Yun, John, with Mr. WONG Man Chung, Francis and Mr. KING William as members.

The latest Terms of Reference for Remuneration Committee is available on the websites of the Stock Exchange and the Company respectively.

The Remuneration Committee assists the Board to assess and making recommendations on the compensation policy and compensation packages for the Directors and senior management.

The Remuneration Committee is responsible for, among others, the following:

(i) making recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; and

(ii) making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, which includes benefits in kind, pension rights and compensation payments and on the remuneration of Non-executive Directors.

Details of the Directors' emoluments for the Reporting Period are set out in note 9 to the financial statements.

The remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

DIRECTOR'S ATTENDANCE RECORDS AT MEETINGS

The attendance of each Director at the following meetings during the Reporting Period is set out below:

Board members	Committee members		Number of meetings attended/held				
	Audit Committee	Remuneration Committee	Board Meeting Regular	Board Meeting Ad Hoc	Audit Committee	Remuneration Committee	Annual General Meeting
Executive Directors							
GUO Wei *(Chairman and Chief Executive Officer)*	–	–	4/4	3/3	N/A	N/A	2/2
LIN Yang *(Vice Chairman)*	–	–	4/4	3/3	N/A	N/A	0/2
Non-executive Directors							
YU Ziping	–	–	3/4	1/3	N/A	N/A	1/2
PENG Jing	–	–	2/4	2/3	N/A	N/A	1/2
Independent Non-executive Directors							
WONG Man Chung Francis	Chairman	Member	4/4	3/3	2/2	N/A	2/2
NI Hong (Hope)	Member	–	4/4	2/3	2/2	N/A	1/2
LIU Yun, John	–	Chairman	3/4	2/3	N/A	N/A	2/2
YAN Xiaoyan	Member	–	4/4	1/3	2/2	N/A	0/2
KING William	–	Member	4/4	2/3	N/A	N/A	0/2

DIRECTOR INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Newly appointed Directors will receive comprehensive induction on appointment to ensure understanding of the directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company also organises and arranges seminars for and/or provides relevant reading materials to Directors to help ensure they are apprised of the roles, functions and duties of being a director of a listed company and the development of their knowledge on the regulatory updates whenever necessary or appropriate.

During the Reporting Period and up to the date of this annual report, the Company has provided training materials for all the then Directors to keep them abreast of the latest development of legal, regulatory and corporate governance. The Company has received the records of training from all those Directors.

BOARD DIVERSITY POLICY

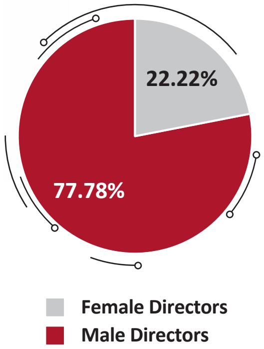
The Company is committed to promoting diversity among the Board and has adopted a board diversity policy (the "**Board Diversity Policy**") effective on 20 August 2013. The Board Diversity Policy outlines the Board's commitment to fostering a corporate culture that embraces diversity and, in particular, focuses on its composition.

The Company recognising and embracing the benefits of having a diverse Board values increasing diversity at Board level which is perceived to be an essential element in achieving a sustainable and balanced development of the Company. In determining the Board composition that best suits the Company, a wide spectrum of aspects, including but not limited to gender, age, ethnicity and cultural background, skills, regional and industry experience, professional experience, length of service and other qualities of directors will be considered. All Board appointments shall be made on the basis of meritocracy and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

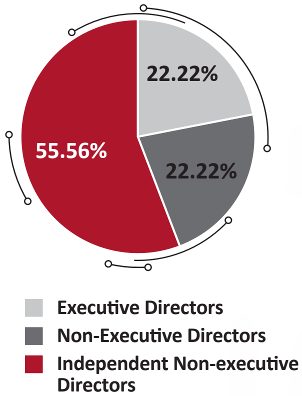
As at the end of the Reporting Period, the diversity of the Board is shown in the following graphic illustrations. Out of the nine Directors comprising the Board, two of them are women. Two of the nine Directors are Non-executive Directors and five of them are Independent Non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of age, cultural and educational background, professional expertise and skills. The Board endeavours to steer forward and ensure that the Board has a balance of skills, experience and diversity of aspects appropriate to the requirements of the Company's business.

Diversity of the Board as at the end of the Reporting Period

Gender



Role



REMUNERATION OF AUDITOR

For the Reporting Period, remuneration to the Auditor was approximately HK$2,550,000 for audit services and approximately HK$150,000 for non-audit services on review relating to the financial statements of offering and issuance of Taiwan Depositary Receipts.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Internal Control Notions

An effective and adequate risk management and internal control system is important for ensuring the realisation of the Group's strategic objectives. The risk management and internal control system should uphold the effective conduct of business activities, guarantee the truthfulness and fairness of accounting records, ensure the Group's compliance with relevant laws, regulations and policies, and safeguard the assets and interests of the Shareholders.

Features and Effectiveness of Risk Management and Internal Control

The Board acknowledges its responsibility to establish and maintain the Group's risk management and internal control systems and to review their effectiveness, for the purpose of safeguarding the investments of Shareholders and the assets of the Group. Such systems are designed to manage, but not to remove, the risk of failure to achieve business objectives, provide reasonable (but not absolute) assurance for freedom from material misstatements or losses, and manage, but not eliminate, the risk of material errors in the objectives of the Group. Such responsibility is primarily performed by the Audit Committee, which conducts at least once annually, on behalf of the Board, reviews on whether the Group's risk management and internal control systems in respect of risk handling, financial accounting and reporting are effective on an ongoing basis, whether its operations are effective and efficient, and whether pertinent laws and regulations have been complied with and risk management functions have been fulfilled. The Audit Committee also monitors risks associated with the Group's accounting, internal audit, finance, staff qualifications and experience, operations and compliance. The Board also understands its overall responsibility for internal control, financial control and risk management, and reviews from time to time its effectiveness in this regard.

On behalf of the Board, the Audit Committee continuously reviews the risk management and internal control system. The review procedures include, but are not limited to, listening to the reports delivered by, among others, the business management teams, the Internal Audit Department, the Legal Department and the external auditors, reviewing the various work reports and key indicator information, as well as discussing material risks with the senior management team.

For the year 2019, the Board is of the opinion that the Group's risk management and internal control system was both effective and adequate. Besides, the Board believes that the Group's accounting and financial reporting functions were performed by sufficient staff who were suitably qualified and experienced and who had received proper training and been adequately developed. The Board also believes that sufficient resources were allocated to the Group's internal audit function, which was performed by sufficiently qualified and experienced staff and for which the training programmes and budget were sufficient.

RISK MANAGEMENT

1. Three-tier protection for risk management

In order to ensure the effectiveness of the risk management and internal control system, the Group has adopted a three-tier protection model and, under the supervision and guidance of the Board, established the organisational structure for risk management and internal control. The Company's actual circumstances are also taken into account regarding the annual optimisation and refinement of the structure.

- First line of protection — operations and management: Mainly composed of the Group's functional and business departments at various levels, it is responsible for the day-to– day operations and management, and for the design and execution of the relevant control measures for countering risks.

- Second line of protection — risk management: Mainly composed of the respective risk management departments of the Business Groups, it is responsible for planning and carrying out the construction of the risk management and internal control system and, in accordance with the requirements of the risk management system, for organising, directing, coordinating and implementing the collection of risk-related information, risk identification, risk assessment and measures countering material risks at the respective Business Groups. As such, the second line of protection assists the first line of protection in establishing and refining the risk management and internal control system.

- Third line of protection — independent protection: Mainly composed of the Group's Internal Audit Department, it is responsible for supervising and assessing the risk management tasks of the Group, thereby ensuring the effectiveness of the risk management and internal control system.

2. Procedures for Identifying, Assessing and Managing Material Risks

Below is an outline of the procedures employed by the Group for identifying, assessing and managing its material risks:

- **Risk identification and assessment**: Risks that may have a potential impact on the business and operations of the Group's various Business Units are identified, and a risk database is established and continuously updated; the assessment criteria that have been reviewed and approved by the management are used in the assessment of identified risks, during which the likelihood of their occurrence and their impact on the business are taken into account;

- **Risk-countering**: Through the comparison of risk assessment outcomes, risks are ranked by priority, and risk management strategies and internal control procedures are determined for preventing, avoiding or reducing risks;

- **Risk monitoring and reporting**: Relevant risks are monitored on an ongoing and regular basis, and appropriate internal control procedures are guaranteed to be in place; in the event of any material change, the risk management policies and internal control procedures would be amended; and the risk monitoring results are reported to the Audit Committee and the management on a regular basis.

3. Material Risks of the Group and Response Measures

During the year of 2019, the Group identified and assessed its material risks by means of the aforesaid risk management processes.

The Audit Committee assisted the Board in monitoring the Group's overall risk profile, and reviewed the changes in the nature and severity of the Group's material risks. The Audit Committee is of the opinion that the management took suitable measures for countering and managing the key risks such that they were maintained at levels acceptable to the Board.

With the constant changes in the scale, scope of operations and complexity of its businesses as well as in the external environment, the Group's risk profile may be subject to change. A brief account is given below of the material risks that are currently faced by the Group, of the changes in the material risks compared with the previous year and the reasons for such changes, and of the risk- countering measures that have been implemented.

The following table shows the top three material risk of the Group in 2019:

Rank	Risk
1	Risk relating to competition
2	Risk relating to relying on major customers
3	Risk relating to loss of talent

Compared to 2018, there was an increase in the level of materiality of the risk relating to relying on major customers and the risk relating to competition for the Group in 2019, while the materiality of the risk relating to loss of talent remained stable. Affected by such factors as external market volatility, changes in international relationships and advancement in new technology in 2019, especially the admission and rapid development of new competitors, the risk relating to competition has been increased. Meanwhile, the Company promoted strategic synergy development this year and signed with more major customers. The greater contractual amounts of major customers signed, increased the revenue concentration. The fluctuations in momentum of industries of major customers, the life cycle of customer's own products and the ability of customers for continuous operation will affect the growth in revenue of the Group. In addition, the risk relating to loss of talent increased as departure of certain employees resulted by ongoing internal realignment and organisational optimization.

To address and execute preventive controls over such risks, the Group has adopted, and will continue to optimize, corresponding control measures as follows：

- Relating to market competition, based on the perspectives of their respective businesses, our business units utilized the strong technology advantages of Yan Cloud DaaS, KXDATA, Human + Robot, as well as the vast market advantages of corresponding industry, to provide guarantee and support for the continuous expansion of business scale and thus enhance the overall competitiveness of the Group.

- Relating to customer management, based upon maintaining and strengthening existing customers relationship, the Group gave full play to the strategic synergy advantages, developed more potential customers and actively expanded more new customers and businesses, and simultaneously achieved multi-product lines, serialized operation, developed new channels to diversify the risk of relying on major customers.

- Relating to talent management, the Group's HR Department has established a corresponding salary distribution and assessment incentive system, implemented a distribution system combining position-pay scale and performance bonus and guided with the performance to attract and gather talents. Meanwhile, the DC Elite ("**神碼匯**") talent training platform project was established with an aim to promote the Company's core values, establish a sense of employee responsibility, stimulate the endogenous driving force for business development through various learning methods including propaganda for corporate culture, learning market structure and industry trend, mentor and team coaching, action learning and cognitive learning, thus further motivating outstanding employees, stimulating the vitality of the organization and guaranteeing the long-term and stable development of core talents.

Based on the findings of the review described above, the Board confirms, and the management has also confirmed to the Board, that the risk management and internal control system of the Group (in all material aspects including financial control, operational control and compliance control) is efficient and adequate, and has been in compliance with the provisions on risk management and internal control contained in the "**Corporate Governance Code**" through the year.

INTERNAL CONTROL

1. Internal Control System

The Group has consistently focused on the construction of its internal control system. The management of the Group is responsible for designing, implementing, and maintaining the effectiveness of, its internal control system. The Board and the Audit Committee are responsible for exercising supervision and regulation over the appropriateness and effective implementation of the internal control measures introduced by the management.

The Group's internal control system delineates the parties' management responsibilities, authorisations and approvals in relation to key actions, and lays down specific written policies and procedures regarding material business processes. The communication of such system to the staff also makes up an important component thereof. The Group's policies covering its financial, legal and operational aspects represent the management standards in relation to its various business processes, and are to be strictly implemented by each of its staff members.

The Board establishes and maintains a good internal control system through the following principal procedures:

- Establishing a reasonable and effective organization structure with clear functions, responsibilities and authority;

- Laying down stringent procedures for budget preparation and budget management; formulating business plans and financial budgets annually; rationally adjusting the organisation structure based on business planning; ensuring the effective operation of the organisation; reviewing the implementation of budgets and making reasonable adjustment based on the latest conditions;

- The Internal Audit Department — independently assessing the comprehensibility and effectiveness of the monitoring of principal business, reporting its principal findings, with recommendations, to the Audit Committee on a half-yearly basis; and

- The Auditor — for the audit of annual results, recommending ways to address some internal management areas which are correspondingly weak; the management making serious reviews, and making and submitting improvement proposals to the Audit Committee.

2. Annual assessment of internal control

During the Reporting Period, the Internal Audit Department adopted a risk benchmarking approach focused on key processes and controls and reported the findings of internal audit to the Audit Committee on a semi-annual basis. Through the Audit Committee, the Board reviewed the effectiveness of the Group's internal control system. The internal control system covers all material controls, including financial, operational and compliance controls, risk management functions and the adequacy of resources, staff qualifications and experience, training programmes and budgets in relation to the accounting and financial reporting functions of the Group. During the year of 2019, the Internal Audit Department did not identify any significant deficiency in internal control.

DISCLOSURES ON INSDIE INFORMATION

The Company's management assesses the likely impact of any unexpected and significant event that may impact the price of the shares or their trading volume and decides whether the relevant information is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). The Board is responsible for approving and authorising the Directors to issue such announcements and/or circulars.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditor about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 74 to 79 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

The Board is committed to maintaining an on-going dialogue with the Shareholders and the investment community.

One of the principal channels of communication with the Shareholders is the annual general meeting and all corporate communications of the Company, including but not limited to interim reports, annual reports, notices of meeting, announcements, circulars and other relevant Company's information are available on the Company's website www.dcholdings.com

The Company has adopted a Shareholders Communication Policy to handle enquiries put to the Board.

The Company believes that communicating with the Shareholders through its website is an efficient way of delivering information in a timely and convenient manner. Information on the Company's website will be continuously reviewed and updated to ensure that information is current, or appropriately dated and archived.

SHAREHOLDERS' RIGHTS

The Company recognises the rights of Shareholders and encourages the Shareholders to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meeting. The general meeting provides an important opportunity for the Shareholders to express their view to the Board and management and to exercise the Shareholders' rights. Under the New Bye-Laws, the Shareholders have the rights to convene a special general meeting and put forward agenda items for consideration by the Shareholders. The latest New Bye-Laws has been uploaded onto the websites of the Stock Exchange and the Company respectively.

The Shareholders are encouraged to use their attendance at meetings to ask questions about or comment on the results, operations, strategy, corporate governance and/or management of the Group. The Board members, in particular, either the Chairman or members of the Board committees, appropriate management executives, external auditor and legal advisers shall be available at general meetings to answer questions from the Shareholders.

DIVIDEND POLICY

The Company has adopted a dividend policy effective on 21 December 2018, a summary of which is set out below:

1. The Board may declare and distribute dividends to the Shareholders.

2. The Company in general meetings may declare dividends in any currency, which must not exceed the amount recommended by the Board.

3. The Board may, subject to the Company's Memorandum of Association and New Bye-Laws then in effect, make recommendation to the Shareholders on the distribution of final dividends and may from time to time pay to the Shareholders interim dividends based on the financial position of the Company. Despite the aforesaid, there is no guarantee that any particular amount of dividends will be distributed for any specific periods.

4. The Company's ability to declare dividends will depend on, among others, the operating results and earnings, capital requirements, general financial condition, prevailing economic environment and other factors of the Company which the Board then consider relevant.

5. The Company's declaration and payment of dividends shall also comply with the Companies Act 1981 of Bermuda (as amended, supplemented or otherwise modified from time to time), the Memorandum of Association and New Bye-Laws of the Company as well as other applicable laws, rules and regulations in effect on the declaration and distribution of or otherwise in relation to dividends.

Environmental, Social and Governance Report

I. ABOUT THIS REPORT

The Environmental, Social and Governance Report of Digital China Holdings Limited (hereinafter referred to as this "Report"), prepared in accordance with the "Environmental, Social and Governance Reporting Guide" issued by The Stock Exchange of Hong Kong Limited in November 2018, is aimed at explaining our policies, work and deliverables achieved during the year in environmental, social and governance matters to our stakeholders. Digital China Holdings Limited (hereinafter referred to as the "Group" or "DC Holdings") identifies relevant key performance indicators and disclosures based on its strategies and market trends in accordance with the "materiality principle". These mainly include environmental protection, talent development, quality assurance, protection of customers' privacy, preservation and protection of intellectual property rights, anticorruption, and social charity. Unless otherwise stated, the details contained in this Report pertain to all subsidiaries of DC Holdings.

The Board is responsible for assessing and determining the Group's risks relating to the environment, society and governance, and for ensuring that the Group has put in place a suitable and effective risk management and internal control system with regard to these areas, and for the Group's strategies and reporting in relation to its environmental, social and governance matters. In 2019, the Group's risk management and internal control system with regard to environmental, social and governance matters was functioning effectively. The environmental, social and governance reporting team is composed of personnel from various relevant departments of the Group, and is responsible for the annual collection and organization of relevant information for the purposes of compiling and composing this Report.

II. ABOUT DC HOLDINGS

DC Holdings was founded in 2000 and listed on the Main Board of The Stock Exchange of Hong Kong Limited in 2001 (Stock Code: 00861.HK). For the past 19 years, we have been living up to our mission of building "Digital China" as we persistently promoted our corporate culture of "Responsibility, Passion and Innovation", forging ahead with our reform, powering the intelligent urban development and digital industrial transformation with our independently-developed technologies to expedite the process of Digital China and providing our customers with advanced and professional information technology applications. From a dominant distributor of IT products in China, we have completed a strategic upgrade to transform ourselves into a leading integrated IT service provider, informatisation specialist and Sm@rt City specialist of the nation. Now, DC Holdings is taking a further turn in transformation through digitalisation, in a bid to become a world-leading Big Data service and operation group. DC Holdings and its subsidiaries had 11,803 employees as at 31 December 2019.

We are well aware of the increasingly fundamental role that we have been playing in the industry. That's why we take the creation of long-term value for of the community and natural environment into our sincere consideration in the process of ongoing innovation. As an employer of some of China's very best talents in advanced technologies, we must ensure safety, health and development opportunities for our employees. As a corporate citizen, we devote ourselves to helping the underprivileged and the drive for social progress in our commitment to the cause of charity.

Looking forward, DC Holdings will remain committed to its initial mission and endeavour to put the notion of "Digital China" into practice through aggressive developments in such core sectors as Sm@rt City, Smart Industry Chain, Financial Technology, Smart Manufacturing, Smart Agriculture, Smart Maintenance and Quantum Communication while seeking breakthrough in innovation in close tandem with latest industrial developments to power livelihood improvements and development of digital economy, and making unremitting efforts to achieve its goal of becoming a "Big Data Powered Unicorn Company" as well as the great rejuvenation of China.

III. INVOLVING STAKEHOLDERS

DC Holdings persists in maintaining sound communications with stakeholders through different channels to achieve mutual understanding. The views of stakeholders provide an important reference that helps us to fulfil our social responsibility diligently and implement solid corporate governance. Our ability to pursue sustainable development will be enhanced as a result.

Investors/shareholders

We communicate with our investors and shareholders primarily through the following to understand their views on the Company's development and to inform them about the future developments of the Company:

- Annual general meetings
- Annual reports, financial statements and announcements
- Our company website

Customers and the public

We communicate with our customers primarily through the following to understand how they view and rate the Company's products and services and to explain the Company's commitment in matters such as quality assurance for products and services and customer information security:

- Customer service hotline
- Customer opinion survey
- WeChat account

Staff

We communicate with our employees primarily through the following to understand their views on the Company's policies on staff benefits and work environment, to give them a better understanding of the Company's developments, and to foster harmony at work:

- Staff training
- Staff recreational and sporting activities
- Internal email system
- Intranet of the Company
- Staff performance evaluation

Community

We communicate with the communities where we operate primarily through the following to understand their views on our operations in such communities and to ensure that such operations are able to exert positive effects on the communities:

- Our company website
- WeChat account
- Media reports

IV. ENVIRONMENT

As DC Holdings, we are clearly aware of the challenges facing the natural environment to which humanity is subject. We are committed to protecting the environment by carefully implementing the relevant policies for environmental protection, and undertake to reduce the environmental impact of our business operations and comply strictly with pertinent local laws and regulations, in order to lead by example in the practice of environmental protection.

In light of DC Holdings' business nature, we are of the opinion that the Group is not involved in the discharge of hazardous or large quality of non-hazardous waste or significant consumption of water resources, and accordingly will not have any significant adverse impact on the natural environment and natural resources. We affect the environment primarily through the consumption of power and fuel, as well as carbon emissions arising indirectly from the business trips of our staff.

To fulfil the environmental responsibilities of DC Holdings, we pledge to:

- Comply strictly with national and local environmental laws and regulations;
- Establish and improve our internal policy for environmental protection and system for environmental supervision and management;
- Protect natural resources, assess the potential environmental risk and impact of our commercial activities, and reduce the negative environmental impact of our operations in a systematic manner;
- Provide employees with training in legal and other knowledge pertaining to environmental protection;
- Keep record of and monitor greenhouse gas emissions generated in our business operations and make plans to reduce such emissions in relative terms on a year-on-year basis;
- Sort and separate wastes generated in the production and operation of the Company, reduce the generation of wastes and increase the percentage of recycling of materials (such as consumable materials used in production and packaging);
- Reduce energy consumption at venues of operation through effective measures.

In 2019, the Group continued to take aggressive steps to save energy and reduce consumption through intensive energy consumption management and effective control of its equipment and facilities on the basis of ensuring its normal operation. For example, the total energy costs of Beijing Digital China Technology Plaza for the year has reduced by RMB640,000 year-on-year, as compared to 2018, representing a decrease by approximately 5.6%. Since the implementation of energy conservation and consumption reduction initiatives from 2017 to 2019, Beijing Digital China Technology Plaza has saved RMB1.65 million in energy consumption.

Meanwhile, the Company was dedicated to enhancing its at-source management for energy conservation, and contributed to the abatement of resource consumption at the society level. The Company also encouraged its staff to adopt such IT-based workplace tools as cloud-powered video conference systems and paperless office in order to reduce unnecessary business trips or paper consumption, thereby lessening carbon emissions.

Below is an account of the Group's consumption profile in 2019 for power and fuel, i.e. the major forms of energy consumed by it:

(I) Power consumption

DC Holdings and its subsidiaries own or lease more than 60 offices, 99 warehouses and a large-scale data centre in Mainland China and Hong Kong, consuming 13,587 MWh of electricity during the year with a carbon emission of 12,179 tonnes, representing a year-on-year decrease of 13% and 17% respectively as compared with 2018.

In particular, the power consumption and carbon emission of IT Logistics warehouses decreased by 17% and 21% respectively in 2019 as compared to 2018, which was mainly due to their increased concern on and efforts towards energy saving by replacing the original ordinary lamps with LED energy-saving lamps. Other offices reported decreases in overall power consumption and carbon emission of 9% and 12% respectively in 2019 as compared to 2018 as a result of their energy conservation and emission reduction measures.

For details, please refer to the following table (Unit of power consumption: MWh; unit of carbon emission: tonne).

	2019		2018		2019 vs 2018			
Unit/Year	**Power Consumption**	**Carbon emission**	**Power Consumption**	**Carbon emission**	**Power Consumption**	**Growth rate**	**Carbon Emission**	**Growth rate**
IT Logistics warehouses	7,352	6,372	8,849	8,076	−1,497	−17%	−1,704	−21%
Other offices	6,235	5,807	6,828	6,623	−593	−9%	−816	−12%
Total	**13,587**	**12,179**	**15,677**	**14,699**	**−2,090**	**−13%**	**−2,520**	**−17%**

(II) Fuel consumption

DC Holdings owns IT Logistics truck fleet that enables us to provide quality logistics services to our customers. Some of our offices also own limousines for use by senior management. During the year, the vehicle fleet of DC Holdings consumed 60 kilolitres of gasoline and 82 kilolitres of diesel, with a carbon emission of 361 tonnes, representing a year-on-year decrease of 30 tonnes or 8% as compared with the 391 tonnes for 2018.

In particular, the IT Logistics fleet reported a higher diesel and gasoline consumption as well as an increase in carbon emission by 9% compared to 2018 due to the increase in the demand for its services. Other fleets reported a decrease of 35% in gasoline and diesel consumption and carbon emission compared to 2018 following the cancellation of executive limousine services for certain businesses.

For details, please refer to the following table (Unit of oil consumption: kL; unit of carbon emission: tonne).

	2019			2018			2019 vs 2018	
Unit/Year	Gasoline	Diesel	Carbon emission	Gasoline	Diesel	Carbon emission	Carbon emission	Growth rate
IT Logistics fleet	18	82	265	16	76	243	22	9%
Other fleets	42	–	96	63	2	148	–52	–35%
Total	**60**	**82**	**361**	**79**	**78**	**391**	**–30**	**–8%**

Note:

The data relating to carbon emissions is estimated by reference to the "Greenhouse Gas Protocol — Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development. The conversion factors of 2018 and 2019 for carbon emissions involved in power consumption are based on the "2016 Baseline Emission Factors for Regional Power Grids in China (Consultative Draft)" issued by the Division on Climate Change under the National Development and Reform Commission and the "2017 Baseline Emission Factors for Regional Power Grids in China under the Emission-reduction Initiative" issued by the Ministry of Ecology and Environment of the People's Republic of China. The conversion factors for carbon emissions involved in fuel consumption are based on applicable coefficients set out in the "2006 IPCC (Intergovernmental Panel on Climate Change) Guidelines for National Greenhouse Gas Inventories".

V. EMPLOYMENT

DC Holdings built up its mechanism for selection, utilization, cultivation and retention of talents on the basis of responsibility, passion and innovation, in an attempt to foster a performance-oriented corporate culture and values based on its professional ethics and code of conduct, and cultivate talents with professional skills, teamwork spirit and a master's vision.

Our core values – Responsibility, Passion and Innovation

(I) Responsibility

1. Lead by example and do what we promise to do: determinedly follow the Company's management rules and regulations; sincerely fulfil our duties and responsibilities, remain faithful to our commitments; complete all our tasks in time and with high quality.

2. Focus on our targets and live up to expectations: set clear and measurable targets for our work, and do not waste time; gauge our performance with results in comparison with our targets; deliver real results, and do not fake anything.

3. Ready to take responsibilities and challenges: never dodge difficulties and challenges, be responsible for the consequences; seriously review our mistakes in the work and correct them in a timely manner; adhere to principles without blind obedience, insist on doing the right things even though it may upset somebody.

4. Always give priority to the Company's interests: abide by professional ethics and keep business secrets; protect the Company's interests and reputation by all means, and follow the arrangements of the Company; never impair the Company's interests for personal gains or that of a small group.

(II) *Passion*

1. Be resolute in our belief and stick to goals: adhere to our ideal of building Digital China, make sure that our personal pursuits are consistent with that of the Company; fight hard for our ideals and goals, and never give up in front of difficulties.

2. Work with enthusiasm and have fun: be zealous in work, know how to maintain a perfect work-life balance, and feel happiness and achievement in work.

3. Pursue excellence, and never stay in the comfort zone: never stop improving our work, but strive for perfection; never be satisfied with ordinariness, always try to be better, and keep challenging and conquering higher goals.

(III) *Innovation*

1. Keep learning and denying ourselves: have a strong desire for knowledge, learn by various means to obtain new knowledge; strive to master the knowledge and concepts related to our jobs and industries; break the limit of our past successful experience, keep denying ourselves so as to make a new breakthrough.

2. Make bold assumptions and proceed with careful verification: make bold assumptions and come up with innovative ideas; do not rush into conclusion with new ideas, proceed with careful verification and steady implementation.

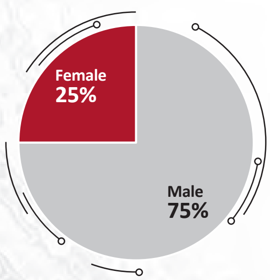
3. Keep practicing to create value: put innovative ideas into implementation through continuous hard work and practice, no longer staying on the vertal or paper, but strive to create real value for the Company.

- ***Staff Overview***

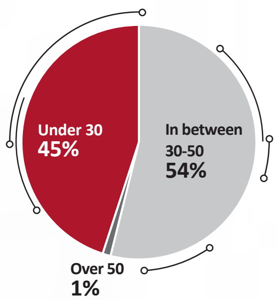
Talent is the key force that drives our business development. In the past year, in order to recruit excellent talents, the Company continued to expand and optimize its talent supply channels, aiming to "attract" and "gather" talents; we introduced a comprehensive assessment mechanism to recruit only the best while appreciating the diversity of our employees. We sincerely welcome talents of different nationalities, races, genders and religious beliefs to join us.

As of the end of 2019, DC Holdings had 11,803 employees, the principal composition of which is as follows:

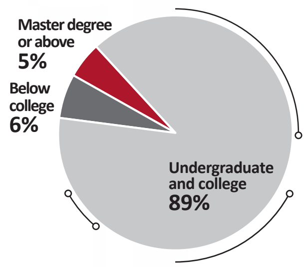
By Gender



By Age



By Education



As at the end of 2019, the total number of employees of DC Holdings was 11,803, with an increase of approximately 6% from 11,133 at the end of 2018, among which, 4,489 were recruited in 2019, an increase of approximately 35% from 3,325 in 2018; 3,819 people left DC Holdings in 2019, a decrease of approximately 15% compared to 4,482 in 2018.

- *Staff activities*

Figure: Kickoff meeting of DC Holdings in FY2019

"Time stops for no one, and the seasons keep changing", as we have big farewell to the past year. In January 2019, I Do Believe – Launch of DC Holdings 2019 was held in Beijing Kuangou Conference Centre, with more than 200 people from all the business segments of DC Holdings attending the meeting. The meeting summarized and reviewed the work of DC Holdings for the past year, deeply delved into the existing problems, clearly pointed us in the direction of our work in 2019, sufficiently encouraged our people to take future challenges with extraordinary determination and was remarkable. In the end, the attendees of the meeting joined together to play a game called the "Great Solitaire", which brought the atmosphere to the climax, with everyone in the room indulging themselves in the game, jumping and screaming with joys and happiness.

We have established comprehensive communication channels for our employees, which enabled two-way communication between the Company and our employees. Through such channels, we clarified the meaning of the Company's goals to our employees, listened and responded to their needs, aiming to enhance their dedication to their jobs.

Figure: Staff meeting and communication

In 2019, we decided to hold staff meetings quarterly, through which the management can share their views with our employees and explain to them the Company's development strategies and business ecology. Our employees took an active part in the communication and expressed their concerns about the Company's future development, and accepted staff meeting as a good way to understand the Company's strategy and business status. The Company also followed up and gave feedback on the questions and suggestions raised by our employees, such as expanding the ways of holding the meetings and establishing a key talent pool. Through staff meetings, the Company can more directly communicate with its employees and allow them to better understand the Company's core values and development objectives, and make them consider whether their positioning and direction are consistent with the Company's strategic goals.

Figure: 18th Anniversary of DC Holdings

18 represents youth, energy and innovation, as well as responsibility, gratitude and expectation.

Eighteen years ago, Mr. GUO Wei led a group of passionate people of DC Holdings onto a great journey and ploughed its way through numerous hardships and obstacles towards the goal of building "Digital China". DC Holdings ushered in the glorious moment of its eighteenth birthday. On 31 May 2019, which was an early summer afternoon lit up by the enthusiasm of our people, to celebrate the 18th anniversary of the listing of DC Holdings, a unique "Coming-of-Age Ceremony" in a style that blended the beauty of technology and arts was held at the Beijing Digital China Technology Plaza. All the employees of DC Holdings from all over the country participated in the celebration by means of interactive live broadcast at eight major venues and 33 viewing sites to enjoy the beautiful moment together!

Figure: Annual Meeting of Management

In 2019, the Power of Thinking – the First Annual Meeting of Management of DC Holdings was held in the lecture hall of the Digital China Technology Plaza, with more than 300 managers and employees attending the conference, during which they explored for brilliant ideas through discussion of papers, and listened to the suggestions of our employees through such channels as the youth forum, time management forum and middle office platform construction forum, aiming to collecting great ideas from our staff. In the future, we will continue to hold the annual meeting of management, with new topics constantly added, so that the attendees can reach a consensus through discussion and summarization. This is the ideological consciousness formed after in-depth thinking and full communication, and only the actions taken under such consciousness will be creative. Only when we fall in love with our cause and have developed a strong sense of participation can we become the contributors to and the masters of our Company. Facing the unknown future, we need the wisdom of our young people and the wisdom of our managers to identify problems, focus on problems, and solve problems. This is the direction that the annual meeting of management should take.

Figure: Annual Meeting of Technology

In November 2019, the "Digital China 2019 – Annual Meeting of Technology" co-sponsored by DC Holdings, DCITS and Digital China Group was held in the Beijing Digital China Technology Plaza, with more than 400 technical experts, scholars and IT elites from China's reputed enterprises, universities and research institutes gathering together to attend the Three Major Forums, the Four Great Salons, and the Grand Technology Market which were all opened at the same time! The Annual Meeting of Technology signified the technology-oriented development direction of the Company in its strategic transformation. The Grand Technology Market was full of enthusiastic technical experts involved in passionate communication and discussion with the lecturers with their minds colliding with the sparks of brilliant ideas. Various interactive activities such as "Looking for Learning Fanatics", "Collecting Stamps for Gifts" and "Top 3 Most Popular Exhibition Areas" have made the meeting of technology interesting and attractive.

To retain the outstanding talents for sustainable development of the Company, we have established a corresponding remuneration distribution, assessment and incentive system, which comes with a performance-oriented remuneration allocation system featuring the combination of position-based salary and performance-based bonus, aiming to attract and retain talents. In addition, the Company has set up a number of awards such as the "Outstanding Contribution Award", "Innovation Award", "Teamwork Award" and "Master Award" etc., and held an awarding ceremony with light show to pay tribute to the teams and individuals who received awards for their outstanding effort and excellent performance.

Figure: Awarding Ceremony

DC Holdings enters into employment contracts with its staff in strict compliance with the requirements of the Labour Law and other pertinent laws and regulations, and makes contributions to social insurance funds, including pension, medical, unemployment, work injury and maternity funds, and the housing provident fund for the benefit of its employees in accordance with the requirements of the national policies. The Company also purchases supplementary commercial insurance and life insurance for its employees, and provides them with free medical examination benefits every year in addition to a variety of trainings and team building activities to boost the cohesion and engagement of its employees from a number of aspects.

VI. SAFETY AND HEALTH

The day-to-day operations of DC Holdings largely involve computer applications and desk work conducted in the office. While such activities do not involve significant risks against occupational safety and health, we are nevertheless committed to the protection of the occupational health and safety of employees, and have formulated an occupational health and safety policy with a high level of operability, with a view to giving effective protection to staff health and safety. Only by enhancing and safeguarding the occupational health and safety of employees can we effectively increase our production efficiency and achieve mutual success for both the Company and the staff.

We comply strictly with the laws and regulations pertaining to occupational health and safety at the place of business. At our work premises, requisite health and safety guides are provided to all staff, while regulations and measures for the administration of contingencies in occupational health and safety have also been formulated. Employees are provided with clean washroom facilities, drinking water, clean facilities for food preparation and storage and clean tableware. In 2017, the Company installed new ventilation and air purification systems to ensure the air quality in the office and protect the health of its employees. Our administration department is responsible for organising daytime and night-time security, maintenance of firefighting equipment and first-aid kits, and fire drills in relation to Digital China Technology Plaza. In 2018, the Company carried out a full-scale upgrade and refurbishment of the fitness centre in the building. Improvements were made to the facilities with the addition of rowing machines, spin bikes sets, foosball and other fitness facilities, which are open to all employees of the Company free of charge. These facilities have been provided to encourage staff to pay attention to their health and fitness amidst hard work and dedication. In 2019, in order to maximally ensure the safety and quality of our employees' drinking water and protect them from secondary pollution, we changed the bottled pure water in the office to nano-filtered drinking water from the leading suppliers in China. In 2018 and 2019, the Company's lobby was transformed into an art exhibition hall, with the artworks updated every two months on average. Selected paintings were hung in the office area so that our employees can enjoy them during their rest time, helping them edifying sentiment and relaxing the mood.

VII. DEVELOPMENT AND TRAINING

In 2019, we further increased the investment in staff training, with the learning time of our employees exceeding 140,000 hours and the number of participants exceeding 12,000. The training programs covered marketing, leadership development, IT technology, new employee induction, compliance risk control, laws and regulations, and finance, etc. The average training time per employee in 2019 was about 11 hours.

The Company conducts a check on its talent pool regularly to reveal the advantages of its existing talents, while listening to the needs of the key talents, so as to provide them with corresponding training and development opportunities according to their needs.

Figure: Positioning of DC Elite（神碼匯）

In 2019, the Company established the DC Elite（神碼匯）, which aimed to build up a highly-potential talent pool for the Company while promoting our corporate culture, enhancing cross-departmental collaboration, and playing an important role in preparing key talents for the development of our holding business.

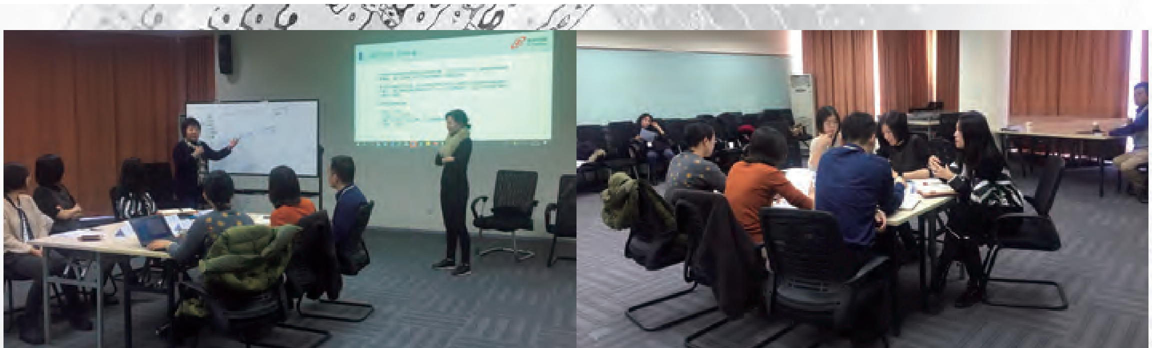


Figure: Group Discussion within DC Elite（神碼匯）

As an enterprise that always strives for innovation, DC Holdings ensures that adequate resources are set aside each year for staff training. Our training system has been designed to match our employees' career development paths within the Company. Our training courses are intended to enhance the competence of employees for the jobs they undertake at different stages of their career, aiming to achieve a win-win result in terms of the career development of our employees and the business development of the Company. Induction training for new employees focuses on the current business status, strategic objectives, history and culture of the Company, while trainees also learn to appreciate the importance of teamwork. The business departments design and organise specific business training according to their needs. The online learning centre provides general training that effectively helps employees to enhance their competence and efficiency in work and improve their professional aptitude. In addition, the Company sponsors selected staff to enrol in training for specialised skills, management skills or examinations for professional qualifications provided by external training organisations.

Figure: DC Holdings' Creation Centre

VIII. QUALITY ASSURANCE

DC Holdings provides customers with integrated IT services and software development, Sm@rt City platform construction and operation services, as well as total supply chain solutions and services, mainly on the basis of IT solutions. In each of our business segments, we have formulated a specific system to ensure that our service standards exceed customers' expectations.

Regarding the IT services delivery, DCITS has, in line with its customer-oriented service philosophy, built a service support regime from the customers' business point of view and an end-to-end quality management regime on the basis of the ISO9001 quality management system and the ISO20000 service management regime through a combination of the ITSS information technology service standards and its experience over the years, utilising the ITIL and PMBOK knowledge regimes. In addition, DCITS has established the Service Management Department, an independent supervisory body, to carry out the responsibilities of constructing the quality system, managing the delivery process, exercising control over the process, and managing customer satisfaction. It strives to reflect customers' opinions and expose issues in internal delivery management in a timely and accurate manner, comprehensively analyse the deficiencies in the implementation of designed regimes for service and product delivery, and drive improvements in processes and capabilities in a vigorous manner, thereby offering support and protection for the development of core corporate competitiveness.

Through the exploration of various methods and management innovation over the years, DCITS's quality management has also gradually shifted away from a single, result-oriented reasoning model, towards the construction of an enquiry-based tracking mechanism coupled with an issue management approach that features quantitative benchmarking and professional quality audit. This represents a shift of focus towards the management of the delivery process, and the move from defensive quality improvement to an aggressive approach centred on service experience. The Company has established an event and project health model, which serves to assess the project delivery quality, and single the problems out of the massive data; it can also quantify the review and evaluation standards for project service quality and facilitate the implementation of a red and yellow card mechanism, establish the service quality standards in consideration of the project complexity, and help achieve cost effectiveness and enable quantitative assessment by level.

The TOP payment system, an internally developed integrated support platform for the support and maintenance service regime and delivery process management, embodies the practice and experience of DCITS in the IT service sector over the years as well as various industry standards and theories. Its functions include providing full-cycle management over the entire delivery business process and support process, and translating the pledge to customers into quantifiable benchmarks for the full cycle of IT services from project start-up to project completion. Process control points and result indicators are established to facilitate real-time monitoring of the operational status and to achieve quality control throughout the process.

In order to adapt to the rapid expansion in scale of the services business and ensure the stable enhancement of service quality, and in a bid to realise its objectives of "quick response, scientific coordination, commands for decision-making, and effective protection", DCITS designed and developed the SOC master command centre platform — a Big Data decision-making platform with a high level of visibility — with the support of vast data from the TOP payment system. Integrating various technology tools and information resources, the SOC command centre is composed of such functions as service desk, resources deployment, tactical command, data collection and presentation, and discussions for decision-making. The platform can perform highly-visible internal functions relating to tactical command, while demonstrating corporate image in various areas externally for the enhancement of brand image.

DCITS is also committed to the development of China's information service industry. It is one of the earliest participants in the ITSS standard formulation project of the Ministry of Industry and Information Technology ("MIIT"), contributing the results of its innovative business ventures to the formulation of industry standards. On the other hand, we have also leveraged advanced concepts of the standards to enhance our internal system optimisation and capacity development. DCITS has been designated by the MIIT as a corporate member of the highest grade in the "National IT Service Standard Work Group" and has served as the first executive president of the branch ITSS association with full involvement in the formulation, pilot test, and promotion of the National IT Service Standards.

In connection with software delivery, DCITS has forged an implementation team with profound understanding of industry requirements, mastery of latest IT application technologies and superb project management abilities on the back of extensive hands-on experience in informatisation construction gained over more than 30 years, providing assurance for the building and normal operation of information systems. Currently, DCITS is supported by 60 consultants for fintech applications and over 3,600 software R&D/delivery personnel (76% of them being R&D personnel with over 3 years' experience in industry application) based variously in more than 10 locations including Beijing, Shanghai, Guangzhou and Shenzhen. In addition, the specialised testing centres of DCITS are supported by hundreds of core test operators.

The quality of R&D processes and project delivery is a matter of high priority for DCITS, which is characterised by a strong awareness and ability for internal control and management. The Company operates a sophisticated PMBOK-based project delivery management system, a CMMI Level-5 and ISO9000 quality management system, testing management system regulations and configuration management system regulations, among others. At the same time, we are also supported by a comprehensive tooling system for project management and engineering process which effectively ensures the outcomes of project control and quality management measures.

In connection with the construction and operation of Sm@rt City platforms, DC Holdings has undergone the initial stage of the informatisation of cities featuring primarily contract-based project solutions as one of the earliest operators of the Sm@rt City business in China, and therefore has developed a formidable ability in cross-sector data integration and processing, opulent resources for potential customers and a well-recognised brand name. We own a sophisticated regime of proprietary intellectual property rights and products in relation to Big Data centres for municipal and government affairs, municipal operation and administration centres, integrated citizen services, smart environmental services, smart fire service and smart education, as well as extensive experience in a wide array of project cases gained from participation in the development of smart applications in more than 100 cities across the nation.

The Sm@rt City business is based on the principle of customer-oriented service. On top of the ISO9001 quality management system, ISO20000 service management system and ISO27001 information security management system and CMMI5 certification system, a service support system from the perspective of customers' businesses and a quality management system underlying the entire delivery process have been developed. Through methodical investigations and management innovations conducted over the years, we have consistently identified inherent values and gradually improved and enhanced quality management in terms of breadth and depth, thereby increasing stickiness with business and customers.

In terms of quality management, we have been focused on the design and ongoing optimisation of benchmark management, satisfaction management and ability management, forming quality management systems at the organisation level and the project level to provide quantitative measurement of quality. The entire delivery process is under end-to-end control through the "Project Management Centre (DC-PMC)" system to ensure complete traceability of the process.

In connection with supply-chain solutions and service delivery, IT Logistics, a subsidiary of DC Holdings, provides clients with supply chain-related integrated services covering management, storage and transportation based on its proprietary Digital China Gold Storage logistics software. Clients can track their goods in transit via the website of IT Logistics (http://www.itl.cn/) or, through the 400 service hotlines, make enquiries and file complaints with IT Logistics personnel on a real-time basis. In the event that a complaint is received by the hotline staff, it would be resolved within 48 hours by a supervisory staff member of IT Logistics who shall closely track the matter. To ensure the quality of its services, IT Logistics provides training to its staff in relation to the handling of complaints and responses to customer enquiries. Approximately 80% of IT Logistics' transportation services are provided by outsourced truck fleets. To ensure the service quality of these outsourced fleets, such as safe and timely deliveries, IT Logistics maintains close liaison with the fleet operators and evaluates drivers' performance on a regular basis.

IX. PROTECTION OF CUSTOMER PRIVACY

Private customer information required to be kept confidential is involved in the course of operation of DC Holdings, including the private information of both individual customers and corporate customers.

As of now, the subsidiaries of DC Holdings have operated Sm@rt City platforms in numerous cities. Local citizens will provide personal information such as names, identity card numbers and social security numbers to our subsidiaries for verification purposes when they open user accounts. Moreover, IT Logistics and e-commerce websites of the Smart Industry Chain business of DC Holdings also receive personal information provided by the customers when they place orders, such as the names, contact methods and delivery addresses of the recipients.

At the same time, in the course of its business cooperation with corporate clients, DC Holdings would also request such clients to provide information such as corporate financial information, information relating to business development, bank account, business licence details and the identifications of legal representatives or guarantors.

The aforesaid private information of customers is only accessible by staff members duly authorized by the Company, who have signed a confidentiality agreement with DC Holdings obliging them to maintain and protect the confidentiality of customer information. We pledge to all customers of the Company that we will respect and protect the privacy of customer information. We have adopted exacting standards for information security and confidentiality to protect the privacy of customer information, and have taken measures to ensure strict compliance with such standards by our employees.

X. MAINTAINING AND PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

Innovation represents a core competitiveness in the business development of DC Holdings and one of its underlying values. Proprietary intellectual property rights are not only important tools and investment capital that enhance our business capabilities and income and from which our future core products are derived: they are also a powerful driver in the standardisation process of core national industries such as smart city and smart logistics.

As at December 2019, DC Holdings owned 551 software copyrights and product technology patents featuring proprietary intellectual property rights. We will continue to advance the management of intellectual property rights by optimising online protection to facilitate continuous efficient operation, with a special focus on trials in the capitalisation and commercialisation of intellectual property rights in search of new business growth niches for DC Holdings. We will continue to actively encourage innovation and increase our effort in the R&D and design of proprietary intellectual property rights. Efforts to protect intellectual property rights will be strengthened and infringements will be rigorously dealt with. We will seek to increase the influence and value of our proprietary intellectual property rights and actively participate in the formulation of national standards for relevant industries to make positive contributions to the development of high and new technologies in China.

XI. ANTI-CORRUPTION

DC Holdings believes that the fairness, honesty and integrity represent some of the most important business assets of the Company. It is our policy that employees are prohibited from soliciting gains from customers, contractors, suppliers or other business associates of the Company. All employees receive anticorruption training in the form of a lecture. Educational materials and case studies are also available on our intranet.

The Company has incorporated the management of integrity risk into its business processes, continuously refining its risk prevention and control mechanism. Through the rationalisation and screening of risk points, it has strengthened supervisory and control measures to reduce the chances and possibilities for corruption or malpractice that may be made available by its systems and processes. Besides, in the course of routine audits such as those in relation to processes and business results, the Company's internal audit function identifies the presence of any malpractice or corruption by examining the reasonableness and compliance of business processes.

Business associates or employees of the Company may report corruption of DC Holdings staff via dcaudit@dcholdings.com on a named or anonymous basis. The Audit Department will conduct investigations on the reported matters, while the information of the whistle-blower will be kept strictly confidential. An employee who is confirmed to have received kickbacks or other gains in any form is subject to summary dismissal. In case of serious infringements, legal liability would be upheld against such employee.

XII. COMMUNITY INVOLVEMENT

As a member of the community, DC Holdings is closely associated with social developments. Our sustainable development is only possible if there is harmony and order in the social environment. In this connection, the Digital China Charity Foundation has been set up by the Company and its staff since the listing of DC Holdings. Our donations in cash or in kind to post-quake disaster relief, education funds and poverty aid during the past 19 years amount to RMB17,870,200, underlining the positive energy of our corporate culture and our commitment to social responsibility. In 2019, the Digital China Charity Foundation was mainly involved in the following community welfare campaigns:

Aid for the underprivileged

The CPC members and staff of DC Holdings have been making strong endeavours to help underprivileged members of the society with compassion. Our actions in relating to aid for the underprivileged in 2019 included the following:

Care for Tai Yang Village

Located in Zhaoquanying Town of Shunyi District in Beijing, Tai Yang Village is a non-profit-making institution officially registered with relevant government authorities. Ms. Zhang Shuqin, founder of "Tai Yang Village", has been entrusted by prison inmates to take care of their minor children. As the free basic childcare services and the protection of basic rights offered to these children are supported by public donations, certain CPC members and staff of DC Holdings have been actively involved in this charity initiative since 2008 to protect these innocent children and foster social harmony in a proactive move to assume their share of social responsibility, caring for these children and sending daily items and learning kits to them to improve life at Tai Yang Village.

Above: DC Holdings' Caring for Tai Yang Village Tour in 2019

Report of the Directors

The Directors of the Company have pleasure in presenting their report together with the audited consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries are set out in note 48 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the Group's financial position at that date are set out in the financial statements on pages 80 to 204 of this annual report.

The board of directors recommends the payment of a final dividend of 6.4 HK Cents per ordinary share for the year ended 31 December 2019.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the section headed "**Management Discussion and Analysis**" on pages 13 to 21 of this annual report. Description of the risks and uncertainties facing the Company can be found throughout this annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 207 of this annual report. The five-year financial summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year ended 31 December 2019 are set out in note 14 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year ended 31 December 2019 are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements, together with the reasons therefore, in the share capital of the Company during the year ended 31 December 2019 are set out in note 37 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Act of Bermuda, amounted to HK$762,274,000. In addition, the Company's share premium account, in the amount of HK$4,643,858,000, may be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the new bye-laws of the Company ("**New Bye-Laws**") or the laws of Bermuda although there are no restrictions against such rights under the laws of Bermuda.

PERMITTED INDEMNITY PROVISION

As permitted by the New Bye-Laws, every Director shall be indemnified out of the Company's assets against any liability incurred by the Director, to the extent permitted by Bermuda law. Such permitted indemnity provision has been in force throughout the financial year and is currently in force at the time of approval of this report. The Company has arranged appropriate directors' and officers' liability coverage for the directors and officers of the Group.

DIRECTORS

The Directors of the Company during the year ended 31 December 2019 and up to the date of this report were:

Executive Directors
Mr. GUO Wei *(Chairman and Chief Executive Officer)*
Mr. LIN Yang *(Vice Chairman)*

Non-executive Directors
Mr. YU Ziping
Mr. PENG Jing

Independent Non-executive Directors
Mr. WONG Man Chung, Francis
Ms. NI Hong (Hope)
Dr. LIU Yun, John
Ms. YAN Xiaoyan
Mr. KING William

In accordance with Bye-Law 99 of the New Bye-Laws, Mr. LIN Yang, Mr. YU Ziping and Mr. PENG Jing will retire from office by rotation. All of the retiring directors are eligible for re-election at the forthcoming annual general meeting of the Company.

DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

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

Name of Director	Details of Changes
Mr. WONG Man Chung, Francis	• Appointed as the Independent Non-executive Director, chairman of the audit committee, a member of the risk management committee and a member of the remuneration and evaluation committee of Shanghai Dongzheng Automotive Finance Co., Ltd. (listed on the Main Board of the Stock Exchange) with effect from 24 February 2020
	• Appointed as the Independent Non-executive Director, chairman of the audit committee and a member of the remuneration committee of IntelliCentrics Global Holdings Ltd. (listed on the Main Board of the Stock Exchange) with effect from 23 January 2020
	• Resigned as the Independent Non-executive Director, chairman of the audit committee and a member of the nomination committee of China New Higher Education Group Limited (listed on the Main Board of the Stock Exchange) with effect from 6 December 2019
Dr. LIU Yun, John	• Appointed as the Board Member and Chief Executive Officer of VOSS (an international bottled water brand) with effect from 1 January 2020
Mr. KING William	• Resigned as Managing Director of Russell Reynolds Associates, Hong Kong with effect from December 2019

DIRECTORS' SERVICE AGREEMENTS

Each of the Executive Directors of the Company entered into a service agreement with the Company which shall continue in force unless and until terminated by (i) either the Company or the Director serving on each other of not less than three months' notice; or (ii) his retirement as a Director without being re-elected as a Director by the shareholders of the Company ("**Shareholder(s)**") in an annual general meeting in accordance with the New Bye– Laws; or (iii) in the event of the Director's default under the terms of the said service agreement.

Save as disclosed above, none of the Directors of the Company proposed for re-election at the forthcoming annual general meeting of the Company has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation (other than the statutory compensation).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at 31 December 2019 or at any time during the year ended 31 December 2019.

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**"), each with life span of ten years. The 2002 Share Option Scheme was expired on 18 July 2012. Following 18 July 2012, no further share options can be granted under the 2002 Share Option Scheme and the share options granted under the 2002 Share Option Scheme are exercisable pursuant to the terms of the 2002 Share Option Scheme.

Details of the 2002 Share Option Scheme and the 2011 Share Option Scheme as well as movements in the share options during the year ended 31 December 2019 are set out in note 39(a) to the financial statements.

RESTRICTED SHARE AWARD SCHEME

The Company adopted a restricted share award scheme (the "**RSA Scheme**") 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 with the shares of the Company. Details of the RSA Scheme are set out in note 39(b) to the financial statements.

EQUITY INCENTIVE SCHEMES OF DIGITAL CHINA INFORMATION SERVICE COMPANY LTD.

SHARE OPTION INCENTIVE SCHEME OF DIGITAL CHINA INFORMATION SERVICE COMPANY LTD.

The shareholders of the Company and Digital China Information Service Company Ltd. ("**DCITS**") approved the adoption of a share option incentive scheme (the "**Share Option Incentive Scheme**") on 10 September 2019 and 16 September 2019 respectively. The major terms of the Share Option Incentive Scheme are as follows:

(1) The purpose of the Share Option Incentive Scheme is to further promote the establishment and improvement of DCITS's long term incentive mechanism, attract and retain high caliber talents, encourage the initiative of directors, senior management and key employees of DCITS and its subsidiaries, so as to effectively align the interest of shareholders, DCITS and individual interests of core management, and cause all parties to focus on the long-term development of DCITS.

(2) The incentive participants of the Share Option Incentive Scheme comprise the directors, senior management and key employees of DCITS and its subsidiaries, but shall exclude the independent directors and supervisors of DCITS, as well as shareholders, individually or in aggregate, holding 5% or more of the shares in DCITS or the de facto controllers and their spouses, parents or children. All incentive participants of the Share Option Incentive Scheme must have employment, labour or service relationships with DCITS within the validity period of the Share Option Incentive Scheme.

(3) According to the Share Option Incentive Scheme:

(a) the total number of underlying shares involved in all effective incentive schemes of DCITS shall not in aggregate exceed 10% of the total share capital of DCITS as at the time when the Share Option Incentive Scheme was submitted to the shareholders' meeting of DCITS for approval;

(b) the total number of shares of DCITS which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Incentive Scheme and any other scheme of DCITS shall not in any event exceed 30% of the total A ordinary shares in issue of DCITS from time to time; and

(c) the total number of shares of DCITS issued pursuant to all effective equity incentive schemes of DCITS to any incentive participant shall not in aggregate exceed 1% of the total shares in issue of DCITS.

(4) The underlying shares of the Share Option Incentive Scheme shall be the A ordinary shares to be issued by DCITS to the participants of the Share Option Incentive Scheme. According to the Share Option Incentive Scheme, DCITS intends to grant 22,600,000 share options to the incentive participants of the Share Option Incentive Scheme, representing approximately 2.33% of the total share capital of DCITS of 970,381,273 shares as at the date of this report.

(5) The minimum period for which share options granted under the Share Option Incentive Scheme must be held before they can be exercised is 12 months from the completion date of registration of the grant of share options pursuant to the Share Option Incentive Scheme ("**Option Registration Date**").

(6) Subject to the fulfillment of the conditions for exercising the share options under the Share Option Incentive Scheme, grantees may exercise their share options within 24 months after the expiry of 12 months from the Option Registration Date in two tranches as follows:

Tranche	Exercise period	Percentage of share option exercisable
First tranche	From the first trading day after the expiry of 12 months from the Option Registration Date to the last trading day within 24 months from the Option Registration Date	50%
Second tranche	From the first trading day after the expiry of 24 months from the Option Registration Date to the last trading day within 36 months from the Option Registration Date	50%

(7) The exercise price of the share options to be granted under the Share Option Incentive Scheme shall be RMB12.76 per share, not less than the par value of the stock and shall not be lower than the higher of:

(a) the average trading price of DCITS shares on the last trading day before the announcement of the draft Share Option Incentive Scheme, being RMB12.753 per share; and

(b) the average trading price of DCITS shares for the last 120 trading days before the announcement of the draft Share Option Incentive Scheme, being RMB11.905 per share.

(8) The exercise price of the share options granted under the Share Option Incentive Scheme is determined in accordance with Article 29 of the Administrative Measures for the Equity Incentives of Listed Companies of the PRC（中華人民共和國上市公司股權激勵管理辦法）, which provides that a listed company, when granting stock options to incentive recipients under an equity incentive plan, shall determine the exercise price or the method for determining the exercise price. The exercise price shall be no less than the par value of the stock, and in principle, shall not be lower than the higher of the following prices:

(a) the average trading price of the company stock in the trading day prior to the publication of the equity incentive plan draft; and

(b) the average trading price of the company stock in any one of the following periods: 20 trading days, 60 trading days and 120 trading days prior to the publication of the equity incentive plan draft.

(9) The effective term of the Share Option Incentive Scheme shall commence from the Option Registration Date to the date on which all share options granted to grantees under the Share Option Incentive Scheme have been exercised or cancelled, provided that the term shall not exceed 36 months.

(10) During the exercise period of the Share Option Incentive Scheme, a number of conditions must be satisfied before the grantees can exercise their share options, including:

(a) None of the following events having occurred on the part of DCITS:

(i) issue of an accountants' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the accountants' report of DCITS for its latest financial year;

(ii) issue of an accountants' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to internal control for the latest financial year;

(iii) failure to conduct profit distribution in accordance with the laws and regulations, the articles of association of DCITS and public undertakings during the most recent 36 months after the listing;

(iv) prohibition from implementation of an equity incentive scheme by laws and regulations or applicable Listing Rules; and

(v) any other circumstances as determined by the China Securities Regulatory Commission ("**CSRC**") or relevant regulatory authorities.

(b) None of the following events having occurred on the part of the grantee of the Share Option Incentive Scheme:

(i) being identified as an ineligible personnel by the Shenzhen Stock Exchange in the last 12 months;

(ii) being identified as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;

(iii) imposition of administrative penalties or measures prohibiting the grantee from entering into the market by the CSRC and its resident agencies in the last 12 months due to material non-compliance of laws or regulations;

(iv) being prohibited from acting as a director or senior management personnel of DCITS under the Company Law of the PRC（中華人民共和國公司法）;

(v) being prohibited from participating in an equity incentive scheme of a listed company under relevant laws and regulations; and

(vi) any other circumstances as determined by the CSRC or relevant regulatory authorities.

(c) DCITS achieving the following financial performance targets:

Tranche	Financial performance targets
First Tranche	the net profit of DCITS for the year of 2019 being not less than RMB360 million
Second Tranche	the net profit of DCITS for the year of 2020 being not less than RMB435 million

Note: The above net profit refers to the net profit attributable to DCITS shareholders.

(d) Subject to DCITS achieving the relevant annual financial performance targets, the results of the annual assessment to be conducted by the remuneration and appraisal committee of DCITS against the grantee being 80 points or above or graded at "**A**".

In the event that any of the above exercise conditions cannot be fulfilled within the relevant exercise period, share options granted under the Share Option Incentive Scheme shall be cancelled by DCITS. In the event that the above exercise conditions have been fulfilled but share options granted under the Share Option Incentive Scheme have not been exercised upon expiry of the relevant exercise period, such share options shall be cancelled by DCITS.

Since the adoption of the Share Option Incentive Scheme, DCITS granted 22,470,000 share options under the Share Option Incentive Scheme.

The following table shows the movements in the share options under DCITS Share Option Incentive Scheme during the year:

	Number of the share options						
	Granted during the year	Exercise during the year	Lapsed during the year	Outstanding as at 31/12/2019	Exercise price per share RMB	Date of grant	Exercisable period
DCITS director	–	–	–	–	–	–	–
DCITS other employees	22,470,000	–	(200,000)	22,270,000	12.76	17/9/2019	Grantees may exercise their share options with reference to the Option Registration Date (i.e. 30/10/2019) in two tranches. *(Note)*

Note: Please refer to note (6) of the major terms of the Share Option Incentive Scheme

RESTRICTED SHARE INCENTIVE SCHEME OF DCITS

The shareholders of DCITS approved the adoption of a restricted share incentive scheme (the "**Restricted Share Incentive Scheme**") on 16 September 2019. The purpose of the Restricted Share Incentive Scheme is to further promote the establishment and improvement of DCITS's long term incentive mechanism, attract and retain high caliber talents, encourage the initiative of directors, senior management and key employees of DCITS and its subsidiaries, so as to effectively align the interest of shareholders, DCITS and individual interests of core management, and cause all parties to focus on the long-term development of DCITS.

The incentive participants of the Restricted Share Incentive Scheme comprise the directors, senior management and key employees of DCITS and its subsidiaries, but shall exclude the independent directors and supervisors of DCITS, as well as shareholders, individually or in aggregate, holding 5% or more of the shares in DCITS or the de facto controllers and their spouses, parents or children. All incentive participants of the Restricted Share Incentive Scheme must have employment, labour or service relationships with DCITS within the validity period of the Restricted Share Incentive Scheme.

The underlying shares of the Restricted Share Incentive Scheme shall be the A ordinary shares to be issued by DCITS to the participants of the Restricted Share Incentive Scheme. According to the Restricted Share Incentive Scheme, DCITS intends to grant 7,400,000 restricted shares to the incentive participants of the Restricted Share Incentive Scheme, representing approximately 0.76% of the total share capital of DCITS of 970,381,273 shares as at the date of this report.

No restricted shares can be granted to the incentive participants if any one of the conditions cannot be satisfied.

(a) None of the following events having occurred on the part of DCITS:

   (i) issue of an accountants' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the accountants' report of DCITS for its latest financial year;

   (ii) issue of an accountants' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to internal control for the latest financial year;

   (iii) failure to conduct profit distribution in accordance with the laws and regulations, the articles of association of DCITS and public undertakings during the most recent 36 months after the listing;

   (iv) prohibition from implementation of an equity incentive scheme by laws and regulations; and

   (v) any other circumstances as determined by the CSRC.

(b) None of the following events having occurred on the part of the grantee of the Restricted Share Incentive Scheme:

   (i) being identified as an ineligible personnel by the Shenzhen Stock Exchange in the last 12 months;

   (ii) being identified as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;

   (iii) imposition of administrative penalties or measures prohibiting the grantee from entering into the market by the CSRC and its resident agencies in the last 12 months due to material non-compliance of laws or regulations;

   (iv) being prohibited from acting as a director or senior management personnel of DCITS under the Company Law of the PRC（中華人民共和國公司法）;

   (v) being prohibited from participating in an equity incentive scheme of a listed company under relevant laws and regulations; and

   (vi) any other circumstances as determined by the CSRC

(c) DCITS achieving the following financial performance targets:

Tranche	Financial performance targets
First Tranche	the net profit of DCITS for the year of 2019 being not less than RMB360 million
Second Tranche	the net profit of DCITS for the year of 2020 being not less than RMB435 million

Note: The above net profit refers to the net profit attributable to DCITS shareholders.

(d) Subject to DCITS achieving the relevant annual financial performance targets, the results of the annual assessment to be conducted by the remuneration and appraisal committee of DCITS against the grantee being 80 points or above or graded at "**A**".

The grant price of the restricted shares to be granted under the Restricted Share Incentive Scheme shall be RMB6.38 per share, not less than the par value of the stock and shall not be lower than the higher of:

(a) RMB6.377 per share, being 50% of the average trading price of DCITS shares on the last trading day before the announcement of the draft Restricted Share Incentive Scheme (i.e. RMB12.753 per share); and

(b) RMB5.953 per share, being 50% of the average trading price of DCITS shares for the last 120 trading days before the announcement of the draft Restricted Share Incentive Scheme (i.e. RMB11.905 per share).

Since the adoption of the Restricted Share Incentive Scheme, 6,950,000 restricted shares (representing approximately 0.72% of the total share capital of DCITS of 963,431,273 shares as at the date of grant and approximately 0.72% of the total share capital of DCITS of 970,381,273 share as at 31 December 2019) have been granted by DCITS under the Restricted Share Incentive Scheme to the incentive participants. The grant price of such restricted shares was RMB6.345 (According to the provisions of the Restricted Share Incentive Scheme, the grant price of the restricted shares was adjusted due to DCITS's dividends). As at the date of this report, totally 6,950,000 restricted shares were vested to the incentive participants.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "**Share Option Schemes**", "**Restricted Share Award Scheme**", "**Share Option Incentive Scheme of Digital China Information Service Company Ltd.**" and "**Restricted Share Incentive Scheme of DCITS**" of this report, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "**Share Option Schemes**" and "**Restricted Share Award Scheme**" of this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2019, the interests and short positions of each Director and chief executive of the Company and their associates in the shares of the Company ("**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 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**" adopted by the Company (the "**Model Code**") were as follows:

Name of Directors	Capacity	Personal interests	Corporate interests	Number of outstanding share options	Total *(Note 1)*	Approximate percentage of aggregate interests (%) *(Note 4)*
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 3)*	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, these share options were granted to Mr. GUO Wei and Mr. LIN Yang. These share options are exercisable from 25 January 2017 to 24 January 2025 at an exercise price of HK$6.394 per Share for subscription of ordinary shares of the Company.

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

Save as disclosed above, at 31 December 2019, 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 31 December 2019, 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 of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO:

Name	Capacity	Number of Shares *(Note 1)*	Approximate percentage of aggregate interests (%) *(Note 6)*
Kosalaki Investments Limited *(Note 2)*	Beneficial owner	86,767,857	5.17
Dragon City International Investment Limited	Beneficial owner	187,578,500 *(Note 3)*	11.23
Yip Chi Yu *(Note 3)*	Interests of a controlled corporation/ Interest of spouse	187,578,500/2,325	11.23
Huang Shaokang *(Note 3)*	Beneficial owner/ Interest of spouse	2,325/187,578,500	11.23
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	434,474,928 *(Note 4(a))*	26.00
Guangzhou City Investment Co., Ltd.* （廣州市城投投資有限公司）("**GZ Investment**")	Interests of a controlled corporation	419,356,928 *(Note 4(b))*	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(c))*	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(c))*	23.12
Guangzhou Radio Group Co., Ltd.* （廣州無線電集團有限公司） ("**Guangzhou Radio Group**")	Interests of a controlled corporation	301,068,250 *(Note 5)*	18.02
GRG Banking Equipment Co., Ltd.* （廣州廣電運通金融電子股份有限公司） ("**GRG Banking Corp**")	Beneficial owner	301,068,250 *(Note 5)*	18.02

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. The interest includes (i) 133,361,633 Shares held directly by Dragon City International Investment Limited ("**Dragon City**"), which is controlled by Ms. YIP Chi Yu; (ii) 54,216,867 underlying Shares held directly by Dragon City in respect of an unlisted equity derivative instrument; and (iii) 2,325 shares held directly by Mr. HUANG Shaokang, a spouse of Ms. YIP Chi Yu.

* *For identification purpose only*

4. (a) Pursuant to a Form 2 – Corporate Substantial Shareholders Notice filed by GZ Infrastructure on 6 September 2019, GZ Infrastructure was interested in 434,474,928 Shares in aggregate, of which, 396,962,000 Shares were held by GZ Jiazi and 37,512,928 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 is in turn wholly-owned by GZ Investment. Suitong HK is also wholly-owned by GZ Investment. GZ Investment is wholly-owned by GZ Infrastructure, who was deemed to be interested in 434,474,928 Shares.

   (b) Pursuant to a Form 2 – Corporate Substantial Shareholders Notice filed by GZ Investment on 10 April 2018, GZ Investment was interested in 419,356,928 Shares in aggregate, of which, 387,735,000 Shares were held by GZ Jiazi and 31,621,928 Shares were held by Suitong HK.

   (c) Pursuant to a Form 2 – Corporate Substantial Shareholders Notice filed by GZ Jiapeng on 10 April 2018, GZ Jiapeng was interested in 387, 735,000 Shares.

5. These 301,068,250 Shares were beneficially held by GRG Banking Equipment Co., Ltd.*（廣州廣電運通金融電子股份有限公司）(listed on The Shenzhen Stock Exchange), in which Guangzhou Radio Group Co., Ltd.*（廣州無線電集團有限公司）is a 52.52% controlling shareholder.

6. 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 31 December 2019, the Company had not been notified by any persons and corporations who had interests or short positions in Shares or underlying shares of the Company which were required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept under Section 336 of Part XV of the SFO.

DONATIONS

During the year ended 31 December 2019, the Group made donation of HK$2,208,000 (for the year ended 31 December 2018: HK$6,791,000).

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentage of revenue attributable to the Group's five largest customers was less than 30% (for the year ended 31 December 2018: less than 30%) of the Group's total revenue for the year ended 31 December 2019.

The aggregate percentage of purchases attributable to the Group's five largest suppliers was approximately 45% (for the year ended 31 December 2018: approximately 43%) of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier was approximately 14% (for the year ended 31 December 2018: approximately 20%) for the year ended 31 December 2019.

During the year ended 31 December 2019, none of the Directors, any of their close associates or shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest major customers or five largest suppliers.

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

During the year ended 31 December 2019, the Company purchased an aggregate of 5,911,000 ordinary shares, represented 0.35% of the total shares of in issue. The purchase was effected by the Directors pursuant to the mandate from shareholders received at the 2018 annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group. All of the repurchased shares had been cancelled.

Details of those transactions are as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid (including transaction costs)
		Highest	Lowest	
		HK$	HK$	HK$'000
January 2019	5,911,000	3.60	3.37	20,539

Saved as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

AUDITOR

In the year 2018, Ernst & Young resigned as the auditor of the Company and SHINEWING (HK) CPA Limited were appointed as the auditor of the Company on 21 December 2018 to fill the casual vacancy following the resignation of Ernst & Young. Please refer to the Company's announcement of 21 December 2018 for more details regarding the change of auditor.

The consolidated financial statements of the Group for the year ended 31 December 2018 and for the year ended 31 December 2019 were audited by SHINEWING (HK) CPA Limited who will retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting 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 during the year ended 31 December 2019 and up to the date of this report as required under the Listing Rules.

EVENT AFTER THE REPROTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 53 to the financial statements.

ON BEHALF OF THE BOARD
GUO Wei
Chairman

Hong Kong, 25 April 2020

Independent Auditor's Report

TO THE SHAREHOLDERS OF DIGITAL CHINA HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Digital China Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 80 to 204, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IMPAIRMENT ASSESSMENT OF GOODWILL

Refer to note 18 to the consolidated financial statements and the accounting policies on page 94.

The key audit matter

As at 31 December 2019, the carrying amount of the Group's goodwill was approximately HK$1,887,695,000. During the year ended 31 December 2019, an impairment of goodwill approximately HK$201,787,000 was recognised.

The management assessed goodwill for impairment by comparing the carrying amount of cash-generating units ("CGUs") to which goodwill has been allocated with the recoverable amount determined by assessing the value in use. Preparing a discounted cash flow forecast involves the exercise of significant management judgement, in particular in forecasting revenue growth and operating profit and in determining an appropriate discount rate.

We have identified the impairment assessment of goodwill as a key audit matter because of its significance to the consolidated financial statements and the selection of valuation model, adoption of key assumptions and input data may be subject to management bias and changes in these assumptions and input to the valuation model may result in significant financial impact.

How the matter was addressed in our audit

We performed the following audit procedures on the impairment assessment of goodwill:

- evaluated management's impairment assessment on the reasonableness of the selection of valuation model, adoption of key assumptions and input data;
- evaluated the appropriateness of the assumptions, including the revenue growth rates and gross margin, against latest market expectation;
- evaluated the appropriateness of the discount rate employed in the calculation of value in use by reviewing its basis of calculation and comparing its input data to market sources; and
- performed sensitivity analysis in relation to the key inputs to the impairment assessment which included changes in revenue growth rate, gross margin and discount rate employed.

ESTIMATE OF EXPECTED CREDIT LOSSES ("ECL") OF ACCOUNTS AND BILLS RECEIVABLES

Refer to note 30 to the consolidated financial statements and the accounting policies on pages 106 to 112.

The key audit matter

As at 31 December 2019, the carrying amount of the Group's accounts and bills receivables was approximately HK$5,362,493,000, net of loss allowance of approximately HK$750,029,000.

The Group has adopted ECL model to estimate the loss allowance of accounts and bills receivables. Management performed periodic assessment on the sufficiency of loss allowance based on provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Management also considered forward looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the ECL.

The measurement of ECL requires the application of significant judgement and increased complexity which include the identification of exposures with a significant deterioration in credit quality, and assumptions used in the ECL models (for exposures assessed individually or collectively), such as probability of default and forward looking information.

We have identified the estimate of ECL of accounts and bills receivables as a key audit matter because of its significance to the consolidated financial statements and the corresponding uncertainty inherent in such estimates.

How the matter was addressed in our audit

We performed the following audit procedures on assessing the loss allowance of accounts and bills receivables:

- evaluated the key internal controls which govern credit control, debt collection and estimation of ECL;
- assessed, on a sample basis, whether items in the ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices;
- evaluated techniques and methodology in the ECL model against the requirement of HKFRS 9;
- reviewed and assessed the application of the Group's policy for calculating the ECL; and
- assessed the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluated whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowance.

REVENUE RECOGNITION FROM CONTRACTS WITH CUSTOMERS

Refer to note 6 to the consolidated financial statements and the accounting policies on page 119.

The key audit matter

The Group's revenue from sales of goods is recognised at the point when the control of the goods is transferred to the customers while revenue from system integration and software development and technical services are recognised over time with reference to the progress towards complete satisfaction of a performance obligation. During the year, the Group recognised revenue over time and at a point in time amounted to approximately HK$8,281,555,000 and HK$9,053,238,000 respectively.

When revenue is recognised over time, significant management judgement is involved in the measurement of progress using input method based on the Group's efforts or inputs to the satisfaction of a performance obligation, by reference to the actual costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

We have identified revenue recognition from contracts with customers as a key audit matter because it is quantitatively significant to the consolidated financial statements as a whole, combined with significant management's judgement involved in determining the appropriate point to recognise revenue from the above types of revenues.

How our audit addressed the key audit matter

We performed the following audit procedures on the revenue recognition from contracts with customers using input method:

- evaluated the key internal controls over revenue recognition;
- assessed the appropriateness of the Group's revenue recognition policy under the requirements of HKFRS 15 by inspecting a sample of representative contracts with customers;
- selected a sample of incomplete contracts as at year end and assessed the reasonableness of budgeted contract costs and inspected supporting documents such as purchase orders of equipment and contracts with subcontractors;
- selected a sample of completed contracts during the year and checked the historical reliability of the budgeted contract costs; and
- re-performed on a sample basis the calculation of revenue recognised during the year based on the input method.

VALUATION OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Refer to notes 23 and 24 to the consolidated financial statements and the accounting policies on pages 106 to 112.

The key audit matter

As at 31 December 2019, the carrying amounts of the Group's financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income were approximately HK$929,091,000 and HK$408,572,000 respectively.

During the year, the Group recognised fair value loss on financial assets at fair value through profit or loss of approximately HK$3,263,000 and fair value loss on financial assets at fair value through other comprehensive income of approximately HK$3,696,000.

The Group engaged independent valuers to perform valuation of these investments where quoted market prices are not available.

We have identified the valuation of these financial assets as a key audit matter because the carrying amounts of these financial assets are significant to the consolidated financial statements and significant management's judgements were involved in the choice of valuation methods and inputs in the fair value measurement of these financial assets.

How the matter was addressed in our audit

We performed the following audit procedures on the valuation of financial assets at fair value through profit or loss and at fair value through other comprehensive income for which quoted market prices are not available:

- assessed the competence, capability and objectivity of the relevant independent valuers;
- assessed the appropriateness of the valuation methodologies performed by management;
- involved our valuation specialist to evaluate and assess the appropriateness of the valuation methodologies and the reasonableness of the key assumptions used in the valuations performed by the relevant independent valuers; and
- tested, on a sample basis, the accuracy and relevance of input data used by the relevant independent valuers.

VALUATION OF INVESTMENT PROPERTIES

Refer to note 15 to the consolidated financial statements and the accounting policies on pages 104 to 105.

The key audit matter

As at 31 December 2019, the fair value of the investment properties was approximately HK$4,598,840,000, with a net fair value gain of approximately HK$32,532,000 recognised in the consolidated statement of profit or loss for the year ended 31 December 2019.

The Group had engaged independent valuers as management's experts to perform valuations of these investment properties at the end of the reporting period.

We have identified valuation of investment properties as a key audit matter because the carrying amounts of these investment properties are significant to the consolidated financial statements and significant management's judgements were involved in the choice of valuation methods and inputs in the fair value measurement of these investment properties.

How the matter was addressed in our audit

We performed the following audit procedures on the valuation of investment properties:

- assessed the competence, capabilities and objectivity of the independent valuers;
- obtained an understanding of the valuation process and techniques adopted by the independent valuers to assess if they are consistent with the industry norms;
- obtained the valuation reports and involved our valuation specialist to evaluate and assessing the reasonableness of the significant unobservable inputs and the accuracy of the source data used by the management and the independent valuers by comparing them, on a sampling basis, to where relevant, existing tenancy profiles, publicly available information of similar comparable properties; and
- tested, on a sample basis, the arithmetical accuracy of calculations.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

* Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

* Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

* Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

* Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

* Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lau Kai Wong.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lau Kai Wong
Practising Certificate Number: P06623

Hong Kong
25 April 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue	6	**17,727,429**	15,254,499
Cost of sales and services		**(14,572,646)**	(12,345,061)
Gross profit		**3,154,783**	2,909,438
Other income and gains	6	**187,720**	431,006
Gain on deemed partial disposal of equity interests in associates	21	**143,311**	293,083
Gain on partial disposal of equity interests in associates	21	**223,739**	–
Selling and distribution expenses		**(1,315,401)**	(1,387,062)
Administrative expenses		**(527,781)**	(526,840)
Other expenses, net		**(810,709)**	(1,080,065)
Finance costs	8	**(227,506)**	(215,857)
Impairment of goodwill	18	**(201,787)**	(220,695)
Share of (loss) profit of associates		**(55,895)**	60,559
Share of (loss) profit of joint ventures		**(23,774)**	17,967
Profit before tax	7	**546,700**	281,534
Income tax expense	11	**(96,524)**	(61,064)
Profit for the year		**450,176**	220,470
Attributable to:			
Equity holders of the parent		**301,844**	149,587
Non-controlling interests		**148,332**	70,883
		450,176	220,470
Earnings per share attributable to equity holders of the parent	13		
Basic (HK cents)		**18.31**	8.96
Diluted (HK cents)		**18.31**	8.96

Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2019

	NOTES	**2019 HK$'000**	2018 HK$'000
Profit for the year		**450,176**	220,470
Other comprehensive (loss) income			
Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences arising on translation of financial statements of foreign operations		**(197,450)**	(454,286)
Share of other comprehensive income of associates		**11,269**	42,887
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods		**(186,181)**	(411,399)
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:			
Net fair value changes on financial assets measured at fair value through other comprehensive income		**(3,696)**	(772)
Gain on property revaluation	15	**20,597**	2,993
Income tax effect	26	**(10,814)**	(748)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**6,087**	1,473
Other comprehensive loss for the year, net of tax		**(180,094)**	(409,926)
Total comprehensive income (loss) for the year		**270,082**	(189,456)
Attributable to:			
Equity holders of the parent		**184,948**	(124,240)
Non-controlling interests		**85,134**	(65,216)
		270,082	(189,456)

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	14	**1,027,562**	1,017,356
Right-of-use assets	17	**233,656**	–
Investment properties	15	**4,598,840**	4,712,932
Prepaid land premiums	16	**–**	65,035
Goodwill	18	**1,887,695**	2,057,937
Other intangible assets	19	**157,765**	161,520
Interests in joint ventures	20	**185,890**	197,662
Interests in associates	21	**3,150,086**	3,427,004
Financial assets at fair value through other comprehensive income	23	**408,572**	427,293
Finance lease receivables	25	**2,310**	6,204
Other receivables	31	**908,780**	924,635
Deferred tax assets	26	**173,125**	175,710
		12,734,281	13,173,288
Current assets			
Inventories	27	**1,848,844**	1,052,773
Properties under development	28	**–**	250,501
Completed properties held for sale	29	**24,722**	23,093
Accounts and bills receivables	30	**5,362,493**	4,889,158
Prepayments, deposits and other receivables	31	**1,499,292**	1,224,466
Contract assets	32a	**527,073**	1,151,469
Financial assets at fair value through profit or loss	24	**929,091**	1,286,340
Finance lease receivables	25	**54,528**	162,597
Restricted bank balances	33	**115,488**	69,617
Cash and cash equivalents	33	**1,890,171**	2,204,872
		12,251,702	12,314,886
Assets classified as held for sale	22	**565,118**	–
		12,816,820	12,314,886
Current liabilities			
Accounts and bills payables	34	**3,832,793**	3,212,562
Other payables and accruals	35	**2,046,205**	1,656,352
Lease liabilities	17	**103,070**	–
Contract liabilities	32b	**1,396,496**	1,612,372
Tax payables		**66,455**	43,625
Interest-bearing bank and other borrowings	36	**3,468,959**	3,592,314
		10,913,978	10,117,225
Net current assets		**1,902,842**	2,197,661
Total assets less current liabilities		**14,637,123**	15,370,949

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Interest-bearing bank and other borrowings	36	**1,625,741**	2,606,352
Deferred tax liabilities	26	**350,261**	339,004
Deferred income	47	**37,033**	28,897
Lease liabilities	17	**60,616**	–
		2,073,651	2,974,253
Net assets		**12,563,472**	12,396,696
Capital and reserves			
Share capital	37	**167,098**	167,726
Reserves	38	**8,769,325**	8,682,617
Equity attributable to equity holders of the parent		**8,936,423**	8,850,343
Non-controlling interests		**3,627,049**	3,546,353
Total equity		**12,563,472**	12,396,696

The consolidated financial statements on pages 80 to 204 were approved and authorised for issue by the board of directors of the Company on 25 April 2020 and are signed on its behalf by:

GUO Wei	**LIN Yang**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity holders of the parent													
	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Employee share trust HK$'000	Employee share-based compensation reserve HK$'000	Asset revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Other reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018	167,726	4,665,095	1,929,976	(21,571)	51,503	480,072	5,459	-	393,297	104,462	1,238,356	9,014,375	3,644,047	12,658,422
Profit for the year	-	-	-	-	-	-	-	-	-	-	149,587	149,587	70,883	220,470
Changes in fair value on financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	16,984	-	-	-	-	16,984	(17,756)	(772)
Exchange differences arising on translation of financial statements of foreign operations	-	-	-	-	-	-	-	-	-	(320,970)	-	(320,970)	(133,316)	(454,286)
Share of other comprehensive income of associates	-	-	5,021	-	-	-	20,635	-	-	3,595	-	29,251	13,636	42,887
Gain on property revaluation, net of tax	-	-	-	-	-	908	-	-	-	-	-	908	1,337	2,245
Total comprehensive income (loss) for the year	-	-	5,021	-	-	908	37,619	-	-	(317,375)	149,587	(124,240)	(65,216)	(189,456)
Share- based compensation	-	-	-	-	3,414	-	-	-	-	-	-	3,414	-	3,414
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	14,654	14,654
Capital reduction by a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(11,019)	(11,019)
Shares buy back *(note 37)*	-	-	-	-	-	-	-	(1,326)	-	-	-	(1,326)	-	(1,326)
Acquisition of additional interests in non-wholly owned subsidiaries *(note 42(d))*	-	-	(41,880)	-	-	-	-	-	-	-	-	(41,880)	(6,064)	(47,944)
Disposal of subsidiaries *(note 42(e))*	-	-	-	-	-	-	-	-	-	-	-	-	(5,784)	(5,784)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(24,265)	(24,265)
Transfer to reserve funds	-	-	-	-	-	-	-	-	33,578	-	(33,578)	-	-	-
At 31 December 2018	167,726	4,665,095	1,893,117	(21,571)	54,917	480,980	43,078	(1,326)	426,875	(212,913)	1,354,365	8,850,343	3,546,353	12,396,696

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity holders of the parent													
	Issued capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Employee share trust HK$'000	Employee share-based compensation reserve HK$'000	Asset revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Other reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2019	167,726	4,665,095	1,893,117	(21,571)	54,917	480,980	43,078	(1,326)	426,875	(212,913)	1,354,365	8,850,343	3,546,353	12,396,696
Profit for the year	-	-	-	-	-	-	-	-	-	-	301,844	301,844	148,332	450,176
Changes in fair value on financial assets measured at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	(4,197)	-	-	-	-	(4,197)	(5,164)	(9,361)
Exchange differences arising on translation of financial statements of foreign operations	-	-	-	-	-	-	-	-	-	(139,233)	-	(139,233)	(58,217)	(197,450)
Share of other comprehensive income of associates	-	-	-	-	-	-	6,854	-	-	4,232	-	11,086	183	11,269
Disposal of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	(3,229)	-	-	-	3,229	-	-	-
Gain on property revaluation, net of tax	-	-	-	-	-	15,448	-	-	-	-	-	15,448	-	15,448
Total comprehensive income (loss) for the year	-	-	-	-	-	15,448	(572)	-	-	(135,001)	305,073	184,948	85,134	270,082
Share- based compensation	-	-	-	-	12,111	-	-	-	-	-	-	12,111	6,258	18,369
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	20,959	20,959
Capital reduction by a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(3,495)	(3,495)
Contribution to employee share trust	-	-	-	(39,296)	-	-	-	-	-	-	-	(39,296)	-	(39,296)
Shares buy back *(note 37)*	(628)	(21,237)	-	-	-	-	-	1,326	-	-	-	(20,539)	-	(20,539)
Acquisition of additional interests in non-wholly owned subsidiaries *(note 42(d))*	-	-	(32)	-	-	-	-	-	-	-	-	(32)	(47)	(79)
Disposal of subsidiaries *(note 42(e))*	-	-	-	-	-	-	-	-	-	-	-	-	(5,224)	(5,224)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(22,889)	(22,889)
Transfer to reserve funds	-	-	-	-	-	-	-	-	49,682	-	(49,682)	-	-	-
Final 2018 dividend paid *(note 12)*	-	-	-	-	-	-	-	-	-	-	(51,112)	(51,112)	-	(51,112)
At 31 December 2019	167,098	4,643,858	1,893,085	(60,867)	67,028	496,428	42,506	-	476,557	(347,914)	1,558,644	8,936,423	3,627,049	12,563,472

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Profit before tax:	546,700	281,534
Adjustments for:		
Finance costs	227,506	215,857
Share of profits and losses of joint ventures and associates	79,669	(78,526)
Interest on bank deposits	(10,284)	(16,786)
Income from wealth management financial products	(32,209)	(25,529)
Deferred income recognised	(20,902)	(31,128)
Dividends income from financial assets at fair value through profit or loss	(475)	–
Dividends income from financial assets at fair value through other comprehensive income	(232)	(3,840)
Impairment of goodwill	201,787	220,695
Impairment of accounts and bills receivables, other receivables and contract assets	94,635	272,000
(Reversal of impairment) impairment of finance lease receivables	(6,829)	12,740
Impairment of properties under development	12,394	–
Impairment of interests in joint ventures	–	10,156
Impairment of interests in associates	2,286	–
Loss on disposal of items of property, plant and equipment	4,022	24,575
Loss on write-off of other intangible assets	4,882	–
Fair value gains on investment properties, net	(32,532)	(50,141)
Fair value loss on financial assets at fair value through profit or loss	3,263	5,838
Gain on disposal of equity interests in joint ventures	–	(4,158)
Gain on disposal of equity interests in associates	(9,619)	(7,880)
Gain on disposal of financial assets at fair value through profit or loss	(4,371)	(10,244)
Gain on disposal/partial disposal of interest in subsidiaries	(890)	(199,917)
Gain on partial disposal of equity interests in associates	(223,739)	–
Gain on deemed partial disposal of the equity interests in associates	(143,311)	(293,083)
Depreciation of property, plant and equipment	135,754	149,186
Depreciation of right-of-use assets	108,278	–
Amortisation of prepaid land premiums	–	1,727
Amortisation of other intangible assets	47,050	49,340
Provisions for and write-off of obsolete inventories	87,554	125,630
Share-based compensation	18,369	3,414
	1,088,756	651,460
(Increase) decrease in inventories	(884,300)	43,033
Decrease in completed properties held for sale	–	21,954
(Increase) decrease in accounts and bills receivables	(569,711)	79,926
Increase in prepayments, deposits and other receivables	(66,798)	(39,782)
Decrease in finance lease receivables	118,792	262,684
Increase in accounts and bills payables	622,178	7,191
Increase (decrease) in other payables and accruals and deferred income	412,310	(303,877)
Decrease (increase) in contract assets	624,396	(119,896)
Decrease in contract liabilities	(229,339)	(115,336)
(Increase) decrease in restricted bank balances	(45,871)	38,372
Effect of foreign exchange rate changes, net	(29,849)	(85,230)
Cash generated from operations	1,040,564	440,499
Interest received	19,594	18,312
Hong Kong profits tax paid	(263)	147
Mainland China income tax paid	(70,666)	(189,254)
NET CASH FROM OPERATING ACTIVITIES	989,229	269,704

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(199,135)	(100,193)
Proceeds from disposal of property, plant and equipment	6,968	1,095
Additions to other intangible assets	(50,164)	(35,400)
Acquisition of subsidiaries	(42,587)	(32,258)
Disposal of subsidiaries	(2,850)	56,496
Proceeds from disposal of investment in joint ventures	–	13,972
Proceeds from disposal of investment in associates	115,049	46,933
Proceeds from disposal of financial assets at fair value through other comprehensive income	7,886	26,106
Proceeds from disposal of financial assets at fair value through profit or loss	1,190,212	795,090
Proceeds from the redemption of financial assets at fair value through profit or loss	–	651,358
Dividend income from financial assets at fair value through profit or loss	475	–
Dividend income from financial assets at fair value through other comprehensive income	232	3,840
Dividends received from joint ventures	–	5,137
Dividends received from associates	31,571	8,685
Investments in joint ventures	(23,981)	(4,737)
Investments in associates	(41,486)	–
Investments in financial assets at fair value through other comprehensive income	–	(22,145)
Investments in financial assets at fair value through profit or loss	(799,646)	(1,371,741)
NET CASH FROM INVESTING ACTIVITIES	192,544	42,238
FINANCING ACTIVITIES		
Shares buy-back	(20,539)	(1,326)
New bank borrowings	3,630,668	4,506,145
Repayment of bank borrowings	(4,111,711)	(5,842,011)
Repayment of lease liabilities	(106,240)	–
Proceeds from issue of corporate bonds	1,949	1,430
Repayment of corporate bonds	(569,854)	(236,642)
Interest paid	(227,506)	(215,857)
Dividends paid	(51,112)	–
Dividends paid to non-controlling shareholders	(22,889)	(24,265)
Purchase of shares under the restricted share award scheme	(39,296)	–
Payments to acquire additional interests in non-wholly-owned subsidiaries	(79)	(47,944)
Contribution from non-controlling shareholders of subsidiaries	20,959	4,169
Capital reduction by a non-controlling shareholder of a subsidiary	(3,495)	(11,019)
NET CASH USED IN FINANCING ACTIVITIES	(1,499,145)	(1,867,320)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(317,372)	(1,555,378)
Cash and cash equivalents at beginning of year	2,204,872	3,784,296
Effect of foreign exchange rate changes, net	2,671	(24,046)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	1,890,171	2,204,872
Analysis of components of cash and cash Equivalents		
Bank balances and cash	1,885,691	2,159,291
Non-pledged time deposits	4,480	45,581
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of the cash flows	1,890,171	2,204,872

Notes to Financial Statements

For the year ended 31 December 2019

1. GENERAL

Digital China Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to this annual report.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- provision of information technology ("IT") services, including systems integration, software development and technical services, etc.
- provision of supply chain services, including e-commerce supply chain services and logistics services, etc.
- provision of all-encompassing Sm@rt City services, including internet based integrated IT platform construction and operation and institutional financial services, including micro-credit loan, leasing, factoring, etc.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). Other than the Group's subsidiaries operated in the People's Republic of China (the "PRC") whose functional currencies are Renminbi ("RMB"), the functional currencies of the Company and other subsidiaries are HK$.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for its first time, the following new and amendments to HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and interpretations ("Int(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Venture
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

The adoption of HKFRS 16 resulted in the changes in the Group's accounting policies and adjustments to the amounts recognised in the consolidated financial statements as summarised below.

The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (CONTINUED)

Impacts on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3. The Group has applied HKFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17 Leases.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) – Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessees' incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1 January 2019 was ranged from 4.46% to 6.18%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group as lessor

The Group leases some of the properties. The accounting policies applicable to the Group as lessor remain substantially unchanged from those under HKAS 17.

The following table summarises the impact of transition to HKFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Notes	**Carry amount Previously reported at 31 December 2018** HK$'000	**Impact on adoption of HKFRS 16** HK$'000	**Carrying amount as restated at 1 January 2019** HK$'000
Right-of-use assets	(a)&(b)	–	270,506	270,506
Prepaid land premiums	(b)	65,035	(65,035)	–
Prepayment, deposits and other receivables – current	(b)	1,224,466	(11,509)	1,212,957
Lease liabilities – current	(a)	–	97,779	97,779
Lease liabilities – non-current	(a)	–	96,183	96,183

Notes:

(a) As at 1 January 2019, right-of-use assets relating to operating leases under HKAS 17 were measured at an amount equal to the lease liability and adjusted by prepaid rental as explained in (b).

(b) Prepaid land premiums of HK$69,230,000 (note 16) which represent the upfront payments for leasehold lands in the PRC, of which HK$4,195,000 was included in prepayment, deposits and other receivables, and the prepaid rental of HK$7,314,000 as at 31 December 2018 were reclassified to right-of-use assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (CONTINUED)

Impacts on adoption of HKFRS 16 Leases (Continued)

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The total cash flows are unaffected. The adoption of HKFRS 16 has resulted in a change in presentation of cash flows within the consolidated statement of cash flows.

Differences between operating lease commitments as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follow:

	HK$'000
Operating lease commitment as at 31 December 2018	300,611
Less: Short-term leases and other leases ended on or before 31 December 2019	(93,067)
	207,544
Discounted using the incremental borrowing rate at 1 January 2019	(13,582)
Lease liabilities recognised as at 1 January 2019	193,962
Analysed as	
Current portion	97,779
Non-current portion	96,183
	193,962

Practical expedients applied

On the date of initial application of HKFRS 16, the Group has also used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- reliance on assessments on whether leases are onerous by applying HKAS 37 immediately before the date of initial application as an alternative to performing an impairment review.
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application.
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (CONTINUED)

Impacts on adoption of HKFRS 16 Leases (Continued)

Practical expedients applied (Continued)

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors of the Company anticipate that, except as described below, the application of the new and amendments HKFRSs will have no material impact on the results and the financial position of the Group.

Amendments to HKFRS 3 Definition of a Business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and financial instruments that are measured at fair values, at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; (iv) any additional facts and circumstances that indicate that the Group has the current ability to direct the relevant activities at the time that decision need to be made, including voting patterns at previous shareholdings' meeting; or (v) a combination of the above, based on all relevant facts and circumstances.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the equity holders of the parent and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the equity holders of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets and liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Businesses combinations are accounted for by applying the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs incurred to effect a business combination are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase.

Non-controlling interests, unless as required by another standards, are measured at acquisition-date fair value except for non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of CGUs) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

The Group's policy for goodwill relating to an associate or a joint venture that included in the carrying amount of the investment is set out in "interests in associates and joint ventures" below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method, except for the investments classified as held for sale in which case it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Under the equity method, investments in associates and joint ventures are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates and joint ventures are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate or joint venture is recognised as goodwill and is included in the carrying amount of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (Continued)

After application of the equity method, including recognising the associate's or joint venture's losses (if any), the Group determines whether there is an objective evidence that the net investment in the associate or joint venture is impaired. Goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate or joint venture.Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate or a joint venture upon the Group losing significant influence over the associate or joint control over the joint venture, the Group discontinues to apply equity method and any retained interest is measured at its fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with the applicable standard. Any difference between the fair value of the retained interest and any proceeds from disposing of a part interest in the associate or joint venture and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

If an investment in financial asset measured at fair value through other comprehensive income ("FVTOCI") becomes an associate, the carrying amount of the investment at the date the Group obtained significant influence is restored to its original cost of acquisition with any cumulative fair value change recognised in investment revaluation reserve being reversed.

When the Group's ownership interest in an associate or a joint venture is reduced, but the Group continues to apply the equity method, the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest is reclassified to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Gains and losses resulting from transactions between the Group and its associate or joint venture are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate or joint venture. The Group's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such classification requires the asset or the disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint control over the joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-current assets held for sale (Continued)

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with the applicable standard unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method (see the accounting policy regarding investments in associates or joint ventures above).

Non-current assets and disposal groups classified as held for sale, except for investment properties that are measured at fair value model under HKAS 40, are measured at the lower of their previous carrying amount and fair value less costs of disposal.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- The Group' performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

The Group recognised revenue from the following major sources:

- System integration
- Software development and technical services business
- Logistics services
- E-commerce supply chain services
- Sales of properties

Revenue from system integration is recognised over time, except for contracts comprised sales of goods and provision of services in which the performance obligations are separately identifiable. Revenue from sales of goods is recognised at the point when the control of the goods is transferred to the customers while revenue from provision of services is recognised over time.

Revenue from software development and technical services business is recognised over time.

The Group recognised revenue over time by measuring the progress towards complete satisfaction of a performance obligation in accordance with output or input method.

Output method is applied to recognise revenue on the basis of direct measurements of the value of goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Input method is applied to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation, by reference to the actual costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract. In some circumstances when the outcome of a performance obligation could not be reasonably measured, the Group shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

Revenue from logistics services is recognised at the point when the services are provided to the customers.

Revenue from e-commerce supply chain services include provision of supply chain services and sales of goods, which is recognised at the point when the services are provided to the customers or when the control of the goods is transferred to the customers, generally on delivery of goods to customers.

Revenue from sales of properties is recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from property sales is generally recognised when the property is accepted by the customer, or deemed as accepted according to the contract, whichever is earlier, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Leasing
(Accounting policy applicable on or after 1 January 2019)

Definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

(Accounting policy applicable on or after 1 January 2019) (Continued)

The Group as lessee (Continued)

Lease liabilities (Continued)

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Except for the right-of-use assets classified as investment properties and measured under fair value model, right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line in the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within "investment property". The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents, if any, that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

(Accounting policy applicable on or after 1 January 2019) (Continued)

The Group as lessee (Continued)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient for all leases.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to its investment properties and certain equipment. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 to allocate the consideration under the contract to each component.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term except for investment properties under fair value model.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases, measured using the interest rate implicit in the respective leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

(Accounting policy applicable prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid land premiums in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange fluctuation reserve (attributed to non-controlling interests as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint arrangement that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective from 1 January 2019, any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the general principles above.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services or for administrative expenses (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

For payments of ownership interest of properties which includes both leasehold land and building elements, the entire property is presented as buildings and included in property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates used for this purpose are as follows:

Buildings	Over the lease terms or 2% to 5%, whichever is shorter
Leasehold improvements	Over the lease terms or 20% to 33%, whichever is shorter
Fixtures and office equipment	10% to 33%
Motor vehicles	10% to 20%

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purpose. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Upon application of HKFRS 16 on 1 January 2019, investment properties include leased properties recognised by the Group as right-of-use assets and leased out under operating lease.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties (Continued)

If an item of property, plant and equipment and right-of-use assets becomes an investment property when there is a change in use, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in asset revaluation reserve. The asset revaluation reserve in respect of that item will be transferred directly to retained earnings when it is derecognised.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Systems software

Purchased systems software is stated at cost less accumulated amortisation and any accumulated impairment losses, and is amortised on the straight-line basis over its estimated useful life of five years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period. Net realisable value is estimated by the directors of the Company based on the prevailing market prices, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors of the Company based on the prevailing market prices, on an individual property basis.

Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVTOCI, and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit impaired (see below). For financial assets that have subsequently become credit impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income and gains" line item (note 6).

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Equity instruments designated as at FVTOCI (Continued)

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'Other income and gains' line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instrument as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "Other income and gains" and "Other expenses" line items. Fair value is determined in the manner described in note 50.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost, finance lease receivables, contract assets as well as financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for accounts and bills receivables, contract assets and finance lease receivables. The ECL on these financial assets are estimated using a provision matrix or individually based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts and bills receivables, when the amounts are over 30 months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 Leases (on or after 1 January 2019) or HKAS 17 Leases (prior to 1 January 2019).

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

The Group's financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity-settled share based payment transactions

Share options and share awards granted to employees

The fair value of services received determined by reference to the fair value of equity instruments granted at the date of grant is expensed on a straight line basis over the vesting period with a corresponding increase in equity (employee share-based compensation reserve).

Service and non-market performance conditions are not taken into account when determining the grant date fair value of equity instruments, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an equity instrument, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of the equity instrument and lead to an immediate expensing of an equity instrument unless there are also service and/or performance conditions.

At the end of the reporting period, the Group revises its estimates of the number of equity instruments that are expected to ultimately vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based compensation reserve.

When share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will continue to be held in employee share-based compensation reserve.

For RSA Scheme (as explained in note 39(b)), the considerations paid (including any related transaction costs) by the Company to purchase shares of the Company are deducted from equity as an employee share trust. The administrator of the employee share trust purchases the Company's shares in the open market as award shares to employees. Upon vesting of the award shares, the corresponding amount in the employee share trust will be transferred to the employee share-based compensation reserve.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme (defined contribution scheme) operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on tangible and intangible assets (including right-of-use assets) (other than impairment of goodwill set out in accounting policy of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Fair value measurement

When measuring fair value except for the Group's share-based payment transactions, leasing transactions, net realisable value of inventories/properties under development/completed properties for sale and value in use of goodwill for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the parent of the Group.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distributions of dividends. No deferred tax liability on undistributed earnings had been provided at 31 December 2019 (2018: nil).

Ownerships of investment properties

As at 31 December 2019, the Group has not yet obtained the real estate ownership certificates for certain of the Group's investment properties with a net carrying amount of approximately HK$138,130,000 (2018: HK$261,491,000) from the relevant government authorities. In the opinion of the directors of the Company, the absence of formal title to these properties does not impair their values to the Group as these properties are erected on lands in which the Group had obtained the relevant title certificates, the Group had paid the full construction consideration and the probability of being evicted on the ground of an absence of formal title is remote.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the management of the Group has reviewed the Group's investment properties and concluded that the Group's investment properties, except for those classified as held for sale in accordance with HKFRS 5, are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that investment properties measured using the fair value model are recovered through sale is rebutted.

Accordingly, the Group recognises deferred tax in respect of the changes in fair value of the investment properties based on management's best estimate assuming future tax consequences through usage of such properties of rental purpose, rather than through sale. The final tax outcome could be different from the deferred tax liabilities recognised in the consolidated financial statements should the investment properties are subsequently disposed of by the Group, rather than all of the economic benefits embodied in the investment properties are consumed substantially by leasing over time. In the event the investment properties are being disposed of, the Group may be liable to higher tax upon disposal considering the impact of enterprise income tax ("EIT") and land appreciation tax ("LAT").

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical judgements in applying accounting policies (Continued)

Consolidation of entities in which the Group holds less than a majority of voting rights

The Group considers that it controls Digital China Information Service Company Ltd.（神州數碼信息服務股份有限公司）("DCITS") even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of DCITS with a 40.14% (2018: 40.43%) equity interest. Although the Group does not own a majority of the equity interests in DCITS, taking into account the Group's power to participate in the operational and financial activities of DCITS, distribution of key shareholders and their beneficial shareholders as well as historical voting patterns, and the existence of any contractual arrangement among the shareholders and/or their beneficial shareholders, if any, the directors of the Company are of the view that the equity holdings in DCITS are dispersed in a way that other shareholders have not organised and the practical risk to organise their holdings to outvote the Group in the shareholders' meetings of DCITS is remote so that the Group's voting rights are sufficient to give it the practical ability to direct the relevant activities of DCITS unilaterally. Therefore, the directors of the Company are of the view that the Company has de facto control over DCITS.

Significant influence over associates

The Group considers DigiWin Software Co. Ltd ("DWS") and Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Limited ("Jingu"), in which the Group has 10.02% and 9.71% (2018: 10.98% and 9.71%) equity interest respectively, are associates of the Group over which the Group has significant influence even though it owns less than 20% of voting rights.

By virtue of its contractual right, the Group holds more than 20% of the voting power of DWS of which 17.66% was held through DCITS while 3.84% was held through its wholly-owned subsidiary in 2018. In 2019, the Group's voting power in DWS decreased to 19.26% (15.44% was held through DCITS while 3.82% was held through its wholly-owned subsidiary). The Group considers that it has the ability to exercise significant influence on DWS even though it owns less than 20% of the ownership interest and voting power of DWS taking into account 1) the Group is the single largest shareholder of DWS and such ownership interest is significant relative to other shareholders due to the wide dispersion of shareholding interests; and 2) the representation on the board of directors of DWS.

For Jingu, the Group considers that it has the ability to exercise significant influence even though it owns less than 20% of the ownership interest and voting power taking into account 1) the Group is one of the largest shareholders and such ownership interest is significant relative to other shareholders due to the wide dispersion of shareholding interests; 2) the representation on the board of directors; 3) right to participate in the policy-making process, including dividends and other distribution; and 4) the representative of the Group is a member of significant committees of the associate. There are no changes in the Group's representation and composition of the board of directors of Jingu during 2019 and 2018.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Recognition of share-based compensation expense

The Group operates share-based incentive schemes as detailed in note 39 for the purpose of providing incentives and rewards to employees. The fair values of these equity instruments were valued by an independent valuer using the binomial model. These valuations require the Company to make estimates about certain key inputs, including the dividend yield, expected volatility, risk-free interest rate and expected life of options, and hence they are subject to uncertainty.

Besides, the grant of these equity instruments is conditional upon the satisfaction of specified vesting conditions, including service periods and performance conditions linked to financial performance measure. Judgement is required to take into account the vesting conditions and adjust the number of the equity instruments included in the measurement of share-based compensation expense.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Recognition of share-based compensation expense (Continued)

The cumulative expense recognised for share-based incentive schemes at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest.

Impairment assessment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and an appropriate discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2019, the carrying amount of goodwill is approximately HK$1,887,695,000 (2018: HK$2,057,937,000). An impairment loss of approximately HK$201,787,000 was recognised during the year ended 31 December 2019 (2018: HK$220,695,000). Details of the accumulated impairment and recoverable amount calculations are disclosed in note 18.

Fair value of financial assets measured at FVTPL and FVTOCI

As described in note 50, the directors of the Company use their judgements in selecting appropriate valuation techniques for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted equity instruments includes some assumptions not supported by observable market prices or rates. As at 31 December 2019, the carrying amount of the unlisted equity instruments classified as FVTOCI was approximately HK$408,572,000 (2018: HK$427,293,000). As at 31 December 2019, the carrying amount of the unlisted investments classified as financial assets at FVTPL was approximately HK$925,766,000 (2018: HK$1,258,048,000). The directors of the Company believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

Estimated useful lives of property, plant and equipment and intangible assets

At the end of each reporting period, the directors of the Company review the estimated useful lives of property, plant and equipment and intangible assets with finite useful life. The carrying amounts of property, plant and equipment and intangible assets with finite useful life as at 31 December 2019 is HK$1,027,562,000 (2018: HK$1,017,356,000) and HK$157,765,000 (2018: HK$161,520,000) respectively.

Revaluation of investment properties

As disclosed in note 15, investment properties, including completed investment properties and investment properties under construction, are revalued at the end of the reporting period on an open market, existing use basis by independent professional valuers. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, information about current prices in an active market for similar properties is considered and assumptions that are mainly based on market conditions existing at the end of the reporting period are used. At 31 December 2019, the carrying amount of investment properties measured at fair value was approximately HK$4,598,840,000 (2018: HK$4,712,932,000). The significant methods and assumptions used by valuers in estimating the fair value of investment properties are set out in note 15.

At 31 December 2018, investment properties under construction are measured based on estimates prepared by independent real estate valuation experts.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Expected credit losses of accounts and bills receivables and other receivables

The impairment provisions for accounts and bills receivables and other receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss.

During the year ended 31 December 2019, impairment loss of accounts and bills receivables of approximately HK$90,722,000 (2018: HK$155,151,000) was recognised in the consolidated statement of profit or loss for the year. The carrying amount of accounts and bills receivables was approximately HK$5,362,493,000 (2018: HK$4,889,158,000), net of loss allowance of approximately HK$750,029,000 (2018: HK$677,948,000).

During the year ended 31 December 2019, impairment loss of other receivables of approximately HK$3,645,000 (2018: HK$116,849,000) was recognised in the consolidated statement of profit or loss for the year. The carrying amount of deposits and other receivables was approximately HK$2,006,082,000 (2018: HK$1,719,017,000), net of loss allowance of approximately HK$133,045,000 (2018: HK$131,571,000).

Revenue recognition

When the Group recognises revenue over time using the input method, based on the actual direct costs incurred to satisfy the performance obligation relative to the total expected costs incurred to satisfy the performance obligations of an individual contract. Total expected costs and their corresponding contract revenue require estimations from management based on understanding of the performance of the contract and quotations from suppliers and subcontractors, and the Group's historical experience. Due to the nature of the activity undertaken in the service contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a provision for onerous contract may arise.

For system integration and software development and technical services business, the Group either creates and enhances an asset that the customers controls or its customers simultaneously receives and consumes the benefits provided as the Group performs. Therefore, the directors of the Company have satisfied that the performance obligation is satisfied over time.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sales. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. A considerable amount of judgement is required in assessing the ultimate realisation of these inventories. If the market conditions were to change, resulting in a change in provision for obsolete items, the difference will be recorded in the period it is identified. During the year ended 31 December 2019, provisions for and write-off of obsolete inventories of approximately HK$87,554,000 (2018: HK$125,630,000) was recognised in the consolidated statement of profit or loss. As at 31 December 2019, the carrying amount of inventories was approximately HK$1,848,844,000 (2018: HK$1,052,773,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Impairment assessment of interests in associates and joint ventures

At the end of the reporting period, the directors of the Company review the carrying amounts of its interests in associates and joint ventures of approximately HK$3,150,086,000 (2018: HK$3,427,004,000) and HK$185,890,000 (2018: HK$197,662,000) respectively, and identified if there is any indication that those assets may suffer an impairment loss. If an objective evidence of impairment exists, the recoverable amounts of the assets are estimated in order to determine the extent of impairment loss. The estimates of the recoverable amounts of the assets require the use of assumptions such as cash flow projections and discount rates. Based on the estimated recoverable amounts, impairment loss of associates of HK$2,286,000 (2018: joint ventures of HK$10,156,000) has been recognised in the consolidated profit or loss.

Deferred tax

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Certain entities of the Group were recognised as "High New Technology Enterprises" in Mainland China and entitled to a preferential corporate income tax rate of 15% for a three-year period. Digital China Information System (Yangzhou) Limited is recognised as "小型微利企業" and entitled to a preferential corporate income tax rate of 20% during the year ended 31 December 2019. The tax regulations call for a renewal process after the expiry. For the measurement of deferred tax assets and liabilities, judgement is required to determine whether these entities will continue to meet the criteria of "High New Technology Enterprises" and estimate the tax rates expected to be applied.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and amounts of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets and deferred tax liabilities at 31 December 2019 were approximately HK$173,125,000 (2018: HK$175,710,000) and HK$350,261,000 (2018: HK$339,004,000), respectively. The amount of unrecognised tax losses and certain deductible temporary differences at 31 December 2019 was approximately HK$1,446,350,000 (2018: HK$1,490,961,000) in aggregate. Further details are given in note 26.

EIT

The Group is subject to EIT in various regions. As a result of the fact that certain matters relating to the EIT have not been confirmed by the local tax bureaus, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision for EIT. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the EIT and tax provisions in the period in which the differences realise.

LAT

The Group is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the LAT expenses and the related provision in the period in which the differences realise.

5. SEGMENT INFORMATION

Information reported to the board of directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Segment information of the four continuing business groups are summarised as follows:

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

(b) The "Smart Industry Chain Business" segment: "IT Logistics" is China's leading industrial chain service brand, which is committed to providing customers with one-stop end-to-end services through the strategy of Warehouse + Big Data + Artificial Intelligence, and through the big data of the supply chain to coordinate the upstream and downstream enterprises, enhance the overall efficiency in the industry chain and create a new form of Smart Industry Chain under the overall ecosystem of the entire industry chain. The Group generated revenue from logistics business and e-commerce supply chain services business in this segment.

(c) "Sm@rt City Business" segment: "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 by engaged in system integration, software development and technical services business.

(d) "Other Business" segment: including property investment, sales of properties and "Smart Finance Business" which rely on its various financial licenses, integrates resources of financial institutions such as banking, insurance, securities and trusts, provision of financial services, such as micro-credit loan, leasing, factoring, etc. to internal and external customers; and assets operations, other innovative businesses and incubation and strategic investments.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results are evaluated based on the reportable segment profit, which is a measure of adjusted profit (loss) before tax. The segment results is measured consistently with the Group's profit before tax except that certain interest income, certain finance costs, unallocated corporate income and gains and unallocated corporate expenses are excluded from such measurement. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments excluding certain deferred tax assets, certain cash and cash equivalents and other unallocated corporate assets as these assets are managed on a group basis.

- all liabilities are allocated to operating segments excluding certain tax payables, certain interest-bearing bank and other borrowings, certain deferred tax liabilities and other unallocated corporate liabilities as these liabilities are managed on a group basis.

5. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue, results and assets, liabilities and certain other information for the Group's operating and reportable segments for the years ended 31 December 2019 and 2018.

	DCITS		Smart Industry Chain Business		Sm@rt City Business		Other Business		Elimination		Total	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Segment revenue:												
External	11,503,811	10,522,367	5,373,826	3,777,386	242,917	320,770	606,875	633,976	–	–	17,727,429	15,254,499
Inter-segment	1,768	23,137	8,485	15,418	83,776	4,448	27,609	22,423	(121,638)	(65,426)	–	–
	11,505,579	10,545,504	5,382,311	3,792,804	326,693	325,218	634,484	656,399	(121,638)	(65,426)	17,727,429	15,254,499
Segment gross profit	2,101,791	1,938,841	689,845	551,082	74,689	128,511	288,458	291,004			3,154,783	2,909,438
Segment results	301,344	149,192	105,635	(6,031)	11,492	2,503	391,369	427,017			809,840	572,681
Unallocated												
Interest income											2,994	5,396
Income and gains											4,956	1,065
Unallocated expenses											(143,191)	(172,295)
Profit from operating activities											674,599	406,847
Finance costs											(127,899)	(125,313)
Profit before tax											546,700	281,534

	DCITS		Smart Industry Chain Business		Sm@rt City Business		Other Business		Total	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Assets and liabilities										
Segment assets	12,046,747	12,319,680	1,848,396	1,512,138	478,885	469,079	10,492,425	10,567,331	24,866,453	24,868,228
Unallocated assets									684,648	619,946
Total assets									25,551,101	25,488,174
Segment liabilities	5,985,510	6,474,140	1,762,663	1,358,863	171,375	105,559	544,097	390,581	8,463,645	8,329,143
Unallocated liabilities									4,523,984	4,762,335
Total liabilities									12,987,629	13,091,478

5. SEGMENT INFORMATION (CONTINUED)

	DCITS		Smart Industry Chain Business		Sm@rt City Business		Other Business		Unallocated		Total	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Other segment information:												
Depreciation of property, plant and equipment	67,346	84,994	41,989	37,842	3,402	6,583	18,798	17,816	4,219	1,951	135,754	149,186
Depreciation of right-of-use asset	4,248	–	91,246	–	578	–	12,206	–	–	–	108,278	–
Amortisation of prepaid land premiums	–	758	–	–	–	–	–	969	–	–	–	1,727
Amortisation of other intangible assets	47,050	49,340	–	–	–	–	–	–	–	–	47,050	49,340
Capital expenditure*	57,738	58,142	92,530	65,545	13,915	575	5,174	703,498	163,067	4,781	332,424	832,541
Impairment of (reversal of impairment of) accounts and bills receivables, other receivables and contract assets	93,587	183,400	6,774	8,853	23,643	14,707	(29,369)	63,893	–	1,147	94,635	272,000
Provision for and write-off of (reversal of provision for) obsolete inventories	86,072	120,353	1,640	5,277	–	–	(158)	–	–	–	87,554	125,630
Share of (loss) profit of associates	18,791	(5,938)	–	–	(1,822)	3,856	(72,864)	62,641	–	–	(55,895)	60,559
Share of (loss) profit of joint ventures	3,199	2,115	–	–	(227)	1,050	(26,746)	14,802	–	–	(23,774)	17,967
Government grants	62,120	78,537	11,948	11,431	8,648	9,573	1,916	1,551	1,580	–	86,212	101,092
Gain on deemed partial disposal of equity interests in associates	–	34,940	–	–	–	–	143,311	258,143	–	–	143,311	293,083
Gain on partial disposal of equity interests in associates	46,526	–	–	–	–	–	177,213	–	–	–	223,739	–
Gain on disposal of financial assets at fair value through profit or loss	4,371	15	–	–	–	–	–	10,229	–	–	4,371	10,244
Gain on disposal/partial disposal of interest in subsidiaries	–	199,689	–	–	890	–	–	–	–	228	890	199,917
Gain on disposal of the equity interests in associates	–	–	–	–	9,183	988	436	6,892	–	–	9,619	7,880
Impairment of goodwill	201,787	220,695	–	–	–	–	–	–	–	–	201,787	220,695
(Reverse of impairment) impairment of finance lease receivables	–	–	–	–	–	–	(6,829)	12,740	–	–	(6,829)	12,740
Interests in associates	528,076	575,901	–	–	101,897	105,200	2,520,113	2,745,903	–	–	3,150,086	3,427,004
Interests in joint ventures	8,695	5,639	–	–	26,795	27,391	150,400	164,632	–	–	185,890	197,662
Interest on bank deposits	7,290	11,390	–	–	–	–	–	–	2,994	5,396	10,284	16,786
Finance costs	91,755	90,544	6,545	–	45	–	1,262	–	127,899	125,313	227,506	215,857
Income tax expenses#	65,951	35,576	–	–	–	–	–	–	30,573	25,488	96,524	61,064

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets, prepaid land premiums, investment properties and other intangible assets (including assets from the consolidation/acquisition of subsidiaries of approximately HK$144,000 (2018: HK$710,514,000)),

\# Income tax expenses are regularly provided to the CODM but not included in the measure of segment profit or loss.

Geographical information

Since over 90% of the Group's revenue from external customers is generated in Mainland China (based on location of customers) and over 90% of the non-current assets of the Group (except for investments in associates) are located in Mainland China (based on location of assets), no geographic information is presented.

Information about major customers

During the years ended 31 December 2019 and 2018, there was no revenue derived from transactions with a single external customer which individually contributed over 10% of the Group's revenue for the respective year.

6. REVENUE, OTHER INCOME AND GAINS

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

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

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers		
Disaggregated by major products or services lines:		
System integration business	5,442,136	5,755,094
Software development and technical service business	6,303,043	5,068,932
Logistics business	2,477,882	2,245,846
E-commerce supply chain services business	2,895,944	1,531,541
Others	215,788	223,819
Total revenue from contracts with customers	17,334,793	14,825,232
Revenue from other sources		
Rental income for investment properties under operating lease	348,736	308,897
Financial services business	43,900	120,370
Total revenue from other sources	392,636	429,267
Total revenue	17,727,429	15,254,499
Other income		
Government grants *(note a)*	86,212	101,092
Interest on bank deposits	10,284	16,786
Income from wealth management financial products	32,209	25,529
Dividends income from financial assets at fair value through other comprehensive income	232	3,840
Dividend income from financial assets at fair value through profit or loss	475	–
Others	10,462	7,852
	139,874	155,099

6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	Notes	2019 HK$'000	2018 HK$'000
Gains			
Fair value gains on investment properties	15	**32,532**	50,141
Gain on disposal of the equity interests in joint ventures	20	**–**	4,158
Gain on disposal of the equity interests in associates	21	**9,619**	7,880
Gain on disposal/partial disposal of the equity interests in subsidiaries *(note b)*		**890**	199,917
Gain on disposal of financial assets at fair value through profit or loss, net	24	**4,371**	10,244
Others		**434**	3,567
		47,846	275,907
Total other income and gains		**187,720**	431,006

Note a: Details of the government grants received by the Group are set out in note 47.

Note b: Included in the balance was gain on disposal of certain insignificant subsidiaries of approximately HK$890,000 (2018: HK$426,000). For further details, please refer to note 42.

Disaggregation of revenue by timing of recognition

	2019 HK$'000	2018 HK$'000
Timing of revenue recognition		
At a point in time	**9,053,238**	7,767,916
Over time	**8,281,555**	7,057,316
Total revenue from contracts with customers	**17,334,793**	14,825,232

Transaction price allocated to the remaining performance obligations

As at 31 December 2019, the aggregate amount of transaction price allocated to the performance obligations that are unsatisfied (or partially satisfied) is HK$5,157,000,000 which is expected to recognise within 3 years.

7. PROFIT BEFORE TAX

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

	2019 HK$'000	2018 HK$'000
Amount of inventories recognised as an expense	**8,194,050**	7,140,468
Auditor's remuneration	**2,700**	3,600
Depreciation of property, plant and equipment	**135,754**	149,186
Depreciation of right-of-use assets	**108,278**	–
Amortisation of prepaid land premiums	**–**	1,727
Research and development costs*	**538,048**	585,958
Amortisation of other intangible assets*	**47,050**	49,340
Minimum lease payments under operating leases in respect of rented land and buildings	**–**	295,935
Provisions for and write-off of obsolete inventories*	**87,554**	125,630
Impairment of accounts and bills receivables, other receivables and contract assets*	**94,635**	272,000
(Reversal of impairment) impairment of finance lease receivables*	**(6,829)**	12,740
Impairment of interests in joint ventures*	**–**	10,156
Impairment of interests in associates*	**2,286**	–
Impairment of properties under development*	**12,394**	–
Loss on disposal of property, plant and equipment	**4,022**	24,575
Loss on write-off of other intangible assets	**4,882**	–
Fair value loss on financial assets at fair value through profit or loss*	**3,263**	5,838
Foreign exchange differences, net*	**11,926**	36,654
Employee benefit expense (including directors' and chief executives' remuneration *(note 9)*):		
Salaries and allowances	**2,015,157**	2,006,885
Share-based compensation	**18,369**	3,414
Pension scheme contributions**	**285,769**	210,584
Other benefits	**255,535**	348,144
	2,574,830	2,569,027
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties***	**31,949**	33,391

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

** At 31 December 2019 and 2018, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years.

*** During the year ended 31 December 2019, the Group recognised rental income of approximately HK$348,736,000 (2018: HK$308,897,000).

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 HK$'000	2018 HK$'000
Interest on bank and other borrowings	**177,663**	165,623
Interest on corporate bonds	**19,068**	32,783
Interest on discounted bills	**20,541**	17,451
Interest on lease liabilities	**10,234**	–
	227,506	215,857

9. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION

Directors' and chief executives' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2019 HK$'000	2018 HK$'000
Fees	**1,200**	1,200
Other emoluments:		
Salaries and allowances	**3,590**	5,571
Pension scheme contributions	**510**	152
	4,100	5,723
	5,300	6,923

9. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 HK$'000	2018 HK$'000
Mr. WONG Man Chung, Francis	300	300
Ms. NI Hong, Hope	300	300
Dr. LIU Yun, John	300	300
Ms. YAN Xiaoyan *(note)*	–	–
Mr. LAI Daniel, BBS, JP [1]	–	150
Mr. King William	300	150
	1,200	1,200

[1] Resigned on 11 June 2018

Note: Ms. YAN Xiaoyan waived her entitlements to director's fee during the term of her tenure. The amount of director's fee being waived during the year was HK$300,000 (2018: HK$300,000).

Saved as disclosed above, there were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(b) Executive directors, non-executive directors and the chief executives

	Fees HK$'000	Salaries and allowances HK$'000	Performance related bonus HK$'000	Share-based compensation HK$'000 *(Note 39)*	Pension scheme contributions HK$'000	Total remuneration HK$'000
2019						
Executive directors:						
Mr. GUO Wei	–	–	–	–	–	–
Mr. LIN Yang	–	3,590	–	–	510	4,100
	–	3,590	–	–	510	4,100
Non-executive directors:						
Mr. YU Ziping	–	–	–	–	–	–
Mr. PENG Jing	–	–	–	–	–	–
	–	–	–	–	–	–
	–	3,590	–	–	510	4,100

9. DIRECTORS' AND CHIEF EXECUTIVES' REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and the chief executives (Continued)

	Fees HK$'000	Salaries and allowances HK$'000	Performance related bonus HK$'000	Share-based compensation HK$'000 *(Note 39)*	Pension scheme contributions HK$'000	Total remuneration HK$'000
2018						
Executive directors:						
Mr. GUO Wei	–	1,643	–	–	87	1,730
Mr. LIN Yang	–	3,928	–	–	65	3,993
	–	5,571	–	–	152	5,723
Non-executive directors:						
Mr. YU Ziping	–	–	–	–	–	–
Mr. PENG Jing	–	–	–	–	–	–
	–	–	–	–	–	–
	–	5,571	–	–	152	5,723

Mr. GUO Wei was re-appointed as the chief executive of the Company in June 2018 (Prior to re-appointment: Mr. LIN Yang) and their emoluments disclosed above include those for services rendered by them as the Chief Executive.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2018: one) was director of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining four (2018: four) individuals were as follows:

	2019 HK$'000	2018 HK$'000
Salaries and allowances	**8,224**	6,551
Performance related bonuses	**4,289**	–
Share-based compensation *(note 39)*	**1,654**	2,277
Pension scheme contributions	**331**	262
	14,498	9,090

10. EMPLOYEES' EMOLUMENTS (CONTINUED)

Their emoluments were within the following bands:

	Number of employees 2019	2018
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	2	2
HK$3,000,001 to HK$3,500,000	–	1
HK$4,000,001 to HK$4,500,000	1	–
HK$5,000,001 to HK$5,500,000	1	–
	4	4

11. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Current – PRC		
EIT		
Charge for the year	96,845	80,791
Over provision in prior years	(6,393)	(4,223)
LAT	187	8,628
	90,639	85,196
Current – Hong Kong		
Charge for the year	–	52
Under (over) provision in prior years	17	(200)
	17	(148)
Deferred tax *(note 26)*	5,868	(23,984)
Total tax charge for the year	96,524	61,064

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

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

11. INCOME TAX EXPENSE (CONTINUED)

(c) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the years ended 31 December 2019 and 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% of the estimated assessable profits.

(d) The share of tax charge attributable to joint ventures of approximately HK$665,000 (2018: HK$9,935,000) and the share of tax charge attributable to associates of approximately HK$39,050,000 (2018: HK$33,963,000) are included in "Share of (loss) profit of joint ventures" and "Share of (loss) profit of associates", respectively, in the consolidated statement of profit or loss.

The tax charge for the year can be reconciled to the profit before tax per consolidated statement of profit or loss as follows:

	2019 HK$'000	2018 HK$'000
Profit before tax	**546,700**	281,534
Tax at the applicable tax rate	**136,675**	70,384
Income tax on concessionary rates	**(59,383)**	(50,384)
Adjustments in respect of current tax of previous periods	**(6,376)**	(4,423)
Profits and losses attributable to joint ventures and associates	**19,917**	(19,632)
Tax effect of unused tax losses not recognised	**71,894**	104,570
Tax effect of deductible temporary differences not recognised	**14,893**	47,595
Super-deduction of research and development expenses	**(61,535)**	(39,840)
Income not subject to tax	**(514)**	(73,071)
Expenses not deductible to tax	**61,792**	39,505
Tax losses utilised from previous periods	**(81,026)**	(22,268)
LAT	**187**	8,628
Tax charge at the Group's effective rate	**96,524**	61,064

12. DIVIDENDS

	2019 HK$'000	2018 HK$'000
Final dividends	**105,202**	51,112

Subsequent to the end of the reporting period, the directors of the Company recommend the payment of a final dividend of HK6.4 cents per ordinary share for the year ended 31 December 2019 to the shareholders of the Company and is subject to the approval of the shareholders in the forthcoming annual general meeting. The final dividend proposed after the reporting period has not been recognised as liabilities in the consolidated financial statements.

13. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share is based on the profit for the year attributable to equity holders of the parent, and the weighted average number of ordinary shares in issue less shares held under the restricted share award scheme ("**RSA Scheme**") of 1,648,397,272 (2018: 1,669,145,464) during the year.

The calculation of the diluted earnings per share is based on the profit for the year attributable to 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 RSA scheme during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares related to the Group's share-based incentive schemes into ordinary shares. The diluted earnings per share for the year ended 31 December 2019 and 2018 are the same as the basic earnings per share. The calculation of diluted earnings per share had not taken into account the outstanding share options as the exercise prices of those share options are higher than the average market price for the shares.

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

	2019 **HK$'000**	2018 HK$'000
Profit for the year attributable to equity holders of the parent, used in the basic and diluted earnings per share calculation	**301,844**	149,587

	Number of shares	
	2019	2018
Shares		
Weighted average number of shares in issue less shares held under the RSA Scheme during the year, used in the basic and diluted earnings per share calculation	**1,648,397,272**	1,669,145,464

The diluted earnings per share for the year ended 31 December 2019 and 2018 are the same as the basic earnings per share. The calculation of diluted earnings per share had not taken into account the outstanding share options as the exercise prices of those share options are higher than the average market price for the shares.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2018 and at 1 January 2019:						
Cost	731,707	187,195	625,782	13,739	4,543	1,562,966
Accumulated depreciation	(79,576)	(122,339)	(332,688)	(11,007)	–	(545,610)
Net carrying amount	652,131	64,856	293,094	2,732	4,543	1,017,356
At 1 January 2019, net of accumulated depreciation	652,131	64,856	293,094	2,732	4,543	1,017,356
Additions	161,485	11,714	23,387	943	1,606	199,135
Disposals	–	(2,284)	(7,789)	(552)	(365)	(10,990)
Acquisition of subsidiaries *(note 42(b)(i))*	–	–	93	51	–	144
Disposal of subsidiaries *(note 42(e))*	–	(5)	(57)	–	–	(62)
Surplus on revaluation upon transfer to investment properties	20,597	–	–	–	–	20,597
Transfers	123	–	–	–	(123)	–
Transfer to investment properties *(note 15)*	(41,099)	–	–	–	–	(41,099)
Transfer to properties under development *(note 28)*	–	–	–	–	(253)	(253)
Transfer to assets held for sale *(note 22)*	–	–	–	–	(4,477)	(4,477)
Depreciation provided during the year	(17,291)	(29,102)	(87,933)	(1,428)	–	(135,754)
Exchange realignment	(12,199)	(862)	(3,909)	18	(83)	(17,035)
At 31 December 2019, net of accumulated depreciation	763,747	44,317	216,886	1,764	848	1,027,562
At 31 December 2019:						
Cost	855,042	189,407	565,833	11,734	848	1,622,864
Accumulated depreciation	(91,295)	(145,090)	(348,947)	(9,970)	–	(595,302)
Net carrying amount	763,747	44,317	216,886	1,764	848	1,027,562

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings HK$'000	Leasehold improvements HK$'000	Fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2017 and at 1 January 2018:						
Cost	779,438	174,011	729,887	16,774	4,737	1,704,847
Accumulated depreciation	(66,941)	(105,810)	(352,401)	(12,535)	–	(537,687)
Net carrying amount	712,497	68,201	377,486	4,239	4,737	1,167,160
At 1 January 2018, net of accumulated depreciation	712,497	68,201	377,486	4,239	4,737	1,167,160
Additions	–	25,991	71,443	332	2,427	100,193
Disposals	–	(480)	(24,497)	(693)	–	(25,670)
Acquisition/consolidation of subsidiaries	–	–	1,373	–	–	1,373
Disposal of a subsidiary	–	(1,187)	(18,563)	–	–	(19,750)
Surplus on revaluation upon the transfer to investment properties	2,993	–	–	–	–	2,993
Transfers	–	2,404	–	–	(2,404)	–
Transfer to investment properties *(note 15)*	(19,372)	–	–	–	–	(19,372)
Depreciation provided during the year	(17,920)	(27,566)	(102,667)	(1,033)	–	(149,186)
Exchange realignment	(26,067)	(2,507)	(11,481)	(113)	(217)	(40,385)
At 31 December 2018, net of accumulated depreciation	652,131	64,856	293,094	2,732	4,543	1,017,356
At 31 December 2018:						
Cost	731,707	187,195	625,782	13,739	4,543	1,562,966
Accumulated depreciation	(79,576)	(122,339)	(332,688)	(11,007)	–	(545,610)
Net carrying amount	652,131	64,856	293,094	2,732	4,543	1,017,356

At 31 December 2019, the Group's property, plant and equipment with net carrying amount of approximately HK$136,226,000 (2018: HK$163,936,000) were pledged to secure certain bank loans of the Group (note 36).

15. INVESTMENT PROPERTIES

The movements in the Group's investment properties and the reconciliation of level 3 fair value measurement on a recurring basis are as follows:

	2019			2018		
	Completed Investment properties HK$'000	**Investment properties under construction HK$'000**	**Total HK$'000**	Completed investment properties HK$'000	Investment properties under construction HK$'000	Total HK$'000
Fair value						
As at 1 January	**4,600,892**	**112,040**	**4,712,932**	3,926,135	176,192	4,102,327
Acquisition/consolidation of subsidiaries	**–**	**–**	**–**	707,517	–	707,517
Transfer from owner-occupied properties or right-of-use assets	**42,795**	**–**	**42,795**	19,372	–	19,372
Transfer to assets classified as held for sale *(note 22)*	**–**	**(108,170)**	**(108,170)**	–	–	–
Net gain from a fair value adjustment recognised in profit or loss	**34,716**	**(2,184)**	**32,532**	107,600	(57,459)	50,141
Exchange realignment	**(79,563)**	**(1,686)**	**(81,249)**	(159,732)	(6,693)	(166,425)
As at 31 December	**4,598,840**	**–**	**4,598,840**	4,600,892	112,040	4,712,932

The Group's investment properties are situated in Mainland China and are held under medium term operating leases to earn rentals or for capital appreciation.

The directors of the Company have determined that the investment properties consist of one class of asset, commercial properties, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2019 and of the date of transfer based on valuations performed by Savills Valuation and Professional Services Limited, APAC Asset Valuation and Consulting Limited and Valuelink Asset Appraisal (Beijing) Co., Ltd., independent professionally qualified valuers not connected to the Group on an open market, existing use basis. Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Certain investment properties are leased to third parties under operating leases, further summary details of which are included in note 44(a).

15. INVESTMENT PROPERTIES (CONTINUED)

At 31 December 2019, the Group has not yet obtained the real estate ownership certificates for the Group's investment properties with a net carrying amount of approximately HK$138,130,000 (2018: HK$261,491,000) from the relevant government authorities. The directors of the Company consider that the relevant real estate ownership certificates will be obtained in the near future.

At 31 December 2019, the Group's investment properties with a carrying value of HK$3,576,944,000 (2018: HK$3,625,262,000) were pledged to secure certain bank loans of the Group (note 36).

During the year ended 31 December 2019, certain owner-occupied properties of HK$41,099,000 (2018: HK$19,372,000) and related right-of-use assets of HK$1,696,000 (2018: nil) at aggregate fair value of HK$42,795,000 (2018: HK$19,372,000) are leased to tenants under operating leases and thus transferred to investment properties. The basis of fair value measurement at date of transfer is described above. A surplus on revaluation upon the transfer of HK$20,597,000 (2018: HK$2,993,000) is recognised in other comprehensive income and accumulated in assets revaluation reserve.

An analysis of the Group's investment properties that are measured subsequent to initial recognition at fair value, grouped into fair value hierarchy Levels 1 to 3 based on the degree to which the inputs to fair value measurements is observable is as follows:

				Fair value
				2019
	(Level 1)	**(Level 2)**	**(Level 3)**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Recurring fair value measurement for:				
Commercial properties	**–**	**–**	**4,598,840**	**4,598,840**

				Fair value
				2018
	(Level 1)	(Level 2)	(Level 3)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Recurring fair value measurement for:				
Commercial properties	–	–	4,712,932	4,712,932

There were no transfers between levels of fair value hierarchy during the years ended 31 December 2019 and 2018.

15. INVESTMENT PROPERTIES (CONTINUED)

The following table gives information about how the fair values of the investment properties as at 31 December 2019 and 2018 are determined (in particular, the valuation techniques and inputs used):

	Valuation techniques and key inputs	Significant unobservable inputs	Range or weighted average 2019	2018
Completed investment properties – Commercial properties	Discounted cash flow method – by taking into account the current rents and the reversionary potential of the tenancies	Estimated rental value (per s.q.m. and per month) (HK$)	**From 19 to 330**	From 19 to 335
		Long term vacancy rate	**From 5% to 15%**	From 5% to 15%
		Discount rate	**From 6% to 8%**	From 6% to 8%
Investment properties under construction – Commercial properties	2018: Market comparison approach – by reference to recent selling price of comparable properties and adjusted to reflect the time, size and location of the property	Discount on time, size and location of the properties	**N/A**	From 3% to 15%

The Group has determined that the highest and best use of the commercial properties at the measurement date would be to convert those properties for residential purposes. For strategic reasons, the properties are not being used in this manner. There have been no other changes from the valuation technique used in the prior year.

For completed properties, significant increase (decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the long term vacancy rate and the discount rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

For investment properties under construction as at 31 December 2018, significant increase (decrease) in adjusted market price would result in a significant increase (decrease) in fair value.

During the year ended 31 December 2018, investment properties with fair value of approximately HK$46,412,000 were acquired from the acquisition of a subsidiary, which before the acquisition is a joint venture of the Company, in July 2018 that were accounted for as an acquisition of assets. Certain investment properties with fair value of approximately HK$661,105,000 were acquired through the consolidation of subsidiaries as detailed in note 42(a).

16. PREPAID LAND PREMIUMS

	2019 HK$'000	2018 HK$'000
Carrying amount at 1 January	**69,230**	73,635
Effect of changes in accounting policy	**(69,230)**	N/A
Amortisation during the year	**–**	(1,727)
Exchange realignment	**–**	(2,678)
Carrying amount at 31 December	**–**	69,230
Current portion included in prepayments, deposits and other receivables	**–**	(4,195)
Non-current portion	**–**	65,035

As at 31 December 2018, the Group's prepaid land premiums with a carrying value of approximately HK$28,587,000 were pledged to secure certain bank loans of the Group (note 36).

Upon adoption of HKFRS 16 on 1 January 2019, the carrying amount of prepaid land premiums of HK$69,230,000 was reclassified to right-of-use assets.

17. LEASES

(i) Right-of-use assets

	Land HK$'000	Building HK$'000	Total HK$'000
At 1 January 2019	69,230	201,276	270,506
Additions	–	82,981	82,981
Transfer to investment properties	(1,696)	–	(1,696)
Transfer to assets held for sale	(5,866)	–	(5,866)
Depreciation	(1,675)	(106,603)	(108,278)
Exchange realignment	(1,168)	(2,823)	(3,991)
At 31 December 2019	58,825	174,831	233,656

As at 31 December 2019, right-of-use assets of HK$58,825,000 represent land use rights located in the PRC.

As at 31 December 2019, the Group's land use rights with a carrying value of approximately HK$19,785,000 were pledged to secure certain bank loans of the Group (note 36).

The Group has lease arrangements for buildings (office properties and warehouses). The lease terms generally ranged from two to five years at fixed rates.

17. LEASES (CONTINUED)

(ii) Lease liabilities

	31 December 2019 HK$'000	1 January 2019 HK$'000
Non-current	**60,616**	96,183
Current	**103,070**	97,779
	163,686	193,962

Amounts payable under lease liabilities	**31 December 2019 HK$'000**
Within one year	**103,070**
After one year but within two years	**40,842**
After two years but within five years	**19,774**
	163,686
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(103,070)**
Amount due for settlement after 12 months	**60,616**

During the year ended 31 December 2019, the Group entered into a number of new lease agreements for building and recognised lease liability of HK$82,981,000.

(iii) Amounts recognised in profit or loss

	Year ended 31 December 2019 HK$'000
Expense relating to short-term leases	**100,549**
Depreciation	**108,278**
Interests	**10,234**

(iv) Others

At 31 December 2019, the Group did not have committed lease agreements that were not yet commenced.

During the year ended 31 December 2019, the total cash outflows for leases amounted to HK$217,023,000.

18. GOODWILL

The amount of goodwill capitalised as an asset, arising from the acquisition of subsidiaries, was as follows:

	2019 HK$'000	2018 HK$'000
At 1 January:		
Cost	**2,278,632**	2,346,218
Accumulated impairment	**(220,695)**	–
Net carrying amount	**2,057,937**	2,346,218
Cost at 1 January, net of accumulated impairment	**2,057,937**	2,346,218
Acquisition of subsidiaries *(note 42(b))*	**66,834**	19,523
Impairment loss	**(201,787)**	(220,695)
Exchange realignment	**(35,289)**	(87,109)
Cost at 31 December, net of accumulated impairment	**1,887,695**	2,057,937
At 31 December:		
Cost	**2,306,392**	2,278,632
Accumulated impairment	**(418,697)**	(220,695)
Net carrying amount	**1,887,695**	2,057,937

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	2019 HK$'000	2018 HK$'000
Industry application software and solutions	**–**	–
Rural information services	**723,531**	941,463
Mobile network optimisation and big data services for communications	**977,059**	994,105
Data integration and management software sales	**79,382**	80,767
Agricultural internet of things services	**22,203**	22,590
Technical services	**18,686**	19,012
Agricultural internet services	**66,834**	–
Total	**1,887,695**	2,057,937

18. GOODWILL (CONTINUED)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following CGUs for impairment testing:

- Industry application software and solutions CGU;
- Rural information services CGU;
- Mobile network optimisation and big data services for communications CGU;
- Data integration and management software sales CGU;
- Agricultural internet of things services CGU;
- Technical services CGU; and
- Agricultural internet services CGU.

Industry application software and solutions CGU

The goodwill of Industry application software and solutions of approximately HK$220,695,000 was fully impaired in 2018 due to the change in the consumer preference leading to a severe downturn in the performance resulting in carrying amount of nil as at 31 December 2019 and 2018.

Rural information services CGU

During the year ended 31 December 2019, the Group recognised an impairment loss of HK$201,787,000 in related to goodwill arising on acquisition of 北京中農信達信息技術有限公司 due to the slowdown of demand for rural information services.

The recoverable amount of the rural information services CGU is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 13.83% (2018: 12.15%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2.5% (2018: 2.5%).

Mobile network optimisation and big data services for communications CGU

The recoverable amount of the mobile network optimisation and big data services for communications CGU is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 13.07% (2018: 11.9%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2.5% (2018: 2.5%).

Data integration and management software sales CGU

The recoverable amount of the data integration and management software sales CGU is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 16% (2018: 16%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2018: 3%).

18. GOODWILL (CONTINUED)

Impairment testing of goodwill (Continued)

Agricultural internet of things services CGU

The recoverable amount of the agricultural internet of things services CGU is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 12.85% (2018: 12.15%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2.5% (2018: 2.5%).

Technical services CGU

The Group has two CGUs related to technical services. The recoverable amount of the technical services CGU is determined based on value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rates applied to cash flow projections are ranging from 14.04% and 16.5% (2018: 12.6% and 16.5%) and cash flows beyond the five-year period are extrapolated using growth rates of 2.5% and 3% (2018: 2.5% and 3%).

Agricultural internet services CGU

The recoverable amount of the agricultural internet services CGU is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 14.7% and cash flows beyond the five-year period are extrapolated using a growth rate of 0%.

Key assumptions were used in the value in use calculations, the following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margin is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development. The increase in budgeted gross margin will increase the value in use of a CGU, vice versa.

Discount rate – The discount rate used reflects specific risks relating to the CGU. The increase in discounted rate will decrease the value in use of a CGU, vice versa.

The values assigned to the key assumptions on market development and discounts rates are consistent with external information sources.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGUs to exceed the aggregate recoverable amount of the CGUs.

19. OTHER INTANGIBLE ASSETS

	Patents and licences HK$'000	Deferred development costs HK$'000	Systems software HK$'000	Total HK$'000
31 December 2019				
At 1 January 2019:				
Cost	24,484	20,208	220,811	265,503
Accumulated amortisation and impairment	(16,180)	–	(87,803)	(103,983)
Net carrying amount	8,304	20,208	133,008	161,520
Cost at 1 January 2019, net of accumulated amortisation and impairment	8,304	20,208	133,008	161,520
Additions	–	49,385	779	50,164
Write-off	(429)	–	(4,453)	(4,882)
Amortisation provided during the year	(3,222)	–	(43,828)	(47,050)
Exchange realignment	(140)	(346)	(1,501)	(1,987)
At 31 December 2019	4,513	69,247	84,005	157,765
At 31 December 2019:				
Cost	23,112	69,247	202,732	295,091
Accumulated amortisation and impairment	(18,599)	–	(118,727)	(137,326)
Net carrying amount	4,513	69,247	84,005	157,765

19. OTHER INTANGIBLE ASSETS (CONTINUED)

	Patents and licences HK$'000	Deferred development costs HK$'000	Systems software HK$'000	Total HK$'000
31 December 2018				
At 1 January 2018:				
Cost	30,433	50,715	164,641	245,789
Accumulated amortisation and impairment	(18,131)	–	(46,271)	(64,402)
Net carrying amount	12,302	50,715	118,370	181,387
Cost at 1 January 2018, net of accumulated amortisation and impairment	12,302	50,715	118,370	181,387
Additions	1,054	23,473	10,873	35,400
Acquisition of subsidiaries	–	–	1,624	1,624
Disposal of a subsidiary	–	–	(532)	(532)
Amortisation provided during the year	(4,855)	–	(44,485)	(49,340)
Transfer	–	(53,376)	53,376	–
Exchange realignment	(197)	(604)	(6,218)	(7,019)
At 31 December 2018	8,304	20,208	133,008	161,520
At 31 December 2018:				
Cost	24,484	20,208	220,811	265,503
Accumulated amortisation and impairment	(16,180)	–	(87,803)	(103,983)
Net carrying amount	8,304	20,208	133,008	161,520

20. INTERESTS IN JOINT VENTURES

	2019 HK$'000	2018 HK$'000
Share of net assets	**150,050**	161,197
Goodwill on acquisition	**35,840**	36,465
	185,890	197,662

The details of the Group's loans to joint ventures included in the Group's prepayments, deposits and other receivables are disclosed in note 31. In the opinion of the directors of the Company, these loans are not considered as part of the Group's net investments in these joint ventures.

The details of the Group's accounts receivable balances due from joint ventures are disclosed in note 30.

All the joint ventures have been accounted for using the equity method in these consolidated financial statements.

During the year ended 31 December 2019, the Group invested HK$23,981,000 (2018: HK$4,737,000) in certain joint ventures in proportion to their equity interests.

During the year ended 31 December 2018, the Group acquired 51% additional interest in a joint venture with a carrying amount of approximately HK$32,875,000 following which the joint venture became a wholly-owned subsidiary of the Group. The acquisition was accounted for as acquisition of assets as the principal asset of the joint venture is an investment property.

During the year ended 31 December 2018, the Group disposed of its entire equity interest in joint ventures with an aggregate carrying amount of approximately HK$9,814,000 to an independent third party for a cash consideration of approximately HK$13,972,000 and resulted in gain on disposal of approximately HK$4,158,000.

As at 31 December 2019 and 2018, the Group had interest in the following principal joint venture:

Name	Form of entity	Class of capital held	Country of registration/ place of business	Carrying amount		Percentage of ownership interest attributable to the Group indirectly held		Proportion of voting power held		Principal activity
				2019	2018	2019	2018	2019	2018	
神州數碼科技產業投資有限責任公司	Incorporated	Paid-up capital	PRC/ Mainland China	**96,780**	106,297	**49%**	49%	**60%**	60%	Technology Industry project investment

The Group holds 60% of the voting power in神州數碼科技產業投資有限責任公司through a wholly-owned subsidiary and all decisions relating to its operating and financing activities require unanimous consent between the Group and the other joint venture partner.

In the opinion of the directors of the Company, all joint venture of the Group are not individually material. The above table lists the most significant joint venture of the Group. To give details of other joint ventures would, in the opinion of the directors of the Company, result in particulars of excessive length.

20. INTERESTS IN JOINT VENTURES (CONTINUED)

The following table illustrates the aggregate financial information and carrying amount of the Group's interests in joint ventures that are not individually material and are accounted for using the equity method:

	2019 HK$'000	2018 HK$'000
Aggregate carrying amount of the Group's interests in joint ventures	**185,890**	197,662
Share of the joint ventures' (loss) profit for the year	**(23,774)**	17,967
Share of the joint ventures' total comprehensive (loss) income for the year	**(23,774)**	17,967
Dividend received from joint ventures during the year	**–**	5,137
Impairment loss recognised during the year	**–**	10,156

21. INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Share of net assets	**2,485,080**	2,740,503
Goodwill on acquisition	**665,006**	686,501
	3,150,086	3,427,004
Analysed into:		
Unlisted shares	**1,338,598**	1,470,617
Shares listed in Hong Kong	**1,323,287**	1,423,940
Shares listed in Mainland China	**488,201**	532,447
	3,150,086	3,427,004

The details of the Group's trading balances with associates are disclosed in notes 30 and 34, respectively.

21. INTERESTS IN ASSOCIATES (CONTINUED)

As at 31 December 2019 and 2018, particulars of the Group's material associates are as follows:

Name	Place of incorporation/ registration and business	Particular of issued share capital/ registered capital	Percentage of ownership interest attributable to the Group 2019	2018	Principal activities
DWS*	PRC/Mainland China	RMB265,949,953	**10.02%**	10.98%	Provision of ERP software and related services
HC Group Inc. ("HCI")**	Cayman Islands/ Mainland China	HK$112,055,221	**22.64%**	22.64%	Provision of B-to-B e-commerce services

The above table lists the associates of the Group which, in the opinion of the directors of the Company, principally affect the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

* Listed on the ChiNext of The Shenzhen Stock Exchange. The total market value of the Group's interests as at 31 December 2019 was approximately HK$855,997,000 (2018: HK$634,579,000). The Group's voting power in DWS is 19.26% (2018: 21.5%) of which 15.44% (2018: 17.66%) was held through DCITS, a non-wholly-owned subsidiary and 3.82% (2018: 3.84%) was held through a wholly-owned subsidiary. Goodwill relating to DWS included in the carrying amount of approximately HK$488,201,000 (2018: HK$532,447,000) is approximately HK$183,253,000 (2018: HK$208,953,000).

** Listed on the Main Board of The Stock Exchange of Hong Kong Limited. The total market value of the Group's interests as at 31 December 2019 was approximately HK$588,519,000 (2018: HK$1,149,134,000). The market value is lower than the carrying amount of interest in this associate, the management of the Group conducted a review on the recoverable amount of its interest in this associate by reference to the value in use of the associate and considered no impairment is necessary. Goodwill relating to HCI included in the carrying amount of approximately HK$1,323,287,000 (2018: HK$1,423,940,000) is approximately HK$427,622,000 (2018: HK$451,756,000).

Note: In the opinion of the Directors of the Company, the Group has significant influence over associates in which the Group owns less than 20% of voting right. The basis of judgement is disclosed in note 4.

During the year ended 31 December 2019, the Group invested HK$41,486,000 (2018: nil) in certain associates which are not individually material to the Group.

During the year ended 31 December 2019, the Group disposed of its entire equity interests in certain associates with an aggregate carrying amount of approximately HK$8,645,000 (2018: HK$39,053,000) for an aggregate cash consideration of approximately HK$18,264,000 (2018: HK$46,933,000) and resulted in gain on disposals of approximately HK$9,619,000 (2018: HK$7,880,000).

During the year ended 31 December 2019, the Group partially disposed of its interests in certain associates with an aggregate carrying amount of HK$101,978,000 for an aggregate cash consideration of approximately HK$324,956,000, in which consideration of approximately HK$228,171,000 was included in other receivables as at 31 December 2019 and, together with release of other comprehensive income recognised in the prior years, resulted in gain on partial disposal of HK$223,739,000. During the year ended 31 December 2019, the Group entered into an agreement to further dispose of its interest in an associate and reclassified the interests to assets held for sale (note 22).

During the year ended 31 December 2019, the Group's interests in certain of its associates were diluted due to the capital injections by the other equity holders of the respective associates. Following the capital injections, the Group continues to exercise significant influence over these associates and therefore they remain as associates of the Group. The Group recorded a gain on deemed partial disposal of approximately HK$143,311,000 (2018: HK$293,083,000) in profit or loss.

The Group's interests in all the associates are held through the subsidiaries of the Company.

All the associates have been accounted for using the equity method in the consolidated financial statements.

21. INTERESTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information in respect of DWS and HCI, that are material to the Group and are accounted for using equity method:

	DWS		HCI	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current assets	**1,362,283**	1,567,694	**3,539,753**	3,812,800
Non-current assets	**1,179,882**	1,200,956	**5,246,701**	5,543,156
Current liabilities	**(953,506)**	(1,246,377)	**(2,964,443)**	(2,469,097)
Non-current liabilities	**(8,434)**	(493)	**(972,840)**	(1,392,538)
Net assets	**1,580,225**	1,521,780	**4,849,171**	5,494,321
Less: Non-controlling interests	**10,069**	17,157	**791,323**	1,007,230
Net assets attributable to shareholders of the associates	**1,570,156**	1,504,623	**4,057,848**	4,487,091
Revenue	**1,642,259**	1,538,571	**16,722,471**	12,333,678
Profit for the year	**117,962**	93,838	**(415,657)**	215,078
Other comprehensive loss for the year	**(32,401)**	(2,513)	**(24,493)**	(169,994)
Total comprehensive income (loss) for the year	**85,561**	91,325	**(440,150)**	45,084
Dividend received from associates during the year	**5,857**	6,964	**–**	–

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019	2018
	HK$'000	HK$'000
Aggregate carrying amount of the Group's investments in immaterial associates	**1,338,598**	1,470,617
Share of the associates' profit (loss) for the year	**15,490**	(8,300)
Share of the associates' other comprehensive loss for the year	**–**	(58,208)
Share of the associates' total comprehensive income (loss) for the year	**15,490**	(66,508)
Dividend received from associates during the year	**25,714**	1,721
Impairment loss recognised during the year	**2,286**	–

22. ASSETS CLASSIFIED AS HELD FOR SALE

The major classes of assets classified as held for sale are as follows:

	31 December 2019 HK$'000
Interest in an associate	**214,565**
Property, plant and equipment	**4,477**
Properties under development	**232,040**
Investment properties	**108,170**
Right-of-use assets	**5,866**
Total assets classified as held for sale	**565,118**

Note: During the year, the Group committed a plan to dispose of 32,720,636 shares in an associate, Digital China Health Technologies Co., Ltd ("Digital China Health"), representing approximately 14.05% of the entire issued share capital of Digital China Health. The disposal is expected to complete in 2020 (note 53).

During the year, the Group entered into an agreement with 南京市麒麟科技創新園開發建設委員會 to dispose of a group of assets, including property, plant and equipment, properties under development, investment properties and right-of-use assets, at an aggregate consideration of approximately HK$350,553,000, in which approximately HK$145,600,000 was received and included in other payables as at 31 December 2019. Impairment loss recognised on properties under development (note 28) represents the difference between aggregate carrying amount of the group of assets and the consideration set out in the agreement.

The fair value of the investment properties classified as held for sale is determined at level 3 of fair value hierarchy, based on valuations performed by Savills Valuation and Professional Services Limited, an independent professionally qualified valuer not connected to the Group on income approach.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at FVTOCI comprise:

	2019 HK$'000	2018 HK$'000
Equity instruments designated as at FVTOCI		
Unlisted equity investments	**408,572**	427,293

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC. These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

Details of the fair value of these investments are disclosed in note 50.

During the year ended 31 December 2018, certain unlisted equity investments with a carrying amount of approximately HK$463,699,000 (equivalent to RMB391,900,000) were reclassified from "financial asset at FVTOCI" to "investments in associates".

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at FVTPL comprise:

	2019 HK$'000	2018 HK$'000
Financial assets measured at FVTPL		
Listed equity securities	3,325	28,292
Unlisted wealth management financial products *(Note)*	925,766	1,258,048
	929,091	1,286,340

During the year ended 31 December 2019, the Group disposed of certain of its listed equity securities with a carrying amount of approximately HK$26,420,000 (2018: HK$89,010,000) for a cash consideration of approximately HK$30,791,000 (2018: HK$99,254,000) and resulted in a gain on disposal of approximately HK$4,371,000 (2018: HK$10,244,000).

During the year ended 31 December 2018, the Group acquired listed equity securities of approximately HK$24,700,000 (2019: nil).

Details of the fair value of these investments are disclosed in note 50.

Note:

The wealth management financial products as at 31 December 2019 and 2018 were acquired from reputable banks or financial institutions in the PRC. These financial products are with short maturities ranging from 3 months to 6 months and thus are classified as current assets.

25. FINANCE LEASE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Finance lease receivables	86,242	205,737
Less: Loss allowance	(29,404)	(36,936)
	56,838	168,801
Analysis by:		
Current portion	54,528	162,597
Non-current portion	2,310	6,204
	56,838	168,801

25. FINANCE LEASE RECEIVABLES (CONTINUED)

The Group provides finance leasing services on certain equipment in Mainland China. These leases are classified as finance leases and have remaining lease terms ranging from one to three years. The Group's finance lease arrangements do not include variable payments.

	Minimum lease payments		Present value of minimum lease payments	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Net finance lease receivables:				
Due with one year	**60,769**	175,325	**54,528**	162,597
Due in one to two years	**1,564**	5,512	**1,564**	5,512
Due in two to three years	**746**	692	**746**	692
	63,079	181,529	**56,838**	168,801
Less: unearned finance income	**(6,241)**	(12,728)		
Present value of minimum lease payment receivables	**56,838**	168,801		

The movement in the loss allowance finance lease receivables is as follows:

	2019	2018
	HK$'000	HK$'000
At the beginning of year	**36,936**	24,716
Impairment losses (reversed) recognised	**(6,829)**	12,740
Exchange realignment	**(703)**	(520)
At the end of the year	**29,404**	36,936

The directors of the Company estimate the loss allowance on finance lease receivables individually at the end of the reporting period at an amount equal to lifetime ECL under the simplified approach. None of the finance lease receivables at the end of the reporting period is past due, and taking into account the historical default experience and the future prospects of the industries in which the lessees operate, together with the value of the pledged equipment held over these finance lease receivables, the directors of the Company made allowance for impairment of finance lease receivables of approximately HK$29,404,000 (2018: HK$36,936,000).

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for finance lease receivables.

As at 31 December 2019 and 2018, finance lease receivables were secured over the equipment leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

26. DEFERRED TAX

The following is the analysis of the deferred tax assets and liabilities, after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity, for financial reporting purposes:

	2019	2018
	HK$'000	HK$'000
Deferred tax assets	**173,125**	175,710
Deferred tax liabilities	**(350,261)**	(339,004)
	(177,136)	(163,294)

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Asset provisions	**Others**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2019	121,786	61,847	183,633
Deferred tax credited (charged) to profit or loss during the year	(1,656)	24,628	22,972
Exchange realignment	(2,545)	(492)	(3,037)
Gross deferred tax assets at 31 December 2019	117,585	85,983	203,568

26. DEFERRED TAX (CONTINUED)

The movements in deferred tax assets and liabilities during the year are as follows: (Continued)

Deferred tax liabilities

	2019			
	Revaluation of properties HK$'000	Assets revaluation HK$'000	Others HK$'000	Total HK$'000
At 1 January 2019	288,535	18,568	39,824	346,927
Deferred tax charged to the statement of profit or loss during the year	8,133	265	20,442	28,840
Deferred tax charged to the statement of changes in equity during the year	5,149	5,665	–	10,814
Exchange realignment	(5,049)	(708)	(120)	(5,877)
Gross deferred tax liabilities at 31 December 2019	296,768	23,790	60,146	380,704
Net deferred tax charged to the statement of profit or loss during the year *(note 11)*				(5,868)
Net deferred tax liabilities at 31 December 2019				(177,136)

2018 Deferred tax assets movement

Deferred tax assets

	Asset provisions HK$'000	Others HK$'000	Total HK$'000
At 1 January 2018	74,178	51,637	125,815
Deferred tax credited to profit or loss during the year	51,754	12,116	63,870
Exchange realignment	(4,146)	(1,906)	(6,052)
Gross deferred tax assets at 31 December 2018	121,786	61,847	183,633

26. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Revaluation of properties HK$'000	Purchase rebates receivables HK$'000	Assets revaluation HK$'000	Others HK$'000	Total HK$'000
At 1 January 2018	285,370	1,428	18,959	11,319	317,076
Deferred tax charged (credited) to the statement of profit or loss during the year	12,535	(1,478)	17	28,812	39,886
Deferred tax charged to the statement of changes in equity during the year	748	–	–	–	748
Exchange realignment	(10,118)	50	(408)	(307)	(10,783)
Gross deferred tax liabilities at 31 December 2018	288,535	–	18,568	39,824	346,927
Net deferred tax credited to the statement of profit or loss during the year *(note 11)*					23,984
Net deferred tax liabilities at 31 December 2018					(163,294)

The Group's tax losses arising in Mainland China of HK$1,028,591,000 (2018: HK$1,136,679,000) which are due to expire within five years for offsetting against future taxable profits of the subsidiaries in which the losses arose, have not been recognised as deferred tax assets. Certain deductible temporary differences of HK$417,759,000 (2018: HK$354,282,000) and the aforesaid tax losses have not been recognised as deferred tax assets since they have arisen in subsidiaries that have been making losses for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK$44,477,000 (31 December 2018: HK$36,529,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

27. INVENTORIES

	2019 HK$'000	2018 HK$'000
Trading stock	**1,848,844**	1,052,773

28. PROPERTIES UNDER DEVELOPMENT

	2019 HK$'000	2018 HK$'000
At 1 January	**250,501**	260,504
Transfer from property, plant and equipment	**253**	–
Impairment loss	**(12,394)**	–
Transfer to assets held for sale *(note 22)*	**(232,040)**	–
Transfer to completed properties held for sale	**(2,025)**	–
Exchange realignment	**(4,295)**	(10,003)
At 31 December	**–**	250,501

The Group's properties under development are situated in Mainland China and stated at the lower of cost or net realisable value.

At 31 December 2018, the Group's properties under development with a carrying value of approximately HK$159,087,000 (2019: nil) were pledge to secure certain bank loans of the Group (note 36).

29. COMPLETED PROPERTIES HELD FOR SALE

The Group's completed properties held for sale are situated in Mainland China and are stated at lower of cost or net realisable value.

30. ACCOUNTS AND BILLS RECEIVABLES

	2019 HK$'000	2018 HK$'000
Receivables at amortised cost comprise		
Accounts and bills receivables	**6,112,522**	5,567,106
Less: loss allowance	**(750,029)**	(677,948)
Total	**5,362,493**	4,889,158

At as 31 December 2019, the gross amount of trade receivable arising from contracts with customers amounted to approximately HK$6,112,522,000 (2018: HK$5,567,106,000).

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. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by management. In view of the aforementioned and the fact that the Group's accounts and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. No customers represent more than 5% of the total accounts and bills receivables balance as at the end of the reporting periods. The Group does not hold any collateral or other credit enhancements over its accounts and bills receivables balances. Accounts and bills receivables are non-interest bearing.

30. ACCOUNTS AND BILLS RECEIVABLES (CONTINUED)

The following is an aged analysis of accounts and bills receivables net of allowance for impairment of accounts and bills receivables presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	2019 HK$'000	2018 HK$'000
Within 30 days	**3,249,133**	2,480,586
31 to 60 days	**318,493**	409,358
61 to 90 days	**89,379**	107,517
91 to 180 days	**441,465**	459,011
Over 180 days	**1,264,023**	1,432,686
	5,362,493	4,889,158

The Group measures the loss allowance for accounts and bills receivables at an amount equal to lifetime ECL under the simplified approach. The expected credit losses on accounts and bills receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group recognised lifetime ECL for accounts and bills receivables based on individually significant customer or the ageing of customers collectively that are not individually significant as follows:

As at 31 December 2019

	Weighted average expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Net amount HK$'000
Individually	100%	155,400	155,400	–
Collectively				
Current (not past due)	2%	3,450,115	63,164	3,386,951
Less than 90 days past due	4%	993,025	35,343	957,682
91 to 180 days past due	9%	279,482	23,862	255,620
181 to 360 days past due	17%	379,655	64,790	314,865
361 to 720 days past due	27%	614,940	167,565	447,375
721 days or above past due	100%	239,905	239,905	–
		6,112,522	750,029	5,362,493

30. ACCOUNTS AND BILLS RECEIVABLES (CONTINUED)

As at 31 December 2018

	Weighted average expected loss rate %	Gross carrying amount HK$'000	Loss allowance Net amount HK$'000	Net amount HK$'000
Individually	100%	144,110	144,110	–
Collectively				
Current (not past due)	2%	3,734,789	62,328	3,672,461
Less than 90 days past due	5%	622,145	33,187	588,958
91 to 180 days past due	9%	311,248	26,546	284,702
181 to 360 days past due	16%	242,163	38,140	204,023
361 to 720 days past due	63%	377,852	238,838	139,014
721 days or above past due	100%	134,799	134,799	–
		5,567,106	677,948	4,889,158

The movements in loss allowance of accounts and bills receivables are as follows:

	2019 HK$'000	2018 HK$'000
At the beginning of year	**677,948**	450,847
Effect of adoption of HKFRS 9	**N/A**	92,983
Impairment losses recognised	**90,722**	155,151
Write-off as uncollectible	**(1,548)**	–
Exchange realignment	**(17,093)**	(21,033)
At the end of year	**750,029**	677,948

Included in the Group's accounts and bills receivables are amounts due from joint ventures, associates and related companies (note 46(c)(iv)) of approximately HK$65,725,000 (2018: HK$99,878,000), HK$1,638,000 (2018: HK$11,469,000) and HK$19,815,000 (2018: HK$32,775,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2019 HK$'000	2018 HK$'000
Deposits and other receivables	(i)	**2,139,127**	1,850,588
Less: loss allowance		**(133,045)**	(131,571)
		2,006,082	1,719,017
Prepayments		**191,694**	183,408
Loans to joint ventures	(ii)	**210,296**	246,676
		2,408,072	2,149,101
Analysis by:			
Current portion		**1,499,292**	1,224,466
Non-current portion		**908,780**	924,635
		2,408,072	2,149,101

Note:

(i) As at 31 December 2019, included in Group's prepayments, deposits and other receivables was the Loan Receivables with a carrying amount of approximately HK$1,088,914,000 (2018: HK$1,107,911,000) (equivalent to approximately RMB972,248,000) that were secured by the properties of the borrowers, further details of which are set out in note 42. Out of the Loan Receivables were amount of approximately HK$908,780,000 (2018: HK$924,635,000) that are not expected to be realised within 12 months from the end of the reporting period as the realisation of the collaterals are expected to be completed in 2021. As such, these balances were classified as non-current assets. For the remaining balance of approximately HK$180,134,000 (2018: HK$183,276,000), they were classified as current assets as the collaterals are expected to be realised by end of 2020.

(ii) At 31 December 2019, included in the Group's prepayments, deposits and other receivables are the loans of approximately HK$210,296,000 (2018: HK$246,676,000) to joint ventures of the Group, which are unsecured, bear interest at rates ranging from 4.35% to 18% (2018: 4.35% to 18%) per annum and are repayable within one year from the end of the reporting period.

The movements in loss allowance of other receivables are as follows:

	2019 HK$'000	2018 HK$'000
At the beginning of year	**131,571**	–
Effect of adoption of HKFRS 9	**N/A**	14,722
Impairment losses recognised	**3,645**	116,849
Exchange realignment	**(2,171)**	–
At the end of year	**133,045**	131,571

31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

The directors of the Company estimate the loss allowance on deposits and other receivable at the end of the reporting period on an individual basis. Based on the age and settlement plan, these receivables are categorised as doubtful under the Group's credit risk grading framework and therefore, the loss allowance is measured at an amount equal to lifetime ECL. Accordingly, loss allowance on deposits and other receivables as at 31 December 2019 is approximately HK$133,045,000 (2018: HK$131,571,000). For the purposes of impairment assessment for loans to joint ventures, the director of the Company considered these loans to have low credit risk. Accordingly, the loss allowance is measured at an amount equal to 12-month ECL which is considered not significant after taken into account the historical repayment history and the financial strength of the joint ventures.

32. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 HK$'000	2018 HK$'000
Contract assets	**529,127**	1,153,216
Less: loss allowance	**(2,054)**	(1,747)
	527,073	1,151,469

Contract assets are initially recognised for revenue earned from services as receipt of consideration is conditional on successful completion of services provided. The contract assets are transferred to accounts and bills receivables when the rights become unconditional upon completion of services and acceptance by the customer. The Group measures the loss allowance for contract assets at an amount equal to lifetime ECL under the simplified approach.

The movement in loss allowance of contract assets are as follows:

	2019 HK$'000	2018 HK$'000
At the beginning of year	**1,747**	–
Effect of and adoption of HKFRS 9	**N/A**	1,747
Impairment losses recognised	**268**	–
Exchange realignment	**39**	–
	2,054	1,747

(b) Contract liabilities

	2019 HK$'000	2018 HK$'000
Receipt in advance	**1,059,683**	1,330,452
Due to contract customers	**336,813**	281,920
Total contract liabilities	**1,396,496**	1,612,372

Contract liabilities include advances received to render services and unfulfilled performance obligation for contract customers.

Revenue recognised during the year ended 31 December 2019 that was included in the contract liabilities at the beginning of the year is approximately HK$1,612,372,000 (2018: HK$1,759,490,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

33. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCES

	2019	2018
	HK$'000	HK$'000
Cash and bank balances	**2,001,179**	2,228,908
Time deposits	**4,480**	45,581
	2,005,659	2,274,489
Less: Restricted bank balances	**115,488**	69,617
Cash and cash equivalents	**1,890,171**	2,204,872

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$1,719,661,000 (2018: HK$2,168,017,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

34. ACCOUNTS AND BILLS PAYABLES

The following is an aged analysis of accounts and bills payables presented based on the invoice date at the end of the reporting period.

	2019	2018
	HK$'000	HK$'000
Within 30 days	**1,974,814**	1,807,988
31 to 60 days	**442,991**	265,480
61 to 90 days	**120,659**	59,317
Over 90 days	**1,294,329**	1,079,777
	3,832,793	3,212,562

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

As at 31 December 2019, included in the Group's accounts and bills payables were amounts due to related companies (note 46(c)) of approximately HK$91,909,000 (2018: HK$46,060,000), which are repayable on credit terms similar to those obtained from the major suppliers of the Group.

As at 31 December 2019, included in the Group's accounts and bills payables were amounts due to associates of the Group of approximately HK$5,823,000 (2018: HK$5,464,000), which are repayable on credit terms similar to those obtained from the major suppliers of the Group.

35. OTHER PAYABLES AND ACCRUALS

	2019 HK$'000	2018 HK$'000
Other payables	**996,471**	728,749
Accruals	**752,953**	661,572
Payroll payables	**292,379**	254,840
Deferred income *(note 47)*	**4,402**	11,191
	2,046,205	1,656,352

Included in the Group's other payables are amounts due to associates and related companies (note 46(c)(iv)) of approximately HK$27,821,000 (2018: HK$2,628,000) and HK$5,223,000 (2018: HK$1,549,000) respectively.

At 31 December 2019 and 2018, other payables are unsecured non-interest-bearing and have an average term of three months.

36. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019 HK$'000	2018 HK$'000
Bank loans, unsecured	**1,385,891**	1,981,236
Bank loans, secured	**3,650,350**	3,590,167
Other borrowings	**51,520**	52,419
Corporate bonds	**6,939**	574,844
	5,094,700	6,198,666
Analysed for reporting purpose as:		
Current	**3,468,959**	3,592,314
Non-current	**1,625,741**	2,606,352
	5,094,700	6,198,666

36. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	2019 HK$'000	2018 HK$'000
Bank loans repayable (based on scheduled repayment dates set out in the loan agreements dates):		
Within one year	**3,417,439**	3,539,895
In the second year	**147,840**	672,554
In the third to fifth years, inclusive	**554,174**	581,163
Beyond five years	**916,788**	777,791
	5,036,241	5,571,403
Other borrowings and corporate bonds repayable:		
Within one year	**51,520**	52,419
In the third to fifth years, inclusive	**6,939**	574,844
	58,459	627,263

	2019			2018		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans, unsecured	**2.80-5.22**	**2020**	**1,335,491**	3.20-5.22	2019	1,907,166
Bank loans, secured	**3.53-7.25**	**2020**	**1,439,406**	5.0-9.8	2019	1,475,587
Current portion of long term bank loans,						
– unsecured	**4.75**	**2020**	**50,400**	4.75	2019	22,791
– secured	**4.94-9.80**	**2020**	**592,142**	5.39-5.88	2019	134,351
Other borrowings	**15**	**2020**	**51,520**	15	2019	52,419
			3,468,959			3,592,314
Non-current						
Bank loans, unsecured			**–**	4.75	2020	51,279
Bank loans, secured	**4.00-6.62**	**2021-2034**	**1,618,802**	5.39-9.80	2020-2027	1,980,229
Corporate bonds *(notes c and d)*	**–**	**2021**	**6,939**	4.9	2021	574,844
			1,625,741			2,606,352
			5,094,700			6,198,666

36. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

The ranges of effective interest rates on the Group's bank borrowings are as follows:

	2019	2018
Effective interest rate:		
Fixed-rate borrowings	**2.8% – 9.8%**	4.57% – 9.8%
Variable-rate borrowings	**3.53% – 6.62%**	3.2% – 5.88%

Notes:

(a) Certain of the Group's bank and other borrowings are secured by:

(i) mortgages over the buildings, which had an aggregate carrying value at the end of the reporting period of HK$136,226,000 (2018: HK$163,936,000) (note 14);

(ii) mortgages over investments properties, which had an aggregate carrying value at the end of the reporting period of HK$3,576,944,000 (2018: HK$3,625,262,000) (note 15);

(iii) mortgage over the land use right, which had an aggregate carrying value at the end of the reporting period of HK$19,785,000 (2018: HK$28,587,000) (notes 16 and 17);

(iv) mortgage over the properties under development, which had an aggregate carrying value at 31 December 2018 of HK$159,087,000 (2019: nil) (note 28);

(v) The Group's borrowings of approximately HK$1,375,906,000 (2018: HK$1,014,075,000) provided by certain financial institutions were secured by 247,869,570 (2018: 228,500,000) ordinary shares issued by DCITS with an aggregate fair value of HK$4,111,449,000 (2018: HK$2,431,987,000) as at 31 December 2019;

(vi) The Group's borrowings as at 31 December 2018 of HK$5,698,000 (2019: nil) provided by financial institutions to a non-wholly-owned subsidiary of the Group was secured by mortgages over a building of a non-controlling shareholder.

(b) At 31 December 2019, except for the bank borrowings of HK$260,332,000 (2018: HK$169,525,000) and HK$79,733,000 (2018: nil) are denominated in Hong Kong dollars and United States dollars, respectively, the remaining bank and other borrowings are denominated in RMB.

(c) On 2 September 2016, Digital China Software Limited issued medium-term note (the "MTN") with a principal amount of RMB500,000,000 in the national inter-bank market of the PRC. The MTN carries interest at the rate of 4.9% per annum and will mature on 6 September 2021 (with the investor's option to sell back the notes after the end of the third year from the issuance date). During the year, principal amount was fully redeemed by the investors.

(d) 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 (equivalent to approximately HK$36.96 million) in the form of convertible bond loans 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"). During the year ended 31 December 2019, the investors provided convertible bond loans in the amount of RMB1.74 million (2018: RMB14.85 million) (equivalent to approximately HK$1.95 million (2018: approximately HK$16.90 million)), comprising RMB nil (2018: RMB13.60 million) (equivalent to HK$ nil (2018: approximately HK$15.50 million) provided by DCITS and RMB1.74 million (2018: RMB1.25 million) (equivalent to approximately HK$1.95 million (2018: approximately HK$1.40 million) provided by the remaining investors. Subject to the fulfillment of the undertaking regarding Shenzhou Lingyun's 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.

(e) As at 31 December 2019, the Group's borrowings carrying interest at floating rates and fixed rates amounted approximately to HK$2,869,405,000 (2018: HK$2,494,648,000) and HK$2,225,295,000 (2018: HK$3,704,018,000) respectively.

37. SHARE CAPITAL

	2019 HK$'000	2018 HK$'000
Authorised:		
2,500,000,000 (2018: 2,500,000,000) ordinary shares of HK$0.1 (2018: HK$0.1) each	**250,000**	250,000
Issued and fully paid:		
2019: 1,670,977,976 (2018: 1,677,261,976) ordinary shares of HK$0.1 (2018: HK$0.1) each	**167,098**	167,726

A summary of the movements in the Company's issued share capital and share premium account during the years ended 31 December 2019 and 2018 is as follows:

	Number of ordinary shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2019 and 31 December 2018	1,677,261,976	167,726	4,665,095	4,832,821
Share repurchase *(note)*	(6,284,000)	(628)	(21,237)	(21,865)
At 31 December 2019	1,670,977,976	167,098	4,643,858	4,810,956

Note: During the year ended 31 December 2019, the Company purchased 5,911,000 (2018: 373,000) its own shares of HK$0.10 each with highest and lowest prices of HK$3.60 and HK$3.37 (2018: HK$3.58 and HK$3.45) per share respectively for an aggregate cash consideration (including transaction cost) of approximately HK$20,539,000 (2018: HK$1,326,000) through The Stock Exchange of Hong Kong Limited.

The shares repurchased during the year ended 31 December 2018 of 373,000 shares and during the year ended 31 December 2019 of 5,911,000 shares totalling 6,284,000 shares were cancelled in March 2019.

Save as disclosed above, none of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

38. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Asset revaluation reserve

The asset revaluation reserve represents cumulative gains and losses arising on property revaluation as a result of the change in use from owner-occupied properties to investment properties. Such items will not be reclassified to profit or loss in subsequent periods.

Investment revaluation reserve

The investments revaluation reserve represents the cumulative gains and losses arising on the revaluation of investments in unlisted instruments of the Group and associates designated as at FVTOCI.

Reserve funds

Reserve funds are reserves set aside in accordance with the relevant PRC regulations applicable to the Group's subsidiaries in Mainland China. These reserve funds can be used to offset accumulated losses but are not be distributable in the form of cash dividends.

Capital reserves

The capital reserve represents primarily the effects from change in shareholders' equity arising on group re-organisation and change in the Group's ownership interest in subsidiaries without losing control.

39. SHARE-BASED INCENTIVE SCHEMES

Share-based Incentive Schemes of the Company

(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 Share Options Schemes have life span of ten years. The 2002 Share Option Scheme was expired on 18 July 2012. Following 18 July 2012, no further share options can be granted under the 2002 Share Option Scheme and the share options granted under the 2002 Share Option Scheme are exercisable pursuant to the terms of the 2002 Share Option Scheme.

The principal terms of the Share Option Schemes are as follows:

(I) Purpose

The Share Option Schemes seek to recognise and acknowledge the contributions or potential contributions made or to be made by the qualified persons (as defined below) to the Group, to motivate the qualified persons to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationships with the qualified persons whose contributions are or may be beneficial to the growth of the Group.

(II) Qualified persons

Any part-time or full-time employee or officer or director (including executive, non-executive or independent non-executive directors) of any member of the Group or of any associated company, or any supplier, agent, customer, joint venture partner, strategic alliance partner, distributor, professional adviser of, or consultant or contractor to, any member of the Group, or the trustee of any trust pre-approved by the board of directors of the Company, the beneficiary (or in case of discretionary trust, the discretionary objects) of which includes any of the above-mentioned persons.

(III) Maximum number of shares

The maximum number of shares available for issue under the 2011 Share Option Scheme was 167,726,197 (2018: 167,726,197), which represent 10.04% of share capital of the Company in issue as at the date of approval of the financial statements.

(IV) Maximum entitlement of each qualified person

The maximum number of shares issued and to be issued upon exercise of the options granted under the Share Option Schemes and any other share option schemes of the Company to each qualified person (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the shares of the Company then in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Any grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive directors of the Company (except when the independent non-executive director is the grantee of such options).

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Share-based Incentive Schemes of the Company (Continued)

(a) Share Option Schemes (Continued)

(IV) Maximum entitlement of each qualified person (Continued)

Any grant of options to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates must, in addition to obtaining the approval of the independent non-executive directors of the Company, be approved by the shareholders of the Company in a general meeting if such proposed grant of share options, when aggregated with all options (whether exercised, cancelled or outstanding) already granted to such substantial shareholder or independent non-executive director during the 12-month period up to and including the date of such grant of options, would (i) entitle that relevant person to receive more than 0.1% of the total issued share capital of the Company for the time being; and (ii) represent an aggregate value in excess of HK$5,000,000 based on the closing price of the shares of the Company on the Stock Exchange at the date of such grant.

(V) Timing for exercise of options

The period during which an option may be exercised in accordance with the terms of the Share Option Schemes shall be the period set out in the relevant offer letter, provided that such period must expire on the date falling on the tenth anniversary of the offer date.

(VI) Acceptance of offers

An offer of the grant of an option shall be accepted by the grantee on or before the last date for acceptance of such offer as set out in the relevant offer letter, which must not be more than 28 business days from the relevant offer date. A consideration of HK$1.00 shall be received by the Company on acceptance of each offer.

(VII) Basis for determination of the subscription price

The subscription price shall be the highest of (a) the closing price of the shares on the offer date; (b) the average of the closing prices of the shares for the five business days immediately preceding the offer date; or (c) the nominal value of a share.

(VIII) Life of Share Option Schemes

The 2002 Share Option Scheme and 2011 Share Option Scheme shall remain valid and effective for a period of ten years commencing from 18 July 2002 and 15 August 2011, respectively, being the dates on which such schemes were deemed to take effect in accordance with their terms.

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Share-based Incentive Schemes of the Company (Continued)

(a) Share Option Schemes (Continued)

The following table shows the movements in the Company's share options under the Share Option Schemes during the year and the options outstanding at the beginning and end of the year:

	Number of share options							
Grantee	Outstanding as at 1/1/2019	Granted during the year	Lapsed during the year	Outstanding as at 31/12/2019	Exercise price per share HK$	Date of grant	Exercisable period	Notes
2002 Share Option Scheme								
Other employees	2,278,067	–	(2,278,067)	–	14.333	11/1/2011	11/1/2012-10/1/2019	(i), (ii)
Exercisable at the end of the year				–				
Weighted average exercise price (HK$)	14.333	–	14.333	–				
2011 Share Option Scheme								
Directors								
GUO Wei	13,116,974	–	–	13,116,974	6.394	25/1/2017	25/1/2017-24/1/2025	(i), (iii)
LIN Yang	13,116,974	–	–	13,116,974	6.394	25/1/2017	25/1/2017-24/1/2025	(i), (iii)
Other employees	62,646,667	–	–	62,646,667	6.394	25/1/2017	25/1/2017-24/1/2025	(i), (iii)
Other employees	9,100,000	–	(4,100,000)	5,000,000	4.818	21/5/2018	21/5/2019-20/5/2026	(iii)
Other employees	6,000,000	–	(300,000)	5,700,000	3.88	20/11/2018	20/11/2019-19/11/2026	(iii)
Other employees	–	8,000,000	(1,030,000)	6,970,000	4.32	28/3/2019	28/3/2020-27/3/2027	(iii)
Other employees	–	3,200,000	–	3,200,000	4.04	2/9/2019	2/9/2020-1/9/2027	(iii)
Other employees	–	30,000	–	30,000	4.172	7/11/2019	7/11/2020-6/11/2027	(iii)
In aggregate	103,980,615	11,230,000	(5,430,000)	109,780,615				
Exercisable at the end of the year				91,020,615				
Weighted average exercise price (HK$)	6.111	4.240	4.672	6.325				

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Share-based Incentive Schemes of the Company (Continued)

(a) Share Option Schemes (Continued)

The following table shows the movements in the share options under the Share Option Schemes during the year and the options outstanding at the beginning and end of the year 2018:

	Number of share options							
Grantee	Outstanding as at 1/1/2018	Granted during the year	Lapsed during the year	Outstanding as at 31/12/2018	Exercise price per share HK$	Date of grant	Exercisable period	Notes
2002 Share Option Scheme								
Other employees	2,909,767	–	(631,700)	2,278,067	14.333	11/1/2011	11/1/2012-10/1/2019	(i), (ii)
Exercisable at the end of the year 2018				2,278,067				
Weighted average exercise price (HK$)	14.333	–	14.333	14.333				
2011 Share Option Scheme								
Directors								
GUO Wei	13,116,974	–	–	13,116,974	6.394	25/1/2017	25/1/2017-24/1/2025	(i), (iii)
LIN Yang	13,116,974	–	–	13,116,974	6.394	25/1/2017	25/1/2017-24/1/2025	(i), (iii)
Other employees	88,355,936	–	(25,709,269)	62,646,667	6.394	25/1/2017	25/1/2017-24/1/2025	(i), (iii)
Other employees	–	9,100,000	–	9,100,000	4.818	21/5/2018	21/5/2019-20/5/2026	(iii)
Other employees	–	6,000,000	–	6,000,000	3.880	20/11/2018	20/11/2019-19/11/2026	(iii)
In aggregate	114,589,884	15,100,000	(25,709,269)	103,980,615				
Exercisable at the end of the year 2018				88,880,615				
Weighted average exercise price (HK$)	6.394	4.445	6.394	6.111				

Notes:

(i) As a result of the rights issue which was completed on 18 September 2017, the relevant exercise prices were adjusted from HK$15.04 to HK$14.333 under the 2002 Share Option Scheme and HK$6.71 to HK$6.394 under the 2011 Share Option Scheme, respectively, and the numbers of outstanding share options were adjusted accordingly.

(ii) All options granted under the 2002 Share Option Scheme are subject to a vesting period of four years with 25% becoming exercisable on the first anniversary, 25% on the second anniversary, 25% on the third anniversary and 25% on the fourth anniversary of the respective dates of grant.

(iii) The options granted under the 2011 Share Option Scheme during the years ended 31 December 2019 and 2018 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 respective dates of grant. The options granted under the 2011 Share Option Scheme during the year ended 31 December 2017 are exercisable in whole or in part at anytime during the exercisable period.

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Share-based Incentive Schemes of the Company (Continued)

(a) Share Option Schemes (Continued)

Share options do not confer rights on the holders to dividends or to vote at general meetings.

No options were granted, exercised or cancelled under the 2002 Share Option Scheme since its expiry. No options were exercised or cancelled under the 2011 Share Option Scheme during the year ended 31 December 2018 and 2019.

The fair values of the share options granted under the 2011 Share Option Scheme during the current year amounted to approximately HK$12,181,000 (2018: HK$19,774,000) in aggregate of which HK$8,327,000 (2018: HK$3,414,000) was recognised as share option expenses during the year.

The fair values of the share options granted during 2019 and 2018 under the 2011 Share Option Scheme were estimated as at the dates of grant, using a binomial model, taking into account of the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Granted during:	**2019**	2018
Exercise price (HK$ per share)	**4.04-4.32**	3.88-4.818
Dividend yield (%)	**2.6-3 per annum**	3 per annum
Expected volatility (%)	**38.5-39.5 per annum**	39 – 40.2 per annum
Expected life (year)	**8**	8
Risk-free interest rate (%)	**1.12-1.57 per annum**	2.23 – 2.32 per annum
Weighted average share price (HK$ per share)	**4.04-4.32**	3.88 – 4.82

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

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

The binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

As at 31 December 2019, the Company had nil (2018: 2,278,067) share options outstanding under the 2002 Share Option Scheme and 109,780,615 (2018: 103,980,615) share options outstanding under the 2011 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 109,780,615 (2018: 106,258,682) additional ordinary shares of the Company and additional share capital of approximately HK$10,978,000 (2018: HK$10,626,000) and share premium of approximately HK$646,694,000 (2018: HK$657,272,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 109,780,615 share options outstanding (2018: 103,980,615) under the 2011 Share Option Scheme, which represented approximately 6.57% (2018: 6.22%) of the Company's shares in issue as at that date.

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Share-based Incentive Schemes of the Company (Continued)

(b) Restricted Share Award Scheme ("RSA Scheme")

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

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

During the year ended 31 December 2019, the trustee purchased 3,639,000 (2018: 22,187,000) shares of the Company at a total cost (including related transaction costs) of approximately HK$14,055,000 (2018: HK$93,756,000) and no RSUs (2018: nil) were granted to the Participants during the year.

Equity Incentive Schemes of a subsidiary

(c) Share Option Incentive Scheme of DCITS

The shareholders of the Company and Digital China Information Service Company Ltd. ("**DCITS**") approved the adoption of a share option incentive scheme (the "**Share Option Incentive Scheme**") on 10 September 2019 and 16 September 2019 respectively. The major terms of the Share Option Incentive Scheme are as follows:

(1) The purpose of the Share Option Incentive Scheme is to further promote the establishment and improvement of DCITS's long term incentive mechanism, attract and retain high caliber talents, encourage the initiative of directors, senior management and key employees of DCITS and its subsidiaries, so as to effectively align the interest of shareholders, DCITS and individual interests of core management, and cause all parties to focus on the long-term development of DCITS.

(2) The incentive participants of the Share Option Incentive Scheme comprise the directors, senior management and key employees of DCITS and its subsidiaries, but shall exclude the independent directors and supervisors of DCITS, as well as shareholders, individually or in aggregate, holding 5% or more of the shares in DCITS or the de facto controllers and their spouses, parents or children. All incentive participants of the Share Option Incentive Scheme must have employment, labour or service relationships with DCITS within the validity period of the Share Option Incentive Scheme.

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Equity Incentive Schemes of a subsidiary (Continued)

(c) Share Option Incentive Scheme of DCITS (Continued)

(3) According to the Share Option Incentive Scheme:

(a) the total number of underlying shares involved in all effective incentive schemes of DCITS shall not in aggregate exceed 10% of the total share capital of DCITS as at the time when the Share Option Incentive Scheme was submitted to the shareholders' meeting of DCITS for approval;

(b) the total number of shares of DCITS which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Incentive Scheme and any other scheme of DCITS shall not in any event exceed 30% of the total A ordinary shares in issue of DCITS from time to time; and

(c) the total number of shares of DCITS issued pursuant to all effective equity incentive schemes of DCITS to any incentive participant shall not in aggregate exceed 1% of the total shares in issue of DCITS.

(4) The underlying shares of the Share Option Incentive Scheme shall be the A ordinary shares to be issued by DCITS to the participants of the Share Option Incentive Scheme. According to the Share Option Incentive Scheme, DCITS intends to grant 22,600,000 share options to the incentive participants of the Share Option Incentive Scheme, representing approximately 2.33% of the total share capital of DCITS of 970,381,273 shares as at the date of these financial statements.

(5) The minimum period for which share options granted under the Share Option Incentive Scheme must be held before they can be exercised is 12 months from the completion date of registration of the grant of share options pursuant to the Share Option Incentive Scheme ("**Option Registration Date**").

(6) Subject to the fulfillment of the conditions for exercising the share options under the Share Option Incentive Scheme, grantees may exercise their share options within 24 months after the expiry of 12 months from the Option Registration Date in two tranches as follows:

Tranche	Exercisable period	Percentage of share option exercisable
First tranche	From the first trading day after the expiry of 12 months from the Option Registration Date to the last trading day within 24 months from the Option Registration Date	50%
Second tranche	From the first trading day after the expiry of 24 months from the Option Registration Date to the last trading day within 36 months from the Option Registration Date	50%

(7) The exercise price of the share options to be granted under the Share Option Incentive Scheme shall be RMB12.76 per share, not less than the par value of the stock and shall not be lower than the higher of:

(a) the average trading price of DCITS shares on the last trading day before the announcement of the draft Share Option Incentive Scheme, being RMB12.753 per share; and

(b) the average trading price of DCITS shares for the last 120 trading days before the announcement of the draft Share Option Incentive Scheme, being RMB11.905 per share.

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Equity Incentive Schemes of a subsidiary (Continued)

(c) Share Option Incentive Scheme of DCITS (Continued)

(8) The exercise price of the share options granted under the Share Option Incentive Scheme is determined in accordance with Article 29 of the Administrative Measures for the Equity Incentives of Listed Companies of the PRC（中華人民共和國上市公司股權激勵管理辦法）, which provides that a listed company, when granting stock options to incentive recipients under an equity incentive plan, shall determine the exercise price or the method for determining the exercise price. The exercise price shall be no less than the par value of the stock, and in principle, shall not be lower than the higher of the following prices:

(a) the average trading price of the company stock in the trading day prior to the publication of the equity incentive plan draft; and

(b) the average trading price of the company stock in any one of the following periods: 20 trading days, 60 trading days and 120 trading days prior to the publication of the equity incentive plan draft.

(9) The effective term of the Share Option Incentive Scheme shall commence from the Option Registration Date to the date on which all share options granted to grantees under the Share Option Incentive Scheme have been exercised or cancelled, provided that the term shall not exceed 36 months.

(10) During the exercise period of the Share Option Incentive Scheme, a number of conditions must be satisfied before the grantees can exercise their share options, including:

(a) None of the following events having occurred on the part of DCITS:

(i) issue of an accountants' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the accountants' report of DCITS for its latest financial year;

(ii) issue of an accountants' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to internal control for the latest financial year;

(iii) failure to conduct profit distribution in accordance with the laws and regulations, the articles of association of DCITS and public undertakings during the most recent 36 months after the listing;

(iv) prohibition from implementation of an equity incentive scheme by laws and regulations or applicable Listing Rules; and

(v) any other circumstances as determined by the China Securities Regulatory Commission ("**CSRC**") or relevant regulatory authorities.

(b) None of the following events having occurred on the part of the grantee of the Share Option Incentive Scheme:

(i) being identified as an ineligible personnel by the Shenzhen Stock Exchange in the last 12 months;

(ii) being identified as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Equity Incentive Schemes of a subsidiary (Continued)

(c) Share Option Incentive Scheme of DCITS (Continued)

(iii) imposition of administrative penalties or measures prohibiting the grantee from entering into the market by the CSRC and its resident agencies in the last 12 months due to material non-compliance of laws or regulations;

(iv) being prohibited from acting as a director or senior management personnel of DCITS under the Company Law of the PRC（中華人民共和國公司法）;

(v) being prohibited from participating in an equity incentive scheme of a listed company under relevant laws and regulations; and

(vi) any other circumstances as determined by the CSRC or relevant regulatory authorities.

(c) DCITS achieving the following financial performance targets:

Tranche	Financial performance targets
First Tranche	the net profit of DCITS for the year of 2019 being not less than RMB360 million
Second Tranche	the net profit of DCITS for the year of 2020 being not less than RMB435 million

Note: The above net profit refers to the net profit attributable to DCITS shareholders.

(d) Subject to DCITS achieving the relevant annual financial performance targets, the results of the annual assessment to be conducted by the remuneration and appraisal committee of DCITS against the grantee being 80 points or above or graded at "**A**".

In the event that any of the above exercise conditions cannot be fulfilled within the relevant exercisable period, share options granted under the Share Option Incentive Scheme shall be cancelled by DCITS. In the event that the above exercise conditions have been fulfilled but share options granted under the Share Option Incentive Scheme have not been exercised upon expiry of the relevant exercise period, such share options shall be lapsed.

Since the adoption of the Share Option Incentive Scheme, DCITS granted 22,470,000 share options under the Share Option Incentive Scheme.

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Equity Incentive Schemes of a subsidiary (Continued)

(c) Share Option Incentive Scheme of DCITS (Continued)

The following table shows the movements in the share options under DCITS Share Option Incentive Scheme during the year:

	Number of the share options						
	Granted during the year	Exercise during the year	Lapsed during the year	Outstanding as at 31/12/2019	Exercise price per share RMB	Date of grant	Exercisable period
DCITS director	–	–	–	–	–	–	–
DCITS other employees	22,470,000	–	(200,000)	22,270,000	12.76	17/9/2019	Grantees may exercise their share options with reference to the Option Registration Date (i.e. 30/10/2019) in two tranches. *(Note)*
Exercisable at the end of the year				–			
Weighted average exercise price (RMB)	12.76	–	12.76	12.76			

Note: Please refer to note (6) of the major terms of the Share Option Incentive Scheme

The fair values of the share options granted during 2019 under the DCITS Share Option Scheme were estimated as at the dates of grant, using a binomial model, taking into account of the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Granted during:	**2019**
Exercise price (RMB per share)	**12.76**
Dividend yield (%)	**0.205–0.2546 per annum**
Expected volatility (%)	**21.7765–25.9667 per annum**
Expected life (year)	**1–2**
Risk-free interest rate (%)	**1.5–2.1 per annum**
Weighted average share price (RMB per share)	**12.99**

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

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

The binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The fair values of the share options granted under the DCITS Share Option Scheme during the current year amounted to approximately HK$32,330,000 in aggregate of which HK$5,835,000 was recognised as share option expenses during the year.

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Equity Incentive Schemes of a subsidiary (Continued)

(d) Restricted Share Incentive Scheme of DCITS

The shareholders of DCITS approved the adoption of a restricted share incentive scheme (the "**Restricted Share Incentive Scheme**") on 16 September 2019. The purpose of the Restricted Share Incentive Scheme is to further promote the establishment and improvement of DCITS's long term incentive mechanism, attract and retain high caliber talents, encourage the initiative of directors, senior management and key employees of DCITS and its subsidiaries, so as to effectively align the interest of shareholders, DCITS and individual interests of core management, and cause all parties to focus on the long-term development of DCITS.

The incentive participants of the Restricted Share Incentive Scheme comprise the directors, senior management and key employees of DCITS and its subsidiaries, but shall exclude the independent directors and supervisors of DCITS, as well as shareholders, individually or in aggregate, holding 5% or more of the shares in DCITS or the de facto controllers and their spouses, parents or children. All incentive participants of the Restricted Share Incentive Scheme must have employment, labour or service relationships with DCITS within the validity period of the Restricted Share Incentive Scheme.

The underlying shares of the Restricted Share Incentive Scheme shall be the A ordinary shares to be issued by DCITS to the participants of the Restricted Share Incentive Scheme. According to the Restricted Share Incentive Scheme, DCITS intends to grant 7,400,000 restricted shares to the incentive participants of the Restricted Share Incentive Scheme, representing approximately 0.76% of the total share capital of DCITS of 970,381,273 shares as at the date of this report.

No restricted shares can be granted to the incentive participants if any one of the conditions cannot be satisfied.

(a) None of the following events having occurred on the part of DCITS:

(i) issue of an accountants' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to the accountants' report of DCITS for its latest financial year;

(ii) issue of an accountants' report with adverse opinion or which indicates an inability to give opinion by a certified public accountant with respect to internal control for the latest financial year;

(iii) failure to conduct profit distribution in accordance with the laws and regulations, the articles of association of DCITS and public undertakings during the most recent 36 months after the listing;

(iv) prohibition from implementation of an equity incentive scheme by laws and regulations; and

(v) any other circumstances as determined by the CSRC.

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Equity Incentive Schemes of a subsidiary (Continued)

(d) Restricted Share Incentive Scheme of DCITS (Continued)

(b) None of the following events having occurred on the part of the grantee of the Restricted Share Incentive Scheme:

(i) being identified as an ineligible personnel by the Shenzhen Stock Exchange in the last 12 months;

(ii) being identified as an ineligible personnel by the CSRC and its resident agencies in the last 12 months;

(iii) imposition of administrative penalties or measures prohibiting the grantee from entering into the market by the CSRC and its resident agencies in the last 12 months due to material non-compliance of laws or regulations;

(iv) being prohibited from acting as a director or senior management personnel of DCITS under the Company Law of the PRC（中華人民共和國公司法）;

(v) being prohibited from participating in an equity incentive scheme of a listed company under relevant laws and regulations; and

(vi) any other circumstances as determined by the CSRC.

(c) DCITS achieving the following financial performance targets:

Tranche	Financial performance targets
First Tranche	the net profit of DCITS for the year of 2019 being not less than RMB360 million
Second Tranche	the net profit of DCITS for the year of 2020 being not less than RMB435 million

Note: The above net profit refers to the net profit attributable to DCITS shareholders.

(d) Subject to DCITS achieving the relevant annual financial performance targets, the results of the annual assessment to be conducted by the remuneration and appraisal committee of DCITS against the grantee being 80 points or above or graded at "**A**".

The grant price of the restricted shares to be granted under the Restricted Share Incentive Scheme shall be RMB6.38 per share, not less than the par value of the stock and shall not be lower than the higher of:

(a) RMB6.377 per share, being 50% of the average trading price of DCITS shares on the last trading day before the announcement of the draft Restricted Share Incentive Scheme (i.e. RMB12.753 per share); and

(b) RMB5.953 per share, being 50% of the average trading price of DCITS shares for the last 120 trading days before the announcement of the draft Restricted Share Incentive Scheme (i.e. RMB11.905 per share).

Since the adoption of the Restricted Share Incentive Scheme, 6,950,000 restricted shares (representing approximately 0.72% of the total share capital of DCITS of 963,431,273 shares as at the date of grant and approximately 0.72% of the total share capital of DCITS of 970,381,273 share as at 31 December 2019) have been granted by DCITS under the Restricted Share Incentive Scheme to the incentive participants. The grant price of such restricted shares was RMB6.345 (According to the provisions of the Restricted Share Incentive Scheme, the grant price of the restricted shares was adjusted due to DCITS's dividends). As at the date of these financial statements, totally 6,950,000 restricted shares were vested to the incentive participants.

39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

Equity Incentive Schemes of a subsidiary (Continued)

(d) Restricted Share Incentive Scheme of DCITS (Continued)

The fair values of the restricted share granted during 2019 under the DCITS Restricted Share Incentive Scheme were estimated as at the dates of grant, using a binomial model, taking into account of the terms and conditions upon which the restricted shares were granted. The following table lists the inputs to the model used:

Granted during:	2019
Dividend yield (%)	**0.205–0.2546 per annum**
Expected volatility (%)	**21.7765–25.9667 per annum**
Risk-free interest rate (%)	**1.5–2.1 per annum**
Weighted average share price (RMB per share)	**12.99**

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 restricted shares granted was incorporated into the measurement of fair value.

The binomial model has been used to estimate the fair value of the restricted shares. The variables and assumptions used in computing the fair value of the restricted shares are based on the directors' best estimate. The value of restricted shares varies with different variables of certain subjective assumptions.

All restricted shares granted under the DCITS Restricted Share Incentive Scheme are subject to a vesting period of two years with 50% becoming saleable on the first anniversary and 50% on the second anniversary of the respective dates of registration.

The fair values of the restricted shares granted under the Restricted Share Incentive Scheme of DCITS during the current year amounted to approximately HK$21,966,000 in aggregate of which HK$4,207,000 was recognised as share option expenses during the year.

40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

As at 31 December 2019, the Group's equity interests in DCITS held indirectly by the Company was 40.14% (2018: 40.43%), the Group still retained its rights to nominate three out of the five (2018: three out of the five) non-independent directors of the board of directors of DCITS. Taking into account the Group's power to participate in the operational and financial activities of DCITS, distribution of key shareholders and their beneficial shareholders as well as historical voting patterns, and the existence of any contractual arrangement among the shareholders and/or their beneficial shareholders, if any, the directors of the Company are of the view that the equity holdings in DCITS are dispersed in a way that other shareholders have not organised and the practical risk to organise their holdings to outvote the Group in the shareholders' meeting of DCITS is remote so that the Group's voting rights are sufficient to give it the practical ability to direct the relevant activities of DCITS unilaterally. Therefore, the directors of the Company are of the view that the Company still retains de facto control over DCITS. Further details are included in note 4.

40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2019 HK$'000	2018 HK$'000
Percentage of equity interest held by non-controlling interests:		
DCITS	**59.86%**	59.57%

	2019 HK$'000	2018 HK$'000
Profit for the year allocated to non-controlling interests:		
DCITS and its subsidiaries	**131,634**	64,271
Accumulated balances of non-controlling interests at the reporting date:		
DCITS and its subsidiaries	**3,450,374**	3,385,402

The following tables illustrate the summarised financial information of the above subsidiaries that have non-controlling interests that are material to the Group. The amounts disclosed are before any intragroup eliminations:

	DCITS and its subsidiaries 2019 HK$'000	2018 HK$'000
Revenue and other income	**11,663,139**	10,876,776
Total cost and expenses	**(11,427,746)**	(10,763,160)
Profit for the year	**235,393**	113,616
– attributable to equity holders of DCITS and subsidiaries	**228,010**	107,892
Total comprehensive income (expense) for the year	**171,087**	(64,707)
– attributable to equity holders of DCITS and subsidiaries	**163,704**	(70,431)
Dividend paid to non-controlling interest	**(22,889)**	(22,100)
Current assets	**8,691,961**	8,679,916
Non-current assets	**3,354,786**	3,418,984
Current liabilities	**5,907,585**	6,387,480
Non-current liabilities	**77,925**	56,355
Net cash inflows from operating activities	**324,763**	270,353
Net cash from (used in) investing activities	**410,578**	(671,798)
Net cash (used in) from financing activities	**(882,872)**	68,902
Net decrease in cash and cash equivalents	**(147,531)**	(332,543)

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	1 January 2019 HK$'000	Financing cash flows HK$'000	Non cash changes Finance costs incurred HK$'000	New lease recognised HK$'000	Exchange realignment HK$'000	31 December 2019 HK$'000
Interest-bearing bank and other borrowings	5,623,822	(481,043)	–	–	(55,018)	5,087,761
Interest paid	–	(227,506)	227,506	–	–	–
Lease liabilities	193,962	(106,240)	–	82,981	(7,017)	163,686
Corporate bonds	574,844	(567,905)	–	–	–	6,939
	6,392,628	(1,382,694)	227,506	82,981	(62,035)	5,258,386

	1 January 2018 HK$'000	Financing cash flows HK$'000	Non cash changes Finance costs incurred HK$'000	Consolidation of subsidiaries *note 42(a)* HK$'000	Exchange realignment HK$'000	31 December 2018 HK$'000
Interest-bearing bank and other borrowings	7,048,898	(1,335,866)	–	54,477	(143,687)	5,623,822
Interest paid	–	(215,857)	215,857	–	–	–
Corporate bonds	832,032	(235,212)	–	–	(21,976)	574,844
	7,880,930	(1,786,935)	215,857	54,477	(165,663)	6,198,666

42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

(a) Consolidation of subsidiaries as settlement of financial assets at FVTPL

On 28 June 2018, the Group reached an agreement (the "Settlement Agreement") with the Issuer in respect of a Wealth Management Product of approximately HK$2,409,646,000 (equivalent to RMB2,033,940,000) pursuant to which approximately HK$651,358,000 (equivalent to RMB550,000,000) were distributed to the Group by the Issuer as partial redemption.

42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

(a) Consolidation of subsidiaries as settlement of financial assets at FVTPL (Continued)

As part of the settlement arrangement as stipulated in the Settlement Agreement, the remaining unredeemed portion of the Wealth Management Product of approximately HK$1,773,452,000 was settled by the Issuer by transferring the entire equity interests in the assets underlying the Wealth Management Product (the "Underlying Assets") to the Group. The Underlying Assets included equity interest in a private company (the "Property Company") established in the PRC whose principal assets are a commercial complex, loan receivables from various PRC companies (the "Loan Receivables") and equity interests in various special purpose vehicles (the "SPVs") established for making the underlying investments.

Upon effective of the Settlement Agreement, the SPVs and the Property Company become subsidiaries of the Group and the assets consolidated and liabilities assumed from such settlement arrangement. No gain or loss was arisen from such settlement arrangement.

On the consolidation date of the SPVs, the directors of the Company considered that the Loan Receivables are held within a business model whose objective is to collect the contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest and thus the Loan Receivables of approximately HK$1,294,288,000 (equivalent to RMB1,092,884,000) was accounted for as financial assets at amortised costs. Further details of the Loan Receivables are set out in note 31.

Since the principal assets of the SPVs and Property Company are various receivables and a commercial building, the directors of the Company considered that the consolidation of the SPVs is in substance exchange of assets.

Consideration transferred:

	2018 HK$'000
Financial assets at fair value through profit or loss	1,773,452

The assets and liabilities recognised at the date of settlement are as follows:

	HK$'000
Property, plant and equipment	286
Investment properties	661,105
Prepayments, deposits and other receivables	1,319,436
Cash and cash equivalents	6,636
Other borrowing	(54,477)
Other payables	(159,534)
Total net identifiable assets	1,773,452
Net cash inflow	
Cash and cash equivalents acquired	6,636

42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

(b) Acquisition of subsidiaries accounted for as business combinations

(i) Acquisition of神州土地（北京）信息技術有限公司("DC Land")

In October 2019, the Group entered into a sales and purchase agreement with an independent third party, to acquire the entire equity interest in DC Land at a cash consideration of RMB47,460,000 (equivalent to HK$53,154,000). This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$66,834,000. DC Land is principally engaged in provision of agricultural internet services. The acquisition was completed on 31 October 2019.

The consideration transferred for the acquisition of DC Land is satisfied by:

	HK$'000
Cash consideration *(note)*	53,154

The assets acquired and liabilities assumed at the acquisition date are as follows:

	HK$'000
Property, plant and equipment	144
Inventories	2,760
Accounts receivables	26
Prepayments, deposits and other receivables	35
Cash and cash equivalents	10,567
Account payable	(1,383)
Other payable and accruals	(9,190)
Tax payables	(120)
Contract liabilities	(16,519)
Total net identifiable liabilities acquired	(13,680)
Goodwill	66,834
	53,154
Cash consideration paid on acquisition	53,154
Less: Cash and cash equivalents acquired	10,567
Net cash outflow arising from acquisition	42,587

The goodwill arising from the acquisition is not tax deductible. During the period from date of acquisition to 31 December 2019, DC Land made insignificant contribution to the Group's revenue, profit and cash flows.

42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

(b) Acquisition of subsidiaries accounted for as business combinations (Continued)

(ii) Acquisition of Wai On Services Limited ("Wai On")

In February 2018, the Group entered into a sales and purchase agreement with an independent third party, to acquire the entire equity interest in Wai On at a cash consideration of HK$12,300,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$12,749,000. Wai On is principally engaged in IT service that provides solutions for large projects of the Hong Kong Government and multinational corporations. The acquisition was completed on 3 April 2018. Wai On was acquired so as to boost the development of Sm@rt City business in Hong Kong and "The Belt and Road" countries.

The consideration transferred for the acquisition of Wai On is satisfied by:

	HK$'000
Cash consideration	12,300

The assets acquired and liabilities assumed at the acquisition date are as follows:

	HK$'000
Accounts receivables	1,805
Accounts payables	(1,469)
Other payables	(785)
Net identifiable liabilities acquired	(449)
Goodwill	12,749
	12,300
Cash consideration paid and net cash outflow arising from acquisition	12,300

The goodwill arising from the acquisition is not tax deductible. During the period from date of acquisition to 31 December 2018, Wai On made insignificant contribution to the Group's revenue, profit and cash flows.

42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

(b) Acquisition of subsidiaries accounted for as business combinations (Continued)

(iii) Acquisition of 西安遠景信息技術有限公司("Xian YJ")

In July 2018, the Group entered into a sales and purchase agreement with an independent third party, to acquire the entire equity interest in Xian YJ at a consideration of HK$11,445,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$6,774,000. Xian YJ is principally engaged in software development and information technology service. The acquisition was completed on 14 September 2018. Xian YJ was acquired so as to continue the expansion of the Group's rural information services.

The consideration transferred for the acquisition of Xian YJ is satisfied by:

	HK$'000
Cash consideration	11,445

The assets acquired and liabilities assumed at the acquisition date are as follows:

	HK$'000
Property, plant and equipment	402
Other intangible assets	1,427
Inventory	2,781
Accounts receivables	60
Prepayments, deposits and other receivables	20
Cash and cash equivalents	1
Other payables and accruals	(20)
Net identifiable assets acquired	4,671
Goodwill	6,774
	11,445

The goodwill arising from the acquisition of Xian YJ because the cost of the combination included a control premium and the goodwill is not tax deductible. During the period from date of acquisition to 31 December 2018, Xian YJ made insignificant contribution to the Group's revenue, profit and cash flows for the year.

42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

(c) Partial disposal of subsidiaries resulting in loss of control

Digital China Financial Cloud Service ("DCFCS")

In February 2018, the Group entered into a sales and purchase agreement with an independent third party, to dispose of 35% indirect equity interest in a non-wholly-owned subsidiary, DCFCS at a cash consideration of approximately RMB87,500,000 (equivalent to HK$105,299,000). Following the completion of the disposal, the Group's interest in DCFCS was reduced from 80% to 45% and the Group lost control over DCFCS since then. The retained interest in DCFCS was accounted for as an associate as the Group can exercise significant influence over DCFCS. The disposal was completed on 24 April 2018.

The consideration received:

	HK$'000
Fair value of retained interest	117,333
Cash consideration	105,299
	222,632

Analysis of assets and liabilities over which control was lost:

	HK$'000
Property, plant and equipment	19,750
Other intangible assets	532
Accounts receivables	9,543
Prepayments, deposits and other receivables	95
Inventories	2,755
Cash and cash equivalents	40,524
Accounts payables	(5,859)
Contract liabilities	(31,782)
Accruals and other payables	(6,633)
Non-controlling interests	(5,784)
Net assets disposed of	23,141

42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

(c) Partial disposal of subsidiaries resulting in loss of control (Continued)

Digital China Financial Cloud Service ("DCFCS") (Continued)

Gain on partial disposal of a subsidiary:

	HK$'000
Consideration	222,632
Less: net assets disposed of	23,141
Gain on disposal	199,491

Net cash inflow arising on disposal:

	HK$'000
Cash consideration received	105,299
Less: cash and cash equivalents disposed of	40,524
	64,775

(d) Acquisition of additional interests in non-wholly owned subsidiaries

During the year ended 31 December 2019, the Group acquired additional interests in certain non-wholly-owned subsidiaries at an aggregate cash consideration of HK$79,000 (2018: HK$47,944,000) from the non-controlling interests. The difference arising from such acquisitions was charged to capital reserve.

(e) Disposal of subsidiaries

In 2019, the Group disposed of its entire equity interests in a non-wholly-owned subsidiary, 江蘇智慧港城投資發展有限公司, and two wholly-owned subsidiaries, 智慧神州（北京）信息技術有限公司and 荊門智慧荆楚信息服務有限公司at a cash consideration of RMB11,000,000 (equivalent to HK$12,146,000), RMB15,000,000 (equivalent to HK$16,800,000) and RMB700,000 (equivalent to HK$773,000) respectively.

Analysis of assets and liabilities over which control was lost:

	HK$'000
Property, plant and equipment	62
Cash and cash equivalents	32,569
Account receivables	5,411
Other receivables	4,860
Tax recoverable	144
Account payables	(3,330)
Accruals and other payables	(2,608)
Contract liabilities	(3,055)
Non-controlling interests	(5,224)
Net assets disposed of	28,829

42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

(e) Disposal of subsidiaries (Continued)

Gain on disposal of subsidiaries:

	HK$'000
Consideration	29,719
Less: net assets disposed of	28,829
Gain on disposal	890

Net cash outflow arising on disposal:

	HK$'000
Cash consideration received	29,719
Less: cash and cash equivalents disposed of	32,569
	(2,850)

43. CONTINGENT LIABILITIES

1. During the year ended 31 December 2018, the Group had provided guarantee in favour of a 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$198,279,000 (2019: nil).

2. On 7 November 2018, China Potevio Co., Ltd. filed a litigation with Beijing's Second Intermediate People's Court on the grounds that DCITS assisted Shenzhen Shengwugang Investment Co., Ltd.（深圳市生物港投資有限公司）("**Shengwugnag Company**") in capital withdrawal, requiring DCITS to bear joint and several liability for compensation in relation to the assistance given to Shengwugang Company for capital withdrawal of RMB25,000,000 together with interests. At the end of December 2018, DCITS filed jurisdiction objection litigation with Beijing's Second Intermediate People's Court, which has been rejected by Beijing's Second Intermediate People's Court. DCITS filed litigation with Beijing Municipal High People's Court against the ruling rejecting the jurisdiction objection, which has been rejected by Beijing Municipal High People's Court in May 2019. On 29 October 2019, Beijing Second Intermediate People's Court issued the civil judgment (2018) Jing 02 Min Chu No. 344, which stated that: DCITS shall undertake the supplementary liability for the unsettled part of the debt Shengwugang Company owned to China Potevio Co., Ltd. under Guangdong Shenzhen Intermediate People's Court (2007) Shen Zhong Fa Wei Zhi Zi No. 539 Enforcement Case after the enforcement (with the amount limited to RMB68,125,000), which is limited to the extent of the principal and interest of the advance totaling RMB35,120,000; Beijing Xinfu Investment (Group) Co., Ltd.（北京新富投資有限公司）and Kunshan Shenchang Technology Co., Ltd.（昆山市申昌科技有限公司）, being other third-party defendants, shall bear their supplementary liabilities to the extent of the capital withdrawal amounting to RMB58,380,000 and the principal and interest of the advance totaling RMB60,250,000, respectively. DCITS has appealed to the court, but it is necessary to make a provision of RMB21,382,000 for the judgement above.

44. OPERATING LEASE COMMITMENTS

(a) The Group as lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms of ranging from one to ten years. The terms of the leases generally also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting periods, the Group had contracted with tenants for the following future undiscounted lease payments:

	2019 HK$'000
Within one year	**259,038**
In the second year	**115,441**
In the third year	**56,781**
In the forth year	**34,406**
In the fifth year	**27,949**
After the fifth year	**111,800**
	605,415

	2018 HK$'000
Within one year	246,682
In the second to fifth years inclusive	354,049
Over five years	118,901
	719,632

(b) The Group as lessee

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
Within one year	177,702
In the second to fifth years inclusive	122,909
	300,611

The Group leases certain of its office properties and warehouses under operating lease arrangements. Leases for offices properties and warehouses are negotiated for terms ranging from six months to five years and rental are fixed over the terms of the leases.

The leases were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 3, and the details regarding the Group's future lease payments are disclosed in note 17.

45. COMMITMENTS

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for, in the consolidated financial statements:		
Land and buildings	**30,209**	158,324
Capital contributions payable to joint ventures	**33,969**	35,417
Capital contributions payable to associates	**23,520**	6,837
Capital contributions payable to financial assets at FVTOCI	**480**	120,140
	88,178	320,718

46. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties:

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties:

	Notes	2019 HK$'000	2018 HK$'000
Transactions with joint ventures			
Sales of IT products to joint ventures	(i)	**9,730**	147
Provision of IT services to joint ventures	(ii)	**446**	6,499
Rental income from joint ventures	(iv)	**1,268**	3,573
Interest income on loans to joint ventures	(v)	**9,422**	20,840
Transactions with associates			
Sales of IT products to associates	(i)	**13,057**	1,251
Purchase of IT products from associates	(iii)	**119**	–
Provision of IT services to associates	(ii)	**2,412**	33,699
Provision of IT services by associates	(ii)	**2,542**	17,333
Rental income from associates	(iv)	**22,387**	13,314
Transactions with related companies *(note (vi))*			
Sales of IT products to related companies	(i)	**11,828**	7,621
Provision of IT services to related companies	(ii)	**400,439**	396,583
Purchases of IT products from related companies	(iii)	**335,952**	208,569
Provision of IT services by related companies	(ii)	**46,847**	44,276
Rental income from related companies	(iv)	**45,728**	48,989

46. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties: (Continued)

Notes:

(i) The sales were made with reference to the listed price 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 market interest rates and included in revenue from financial service business.

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

(b) Outstanding transaction with related parties:

During the year ended 31 December 2018, the Group had provided guarantees in favour of a financial institution for certain asset-backed securities issued by an associate, Chongqing Digital China HC Microfinance Co. Ltd., up to an aggregate amount of RMB174,000,000 (2019: nil). As at 31 December 2018, the value of the asset-backed securities issued attributable to the aforesaid guarantees amounted to approximately HK$198,279,000.

(c) Outstanding balances with related parties:

(i) Details of the Group's accounts and bills receivables with the joint ventures and associates and other related parties as at the end of the reporting period are included in note 30.

(ii) Details of the loans to the joint ventures included in the Group's prepayments, deposits and other receivables as at the end of the reporting period are included in note 31.

(iii) Details of the Group's accounts and bills payables and other payables with associates and other related parties as at the end of the reporting period are included in note 34 and 35 respectively.

(iv) Digital China Group Co., Ltd. and its subsidiaries are the related companies of the Group, as Mr. GUO Wei, the Chairman and key management personnel of the Company, exerts significant influence to Digital China Group Co. Ltd.

46. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Compensation of key management personnel

The remuneration of key management personnel (executive directors) of the Company during the year was as follows:

	2019 HK$'000	2018 HK$'000
Short term employee benefits	3,590	5,571
Post-employment benefits	510	152
	4,100	5,723

The remuneration of directors of the Company and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Further details of directors' and the chief executives' emoluments are included in note 9.

47. DEFERRED INCOME AND GOVERNMENT GRANTS

Government grants of approximately HK$86,212,000 (2018: HK$101,092,000) have been recognised as other income in the current year. Various government grants have been received for VAT refunds for the sale of self-developed software products approved by the tax authority in the People's Republic of China ("PRC"), the development of software products in Mainland China, and the investments in specific provinces in Mainland China and for compensation of operating costs.

Government grants for which related expenditure has not yet been undertaken are included in deferred income, of which approximately HK$37,033,000 (2018: HK$28,897,000) is classified as non-current liabilities and approximately HK$4,402,000 (2018: HK$11,191,000) is classified as current liabilities (included in other payables and accruals (note 35)), respectively.

During the year ended 31 December 2019, deferred income of approximately HK$20,902,000 (2018: HK$31,128,000) has been recognised as other income upon fulfilment of the conditions attaching to these government assistances.

The remaining government grants recognised during the year ended 31 December 2019 of approximately HK$65,310,000 (2018: HK$69,964,000) represented government grants received for which there are no unfulfilled conditions and other contingencies attaching to these government assistances.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name	Place of incorporation/ registration and operation	Legal form	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2019 Direct	Percentage of equity attributable to the Company 2019 Indirectly	Percentage of equity attributable to the Company 2018 Direct	Percentage of equity attributable to the Company 2018 Indirectly	Principal activities
Digital China (BVI) Limited	British Virgin Islands	N/A	US$5,125	100	–	100	–	Investment holding
Digital China Limited	Hong Kong	N/A	HK$2	–	100	–	100	Investment holding
E-Olympic International Limited	British Virgin Islands	N/A	US$1	–	100	–	100	Holding of trademarks
Digital China Networks, Ltd.	British Virgin Islands	N/A	US$10,000,000	–	100	–	100	Investment holding
Grace Glory Enterprises Limited	British Virgin Islands	N/A	US$1	–	100	–	100	Investment holding
Instant Technology Logistics Limited	PRC/Mainland China	Limited liability company	RMB100,000,000	–	100	–	100	Provision of logistics services
Talent Gain Developments Limited	British Virgin Islands	N/A	US$1	–	100	–	100	Investment holding
Power Gateway Limited	British Virgin Islands	N/A	US$100	–	100	–	100	Investment holding
Digital China Software Limited	PRC/Mainland China	Limited liability company	US$200,000,000	–	100	–	100	Investment holding
Digital China Xi'an Industrial Co., Limited	PRC/Mainland China	Limited liability company	RMB800,000,000	–	100	–	100	Development and construction of Science and Technology Park
Digital China (Nanjing) Information and Technology Park Limited	PRC/Mainland China	Limited liability company	HK$367,000,000	–	100	–	100	Development and construction of Science and Technology Park
Beijing Digital China Instant Technology Service Co., Ltd.	PRC/Mainland China	Limited liability company	RMB50,000,000	–	100	–	100	E-commence supply chain services business
Tianjin Digital China Financing Lease Co., Ltd.	PRC/Mainland China	Limited liability company	US$30,000,000	–	100	–	100	Finance lease business
Cellular Investments Limited	Hong Kong	N/A	HK$1	–	100	–	100	Investment holding
Digital China Sm@rt City (Chonghing) Operations Services Limited	PRC/Mainland China	Limited liability company	RMB200,000,000	–	93.55	–	93.55	Operation of Sm@rt City Platform
Beijing Internetware Company Limited	PRC/Mainland China	Limited liability company	RMB107,307,696.6	–	93.55	–	93.55	Data integration and management software sales

Name	Place of incorporation/ registration and operation	Legal form	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2019		Percentage of equity attributable to the Company 2018		Principal activities
				Direct	Indirectly	Direct	Indirectly	
DCITS	PRC/Mainland China	Limited liability company	RMB970,381,273 (2018: RMB963,431,273)	–	40.14*	–	40.43*	Systems integration services, software development and technical services
Digital China Jinxin Technology Co., Ltd.	PRC/Mainland China	Limited holding company	RMB200,000,000	–	40.14*	–	40.43*	Sales of financial specialised equipment
Beijing Zhongnong Xinda Information Technology Limited	PRC/Mainland China	Limited liability company	RMB5,000,000	–	40.14**	–	40.43**	Surveying service software sales
Digital China Advanced Systems Limited	Hong Kong	N/A	HK$531,750,000	–	40.14**	–	40.43**	Systems integration services
Nanjing Howso Technology Co., Ltd. ("Howso Technology")	PRC/Mainland China	Limited liability company	RMB102,340,000	–	40.10***	–	40.39***	Network optimisation services

* DCITS, a Shenzhen listed company, is accounted for as a subsidiary of the Group even though the Group has only a 40.14% (2018: 40.43%) equity interest in this company based on the factors explained in notes 4 and 40 to the financial statements.

** These companies are wholly-owned subsidiaries of DCITS and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

*** Howso Technology is 99.90% owned subsidiary of DCITS and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

49. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019

Financial assets

	2019 HK$'000	2018 HK$'000
Financial assets at amortised cost		
Finance lease receivables	**56,838**	168,801
Accounts and bills receivables	**5,362,493**	4,889,158
Financial assets included in prepayments, deposits and other receivables	**2,082,345**	1,868,638
Cash and cash equivalents	**1,890,171**	2,204,872
Restricted bank balances	**115,488**	69,617
Financial assets at FVTPL		
Listed equity securities	**3,325**	28,292
Unlisted wealth management financial products	**925,766**	1,258,048
Financial assets at FVTOCI		
Unlisted equity investments designated as FVTOCI	**408,572**	427,293
	10,844,998	10,914,719

Fncial liabilities

	2019 HK$'000	2018 HK$'000
Financial liabilities at amortised cost		
Accounts and bills payables	**3,832,793**	3,212,562
Financial liabilities included in other payables and accruals	**1,684,542**	1,214,685
Interest-bearing bank and other borrowings	**5,094,700**	6,198,666
	10,612,035	10,625,913

50. FAIR VALUE MEASUREMENT AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

Assets measured at fair value:

As at 31 December 2019:

	Fair value hierarchy			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets at FVTPL				
– Listed equity investments	3,325	–	–	3,325
– Wealth management products	–	–	925,766	925,766
Financial assets at FVTOCI				
– Unlisted equity investments	–	–	408,572	408,572

As at 31 December 2018:

	Fair value hierarchy			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Financial assets at FVTPL				
– Listed equity investments	28,292	–	–	28,292
– Wealth management products	–	–	1,258,048	1,258,048
Financial assets at FVTOCI				
– Unlisted equity investments	–	–	427,293	427,293

50. FAIR VALUE MEASUREMENT AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

There were no transfers between all levels of fair values during the year ended 31 December 2019 and 2018.

The fair values of the wealth management products and unlisted equity investments were determined using the income approach and the significant unobservable inputs included discount rates and growth rates. The lower the discount rates and higher the growth rates, the higher will be the fair value.

The Group engaged an external valuation specialist to perform valuation of these investments where quoted market prices are not available. The management of the Group has discussion with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

Reconciliation of Level 3 fair value measurements of financial assets at FVTPL and financial assets at FVTOCI on recurring basis:

	Wealth management products HK$'000	Unlisted equity investments HK$'000
As at 1 January 2018	**2,995,365**	919,282
Acquisition	**1,347,041**	22,145
Transfers to interests in associates	**–**	(463,699)
Redemption	**(1,347,194)**	(26,106)
Transfers on consolidation of subsidiaries	**(1,773,452)**	–
Fair value changes	**25,529**	(772)
Exchange alignment	**10,759**	(23,557)
As at 31 December 2018 and 1 January 2019	**1,258,048**	427,293
Acquisition	**799,646**	–
Redemption	**(1,159,421)**	(7,886)
Fair value changes	**26,713**	(3,696)
Exchange alignment	**780**	(7,139)
As at 31 December 2019	**925,766**	408,572

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include accounts and bills receivables, accounts and bills payables, interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's capital expenditure and operations. The Group has various other financial assets and liabilities such as accounts and bills receivables and accounts and bills payables, which arise directly from its operations. Details of the financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risk (interest rate risk, currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Market risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates and foreign exchange rates.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to the Group's bank and other borrowings with floating interest rates. The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, finance lease receivables and lease liabilities. It is the Group's policy to keep a balanced portfolio to manage both the cash flow and fair value interest rate risk

At 31 December 2019, the Group's interest-bearing borrowings of HK$2,869,405,000 (2018: HK$2,494,648,000) bore interest at floating rates.

The Group currently did not have any interest hedging policy.

The Group is also exposed to cash flow interest rate risk in relation to its bank balance. No sensitivity analysis is presented as the Group's bank balances were short-term in nature and charges in interest rate are not expected to have significant impact to the Group.

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2018: 100 basis points) increase (decrease) is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (Continued)

	Increase (decrease) in basis points	Increase (decrease) in profit before tax for the year HK$'000
31 December 2019		
Borrowings with floating interest rates	**100**	**(28,694)**
Borrowings with floating interest rates	**(100)**	**28,694**
31 December 2018		
Borrowings with floating interest rates	100	(24,946)
Borrowings with floating interest rates	(100)	24,946

Currency risk

The Group's foreign currency exposures mainly arise from net monetary assets in currencies other than the functional currencies of approximately HK$660,370,000 (2018: HK$797,675,000) as at 31 December 2019.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant of the Group's profit before tax. 1% (2018: 1%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

	Increase (decrease) in RMB rate %	Increase (decrease) in profit before tax for the year HK$'000
31 December 2019		
If RMB weakens against US dollars	**(1)**	**(6,663)**
If RMB strengthens against US dollars	**1**	**6,663**
31 December 2018		
If RMB weakens against US dollars	(1)	(8,225)
If RMB strengthens against US dollars	1	8,225

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 43.

The credit risk of our Group mainly arises from cash and cash equivalents, restricted bank balances, accounts and bills receivables, contract assets, finance lease receivables and other receivables. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For accounts and bills receivables, contract assets and finance lease receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL individually and collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Management considered loans to joint ventures to be low credit risk and thus the impairment provision recognised during the year was limited to 12-month ECL.

The credit risk on liquid funds and wealth management products is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Since the Group only trades with recognised and creditworthy third parties, there is no requirement for collateral. Over 90% of the Group's customers and operations are located in Mainland China. Concentrations of credit risk are managed by industry sector and customer.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant increase in credit risk on other financial instruments of the borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and other available sources of finances. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2019				
	On demand or within 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Interest-bearing bank and other borrowings	3,634,203	1,037,840	1,057,341	5,729,384	5,094,700
Accounts and bills payables	3,832,793	–	–	3,832,793	3,832,793
Financial liabilities included in other payables and accruals	1,684,542	–	–	1,684,542	1,684,542
	9,151,538	1,037,840	1,057,341	11,246,719	10,612,035
Lease liabilities	106,027	67,294	–	173,321	163,686

	2018				
	On demand or within 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Interest-bearing bank and other borrowings	3,855,821	2,153,779	860,351	6,869,951	6,198,666
Accounts and bills payables	3,212,562	–	–	3,212,562	3,212,562
Financial liabilities included in other payables and accruals	1,214,685	–	–	1,214,685	1,214,685
	8,283,068	2,153,779	860,351	11,297,198	10,625,913
Financial guarantee	198,279	–	–	198,279	–

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank and other borrowings, accounts and bills payables, other payables and accruals, lease liabilities less cash and cash equivalents and restricted bank balances. Capital represents equity attributable to equity holders of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2019	2018
	HK$'000	HK$'000
Interest-bearing bank and other borrowings	**5,094,700**	6,198,666
Accounts and bills payables	**3,832,793**	3,212,562
Other payables and accruals	**2,046,205**	1,656,352
Lease liabilities	**163,686**	–
Less: Cash and cash equivalents	**(1,890,171)**	(2,204,872)
Restricted bank balances	**(115,488)**	(69,617)
Net debt	**9,131,725**	8,793,091
Equity attributable to equity holders of the parent	**8,936,423**	8,850,343
Total capital	**8,936,423**	8,850,343
Total capital and net debt	**18,068,148**	17,643,434
Gearing ratio	**51%**	50%

52. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$'000	2018 HK$'000
Non-current assets		
Property, plant and equipment	**72**	209
Investments in subsidiaries	**1,939,081**	1,939,081
Total non-current assets	**1,939,153**	1,939,290
Current assets		
Prepayments, deposits and other receivables	**24,798**	29,227
Amount due from subsidiaries	**4,460,946**	4,327,488
Cash and cash equivalents	**4,677**	4,384
	4,490,421	4,361,099
Current liabilities		
Other payables and accruals	**13,853**	15,784
Amount due to subsidiaries	**719,134**	518,549
Dividend payable	**87**	–
Interest-bearing bank borrowings	**63,500**	19,525
	796,574	553,858
Net current assets	**3,693,847**	3,807,241
Total assets less current liabilities	**5,633,000**	5,746,531
Non-current liability		
Interest-bearing bank borrowings	**46,832**	–
Net assets	**5,586,168**	5,746,531
Capital and reserves		
Issued capital	**167,098**	167,726
Reserves	**5,419,070**	5,578,805
Total equity	**5,586,168**	5,746,531

52. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserve is as follows:

	Share premium account HK$'000	Contributed surplus HK$'000	Employee share trust HK$'000	Employee share-based compensation reserve HK$'000	Other reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018	**4,665,095**	**623,689**	**(21,571)**	62,064	–	103,770	5,433,047
Profit for the year and total comprehensive income for the year	–	–	–	–	–	143,670	143,670
Share-based compensation	–	–	–	3,414	–	–	3,414
Shares buy back	–	–	–	–	(1,326)	–	(1,326)
At 31 December 2018 and 1 January 2019	**4,665,095**	**623,689**	**(21,571)**	65,478	(1,326)	247,440	5,578,805
Loss for the year and total comprehensive expense for the year	–	–	–	–	–	(57,743)	(57,743)
2018 dividends paid	–	–	–	–	–	(51,112)	(51,112)
Share-based compensation	–	–	–	8,327	–	–	8,327
Shares buy back	**(21,237)**	–	–	–	1,326	–	(19,911)
Contribution to employee shares trusts	–	–	**(39,296)**	–	–	–	(39,296)
At 31 December 2019	**4,643,858**	**623,689**	**(60,867)**	73,805	–	138,585	5,419,070

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to a corporate reorganisation in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act of Bermuda (as amended) and the Bye-Laws of the Company, the contributed surplus can be distributed to the shareholders, provided that the Company will be able to pay its liabilities as they fall due, and subsequent to the distribution, the aggregate amount of its total liabilities as well as the issued share capital and premium is less than the realisable value of its assets.

The employee share-based compensation reserve comprises the fair value of options or RSUs granted under the share-based incentive schemes which are yet to be exercised, as further explained in the accounting policy for employee benefits in note 3 to the financial statements.

53. EVENTS AFTER THE REPORTING PERIOD

On 14 January 2020, the Group entered into a sale and purchase agreement with SK China Company Limited (the "**Transferee**") pursuant to which the Group has agreed to sell the entire equity interest in Beijing Lizhi Weixin Technology Co., Ltd ("**BLW**"), being an indirect non-wholly owned subsidiary of the Company, which in turn holds 32,720,636 shares in Digital China Health Technologies Co., Ltd*(神州數碼醫療科技股份有限公司)("**Digital China Health**"), representing approximately 14.05% of the entire issued share capital of Digital China Health. Under the agreement, the total consideration for the disposal payable by the Transferee shall be the U.S. dollar equivalent of RMB500,000,000 (equivalent to approximately HK$559,998,000). After completion of the disposal, the total issued shares of the Group in Digital China Health decreased from 20.04% to 5.99%, and Digital China Health ceased to be an associate of the Company. The related interest will be accounted for a financial asset at fair value through other comprehensive income. The Group also ceased to have any equity interest in BLW, and BLW will cease to be a subsidiary of the Company.

Since the outbreak of COVID-19 pandemic in the PRC in January 2020, the Group has closely monitored the development of such outbreak, assessed and actively responded to its impact on the financial status and operating results of the Group. The Group expects that the COVID-19 pandemic outbreak will have a temporary impact on the Group's operating activities but it will also bring new business opportunities to the Group, including in the Smart City and e-commerce areas. No material adverse impact has been noted as at the date of this report. The Group will also continue to monitor other potential risks to our operations and manage such risks as they arise.

54. COMPARATIVE FIGURES

The comparative figures of the consolidated statement of cash flows and notes 44(b) and 50 to the consolidated financial statements had been restated to confirm with the current year's presentation of the consolidated financial statements.

Particulars of Properties

Investment properties as at 31 December 2019:

Location	Usage	Tenure	Attributable interest of the Group
Digital China Xi'an Science and Technology Park, No.20 Zhangba 4th Street, Xi'an Gaoxin Technology Development District, Xi'an, Shaanxi Province, The PRC	Office building	Medium term lease	100%
Digital China Wuhan Science and Technology Park, North of Da Shu Road East, East of Guang Gu Road, Wuhan Donghu Technology Development District, Wuhan, Hubei Province, The PRC	Office building	Medium term lease	100%
Digital China Nanjing Science and Technology Innovation Park, Qilin Street, Jiangning District, Nanjing, Jiangsu Province, The PRC	Office building	Medium term lease	100%
Digital China Chongqing Science and Technology Park, No. 24 and 26, Science and Technology Innovation Park, Hong Hu Road West, Yubei District, Chongqing Province, The PRC	Office building	Medium term lease	100%
Digital China Kunshan Logistics Park, No. 1 Shuang He Road, Dian Shan Hu Town, Kunshan City, Jiangsu Province, The PRC	Logistics and storage	Medium term lease	100%
Digital China Shenyang Logistics Park, No. 2 Cangchudongyi Street, Hunnan District, Shenyang, Liaoning Province, The PRC	Logistics and storage	Medium term lease	100%
Digital China Wuhan Logistic Park, No. 61 Gaoxin 4th Street Road, Donghu Technology Development District, Wuhan, Hubei Province, The PRC	Logistics and storage	Medium term lease	100%
Digital China Jinan Logistics Park, No. 1459-2 Keyuan Road, Sun Town, High-tech Industrial Development Zone, Jinan, Shandong Province, The PRC	Logistics and storage	Medium term lease	100%
Digital China Technology Plaza, No. 9 Shangdi Jiu Street, Haidian District, Beijing, The PRC	Office building	Medium term lease	100%
Beijing Digital China Building, 4-9/F. and 18/F., No. 16 Suzhou Street, Haidian District, Beijing, The PRC	Office building	Medium term lease	100%

Particulars of Properties

Completed properties held for sale as at 31 December 2019:

Property	The Group's interest	Location	Total GFA attributable to the Group's interest ('000 s.q.m.)	Usage
Digital China Nanjing Science and Technology Innovation Park	100%	Digital China Qilin Street Science and Technology Park, Jiangning District, Nanjing, Jiangsu Province, The PRC	4	Office building

Five Year Financial Summary

RESULTS

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000	Year ended 31 December 2015 HK$'000
REVENUE FROM CONTINUING OPERATIONS	17,727,429	15,254,499	13,246,571	12,251,359	10,630,672
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	546,700	281,534	(47,817)	137,713	670,879
Income tax expense	(96,524)	(61,064)	(143,584)	(148,743)	(207,371)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	450,176	220,470	(191,401)	(11,030)	463,508
Profit for the year from the discontinued operation	–	–	–	559,623	462,207
PROFIT (LOSS) FOR THE YEAR	450,176	220,470	(191,401)	548,593	925,715
Attributable to:					
Equity holders of the parent	301,844	149,587	(413,006)	389,314	661,676
Non-controlling interests	148,332	70,883	221,605	159,279	264,039
	450,176	220,470	(191,401)	548,593	925,715

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	Year ended 31 December 2019 HK$'000	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000	Year ended 31 December 2016 HK$'000	Year ended 31 December 2015 HK$'000
TOTAL ASSETS	25,551,101	25,488,174	27,915,561	23,716,121	37,486,363
TOTAL LIABILITIES	(12,987,629)	(13,091,478)	(15,120,687)	(13,244,208)	(26,192,046)
NON-CONTROLLING INTERESTS	(3,627,049)	(3,546,353)	(3,685,089)	(3,303,326)	(2,421,750)
	8,936,423	8,850,343	9,109,785	7,168,587	8,872,567

Company Information

BOARD OF DIRECTORS

Executive Directors

Mr. GUO Wei *(Chairman and Chief Executive Officer)*
Mr. LIN Yang *(Vice Chairman)*

Non-executive Directors

Mr. YU Ziping
Mr. PENG Jing

Independent Non-executive Directors

Mr. WONG Man Chung, Francis
Ms. NI Hong (Hope)
Dr. LIU Yun, John
Ms. YAN Xiaoyan
Mr. KING William

COMPANY SECRETARY

Mr. WONG Chi Keung

REGISTERED OFFICE

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Fortis Tower
77-79 Gloucester Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China Limited
China CITIC Bank Corporation Limited
Industrial and Commercial Bank of China Limited
East West Bank

LEGAL ADVISORS

As to Hong Kong law:
Chiu and Partners
Cleary Gottlieb Steen & Hamilton (Hong Kong)

As to Bermuda law:
Appleby

AUDITOR

SHINEWING (HK) CPA Limited

SHARE REGISTRARS

Bermuda

Ocorian Management (Bermuda) Limited
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

Hong Kong

Tricor Abacus Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PLACE OF LISTING OF SHARES AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 00861

Taiwan Stock Exchange Corporation
Taiwan Depository Receipts
Stock Code: 910861

WEBSITE

www.dcholdings.com

神州控股
DC Holdings

www.dcholdings.com

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