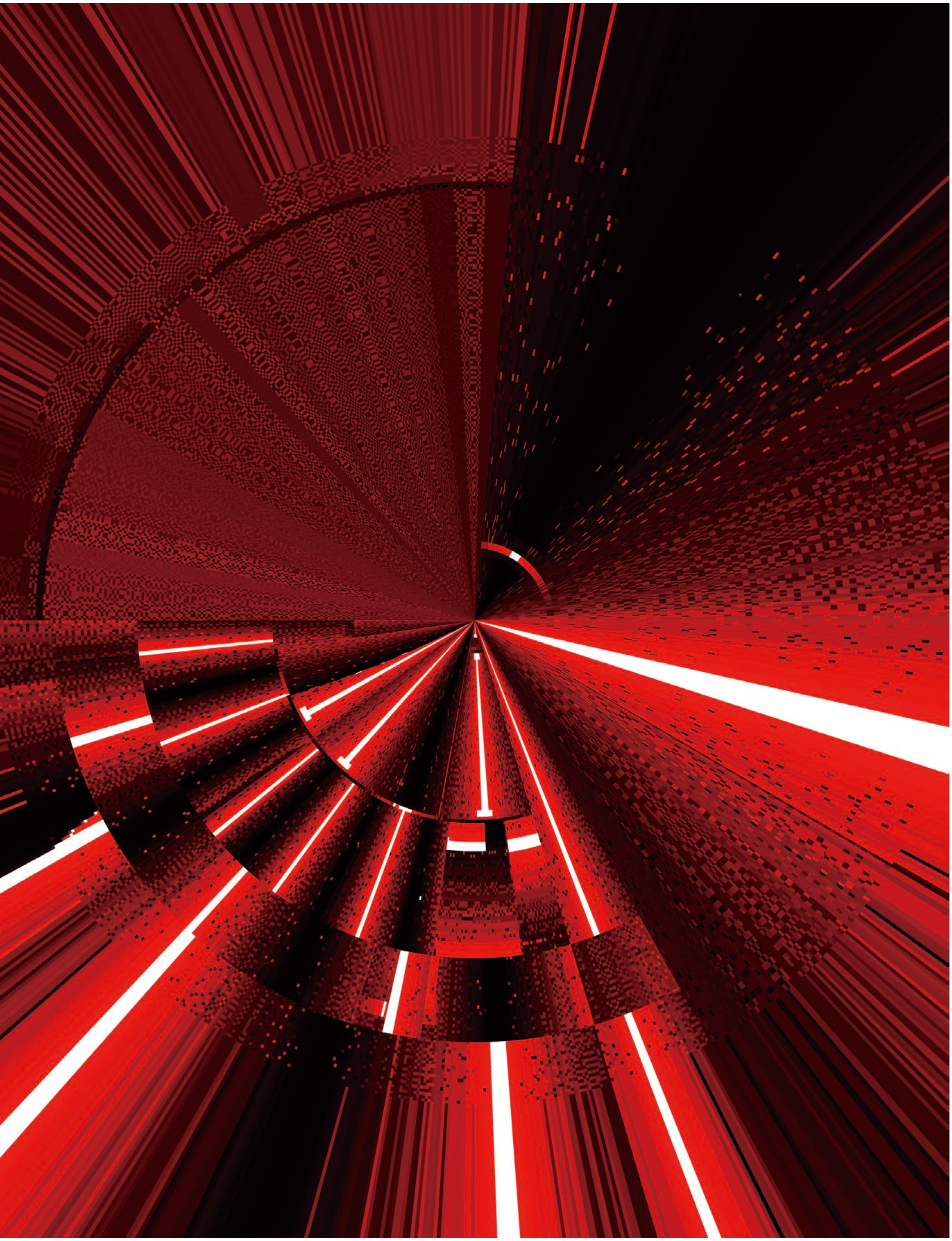
# ANNUAL REPORT 2020

# 年報



於百慕達註冊成立之有限公司
Incorporated in Bermuda with Limited Liability

神州控股
DC Holdings

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

Stock Code 股份代號:00861

# Content

# Company Profile

Digital China Holdings Limited ("DC Holdings") was founded in 2000, and listed on the Main Board of the Stock Exchange of Hong Kong Limited since 2001 (Stock Code: 000861.HK).

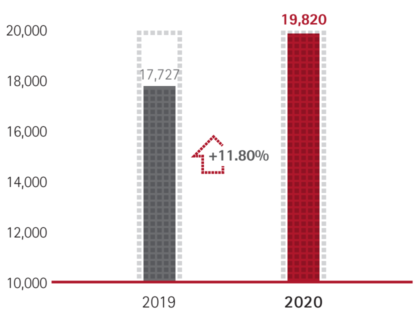
For the past 20 years, DC Holdings has committed to "Digitalizing China" as its core mission. Adhering to its corporate culture of "Responsibility, Passion, Innovation and Creating Shared Value", we have continuously made breakthroughs and created new innovations within various areas of technology including I.T., infrastructure, system integration, smart city, as well as big data services, and we look to drive the digital transformation of cities and industries with best-in-class technologies.

As a leading and innovative technology enterprise, DC Holdings is dedicated to creating an ecosystem through its various usage models which include City Big Data Usage Model, Industry Big Data Model, Fintech Model and Incubation Model. Through "industry-academia-research"-driven incubation, we continue to develop our core products to enable an accelerated development of the big data industry as a whole. We provide a comprehensive product and service suite to our clients and continue to drive the digital transformation of cities and industries as we continuously strive to realize our mission of "Digitalizing China".

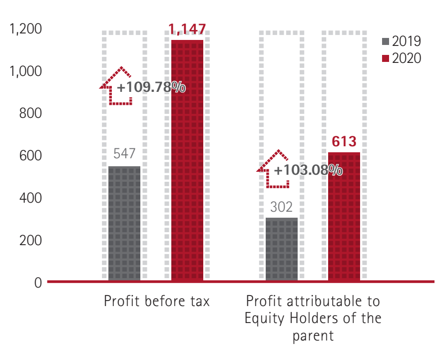
# Financial Highlights

| | FY2020<br>HK$m | FY2019<br>HK$m |
|---|---|---|
| **For the Year** | | |
| Revenue | **19,820** | 17,727 |
| Profit before Tax | **1,147** | 547 |
| Profit Attributable to Equity Holders of the Parent | **613** | 302 |
| Earnings per Share (HK cents) | **37.74** | 18.31 |
| Dividend per Share (HK cents) | **13.6** | 6.4 |
| Operating Cash Flow | **1,146** | 989 |
| **At Year-end** | | |
| Total Assets | **28,021** | 25,551 |
| Shareholders' Funds | **9,430** | 8,936 |
| **Financial Ratio** | | |
| Return on Equity (%) | **6.50** | 3.38 |
| Interest Cover (times) | **8.7** | 3.4 |
| Total Interest Bearing Debts to Shareholders' Funds Ratio (times) | **0.46** | 0.57 |

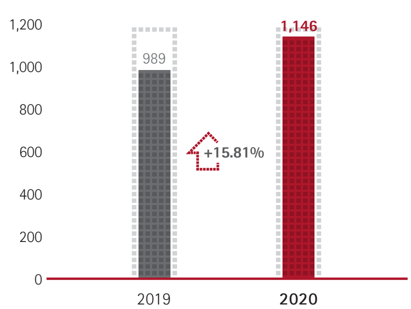
**Revenue**
HK$m



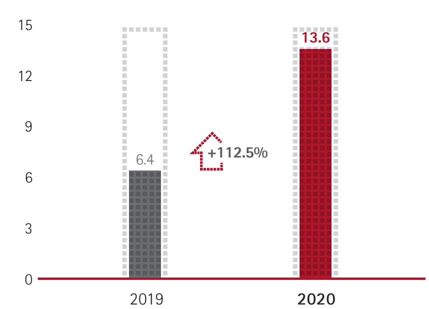

**Profit**
HK$m




**Operating cash flow**
HK$m




**Dividend per share**
HK cents



# Significant Events

## 2020

**26 January**

DC Holdings officially launched an ecosystem alliance to combat the COVID-19 pandemic and cooperated with various partners to continuously deliver various resources to the frontline of the COVID-19 pandemic.

**7 April**

Together with the Jilin provincial authorities, Huawei, Loongson Technology and other partners, DC Holdings led the establishment of "Jilin Information Technology and Application Innovation Alliance" and furthermore, established a headquarters in Jilin province as well as an investment function focused on technological innovation.

**30 April**

DC Holdings won the tender for the first phase construction and operation project of Smart Tangshan (智慧唐山), with the project amount of RMB83.4 million. Based on the idea of reinforcing core designs, consolidating the underlying foundation, breaking through data barriers, strengthening smart applications, and reflecting the characteristics of Tangshan, the first phase of Smart Tangshan was built on a "four horizontal and two vertical" structure, together with one cloud and multiple sub-platforms. It is expected to complete the official review process and start the operation by the end of March 2021.

**8 May**

DCITS, a subsidiary of DC Holdings, was admitted into the Beijing Economic-Technological Development Area. Their area of focus was innovation around the current fintech architecture behind their "Sm@rtGalaxy 3.0" platform which incorporates concepts of Distributed Computing, Micro-web services and Cloud Native technologies. Their distributed computing solutions won awards from the Chinese Institute of Electronics in 2019, and their innovative ability was well recognized by clients such as Bank of China and the Postal Savings Bank of China.

## 20 May

DC Holdings signed a cooperation framework agreement with Changchun New District Management Committee (長春新區管理委員會) for joint development of the information technology industry in Changchun New District and industrial ecosystem clusters and also co-establishing a headquarters as well as an investment function to promote the construction of the new digital district.


## June

DCITS was part of the founding members behind Beijing Fintech Institute, and was also was a co-founding member of China's first open sourced bank test laboratory. Furthermore, DCITS was the first batch of partners for "Fintech New Ecosystem Lab" in China Financial Digitalization Corporation, and had become a member of a variety of committees and associations related to fintech, including "China Fintech Association Financial Industry Committee"; "Fintech Association Member"; "Beijing Fintech Industry Alliance Member" and "Blockchain Industry Member".

## 28 June

DC Holdings signed a strategic partnership agreement with the Liuzhou government and Wecan Intelligent Technology (雲罌智能科技(上海)有限公司), aiming to build a national industrial demonstration base for intelligent manufacturing, in order to promote and encourage digital industrialization and construction in Liuzhou City.


## 6 July

ITL, a subsidiary of DC Holdings, entered into a strategic agreement with Line Clear, a logistics company operating out of Malaysia. The agreement covers the China-Malaysia corridor, encompassing cross-border logistics, warehousing, invoice processing, distribution and delivery services, and serves as a method for ITL to expand its Smart Supply Chain business abroad to Southeast Asia, expanding its international presence.

**25 August**
DCITS's core bank distributed computing system was selected as one of the global new use cases by China's National Institution for Finance and Development ("NIFD").

**3 September**
DCITS, a subsidiary of DC Holdings, announced completion of the acquisition of CloudCore (雲核網絡) which would improve our front-end layout and mobility of our financial products. CloudCore is a professional solution provider of internet banking with A.I. technology implementation throughout its platforms, focusing on zero-touch financial services on mobile banking, internet banking, transaction banking, and direct banking.

**15 September**
The Smart City business under DC Holdings successfully raised RMB700,000,000 through its Series B fund raising, achieving a post-money valuation of over RMB6,200,000,000.

**24 October**
Sm@rtGAS, a block chain technology Platform from DCITS, a subsidiary of DC Holdings, won the Best Software Product Award and the Innovative Block Chain Financial Product Award. The" Accounts Receivable Financing System for Block Chain based Supply Chain Finance Enterprise" has been adopted by "International Standard of ISO/TC 307 WG6 Block Chain and Distributed Ledger Technology Standard (Draft for Comments)", as one of case studies.

### 25 November

Together with the University of Tianjin, DC Holdings established a laboratory focused on researching and developing its Smart City expertise. The laboratory will focus on technology sectors, including "Trusted Computing+Blockchain"and "Industry of Internet".


### 27 November

DCITS, a subsidiary of DC Holdings, entered into the strategic cooperation agreement with the Beijing Local Financial Supervision and Administration and People's Government of Fangshan District. For such collaboration, a new entity will be formed and headquartered at the Beijing Financial Security Industrial Park, to enhance the existing protective measures around the financial system and promote various industry applications with block chain technology.


### 24 March

DC Holdings signed a strategic cooperation agreement with Yanbian Prefecture Government and Yanji City Government, building a digital economy industrial highland with border characteristics by means of technology including digital twin, cloud services, big data and A.I. and serving the development of digital industries in northern China and countries along the "Belt and Road" in Northeast Asia.

## 2021

# Awards

## 2020

9 January 2020, Beijing Internetware, a subsidiary of DC Holdings, was elected to the 2019-2020 Big Data Industry Innovation Top 100 in China.
*INNOV100.*

9 January 2020, DC Holdings won the 2019 Golden Hong Kong Stock-Best New Economy Stock Company Award.
*Zhitongcaijing.com and 10jqka.com.cn.*


11 March 2020, the Electronic Signing Cloud Platform product under ITL (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 and eNet Institute.*


2019年度大数据提供商TOP100

| 排名 | 名称 |
|---|---|
| 1 | 阿里巴巴 |
| 2 | 华为 |
| 3 | 腾讯 |
| 4 | 百度 |
| 5 | 联通大数据 |
| 6 | 神州控股 |
| 7 | 中国电信 |
| 8 | 中兴通讯 |
| 9 | 中科曙光 |
| 10 | 科大讯飞 |

9 April 2020, DC Holdings ranked 6th among the 2019 Big Data Supplier Top 100.
*The CIWEEK magazine of the Chinese Academy of Sciences.*



28 June 2020, the Logistics Tracker product of ITL was awarded the 2020 Innovative Smart Logistics Solution.
*The CIWEEK magazine of the Chinese Academy of Sciences, the Information Research Center of the Chinese Academy of Social Sciences, eNet Institute and Deben Consulting.*

2020数字基建TOP100

| 排名 | 企业 | 备注 |
|---|---|---|
| 1 | 神州控股 | 提供整合信息技术(IT)服务 |
| 2 | 剑桥科技 | 全球ICT产业提供ODM/JDM/OEM的设备厂商 |
| 3 | 盛路通信 | 天线、射频产品提供商 |
| 4 | 致远互联 | 协同数智运营赋能，构建企业协同中台 |
| 5 | 天翼云 | 面向最终消费者的云存储产品 |
| 6 | 沃特股份 | 为5G客户提供全产业链高分子材料解决方案 |
| 7 | 医渡云 | 专注于医疗人工智能研究与应用 |
| 8 | 广东骏亚 | 高精密度电路板提供商 |
| 9 | 欣天科技 | 射频金属元器件研发生产商 |
| 10 | 先一科技 | 专注于信息采集技术和全面解决方案的研究 |
| 11 | 伯朗特 | 机械手及工业机器人研发商 |
| 12 | 国双 | 企业级大数据和人工智能解决方案提供商 |
| 13 | 新中大科技 | 项目管理信息化整体解决方案供应商 |
| 14 | 数据家 | 互联网综合服务商 |
| 15 | 安博通 | 提供可视化网络安全专用核心系统产品 |
| 16 | 新华三 | 致力于IP技术与产品的研发 |

16 July 2020, DC Holdings ranked 1st in the 2020 Digital Infrastructure Top 100.
*CIWEEK magazine of the Chinese Academy of Sciences.*

28 August 2020, DCITS, a subsidiary of DC Holdings, was listed on the IDC China Fintech Top 50.
*IDC (International Data Corporation).*



28 August 2020, IT Logistics, a subsidiary of DC Holdings, was granted the 2020 Corporate Social Responsibility Model Award and the 2020 Most Investment Value Award.
*China Finance Summit.*

9 September 2020, Core Business Solution, Channel Management Solution, Open Banking Solution and Basic Business Solution of DCITS, a subsidiary of DC Holdings, ranked 1st in 2019 IDC IT Solution Market Share of Banking Industry in China. Core Business Solution and Channel Management Solution ranked 1st in 8 consecutive years.
*IDC (International Data Corporation).*

14 September 2020, DC Holdings assisted Sanming City, Zhangzhou City and Weihai City in election of 2020 Policy Guarantee, Resumption of Work & Production and Epidemic Prevention of Excellent Case of Digital Anti-Epidemic.
*The China Center for Urban Development (CCUD), Fondation Prospective et Innovation and The Commission of Sino-Euroepan Green and Sm@rt City.*



16 September 2020, DC Holdings won the 2020 Best Service Provider for Big Data Infrastructure.
*CIWEEK magazine of the Chinese Academy of Sciences, the Information Research Center of the Chinese Academy of Social Sciences, eNet Institute and Deben Consulting.*


13 October 2020, DCITS, a subsidiary of DC Holdings, ranked 39th among the 2020 IDC FinTech Rankings Top 100, ranking 1st in China's List of Companies for the second consecutive year.
*IDC (International Data Corporation).*

# Awards


15 October 2020, IT Logistics, a subsidiary of DC Holdings, was qualified as National 5A Level Logistics Enterprise.
*China Federation of Logistics and Purchasing.*


3 November 2020, KingKooData Supply-Chain Big-Data Application Platform of ITL, was granted the 2020 Excellent Cases of Big Data, Cloud Services, and Block Chain Innovation Applications.
*China Federation of Logistics and Purchasing.*


12 November 2020, DC Holdings won the 2020 Leading Solution Provider for China's Smart City. Tangshan and Weihai won the 2020 China's Leading Smart City Award.
*IDG Asia.*

26 November 2020, DC Holdings was granted the 2020 Outstanding Enterprise in Smart City Pioneer List.
*The Commission of Smart City China.*


16 December 2020, DC Holdings was certified as 2020 New Infrastructure Leading Enterprise.
*CIWEEK magazine of the Chinese Academy of Sciences, the Information Research Center of the Chinese Academy of Social Sciences, eNet Institute and Deben Consulting.*


18 December 2020, DC Holdings was elected to the 2020 Outstanding Enterprise in the Big Data Field of China's Software and Information Service Industry.
*The Commission of China Software Conference.*

18 December 2020, DCITS, a subsidiary of DC Holdings, was listed on the China FinTech Top 50.
*iResearch.*

21 December 2020, DC Holdings won the 8th Hong Kong Stocks Best Investment Value Award.
*Top 100 Hong Kong Listed Companies Research Centre.*

27 December 2020, DC Holdings ranked 4th among China Internet of Things Enterprises Top 100.
*CIWEEK magazine of the Chinese Academy of Sciences.*

2020中国物联网企业100强

| 排 | 企业 | 备注 |
|---|---|---|
| 1 | 华为 | 构建万物互联的智能世界 |
| 2 | 海尔智家 | 物联网时代生态品牌引领者 |
| 3 | 海康威视 | 以视频为核心的AIoT解决方案及产品 |
| 4 | 神州控股 | 大数据+物联网双引擎助推智慧城市建设 |
| 5 | 京东方 | 提供智慧端口服务和专业服务的物联网公司 |
| 6 | 阿里云 | 提供云计算、人工智能、物联网等[illegible]术服务 |
| 7 | 小米集团 | 物联网软件平台小米Vela |
| 8 | 腾讯云 | 覆盖"云—边—网—端"的5G全产品矩阵 |
| 9 | 科大讯飞 | 智能物联网操作系统iFLYOS 2.0 |
| 10 | 海纳云 | 物联网智慧社区/园区生态平台 |

## 2021

18 January 2021, DCITS, a subsidiary of DC Holdings, ranked 50th in 2020 China Leading Fintech.
*KPMG.*

2020年度中国信创TOP500

| 排K | 企业 | 研发 | 开拓性 | [illegible] | 综合 |
|---|---|---|---|---|---|
| 1 | 华为 | 99.59 | 99.50 | 99.00 | 99.36 |
| 2 | 中芯国际 | 98.50 | 99.30 | 98.50 | 98.77 |
| 3 | 中科曙光 | 97.24 | 98.70 | 98.90 | 98.28 |
| 4 | 中国软件 | 97.84 | 98.90 | 98.00 | 98.25 |
| 5 | 阿里巴巴 | 99.20 | 97.40 | 97.80 | 98.13 |
| 6 | 中兴通讯 | 98.97 | 96.80 | 98.40 | 98.06 |
| 7 | 神州控股 | 96.88 | 98.30 | 98.20 | 97.79 |
| 8 | 南瑞集团 | 98.17 | 97.80 | 97.20 | 97.72 |
| 9 | 神软 | 97.80 | 97.64 | 97.50 | 97.65 |
| 10 | 中国系统 | 97.79 | 97.86 | 97.20 | 97.62 |
| 11 | 紫光集团 | 97.02 | 97.84 | 97.98 | 97.61 |
| 12 | 中国长城 | 96.94 | 97.96 | 97.89 | 97.60 |
| 13 | 百度 | 96.79 | 97.81 | 97.78 | 97.46 |
| 14 | 同方股份 | 96.76 | 97.26 | 97.77 | 97.43 |
| 15 | 海康威视 | 96.66 | 97.25 | 97.73 | 97.38 |
| 16 | 科大讯飞 | 96.52 | 97.72 | 97.62 | 97.29 |

11 February 2021, DC Holdings ranked 7th in 2020 Innovative Applications of Information Technology Top 500.
*CIWEEK magazine of the Chinese Academy of Sciences.*



12 March 2021, DC Holdings won the Enterprise of the Year 2020 – Big Data Software Services Industry.
*The CIWEEK magazine of the Chinese Academy of Sciences, the Information Research Center of the Chinese Academy of Social Sciences.*

# Chairman's Statement

Dear Shareholders of Digital China Holdings,

Today, digitalization is subverting and reshaping our lives, and a new era is coming! As a technology company with digitalizing China as its mission, Digital China Holdings Limited ("**DC Holdings**", or "**the Group**") is facing unprecedented opportunities. For over twenty years, from IT infrastructure services, integrated IT services, smart city services and big data services, DC Holdings has enabled the upgrade of cities and industries through digitalization and built a better digital world with technology.

In response to the COVID-19 pandemic in 2020, DC Holdings launched an anti–pandemic ecosystem alliance with other participants and companies against the outbreak and fought at the front line of the pandemic while ensuring zero infection within Group. During that period, DC Holdings donated materials and digitalization services worth around RMB30 million whilst other members of the ecosystem donated combined materials worth over RMB200 million. Relying on our proprietary technology "Yan Cloud DaaS" and the power of our ecosystem, DC Holdings assisted various cities including Beijing, Wuhan, Tianjin, Changchun, Tangshan, Weihai, Xuzhou, Longyan, Sanming battle against the pandemic. Member companies from the ecosystem were recognized as "Anti-Pandemic Advanced Private Enterprises" (抗疫先進民營企業) by the National Federation of Industry and Commerce (全國工商聯).

## NEW OPPORTUNITIES IN THE ERA OF A DIGITAL ECONOMY

Today, data is a key element in production and the value of data is continuously being amplified due to its full integration with the production process life cycle. Relying on the core elements of replicability, share ability, infinite growth, and infinite supply at almost nil marginal cost, data has become a key element in linking innovation, capital deployment, talent cultivation, industrial upgrades and wider economic growth. Big data enables humanity to visualize the world and society in a different light, and in turn enables the process of new technological innovation such as A.I. and blockchain, which will drive the continuous expansion of big data applications and further promote progress in society and knowledge innovation.

Fortunately, DC Holdings foresaw this trend as early as 2016, and has since accumulated a number of advanced big data technological achievements through "industry-academia-research" cooperation, proprietary in-house technology research and project incubation focused on industry needs and new usage models. Our flagship proprietary product is "Yan Cloud DaaS", which won the First Prize for National Technological Invention Award (國家技術發明獎一等獎) based on its technical merits.

As a proprietary and globally unique product for big data, "Yan Cloud DaaS" can integrate legacy IT systems and databases by generating API links at extremely low cost without the need to update original systems. "Yan Cloud DaaS" real-time data enquiry and update functions are now widely used in over 10 ministries in China including the Ministry of Science and Technology, the Ministry of Industry and Information Technology, and the Ministry of Agriculture and Rural Affairs and more than 20 provinces, municipalities, and autonomous regions including Beijing, Shanghai, Guizhou, and Zhejiang. Our technology becomes a common feature supporting the development of a potential trillion-dollar big data industry ecosystem, and also a tool for the development of new infrastructure in different regions.

The breakthrough in big data technology has enabled DC Holdings to seize opportunities to grow the digital economy. DC Holdings' performance has significantly increased as it continues to reap technology dividends. The sudden outbreak of the COVID-19 pandemic in 2020 has led to significant changes in municipal management, business operation, personal lives and consumer consumption patterns, resulting in strong demand for digital transformation. DC Holdings' core big data technology business will grow tremendously through the new national policies for infrastructure development.

Mr. GUO Wei



## BIG DATA EMPOWERS MULTIPLE CORE USAGE MODELS AND LEADS NEW DEVELOPMENTS WITHIN INDUSTRIES

### City big data usage model

Cities are the most important places for production and our livelihoods, they also carry the largest data pools and have the most potential number of applications, so cities have become a key sector for DC Holdings' big data enablement. Rapid convergence, effective integration, precise empowerment of citizens, government and industrial development are all important aspects behind construction of new digital infrastructure, as well as behind DC Holdings' business focus.

DC Holdings gained a deep understanding of urban development and governance via over 10 years of experience in smart city construction and extensive practical deployment in over 200 cities. The Group can seize the development opportunity of city big data by leveraging on our "Yan Cloud DaaS" product which will enable DC Holdings to act as the "City CTO" and drive the development of smart cities and digital transformation. DC Holdings will also help cities build urban data hubs and data centers, open up urban digital networks, promote the "City Brain" and "City Digital Twin" concepts as the core components behind new smart city construction, which will in turn continuously refine our big data software products and services. Our big data technology allows us to better serve city citizens, enterprises and municipal managers, and therefore allows DC Holdings to be the digital operator of the city.

### Industry big data model

5G, big data, Internet of Things, artificial intelligence and other new technologies keep evolving every day. With the arrival of a new era of 5G, digital infrastructure and Internet of Things, the world is becoming more connected which provides more possibilities for us to deal with the two core elements of "people" and "goods". A new pattern of industry, city and human integration is gradually forming through smart city construction with data as the production factor and through the smart supply chain service which is also driven by big data.

In addition to expanding our city big data capabilities, DC Holdings can leverage its industry expertise of over 20 years in the supply chain business to help its expansion in big data services to service the whole industrial value chain. Through horizontal and vertical integration, DC Holdings can create relatively comprehensive data banks and advanced application usage models, and thereby constantly advance our big data service ability. Continued and rapid growth of income will also be further enhanced through deep customer engagement across the entire industry value chain. In 2020, the COVID-19 pandemic led to the transformation of people's lifestyles, increased demand for online shopping and spurred rapid development of e-commerce and e–learning. By leveraging its technological advantage, DC Holdings actively seizes opportunities and successfully turns crises into business opportunities, solves enterprise supply chain needs, and amplifies its own business performance as well as industry coverage.

Looking forward, DC Holdings will be able to provide a fully integrated supply chain service by establishing China's largest network of cloud ecosystem warehousing services which is based on the worldwide supply chain warehouse distribution network. It relies on our proprietary logistics management solution and logistics big data platform "KingKooData", which integrates artificial intelligence and Internet of Things (AIoT) technologies. Engaging various supply chain service usage models, DC Holdings can build an end-to-end supply chain software product suite through the continuous sharing of data and algorithms in the Group's core data infrastructure. Meanwhile, DC Holdings will also improve service capabilities and customer experience by using advanced methods such AIoT technologies to act as a source of data as well as a tool to create a positive data feedback loop.

### Fintech model

Within DC Holdings' big data strategy, DCITS (a subsidiary of DC Holdings) has focused on the financial services and fintech usage models and over the years, has refined its value proposition within the fintech space by deploying the correct tools for data acquisition, improving its computing and data modelling capabilities and enhanced its overall core competency in big data management and applied various usage models to better serve city citizens. This approach has led to DCITS obtaining top industry positions across fintech innovation, fintech usage and intelligent financing solutions. As one of DC Holdings' core ecosystem components, DCITS is highly complementary to the various key sectors under DC Holdings such as fintech and agriculture; we are also able to cultivate a mutually beneficial situation with our clients through ecosystem collaboration, client engagement and business linkage.

### Incubation model

"Innovation" has always been the centre of our corporate culture and has also been the driving force behind our growth. Today, not only do we implement an internal framework of self-innovation, but we also strive to establish an external framework of innovation to gather different elements from society and industry in order to drive development of enterprises and industries. DC Holdings has focused on leveraging its big data strategy to incubate and invest in new companies, providing the Group with a channel of continuous and stable growth. On one hand, this strategy enables DC Holdings to effectively grow its big data ecosystem and develop value chain digitalization capabilities, improving its overall value proposition. On the other hand, such investment profits can be re-deployed into DC Holdings' big data ecosystem, creating a positive feedback loop and improving its overall return on investment.

### Data software, the future of DC Holdings

In 2020, "DC Elite" and "DC Geek" were formed as two internal organization as a means to further refine DC Holdings' human capital strategy and both organizations aim to select and grow both its top management and top technical talent. During the same time, the Group also included "Creating Shared Value" ("CSV") into its corporate culture and improved alignment between the Group and its staff via new incentive schemes such as restricted stock units and stock options, with the ultimate aim of having its staff also be part of the Group's shareholder base.

2021 represents China's "fourteenth five-year plan", which is also the start of a new phase of modernisation for China. 2021 also represents the 20th anniversary of DC Holdings' IPO listing in Hong Kong. Looking forward, we are facing an unprecedented era of change and to equip ourselves for such change, DC Holdings will continue to lead the big data industry via deployment of our solutions and usage models across a variety of core models including smart city, fintech and ecosystem. Through the approach of "industry-academia-research", we will continue to refine our supply chain related products and accelerate the development of the big data industry with our software solutions. This will form a robust software ecosystem for us to provide our customers with an all-encompassing software and services product suite allowing us to lead ahead in the market, ahead in our technology and ahead in our results. We will continue to empower the development of smart cities in China, spearhead the digital transformation of industries and implement Digital China's corporate values, creating value for our shareholders and for society.

In 2020, the unexpected COVID-19 pandemic had triggered significant behavioral changes and business transformation among industries, and the global economy was forced to accelerate its digitalization. With the help of the nation's vigorous development of new infrastructure, Digital China Holdings' ("**DC Holdings**", or "**the Group**") core business models are empowered by new big data technologies and in turn are driving the Group's growth. Our strategies of "deep city engagement", "deep industry engagement" and "deep customer engagement" have achieved remarkable results, marking an important step for digital economy operators in the era of big data.

During the reporting period, the Group's overall revenue was HK$19.820 billion, representing an increase of 11.8% over the same period of the last financial year. The profit attributable to the equity holders of the parent was approximately HK$613.0 million, representing an increase of 103.1% over the same period of the last financial year. Big data related revenue was approximately HK$231 million representing an increase of 124.5% over the same period of the last financial year; services related revenue was approximately HK$6.024 billion; solution related revenue was approximately HK$7.849 billion. With our leading technologies and big data solutions, the Group was selected for multiple industry awards, including "2020 Best Service Provider for Big Data Infrastructure", "2020 Best New Economy Company", "2020 Best Enterprises for Investment Value", and also ranked as first place in the list of "2020 Top 100 Digital Infrastructure" which was published in the "Internet Weekly" magazine published by the Chinese Academy of Sciences during the reporting period.

## 1) CITY BIG DATA USAGE MODEL (SM@RT CITY BUSINESS): LEVERAGING "YAN CLOUD DaaS" TO TAP "CITY CTO" OPPORTUNITIES WITH A DEEP ENGAGEMENT APPROACH; SEGMENT RESULTS GREW 149.4% VERSUS LAST YEAR

The city is where people gather and live, and it is the largest data source available with the most applicable usage models. Under the new infrastructure plan in China, smart cities are to become the centerpiece of the entire implementation plan. According to "2020 Digital Twin Paper" published by the Ministry of Industry and Information Technology of the P.R.C., the market size of the smart city sector in China will likely exceed RMB1.3 trillion by 2023.

Based on over a decade of innovation in the smart city space and deployment of numerous solutions across 200 cities in China, we understand the pain points faced by city managers such as difficulty in data extraction/storage across isolated databases. The Group was able to leverage its proprietary "Yan Cloud DaaS" technology to address city managers' initial data issues by first connecting previously isolated databases to create a consolidated and uniform central database for the city and its community, allowing for efficient and accurate data access. Over time, by continuously refining our big data software products and services, we look to adopt a "City CTO" manager role within each city. During the reporting period, revenue from this sector was approximately HK$477 million, representing an increase of 46% over the same period of the last financial year; segment result was approximately HK$28.66 million, representing an increase of 149.4% over the same period of the last financial year.

The improvement in accuracy and speed of data integration for its application to citizens, government and industries is a crucial task in the "new infrastructure plan" behind smart city development. This so happens to be the focal point behind DC Holdings' overall strategy. As data is continuously generated across a vast number of platforms, APIs, devices, systems and formats, the data consolidation and integration process represents a massive challenge for the industry. Through "Yan Cloud DaaS", our proprietary big data solution which won the First Prize for National Science and Technology Invention Award in China, we are able to navigate and integrate isolated databases across a wide variety of data sources. By deploying "Yan Cloud DaaS", a user could save over 90% of communication time and shorten the overall process timeline by more than 50%.

With the unique integration and consolidation abilities of "Yan Cloud DaaS" combined with our position as the "City CTO", the Group has successfully implemented numerous large-scale projects across provinces and cities throughout China, thereby accelerating the new infrastructure plan in China, providing society with better quality of life, and developing the overall digital economy in China. Through our unique data center and data hub integration services, our usage models have continuously expanded and encompassed end users such as citizens, enterprises, and city managers in the city. With more practical applications coming to light, we see cooperation with cities and their managers becoming increasing integrated with our core business.

DC Holdings has long been involved in the infrastructure development of Jilin province. With our proprietary technology "Yan Cloud DaaS" and solid experience in data infrastructure development and management, we were selected to lead two other major infrastructure projects in the year which were for the development of a "Digital City Brain" in Changchun City and creating a foreign trading service platform throughout Jilin province, both of which will further enable data integration and development of trading businesses in the province. Furthermore, to spur further innovation in the technology sector and capture a larger share of the growing digital economy, the Group spearheaded a new alliance amongst enterprises and the Jilin government with the aim to drive further innovation of new industry ecosystems and develop new software solutions which are industry specific, technologically advanced and scalable. Together with enterprises which represent core industries in Jilin province, the alliance expects to utilize synergies amongst themselves and create a billion-dollar data ecosystem in Jilin.

DC Holdings is also currently participating in the infrastructure project "Smart Tangshan" in Tangshan City. With the support of "Yan Cloud DaaS," the Group was first able to efficiently consolidate the various applications and databases across Tangshan city under the "1+N" framework. The city will then establish a cloud computing platform across government departments and functions, to achieve a smart city deployment characterized by strong economy, operating efficiency, improved public services and better quality of living.

The Group was also involved in first and second phases of infrastructure development for a big data platform project in Suzhou City of Wujiang district. Our technological expertise and advice were extremely well received by our clients, and therefore they had extended our services to the third phase of the infrastructure development, driving the city one step closer to full digitalization.

In addition, although the COVID-19 pandemic has brought hardship upon us, it also represented a litmus test of our smart city execution capabilities. During the pandemic, we had uncovered a larger number of technical issues in some existing client systems such as inconsistent data sources, resulting in the failure of key civil services such as healthcare. We thus had the opportunity to deploy "Yan Cloud DaaS" and leverage its technology to remedy such issues for our clients. DC Holdings has constantly improved and enhanced the quality and functions of its software products and solutions to provide the best quality and most comprehensive product and service suite to our clients.

The big data sector was also recognized by the capital markets in 2020. During the reporting period, Beijing InternetWare, a subsidiary of the Group, had obtained a new funding round commitment from investors, with amount RMB700 million (equivalent to HK$830 million), achieving a post-money valuation of RMB6.2 billion (equivalent to HK$7.34 billion). Going forward, the Group will continue to capitalize on development opportunities to build data infrastructure in other cities and to drive business growth.

## 2) INDUSTRY BIG DATA MODEL (SMART INDUSTRY CHAIN BUSINESS): VALUE ENHANCEMENT FOR PRODUCTS AND SERVICES ACROSS THE SUPPLY CHAIN; SIGNIFICANT SEGMENT RESULTS INCREASE OF 88.9% VERSUS LAST YEAR

5G, big data, Internet of Things, artificial intelligence, and other new technologies keep evolving every day. With the arrival of a new era of digital infrastructure and Internet of Things, the world is becoming more connected, which provides more possibilities for us to deal with the two core elements of "people" and "goods". A new pattern of industry, city and human integration is gradually forming through smart city construction with data as the production factor and through the smart supply chain service which is also driven by big data. In addition to expanding its city big data capabilities, DC Holdings can leverage its industry expertise of over 20 years in the supply chain business to help its expansion in big data services to the whole industry value chain. Through horizontal and vertical integration, DC Holdings can create relatively comprehensive databases and advanced usage models, and thereby constantly advance its big data service ability. Our deep customer engagement approach to service their needs across the entire industry value chain will also support our continued and rapid income growth.

During the reporting period, this segment achieved revenues of approximately HK$7.411 billion, representing an increase of approximately 37.7% over the same period of the last financial year; segment results was approximately HK$200 million, representing an increase of approximately 88.9% over the same period of the last financial year.

In 2020, the COVID-19 pandemic led to the transformation of people's lifestyles, increased demand for online shopping and spurred rapid development of e-commerce and online education. However, many other businesses were financially struggling and had to shut down. Despite the challenge from COVID-19 pandemic, DC Holdings remained resilient throughout the pandemic. By leveraging our supply chain management system, deploying a "supply chain + big data + AIoT" approach and utilizing our proprietary supply chain big data platform "KingKooData" for big data analysis, we were able to create a comprehensive data center to service a wide range of e-commerce clients and provide big data services. By leveraging technology to reduce the distribution cost and improve operating efficiency, we were able to service the leading players in e-commerce and the online education sector. The rapid growth in e-commerce logistics, together with our enhanced operating efficiencies were key drivers behind our strong performance.

By leveraging our technological expertise, the industry big data model successfully turned crises into opportunities, and solved various client needs across the supply chain while also achieving better performance and expanded industry coverage. The Group was able to capture revenue growth and market share in many types of consumer products such as electronics, fast moving consumer goods, maternal products, and cosmetics. In the online education space, DC Holdings had superior coverage where more than half of the top ten players in the sector were its clients, giving DC Holdings the largest big data services market share for this sector. In addition, it has successfully made new inroads into heavy infrastructure and industrial production sectors, wining contracts with customers such as Sany Heavy Industry, TELD and State Grid's Xuji Group Corporation. Our scale and scope of services continue to expand and going forward, we will continue to have a deep engagement with our clients and solve a variety of needs for them.

The Group's efforts over the past few decades have paid off as the Group had broken yet another new industry record during "Double-11" event, reaching 4.5 million total single warehouse deliveries. In addition, we had become one of rare few asset-light operators who are certified with the "5A" logistics enterprise qualification, the highest grade available in this industry. Against the backdrop of the "One Belt One Road" policy, we will provide the relevant services to our clients in order to assist their expansion into the international market and thereby also accelerate our own international business growth.

Looking forward, DC Holdings will be able to provide a fully integrated supply chain service by establishing China's largest network of cloud ecosystem warehousing services which is based on the global supply chain warehouse distribution network model. The service relies on our proprietary logistics management solution and logistic big data platform "KingKooData", which integrates artificial intelligence and Internet of Things (AIoT) technologies. Engaging various supply chain service usage models, DC Holdings can build an end-to-end supply chain software product through continuous refinement of data and algorithms in the Group's core data infrastructure. Meanwhile, DC Holdings will also improve service capabilities and customer experiences by using advanced methods such AIoT technologies to act as a source of data for further refinement of our products and services.

## 3) FINTECH MODEL (DCITS): STRENGTHEN THE FINTECH ECOSYSTEM BY COLLABORATION AND CREATE A NEW ENGINE OF GROWTH

Within DC Holdings' big data strategy, DCITS (a subsidiary under DC Holdings) has focused on the financial services and fintech vertical and over the years, has refined its value proposition within the fintech space by deploying the right channels for data acquisition, improving its computing and data modelling capabilities and enhancing its overall core capability in big data management and application of various usage models in order to better serve its clients. This approach has led to DCITS obtaining top industry positions across fintech innovation, fintech usage and intelligent financing solutions.

As one of DC Holdings' core ecosystem components, DCITS is highly complementary to the various key verticals under DC Holdings such as fintech and agriculture; we are also able to cultivate a mutually beneficial situation with our clients through ecosystem collaboration, deep client engagement and business linkage. During the reporting period, this segment achieved revenues of approximately HK$11.457 billion; segment result of approximately HK$615 million which represented an increase of 104.0% over the same period of the last financial year.

During the reporting period, our proprietary innovative fintech solutions and services categorized under "seven major solutions + consulting services" grew steadily, while the overall performance of the distributed application platform "Sm@rtGalaxy3.0" was enhanced, and our banking core system offering won tenders with 15 financial institutions and achieved its first overseas deployment. In the sector of digital currency, we are in the lead to release our blockchain platform "Sm@rtGAS" as well as digital currency (DCEP) solutions. We won tenders for system integration and software projects which included state-owned major banks, policy banks and joint-stock banks, allowing us to amplify and innovate our fintech innovation value chain.

Our fintech model adopts a "data + technology + scenario" approach to innovate and integrate cross-industry data to open up financial services to more industries and use fintech as a means to serve the economy and create a fintech ecosystem. Innovative services such as financial-agricultural linkage, big data assisted financing, "bank-tax" interaction, and data-driven corporate credit risk assessment were launched to solve financing issues for agriculture, rural areas, and micro/small/medium enterprises. During the reporting period, we won a variety of tenders for integration of credit data as well as overall software solution development projects for customers such as Industrial and Commercial Bank of China, China Development Bank, Bank of Communications, and the Shenzhen Stock Exchange, all of which contribute to our fintech innovation value chain development.



In addition, the digitalization of the financial industry has grown steadily. During the reporting period, we have undertaken several big data projects at both the national and municipal level, and implemented a full-stack data application system with data collection, analysis, publication, and fulfilment within the agricultural sector. As applications for big data solutions continue to increase, we continue to win a variety of new contracts for enterprise clients as well as government clients within the agriculture space (rubber, oilseeds). In terms of quantum communications, we won the tender for the construction of a nation-wide quantum secured communication backbone network project (connecting Beijing with Wuhan, and Wuhan with Guangzhou), and also won work for new connections between Beijing and Hangzhou, Chengdu and Yuhan, Jinan and Qingdao, laying the foundation for subsequent new core infrastructure network projects.

During the reporting period, our fintech business won numerous accolades including IDC's 2020 Global Financial Technology Awards coming 39th in the FinTech Rankings Top 100 List and ranked first among China's listed companies. The distributed application platform and core banking system ranked 1st in market share for 8 consecutive years.

## 4) INCUBATION MODEL (INVESTING BUSINESS): STRATEGICALLY INCUBATE AND OPTIMIZE OUR BIG DATA ECOSYSTEM

Focusing on the core strategy of DC Holdings, the incubation model aims to improve DC Holdings' core products, services and capabilities and build the Group's sustainable development through continuous innovation and incubation through investment. On one hand, this will continue to expand the big data ecosystem of DC Holdings and enhance the digital industry value chain, forming greater synergies between our core business and the wider industry; on the other hand, investment profits can be re-deployed in our core businesses to maximize the return on investment of the Group.

During the reporting period, the Group sold part of its equity in Digital China Health for RMB500 million (approximately HK$550 million). We also received proceeds of HK$220 million from the partial sale of Digital China Health during 2019. The combined total proceeds of approximately HK$770 million will be used for further investment in the field of big data. After the completion of the disposal, the Group still retains approximately 3.99% stake in Digital China Health. Digital China Health is primarily engaged in medical big data, medical cloud services and medical records digitalization. As part of the big data ecosystem of DC Holdings, both companies will continue to explore different synergies together.

As a leading industrial internet platform operator, iSESOL (an affiliate of DC Holdings) continues to refine its product which is based on the innovative model of connecting intelligent business terminals across industries and cloud services, as well as "cloud-smart manufacturing". The industrial internet platform promotes the development of China's smart manufacturing through data empowerment and open-source sharing. During the reporting period, iSESOL was selected as the "Big Data Industry Development Pilot Demonstration Project" in 2020 by the Ministry of Industry and Information Technology. iSESOL not only complements the big data business of DC Holdings, but also integrates with the supply chain solutions, enriches upstream and downstream of the supply chain, expands the scope of big data services and improves overall service offering. Going forward with further development, this vertical may also generate considerable investment returns for the Group.

The Group's technology real estate business also developed rapidly during the reporting period. Based on the digitalization of technology real estate property management in the ecosystem, DC Holdings will build a smart property big data integrated management platform to incubate smart property management businesses. At the same time, we will also utilize the smart property management sector as an entry point for our "Digital Twin" products and solutions and expand that to the entire urban ecosystem, developing our city digital twin business.



## 5) BUSINESS OUTLOOK: LEADING THE DEVELOPMENT OF A TRILLION-DOLLAR BIG DATA INDUSTRY, REWARDING OUR SHAREHOLDERS AND SOCIETY

According to the "2020 China's Big Data Industry Map and China's Big Data Industry Development White Paper", the scale of China's big data industry reached RMB539.7 billion in 2019, representing a year-on-year increase of 23.1%. With the development of 5G and Internet of Things, the industry's demand for more efficient and environmentally friendly data centers as well as cloud computing infrastructure continues to grow together with the underlying big data infrastructure. It is expected that the overall market will reach RMB667.02 billion in 2020. By 2022, the industry could exceed RMB1 trillion driven by continued transformation and upgrades of traditional industries and overall economic growth, both which will accelerate the construction of new smart cities and drive the development of China's digital economy, all of which demonstrate vast potential for industry development.

Looking forward and in the face of major changes not seen in the last century, DC Holdings will become a big data service provider who empowers a variety of verticals, focusing on core usage models in city big data, industry big data, fintech, and ecosystem. Through "industry-academia-research"-driven incubation, we continue to build core products around our supply chain offering, expand our data processing products and accelerate our growth within the data industry. This will form a robust software ecosystem for us to provide our customers with an all-encompassing software and services product suite, allowing us to lead ahead in the market, ahead in our technology and ahead in our results. We will continue to empower the development of smart cities in China, spearhead the digital transformation of industries and implement DC Holdings' corporate values, creating value for our shareholders and for society.

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

As at 31 December 2020, the outstanding unpaid principal of the WMP was approximately HK$1,933 million (RMB1,634 million). The Group has obtained the right to proactively dispose of the ultimate underlying assets involved in the WMP and has set up disposal plans and specific action plans.

In 2020, despite the significant impacts brought by the outbreak of COVID-19 pandemic on all aspects of work, the Group pushed forward with the disposal of the real estate residential project (the amount of the principal and interest involved is approximately HK$228 million (RMB193 million) and achieved results in accordance with the action plans. The asset restructuring procedure for the real estate residential project has been substantially completed and other creditors' interference on the asset realisation has been eliminated. Based on the market price of the project assets, it could fully cover the Group's creditor's rights in the project. In accordance with the realisation and repayment plans, the Group would be able to recover with priority the amount due to the Group from the sale proceeds. If the realisation and repayment plans are carried out in accordance with relevant laws and regulations, the Group will recover a total amount of approximately HK$228 million (RMB193 million) involved in the real estate residential project which is one of the underlying assets.

The remaining ultimate underlying assets is approximately HK$1,705 million (RMB1,441 million). In accordance with the realisation and repayment plans, certain supporting facilities in the properties are being upgraded with a view to improve valuation in the subsequent sales. At the same time, the Group is also actively negotiating the sale with interested parties. The Group will continue to pursue execution according to the action plans. Further announcement will be made by the Company as and when appropriate in the event of any material development on the action plans.

Based on the management's judgment of the recoverable amount of the relevant underlying assets and its understanding of the assets disposal progress, together with the valuation report issued by the valuer on the relevant underlying assets, the management is of the view that the corresponding amount of the WMP as set out in the financial statements of the Group for the end of year 2020 is reasonable and appropriate.

## 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$28,021 million at 31 December 2020 which were financed by total liabilities of approximately HK$14,256 million, non-controlling interests of approximately HK$4,335 million and equity attributable to equity holders of the parent of approximately HK$9,430 million. The Group's current ratio at 31 December 2020 was 1.40 as compared to 1.17 at 31 December 2019.

During the year ended 31 December 2020, capital expenditure of approximately HK$441 million was mainly incurred for the acquisition of properties, office equipment and IT infrastructure facilities.

As at 31 December 2020, the Group had cash and bank balances of approximately HK$3,305 million, of which about approximately HK$2,989 million were denominated in Renminbi.

The aggregate borrowings of the Group as a ratio of equity attributable to equity holders of the parent was 0.46 at 31 December 2020 as compared to 0.57 at 31 December 2019. The computation of the said ratio was based on the total interest-bearing bank and other borrowings of approximately HK$4,379 million (31 December 2019: approximately HK$5,095 million) and equity attributable to equity holders of the parent of approximately HK$9,430 million (31 December 2019: approximately HK$8,936 million).

At 31 December 2020, the denomination of the interest-bearing bank and other borrowings of the Group was shown as follows:

| | Denominated in Hong Kong dollars HK$'000 | **Denominated in Renminbi** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| **Current** | | | |
| Interest-bearing bank borrowings, unsecured | 50,000 | 898,397 | 948,397 |
| Interest-bearing bank borrowings, secured | 64,785 | 1,012,657 | 1,077,442 |
| Other borrowings | – | 51,470 | 51,470 |
| | 114,785 | 1,962,524 | 2,077,309 |
| **Non-current** | | | |
| Interest-bearing bank borrowings, secured | 42,881 | 2,258,414 | 2,301,295 |
| Total | 157,666 | 4,220,938 | 4,378,604 |

Certain of the Group's bank borrowings of:

1. Approximately HK$2,384 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$4,257 million at 31 December 2020; and

2. Approximately HK$995 million extended by financial institutions to certain subsidiaries of the Group were secured by pledge of 130,960,000 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$2,402 million at 31 December 2020.

Included in the Group's current and non-current bank borrowings of approximately HK$202 million and HK$2,301 million respectively represented the long-term loans which are repayable from the year 2021 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$2,555 million which were charged at fixed interest rates as at 31 December 2020.

In prior years, 神州靈雲(北京)科技有限公司 ("**Shenzhou Lingyun**"), a non-wholly owned subsidiary of the Group issued convertible bonds to its 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.

As at 31 December 2019, the convertible bond of approximately RMB32,600,000 (equivalent to approximately HK$35,730,000) was outstanding, including approximately RMB26,400,000 (equivalent to approximately HK$28,940,000) provided by DCITS and approximately RMB6,200,000 (equivalent to approximately HK$6,939,000) by other investors.

On 15 April 2020, DCITS and other investors signed the "Transfer Agreement" with an independent third party ("**Lingyun Transferee**"), and all parties agreed to transferred their equities in Shenzhou Lingyun to Lingyun Transferee, and withdrew from Shenzhou Lingyun. Approximately RMB7,200,000 (equivalent to approximately HK$8,134,000) consideration paid for DCITS's equity interest in Shenzhou Lingyun. Upon completion of the transaction, Shenzhou Lingyun ceased to be subsidiary of the Group and hence the convertible bond is fully derecognized from the Group.

The total available bank credit facilities for the Group at 31 December 2020 amounted to approximately HK$12,953 million, of which approximately HK$2,566 million were in long-term loan facilities, approximately HK$5,372 million were in trade lines and approximately HK$5,015 million were in short-term and revolving money market facilities. At 31 December 2020, the facility drawn down from the Group was approximately HK$2,563 million in long-term loan facilities, approximately HK$730 million in trade lines and approximately HK$1,711 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 (equivalent to HK$23,948,000) for the judgement above as at 31 December 2019.

On 18 November 2020, DCITS reached an agreement with China Potevio Co., Ltd ("**Settlement Agreement**"). Pursuant to the Settlement Agreement, DCITS and China Potevio Co., Ltd. agreed to settle the case at a compensation of RMB21,000,000 (equivalent to HK$24,622,000). The Settlement Agreement has been executed on 23 November 2020 and China Potevio Co., Ltd has filed the execution proof with Beijing Municipal High People's Court.

## Commitment

At 31 December 2020, the Group had the following commitments:

| | HK$'000 |
|---|---|
| Contracted, but not provided in the consolidated financial statements: | |
| Land and buildings | 16 |
| Capital contributions payable to joint ventures | 32,337 |
| Capital contributions payable to associates | 24,847 |
| Capital contributions payable to financial assets at fair value through other comprehensive income | 507 |
| | 57,707 |

## Events After the Reporting Period

No significant event occurred after the Reporting Period of the Company and up to the date of this report.

## Material Acquisitions and Disposal of Subsidiaries and Associated Companies

### *Disposal of Equity Interest in Beijing Lizhi Weixin*

On 14 January 2020, the Group entered into the sale and purchase agreement with SK China Company Limited pursuant to which the Group agreed to sell, and SK China Company Limited agreed to acquire, the entire equity interest in Beijing Lizhi Weixin Technology Co., Ltd. (北京勵致維欣科技有限公司) ("**Beijing Lizhi Weixin**"), 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.

As at the date of the transaction, the Group held approximately 20.04% of the total issued shares in Digital China Health and the entire equity interest in Beijing Lizhi Weixin. Immediately after completion of the disposal, the Group retained approximately 5.99% of the total issued shares in Digital China Health, and Digital China Health ceased to be an associate of the Company. The Group also ceased to have any equity interest in Beijing Lizhi Weixin, and Beijing Lizhi Weixin will cease to be a subsidiary of the Company.

Please refer to the announcement of the Company dated 15 January 2020 for details.

### *Disposal of Equity Interest in Digiwin Software*

On 4 July 2020, Digital China Software (BVI) Limited ("**DC Software**") and Talent Gain Developments Limited entered into the sale and purchase agreement with Foxconn Industrial Internet Co., Ltd. (富士康工業互聯網股份有限公司) ("**Foxconn**") pursuant to which DC Software has agreed to sell, and Foxconn has agreed to acquire, 39,971,265 shares in Digiwin Software Co., Ltd. (鼎捷軟件股份有限 公司) ("**Digiwin Software**"), representing approximately 15.08% of the total issued shares in Digiwin Software.

As at the date of the transaction, the Group held approximately 18.91% of the total issued shares in Digiwin Software. Immediately after completion of the disposal, the Group retained approximately 3.83% of the total issued shares in Digiwin Software and Digiwin Software has ceased to be an associate of the Company.

Please refer to the announcements of the Company dated 4 July 2020, 7 July 2020 and 17 November 2020 for details.

### *Deemed Disposal of Equity Interest in Beijing Internetware*

On 15 September 2020, Digital China Investment Company Limited (神州投資有限公司) ("**DC Investment**"), Shenzhen Digital China Puhui Information Company Limited (深圳神州普惠信息有限公司) ("**Shenzhen Puhui**") (both being indirect wholly-owned subsidiaries of the Company), other individual holders, Changchun Financial Holding Group Co., Ltd (長春市金融控股集團有限公司) ("**Changchun Financial**") and Changchun Jingyue High-Tech Industry Development Zone State-Owned Assets Investment Management Co., Ltd. (長春淨月高新技術產業開發區國有資產投資經營有限公司) ("**Changchun Jingyue**") and Beijing Internetware Software Company Limited (北京因特睿軟件有限公司) ("**Beijing Internetware**") (being indirect non-wholly owned subsidiary of the Company) entered into the conditional capital investment agreement, pursuant to which Changchun Financial and Changchun Jingyue have conditionally agreed to subscribe for approximately 6.45% and 4.84%, respectively, of the enlarged registered capital of Beijing Internetware by way of capital contribution in cash for the sum of RMB400 million and RMB300 million, respectively.

As at the date of the transaction, Beijing Internetware was held as to approximately 80.65% by DC Investment, 12.90% by Shenzhen Puhui and an aggregate of 6.45% by other individual holders. Upon completion of the capital injection, Beijing Internetware's total registered capital has increased to approximately RMB120,965,000, and its equity interest was owned as to approximately 71.54% by DC Investment, 11.45% by Shenzhen Puhui, an aggregate of 5.72% by other individual holders, 6.45% by Changchun Financial and 4.84% by Changchun Jingyue. Beijing Internetware remains as a subsidiary of the Company.

Please refer to the announcements of the Company dated 15 September 2020 and 29 September 2020 for details.

Save as disclosed, there was no material acquisition or disposal of subsidiaries or associated companies of the Company during the year ended 31 December 2020.

## Human Resources and Remuneration Policy

At 31 December 2020, the Group had approximately 14,000 full-time employees (31 December 2019: approximately 11,800). 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 8.43% increase in staff costs to approximately HK$2,792 million for the year ended 31 December 2020 as compared to approximately HK$2,575 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.

The remuneration of the directors and senior management are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each director and senior management member as well as their individual performance.

### 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 | Net proceeds HK$'million | Utilised amount as at 1 January 2020 HK$'million | Actual application for the year ended 31 December 2020 HK$'million | Unutilised amount as at 31 December 2020 HK$'million | Expected to be utilised by 30 June 2022 HK$'million |
|---|---|---|---|---|---|
| (i) Financing the Healthcare Big Data Investment or any other potential investments and acquisitions as and when any suitable opportunity is identified | 782 | (409) | (76) | 297 | 297 |
| (ii) Repayment of debt and interest expenses | | | | | |
| (a) Repayment of principal and interest expenses to Bank of Jiangsu Co., Ltd. (江蘇銀行股份有限公司) due in October 2017 | 183 | (183) | - | - | - |
| (b) Repayment of principal and interest expenses to Western Securities Co., Ltd. (西部證券股份有限公司) due in October 2017 | 286 | (286) | - | - | - |
| (iii) General working capital purposes | 84 | (84) | - | - | - |
| Total | 1,335 | (962) | (76) | 297 | 297 |

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 2020, an aggregate of HK$1,038 million has been utilised from the Net Proceeds.

As at 31 December 2020, the un-utilised Net Proceeds from the Rights Issue amounted to approximately HK$297 million. In 2020, due to the impact of the COVID-19 pandemic, the investment atmosphere was relatively sluggish, and the management of the Company became more cautious in investing and in mergers and acquisitions. Therefore, the un-utilised Net Proceeds had not been expected to be utilised in full by the end of 2020. All of such un-utilised Net Proceeds will be utilised for financing the Healthcare Big Data Investment or any other potential investments and acquisitions as and when any suitable opportunity is identified. It is expected that the un-utilised Net Proceeds will be fully utilised by 30 June 2022.

For further details of the Rights Issue, please refer to the announcements of the Company dated 21 July 2017, 24 August 2017 and 15 September 2017, the rights issue prospectus dated 23 August 2017 and the annual reports of the Company for the year ended 31 December 2017, 31 December 2018 and 31 December 2019.

## CHAIRMAN, CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR

Mr. GUO Wei

**Mr. GUO Wei**, aged 58, 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 Group 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 on of the 50 Most Powerful Business People in China by Fortune Magazine (Chinese version) in 2011 and 2012.

Mr. Guo is currently the Chairman and the Chairman of the Strategic Committee and member of the Nomination Committee 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 33 years of experience in business strategy development and business management.

## VICE CHAIRMAN AND EXECUTIVE DIRECTOR

Mr. LIN Yang

**Mr. LIN Yang**, aged 54, 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 30 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 DIRECTOR

Mr. PENG Jing

**Mr. PENG Jing**, aged 34, 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 13 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.

**Mr. ZENG Shuigen**

**Mr. ZENG Shuigen**, aged 43, has been a Non-executive Director of the Company since 30 June 2020. Mr. Zeng serves as the Secretary and director of party branch of Guangzhou Urban Planning Technology Development Services Department Co., Ltd. and the legal representative and chairman of Guangzhou City Investment Ziguang Cloud Co., Ltd. and has been appointed as the director of Guangzhou Broadband Backbone Network Co. Ltd. since December 2020. He is also a director of several group companies of Guangzhou City Infrastructure Investment Group Limited ("GZ Infrastructure"). Mr. Zeng graduated from Northeast Electric Power University in 2006 with a Master's Degree in computer application technology. He obtained senior engineer qualification in November 2014, and information system project manager qualification in May 2015.

Mr. Zeng has rich experience in smart city and big data planning and implementation, and participated in the establishment of several big data joint ventures in recent years. He joined GZ Infrastructure group in August 2017 and was the technical director of Guangzhou City Intelligence Technology Investment Co. Ltd. (formerly known as Guangzhou Environment Energy CCI Capital Ltd.), serving the construction of Guangzhou smart city. He was the research and development director of Nanjing big data information group of the Jusfoun Big Data Information Group Co., Ltd. and vice general manager of Anhui Zhongkang big data Co., Ltd. from April 2016 to August 2017, and responsible for the planning, R&D and implementation of multiple big data platforms.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**Mr. WONG Man Chung, Francis**

**Mr. WONG Man Chung, Francis**, aged 56, has been an Independent Non-executive Director of the Company since 23 August 2006. He holds a Master's 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 33 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 the Remuneration and Evaluation Committee as well as a member of the Risk Management Committee and the Nomination Committee of Shanghai Dongzheng Automotive Finance Co., Ltd. (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); and 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). 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). With effect from 3 April 2018, Mr. Wong was re-designated as a Non-executive Chairman of Union Alpha C.P.A. Limited (who was the Managing Director) and a Non-executive Director of Union Alpha CAAP Certified Public Accountants Limited (who was a Director), both being professional accounting firms, in order to devote more time on his role of independent non-executive directors of listed companies and charity works. 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 48, 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 a Non-executive Director 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). 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 Executive Director and the Chief Investment Officer of Cogobuy Group (listed on the Main Board of The Stock Exchange of Hong Kong Limited), 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 57, 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 of dormakaba Holdings AG (whose shares are listed in the SIX Swiss Exchange) since October 2020 and appointed as the CEO of Shenzhen Afiniti Technology Co. Ltd. since 1 October 2020. He was the board member of the Board of Directors and the Chief Executive Officer of VOSS (an international bottled water brand) and the Chief Advisor of Reignwood Holdings Pte Ltd. (Singapore). He was the Vice President and Chief Operating Officer of Wanda Internet Technology Group from March 2017 to May 2018, an Independent Non-Executive Director of ARM Holdings Plc. (listed on the London Stock Exchange) from December 2014 to September 2016 and a Senior Vice President of Greater China Field Division of Conservation International from June 2016 to September 2016. He was also 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 69, 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 54, 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 54, 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 Group INC. (formerly known as 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.

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 2020 (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 27 to 36 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 a special general meeting were held and the Board held four regular Board meetings at approximately quarterly intervals and seven 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 four 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.

During the Reporting Period, the Remuneration Committee held a meeting where the members attended either in person or by means of electronic communication.

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 | Special General Meeting |
| **Executive Directors** | | | | | | | | |
| GUO Wei *(Chairman and Chief Executive Officer)* | – | – | 4/4 | 7/7 | N/A | N/A | 1/1 | 1/1 |
| LIN Yang *(Vice Chairman)* | – | – | 4/4 | 7/7 | N/A | N/A | 0/1 | 0/1 |
| **Non-executive Directors** | | | | | | | | |
| PENG Jing | – | – | 2/4 | 5/7 | N/A | N/A | 0/1 | 0/1 |
| ZENG Shuigen | – | – | 2/2 | 2/4 | N/A | N/A | N/A | 0/1 |
| YU Ziping | – | – | 1/2 | 0/3 | N/A | N/A | 0/1 | N/A |
| **Independent Non-executive Directors** | | | | | | | | |
| WONG Man Chung Francis | Chairman | Member | 4/4 | 7/7 | 4/4 | 1/1 | 1/1 | 1/1 |
| NI Hong (Hope) | Member | – | 4/4 | 6/7 | 4/4 | N/A | 1/1 | 0/1 |
| LIU Yun, John | – | Chairman | 4/4 | 5/7 | N/A | 1/1 | 0/1 | 1/1 |
| YAN Xiaoyan | Member | – | 3/4 | 7/7 | 4/4 | N/A | 0/1 | 0/1 |
| KING William | – | Member | 4/4 | 6/7 | N/A | 1/1 | 1/1 | 1/1 |

## 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

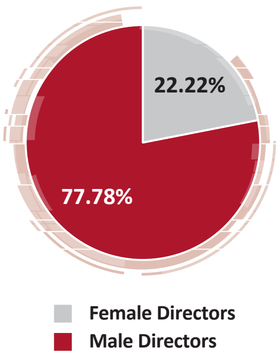
The Company is committed to promoting diversity among the Board and has adopted a board diversity policy (the "**Board Diversity Policy**") effective on 20 August 2013. The Board Diversity Policy outlines the Board's commitment to fostering a corporate culture that embraces diversity and, in particular,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

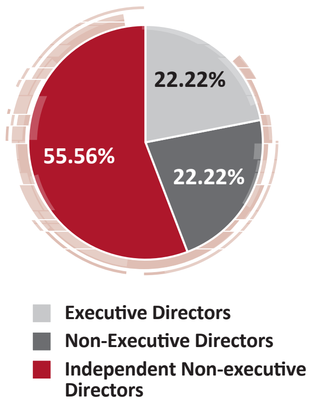
As at the end of the Reporting Period, the diversity of the Board is shown in the following graphic illustrations. Out of the nine Directors comprising the Board, two of them are women. Two of the nine Directors are Non-executive Directors and five of them are Independent Non-executive Directors, thereby 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$2,750,000 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 regularly. 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 independent auditors, reviewing the various work reports and key indicator information, as well as discussing material risks with the senior management team.

For the year 2020, 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 Group'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; and

- **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 2020, 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 2020:

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

Compared to 2019, there were no obvious changes in the first three risks of 2020 which were the risk relating to competition, the risk relating to loss of talent and the risk relating to relying on major customers. However, the risk relating to relying on major customers dropped from second to third and the risk relating to loss of talent rose from third to second. Affected by such factors as external market volatility, changes in international relationships and advancement in new technology in 2020, especially the admission and rapid development of new competitors, the risk relating to competition was still relatively prominent. Meanwhile, the Group's internal realignment and organizational optimization still continued. Although the staff turnover rate decreased by 1.6% from 2019, it remained at a relatively high level. In addition, the Group's emphasis on cooperation with major customers to realise synergies 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.

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, full understanding and analysis on the market environment and the development and changes of competitors, our business units utilized the strong technology advantages of Yan Cloud DaaS, KXDATA, Human + Robot and the accumulation of solutions under various business scenarios as well as the vast market advantages of corresponding industry, to provide protection and support for the continuous expansion of business scale and thus enhance the overall competitiveness of the Group.

– Relating to talent management, the Group's HR Department continuously improved the salary distribution and assessment incentive system, implemented a distribution system that combined position-pay scale, performance bonus and equity incentives and guided with the performance to attract and retain talents. In 2020, While continuing to promote the DC Elite ("**神碼匯**") talent training platform project, the Group also established the DC Geek ("**神技營**") aimed at cultivating technical talents. Through the DC Elite and DC Geek organizing and training core management team, and establishing Digital China elite talent training system, outstanding employees were motivated and the vitality of the organization was stimulated which guaranteed the long-term and stable development of core talents.

– Relating to customer management, based upon maintaining and strengthening existing customers relationship, the Group leveraged existing synergies and developed more potential customers and actively expanded more new customers and businesses, simultaneously achieved multi-product lines, serialized operation, developed new channels to diversify the risk of relying on major customers and further optimized the customer structure.

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 Independent 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 2020, the Internal Audit Department did not identify any significant deficiency in internal control.

## DISCLOSURES ON INSIDE 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 96 to 101 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 and external auditor 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

## CHAIRMAN'S STATEMENT

2020 was an extraordinary year. A sudden pandemic disrupted the pace of normal life and work, and the whole world was lost amongst this disruption. The pandemic tested each individual's mental state and each company's resilience.

China was the first to resume work and production while the pandemic continued to spread globally. Digital China Holdings ("**DC Holdings**" or "**the Group**" or "**We**") joined the citizens of China to actively participate in the defense of Wuhan against the pandemic and also for the resumption of work and production. During the pandemic, we strictly followed the prevention and control requirements to strengthen the health check process for our employees, provided them with masks, disinfectant and other pandemic prevention supplies at the office, and arranged a series of flexible measures such as non-essential personnel to work from home. At the same time, our employees also showed a great level of dedication and self-discipline. These measures have effectively prevented any spread of the virus internally and ensured zero infection among the Group's employees. The Group also actively donated funds to support Hubei's post-pandemic recovery, flood relief, disaster relief, and promote the development of youth education. Empowered by digital technology and with a strong sense of empathy and social responsibility, the employees of DC Holdings each made their own contributions to the fight against the pandemic and support the sustainable recovery of society.

For DC Holdings, we are fully committed to our vision and goal of becoming the most technologically advanced big data service provider and complying with ethics and the principles of sustainable development in our business operations. We therefore have the responsibility to promote and implement positive changes, estimate the impact of environmental, social and governance ("**ESG**") issues on businesses, and actively respond to the challenges of achieving sustainable development.

In 2020, we not only stepped out of the pandemic and overcame the fear of it, but we also achieved new heights in our business, once again using action to demonstrate the mission of "Digital China". Also in this year, we have refined our management approach and incorporated our sustainable development goals into operation management and risk management. We are focused on our customers, employees, suppliers and partners, and strive to contribute to the long-term development of our business and generate stable, sustained value for our stakeholders. We are also committed to keeping up with global standards of sustainable development and will continue to work tirelessly in accordance with the sustainable development goals of the Hong Kong Stock Exchange and the Global Reporting Initiative GRI, and continue create value for all our stakeholders.

The year 2021 is a year in which DC Holdings takes the lead and refines its corporate values: Technology, Market, Result – Lead Ahead! Determined to subvert tradition through bold reforms and organizational restructuring, continued technological innovation and improvement of management, we will make the organization stronger, the team more cohesive, and the employees more passionate. At the same time, we will continue to focus on the needs of our customers, the health of our employees, and the priorities of all our stakeholders in order to better serve society. In 2021, we will strive to create a better and more sustainable future.

## ABOUT US

DC Holdings was established in 2000 and was listed on the main board of the Hong Kong Stock Exchange in 2001 (stock code 00861.HK). For 20 years, DC Holdings has taken "Digital China" as its mission, adhering to the corporate culture of "Responsibility, Passion, Innovation, and Creating Shared Value", and remain determined to forge ahead and empower smart city development and industrial digitalization with its innovative proprietary technology. DC Holdings pushes ahead with digitalizing China; providing customers with advanced and professional digital services. After evolving numerous times from China's leading technology hardware distributor to a leading integrated IT service provider, informatization expert and smart city expert, DC Holdings has once again progressed on the path of digital transformation and is committed to becoming the most technologically advanced big data service group. DC Holdings and its subsidiaries have a total of 14,399 employees as of December 31, 2020.

As a high-tech enterprise that utilizes independent innovation of big data technology to empower the development of smart cities and the digital transformation of industry, DC Holdings has been involved in a variety of verticals and projects including smart city, smart supply chain, fintech, smart healthcare, smart manufacturing, smart agriculture, smart transportation and quantum communications, with outstanding results.

- **Our vision and mission**

  We are well aware of the increasingly important role that DC Holdings plays in the industry. As such, how we create long term value for society becomes a key consideration when we look to persue continuous innovation. As an employer of China's top technology talent, we must provide our employees with a safe working environment, health benefits and opportunities for continuous development. As a member of the wider community and a corporate citizen, we are also enthusiastic about public welfare and promote social progress through our actions such as helping those in poverty and those in need. We are committed to integrating social responsibility into all aspects of the Group (including products, services, innovation, cultural heritage and digitalization) to help promote the sustainable development of society.

  Looking to the future, DC Holdings will always remember its roots and strive to execute the vision of "Digital China". We will progress in our core verticals including city big data usage model, industry big data model, fintech model and incubation model. By adopting the concept of "industry-academia-research"-based incubation, we continue to develop core data products in our smart supply chain business and utilize data processing products to accelerate the development of the data industry and through the process, build a mutually synergetic software ecosystem, providing customers with a full range of software licensing and subscription services whilst continuing to empower the development of smart cities and the digital transformation of industry. We will continue to strive for the improvement of citizens' livelihood, development of the digital economy, and the creation of wider value for our shareholders, customers and the society.

## ABOUT THIS REPORT

"Digital China Holdings Limited Environmental, Social and Governance Report" (hereinafter referred to as "**this Report**") is based on the "Environmental, Social and Governance Reporting Guide" issued by the Stock Exchange of Hong Kong on December 2019, is also compiled with reference to the relevant rules under the Global Reporting Initiative (GRI) and is aimed at explaining our environmental, social and governance policies as well as our work and results during the year to our stakeholders. Our Environmental, Social and Governance ("**ESG**") reporting team is comprised of personnel from all relevant departments within DC Holdings. The team is responsible for collecting the relevant information every year and compiling this report.

- **Governance structure, strategy and objectives**

  The Board of Directors is responsible for assessing and determining the environmental, social and governance risks of the Group, for ensuring that the Group has established a suitable and effective environmental, social and governance risk management and internal control system, and for the Group's environmental, social and governance report. In 2020, the Group's environmental, social and governance risk management and internal control systems were operating effectively.

We believe it is important to formulate effective governance strategies to balance the economic, environmental and social benefits of the Group's business with that of its goals. We have fully integrated environmental, social and governance considerations into the Group's business operations and management as part of our corporate development strategy, and we have paid special attention to the relationship with our stakeholders such as seeking out their opinions and views on matters, collaborate and interact with our partners, care for our employees and grow with them, and shoulder more social responsibilities. The goal of our environmental, social and governance strategy is to be a responsible big data services company that is widely recognized by the public. To achieve this goal, we will adhere to the principles of sustainability, abide by our integrity, and create shared value and development within the industry.

## • Reporting guidelines and scope

In terms of reporting guidelines, this report follows:

- Materiality guideline: We determine the key areas of focus in this report based on the Group's overall strategy and operations as well as on economic, environmental and social issues that affect the sustainability of the Group's business to which our stakeholders have also shown attention to. As such, the Group will maintain close and frequent communication with our stakeholders to assess the importance and ranking of environmental, social and governance issues (see "Stakeholders" below for further details).

- Quantitative guideline: Where possible, this report will use data to show relevant environmental and social issues, such as illustrating data on resource consumption and carbon emissions, as well as key assumptions, calculation methods and reference basis.

- Consistency guideline: This report will disclose changes in statistical methods or key performance indicators (if any), or any other relevant factors that affect the comparison, in order to avoid misleading the readers of this report.

In terms of the scope of reporting, unless otherwise specified, the content contained in this report covers all subsidiaries of DC Holdings.

In addition, all the information quoted in this report comes from the Group's official documents, audited annual reports, and relevant data and information collected by the Group's functional departments.

In the following pages, we will analyze our environmental, social and governance strategies from the perspective of our stakeholders, users, employees and communities as well as intellectual property, supply chain & anti-fraud and the environment. We will also illustrate our implementation results for 2020.

## OUR STAKEHOLDERS

- ### Stakeholder analysis

We recognize the importance of stakeholder feedback on our environmental, social and governance policies. Consequently, we maintain close communication with our stakeholders to collect their views and suggestions on environmental, social and governance issues. We also engage in an open and transparent dialogue with our stakeholders through various channels, including meetings, surveys, seminars, etc. The table below presents the Group's key stakeholders, issues and communication channels.

| Stakeholders | Main topics | Main Communication Channel |
|---|---|---|
| Government and Regulatory Agencies | Compliance, Corporate Governance | Meeting, Written Report, Interview, Policy Consultation, Information Disclosure |
| Shareholders and Investors | Business Development, Return on Investment | Company Information Disclosure, Investor Meetings, Social Media Platform Interaction |
| NGOs and Media | Environmental Protection, Compliance Consulting, Charity | Industry Events, Press Conferences, Social Media Platform Interaction |
| Customer | Product and Service Quality, Privacy Protection | Customer Feedback, Meetings, Customer Service Hotline, Real-Time Customer Support |
| Staff | Training, Welfare, Career Planning, Healthy Working Environment | Labor Union, Staff Meeting, Internal Training Program "DC Elite", Corporate Social Platform, Regular Employee Satisfaction Survey Feedback |
| Community and the Public | Volunteer Service, Charity, Environmental Protection | Company Website, Company Wechat Public Account, Media Reports, Irregular Community/ Volunteer Activities |
| Supplier | Fair Cooperation, Integrity | Meetings, Regular Assessments, Site Visits |

For example, the Group attaches great importance to interaction with regulators, shareholders and the media (please refer to the text for the Group's communication and interaction with other major stakeholders). Apart from fulfilling its information disclosure obligations in strict compliance with regulatory requirements, the Group also builds a platform for communication through multiple channels and means, and allows stakeholders such as regulators, shareholders and the media to fully understand the Group's operation and development direction through regular and specific communication meetings. At the same time, the Group also listens carefully to the views and suggestions of relevant parties in the hope that it can continue to develop in a sustainable and healthy manner and give back to all stakeholders.

Interaction with media, investors and others

In 2020, apart from making strict information announcements and holding regular general meetings in accordance with the regulatory requirements, the Group also invited shareholders/investors to host presentation meetings from time to time. Statistics indicate that the Group held over 60 meetings with shareholders/investors and the media during FY2020. A number of analysts from domestic and overseas brokerage firms have published regular research reports on the Group.

- **Environmental, social and governance issues importance assessment**

  In FY2020, we not only discussed the importance of ESG issues with our stakeholders through the above-mentioned communication channels, but also conducted an online questionnaire to understand the importance of these issues as ranked by our stakeholders. The survey results and our communication with our stakeholders led to the following assessment of the significance of ESG issues:

- **Environmental, social and governance direction**

  In the past 20 years since its listing, DC Holdings has never forgotten its roots, and strive to execute the vision of "Digital China", adhering to our corporate culture of "responsibility, passion, innovation and creating shared value", and continuously innovating to empower China's digital transformation. At the same time, we are fully committed to promoting sustainable development strategies and actively build a healthy product ecosystem.

  Through the process of leading the industrial big data development and innovating the "Digital New Infrastructure", DC Holdings was awarded the No. 1 prize in the Digital Infrastructure Top 100 in 2020, the Best Service Provider of New Infrastructure Big Data in 2020, and the Most Growth-Oriented Chinese Listed Technology Company in 2020 by external organizations. In the future, we will continue to strengthen our corporate management system, integrate environmental, social and governance issues deeply into our business operations, and work more closely with our stakeholders to build a better future.

## USERS

- **High standard services and enhanced technology support to customers**

  As a big data technology company, DC Holdings has always been putting the customers at the heart of the business and constantly delivered the best services and solutions to them in multiple scenarios including smart city, supply chain, fintech, etc. We are committed to provide government, industries and corporates one-stop data services, including project implementation, data-management, software subscription, software maintenance support, IT consulting, and end-to-end supply chain services.

  To enhance the quality of our services, we have obtained ISO20000 system certification for information technology service. At the same time, we have also implemented the business continuity management system in accordance with ISO22301 which requires the continuous improvement on a system to reduce the likelihood of occurrence of a disruptive incident, ensuring an emergence plan is in place during such an occasion and reserve in advance proper resources for customer support, including software, hardware, labor, funding, etc. In addition, we also continuously optimize internal control procedures and workflow by providing training and raising the awareness to management and staff. Finally, we constantly review and update the system and emergency plan on an annual basis to ensure the reasonableness and functionality. During the holiday season of lunar new year in 2020, our engineers remain on duty and volunteered their time off to ensure services and systems were available to the public during lunar new year, thereby winning praise from our clients. During the pandemic, despite all the obstacles, our engineers provided full support to the Weihai city government and completed the update of the information systems in time for effective pandemic control.

  DC Holdings have enhanced the customer service system through information technology, to standardize the process, promote transparency and efficiency and ensure all issues are properly identified and treated. We also established proper communication channels with customers, and continuously improve and adjust our services, according to the needs from customers and also the actual circumstances, in order to provide tailor-made solutions to each individual to boost customer satisfaction.

  For the after-sales service, we have established a separate department to deal with customers feedback. In 2020, the total number of complaints received from customers was approximately 16,000, which accounted for less than 0.05% of total orders. We have always prioritized requests from customers and once any customer feedback is received, a corresponding department staff would follow up with customers as soon as possible and devise a proper solution for customer. In addition, we would evaluate and improve our internal procedures and controls, based on the feedback and complaints we receive from customers in order to prevent the issues repeating again in the future.

- **Improvement of quality control and customer experience**

  In term of the standard of quality, we are extremely focused on the R&D process, quality of our deliverables and internal control management. The Group has a well-developed PMBOK control system, which follows the standards of CMMI-5 and ISO90001. The system covers the functions of product quality management, product testing management, configuration management, as well as project management and process monitoring features for quality assurance.

  On the system side, we have built a service support system that matches the feedback from customers with our inhouse quality management system. The system runs through the entire delivery process, including internal and external collaboration and division of labor, establishment of corresponding project departments, setting up project managers, customer service points, and transforming requirements into internal processes. Internal operating systems are also set up with the right personnel, project departments and operating systems also collaborate to provide corresponding service and products. Timely response and feedback to customer needs and problems during the service process are also key, statistical analysis of customer KPI indicators every month and quarter are implemented and timely rectification of problematic issues are done to meet customer needs and enhance our customer experience.

- **The importance of data security and user privacy**

  With the rapid development of the internet and advancement of global informatization, data has penetrated into every single aspect of our daily life and all industries, and is becoming the core competitive factor for future development. From government's perspective, it includes not only data related to city management and infrastructure, but also the data from citizen livelihood and consumption. For financial data, this includes market data, company data, industry and pricing indexes, etc. Moreover, from an individual user's perspective, it covers all types of information related to personal identity, medical history, health status and consumption habits. Such data have unlimited potential applications and are valuable assets for future development.

  With the upside and convenience that big data brought to society, this has also raised our awareness on importance of data security and issues of privacy. To process the massive amount of data and information, setting up a security system to prevent the data leak is crucial and should be treated as priority in the era of digitalization.

- **Technology innovation & data security**

  Technology innovation is the anchor of future development in the era of digitalization. "Yan Cloud DaaS", a leading big data solution developed by DC Holdings which was awarded the first prize of the National Technology Invention Award in China, has played a key role in data integration. The solution could integrate any data source by generating API links updated in real time, even those with legacy databases and without primary coding and original engineering support, all at the lowest possible cost. At the same time, it provides user authentication, channel isolation, content encryption, access protection, data blockchain and other enhanced technologies to ensure the data security. "Yan Cloud DaaS"is currently widely used in China, which has been applied to more than 10 different government departments across more than 20 provinces and cities, including Beijing, Shanghai, Guizhou, Zhejiang and etc. Therefore, the solution is now a center piece of technology of the big data ecosystem in China that is worth trillions of dollars.

  In 2020, DC Holdings was selected as one of the key technology service providers for multiple big data infrastructure projects in China. The projects involved designing and establishing an overall data security system for data collection, storage and sharing, thereby improving the traceability and confirmation process for data access and sharing to prevent any data leakage. The system could effectively address the concern about data security from government, and encourage data and information sharing across departments.

Financial data is part of China's national assets and a matter of national security. With the accelerating growth of digital transformation in financial institutions, it is crucial to ensure a proper IT system is in place to improve cyber security and operational efficiency. With our advanced technologies, DC Holdings has provided an one stop solution to various banks for their system infrastructure, including upgrading the IT security system, establishing data integration loops and online banking systems, working together with the industry to create financial security through the construction of a financial ecosystem and to equip market participants with best secure options to continuously improve the service quality to end-customers.

- **Project execution & data security**

  For the project execution, the Group paid great attention to data security and user privacy. We have standardized and upgraded the control procedures and technologies in terms of personal security, physical security, network security, application security, log management, etc. to ensure the confidentiality, integrity and utility of customers information.

  - In the research phase of customers' need, we clarify the safety requirement and summarize to a research report during the preparation phase of design specification and based on the outcome of the research report, we make corresponding adjustments obtain further approval to proceed.

  - In the execution stage, we follow the safety coding standards and go through safety audits, regular backups, and any changes will be reviewed and confirmed with customers.

  - For the testing stage, other than the satisfaction of statutory testing requirements, we also conduct additional testing on access control, defect monitoring and vulnerability scanning.

  - At the trail stage, we focus on the performance of the system and go through the detailed check-up and verification with customers to ensure the system serves the purposes and needs.

  - For maintenance stage, after the system is launched, we will regularly upgrade and debug the system, and also perform antivirus check and backup creation.

- **Safety control qualification**

  One of the subsidiaries of DC Holdings holds multiple top-ranking certifications including ISO027001 Information security management certification, information security service qualification, Level I security engineering enterprises qualification, Level 1 Information security engineering qualification, Level 1 information risk assessment qualification, etc. These certifications and qualifications demonstrate DC Holdings is both qualified and capable to fulfill the nation's highest safety regulatory standards and ensure our customers are receiving the best quality service in the market and that their data and assets are in good hands with various layers of control procedures to minimize the risk exposure. In addition, the Group will perform annual internal audits on information security, and engage third-party professionals to conduct external audits in order to make sure all systems and control procedures are effective and functioning.

## OUR PEOPLE

- **Diversity & inclusion**

  Talent is of paramount importance for the success of any organization. At DC Holdings, we believe our people play a vital role in shaping our culture and driving organization development. The knowledge and professionalism of our people, over 14,000, are indispensable for the continuous success of the organization. We always execute our corporate culture to build our talent selection and reward mechanisms while appreciating the diversity of our people. We are committed to building a workplace where our people could be fully recognized and rewarded for their exceptional contributions to DC Holdings' continued success. We aim to make a difference and to attract more people who share the same vision with us to join us and let them reach their full potential as we strive to improve the quality of the working environment for more than 14,000 employees.

  DC Holdings treats all colleagues and job applicants fairly. As outlined in our Diversity & Inclusion Policy, we will not be affected by factors such as the age, gender, physical health, marital status, family status, race, color, nationality and disregard all factors deemed inappropriate by local law and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, including its core labor conventions for the elimination of forced or compulsory labor in respect of employment, training, promotion, transfer, salary and benefits management, etc. We prohibit the use of child labor in our business and supply chain. All employees must be above the legal age in the locations where we operate. We also eliminate discriminations in respect of employment and occupation, and respect for freedom of associations and the rights of collective bargaining.

  We adopt different recruitment channels to attract talents. We also encourage talent referral, and we believe in creating an environment where our people feel comfortable at work and able to exercise their full potential.

  Visit our website to download our DC Holdings Diversity & Inclusion Policy and DC Holdings Human Rights Policy.

- **General employment**

  For employees in China, DC Holdings enters into employment contracts with its people in strict compliance with the requirements of the Labour Law and other pertinent laws and regulations in China, 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 Group also provides employees with one free physical examination benefit every year and those people with outstanding performance as shown in their performance targets will be awarded with annual bonuses.

  For employees in Hong Kong, Macau, Taiwan or oversea areas, the Group also abides by all local laws and the international standards to ensure fair treatment of all our employees.

- **Compensation & benefits**

  We foster a performance-oriented corporate culture. To attract and retain outstanding talents and ensure the sustainable development of the organization, the Group has established a mechanism where we recognize our people based on their performance along with our fixed pay and variable pay compensations for different positions.

  Our remuneration is tied to our "3P Compensation Approach" in which our employees' pay is developed according to Position, Person and Performance. We aim at offering fair and competitive pay to our employees. Fixed and variable pay would be regularly reviewed to support gender equity, change of working environment, and comply with ever changing laws and regulations, To cope with the evolving talent and organization needs, we would also optimize our benefits portfolio to ensure it stays competitive and comprehensive.

  We believe that non-financial rewards could also attract, engage and retain our employees. Cash and benefits are generally intrinsic to our employees, and we offer a wealth of learning and development opportunities to help employees' career development.

In addition to offering professional growth opportunities, we also regularly recognize our employees who have made contributions to the organization. For example, the Group has established awards such as "Outstanding Contribution Award", "Innovation Award", "Teamwork Award", and "Master Award", etc. We would arrange open recognition to the teams and individuals who receive awards for their outstanding effort and excellent performance. We would also organize "Employees Open Day", and we believe this kind of gathering could enable us to build a stronger sense of belonging and engagement among our employees.

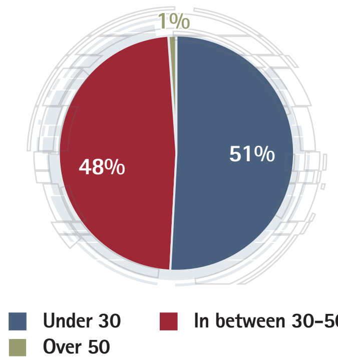
- **Employees overview**

Talent is a key force that drives our organization development. In the past year, to recruit excellent talents, the Group continued to expand and optimize its talent acquisition channels and assessment mechanisms with a view to attract and gather more competent talent to join our organization. We sincerely welcome talents of different nationalities, races, genders and regions to join us while appreciating their diversities.

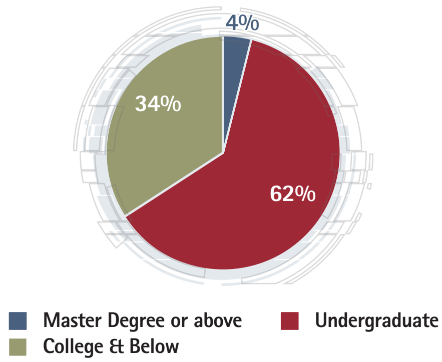
As of the end of 2020, the total number of employees of DC Holdings was 14,399, with an increase of approximately 22% from 11,803 employees as of the end of 2019. The significant increase in the number of employees of DC Holdings in 2020 was mainly due to the business expansion of its affiliated companies under DC Holdings, which increased manpower demand.

In 2020, the employees of DC Holdings are divided by Age, Education, Profession and Gender as follows:

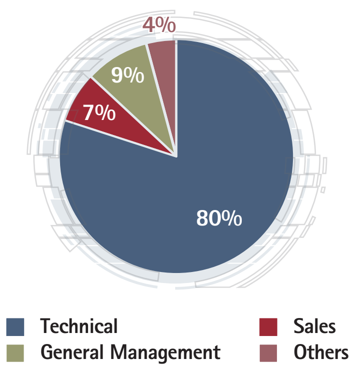
By Age



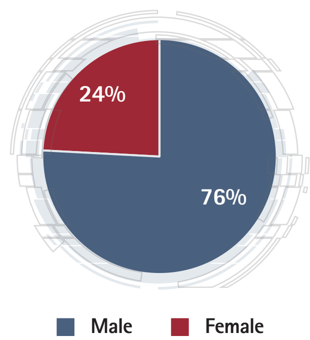

By Education




By Profession




By Gender




Remarks: All of the above are full-time employees. The Group will cooperate with external Human Resources vendor to engage contractors in handling any temporary work assignment.

- **Development and training**

As an organization 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 Group. The purpose of all our training courses is intended to enhance the competence level of employees for the roles they undertake at different career stages, aiming to accelerate our employees' performance for better career development. We organize induction training for new employees, which focuses on the current business situations and strategic objectives, history and corporate culture of the Group so as to enhance employees' sense of corporate identity. The business units will design and organize specific business training according to their needs. The online learning center provides general training that effectively helps employees to enhance their competence and efficiency in work and improve their professional aptitude. At the same time, employees can take the initiative to take part in training for specialized skills, management skills or examinations for professional qualifications provided by external training organizations.

In 2019, to build a high-potential talent pool for our management team and professional groups, the Group established the "DC Elite" talent training platform project to stimulate organizational vitality and build a driving force for continuous development within the organization. In 2020, the Group created the "DC Geek" aiming at developing technical talent. Through the "Dual DC" training organizations of "DC Elite" and "DC Geek", we establish talent training and development ecosystems for DC Holdings.

"DC Elite" is committed to selecting and developing management talents for DC Holdings. During the first year of implementation, DC Holdings' exclusive talent training system has continuously excelled and improved, from the selection models to the upgrading of training approaches, and then the actual execution has made every member truly feel their own improvement. The members of "DC Elite", as one of the Group's management talent pipelines and outstanding employee representatives, had the courage to step out of their positions, give full attention to the spirit of ownership, overcome each issue, meet challenges continuously, and get closer to the Group's strategy, business layout, and development planning, etc. They continue to explore and innovate, and use accountability, passion, innovation and creating shared value to jointly promote the Group's innovation and change as they build up a rich talent resource for DC Holdings.

"DC Elite" Discussion and Sharing Forum

"DC Geek" is committed to selecting and developing technology "gurus" for DC Holdings. As a big data services leader, the application of big data technology is key to the Group's ability to expand its service scope, and it is also the driver to achieve the Group's strategy and maintain its leadership position in the industry. The members of "DC Geek" have devoted themselves to the implementation of technology strategy in addition to performing their original roles. They actively promoted the establishment of the Group's technology infrastructure, and invited external experts to understand the technical expertise of external networks with an open mind, and fully understand the latest practice and trends of the market by successfully organizing a number of important technology sharing seminars. The members of "DC Geek" insist on technology advancement as our corporate strategy, adhering to the "geek" culture, and constantly exploring, innovating and making breakthroughs themselves in new technology that has enabled the Group to achieve milestone after milestone consistently.


"DC Geek" Technical Sharing Sessions

In 2020, the Group further increased the investment in training resources, with the learning time of our employees exceeding 137,000 hours and the number of participations exceeding 18,000 times. The training programs covered generic trainings for general staff, leadership development, contract logistics management, new employee induction, rules and regulations, customer management, and financial management, etc. In 2020, with the impact of the pandemic, the Group's average training time was approximately 10.32 hours, which is still an 8.6% increase compared with the 9.5 hours average training time in 2019. The major reason is that the Group took the pandemic as an opportunity to vigorously develop online training channels. We strengthened the flexibility of training, and let our employees access their training anywhere at their own pace. We could effectively measure the training completion rate and track the effectiveness of training.

The average training hours of employees at different job levels during the year based on the records of HR training system, online learning center, cloud courses, etc. are as follows. Our group Senior Manager to General Manager receives more external training and in-house professional training in addition to the regular certification trainings.

| By Job Level | Average Training Hours |
|---|---|
| Senior Manager to General Manager | 75.43 |
| President & Vice President | 46.70 |
| Manager | 8.64 |
| General Staff | 5.53 |

The average training hours of employees by gender during the year are as follows. The average training resources received by male and female employees were basically the same, with no significant differences.

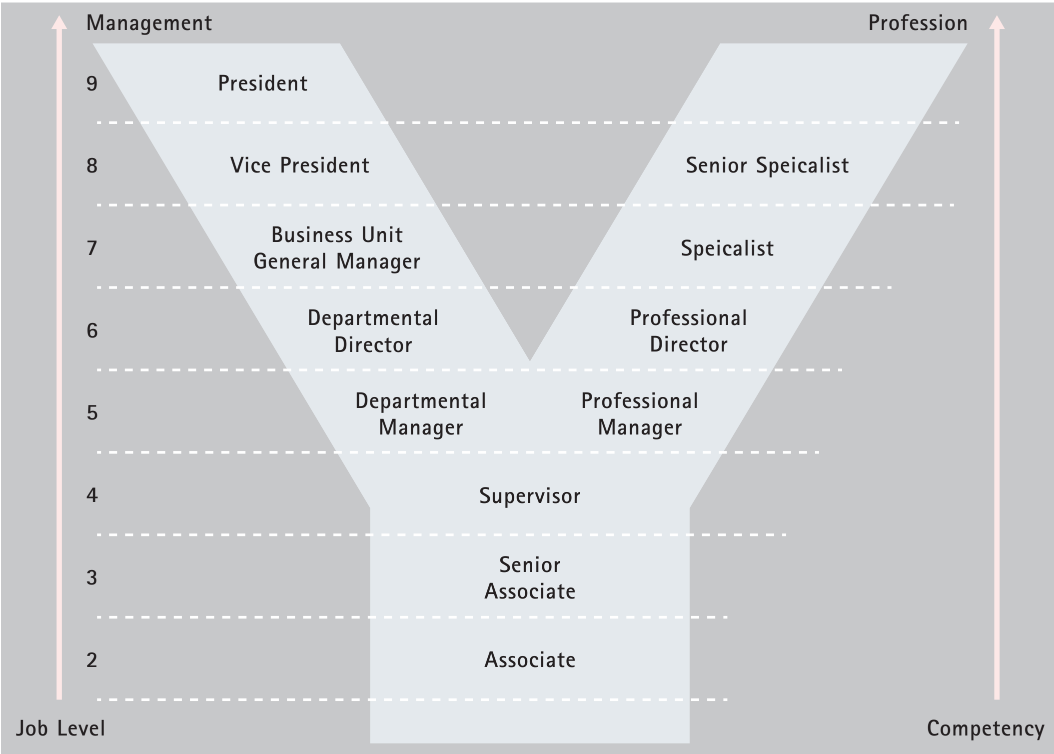
| By Gender | Average Training Hours |
|---|---|
| Female | 10.83 |
| Male | 10.14 |

The average number of training hours for employees receiving various training programs during the year are as follows. We offer more professional training programs compared to different types of trainings. In addition, the new process and system training in 2020 helped all employees have a clearer understanding of the Group's rules and regulations and related processes and enhance employees' awareness and understanding of the Group's internal control mechanism.

| By Training Program | Average Training Hours |
|---|---|
| Professional Training | 5.84 |
| Corporate Culture | 1.63 |
| Management Development | 1.58 |
| Anti-Corruption | 0.75 |
| Generic Training | 0.29 |
| Process & System Training | 0.23 |

- **Promotion and career development**

  At DC Holdings, employees can take up more job accountabilities and reach senior positions with better remuneration through promotion. The Group has implemented a structured management mechanism to offer an equal and fair platform in managing the promotion and development of our employees. Under our structured career framework, we offer career development opportunities either under management path or professional development path. This unique dual-channel career development mechanism breaks the traditional career development journey, and we establish a career framework unique to DC Holdings.




2020 DC Holdings Career Development Framework

When we consider a promotion, we generally have the following considerations.

- The nominee has proven track record of performance exceeding and beyond the normal job expectations/scope.
- The nominee will assume significant expansion of job scope, and has high potential to be successful in the new role.
- The nominee has demonstrated efforts taken to gain new skills and continue to grow and perform the bigger role.
- The nominee has personal motivation and willingness for an increase in job level and responsibility.

The Group officially treats "creating shared value" as one of the Group's core values. In the future, we will establish a new path for employees' career development through our "DC Holdings Partnership Program'. We encourage every "partner" to become an owner and enable them to participate more deeply in the Group's business management. Each partner can share the dividends of the Group's growth and achieve development, management and sharing altogether.

Through our unique talent career development framework, we provide employees who share the same vision with us a platform where they can unlock their full potential so that outstanding talents can fully be realised. The talent career development framework introduced by the Group provides the above-mentioned development paths, and we encourage employees to choose their own career development, promotion paths and realizes our theme of "Achieve Your Own Future" by each individual employee. We hope that on the platform of DC Holdings, every employee can achieve their own dreams and act as one of the pillars to form "Digital China" in the future.



- **Resignation and separation**

DC Holdings is committed to providing continuous and secure employment opportunities to our employees, and we understand there are various subjective and objective reasons for the resignation and turnover of employees. We are committed to ensuring that all resignations are handled in a fair, non-discriminatory and consistent manner. When handling any resignation, we respect the rights of both the Group and employees and we fully comply with the requirements of local laws and regulations.

The Group will try its best to retain and reduce the turnover rate of our talents. If an individual employee's work behaviour violates our established rules and/or local laws and regulations, the Group will take disciplinary action, dismiss and/or take corrective measures, or even transfer it to the judicial authority, as and when appropriate. In 2020, the employee turnover rate of DC Holdings according to profession, gender, age group and region is as follows:

| Category | | Turnover Rate |
|---|---|---|
| By Profession | Technical | 22.76% |
| | Sales | 24.62% |
| | General Management | 21.08% |
| | Others | 25.21% |

| Category | | Turnover Rate |
|---|---|---|
| By Gender | Male | 23.65% |
| | Female | 8.69% |

| Category | | Turnover Rate |
|---|---|---|
| By Age | Age under 30 | 25.81% |
| | Age 30-50 | 19.32% |
| | Age over 50 | 24.16% |

| Category | | Turnover Rate |
|---|---|---|
| By Region | China | 22.84% |
| | Hong Kong, Macau, Taiwan & Overseas | 21.31% |

In 2020, the overall staff turnover rate of the Group was 22.84%, which was a decrease from 24.47% in 2019. By comparing the turnover rates under different categories, it can be seen that the turnover of sales and other general management group of employees is relatively high, and the mobility of employees under 30 years age group is relatively high, and the mobility of male employees is relatively high.

**Remarks:**

1. In this report, the employee turnover rate = the number of turnover employees/(the number of employees at the end of the year + the number of turnover employees in the current year) * 100%;

2. In the 2019 ESG Report and before, the employee turnover rate disclosed = the number of resignations/((the number of employees at the beginning of the year + the number of employees at the end of the year)/2)*100%;

3. As mentioned above, the employee turnover rate of 24.47% in 2019 has been recalculated according to the new calculation method, which is comparable to the employee turnover rate in 2020.

The Group will abide by all local laws and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work to ensure fair treatment of our employees.

Visit our website to download our "DC Holdings Code of Conduct and Business Ethics Policy".

- **Work-life balance**

We believe excessive work pressure can affect employees' emotional, physical health as well as their family life. In a diversified cultural environment, we encourage a culture of work-life balance. The Group put great emphasis on employee cultural activities and regards the development and enrichment of employee cultural and sports activities as an important part of supporting the Group's cultural development. We established employee swimming fitness clubs, badminton and basketball fitness clubs, and choirs, etc.

In 2020, the Group's labour union and other organizations carried out employee swimming and badminton fitness club activities, with a total of more than 840 participants. We encourage employees to stay fit and release stress during the pandemic. At the same time, they organized events such as badminton competition and more than 100 employees participated in it. They formed teams and played with much enjoyment, surpassing their own expectations, enjoying the activity and sharing a healthy life together.

Group photo of 2020 Badminton Match

Since the outbreak of the pandemic, the Group has managed to retain our full manpower resources and has not implemented any measures such as redundancy, salary cuts or requiring employees to apply for any no pay leave. We hope to work together with our employees to overcome the difficulties and to further enhance the engagement within the organization.

- **Occupational health and safety**

The day-to-day operations of DC Holdings largely involve the use of computer applications and paperwork documentation 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. We have formulated an occupational health and safety policy, with a view to giving effective protection to staff health and safety. An affiliated company of DC Holdings has obtained the "ISO45001 Occupational Health and Safety Management System Certification".

According to the "Social Insurance Law of the People's Republic of China", the Group provides employees and their families with various health and safety-related insurance benefits, namely medical insurance, commercial insurance, accident insurance, life insurance, etc. We cooperate with professional medical institutions and provide employees with online consultation services for private doctors, and provide special insurance coverage for COVID-19 for employees who worked overseas during the pandemic. It better protects the health of employees and improves their ability to cover risks. Only by improving and guaranteeing the occupational health and safety of employees, can productivity be effectively improved, so as to achieve a win-win situation for both the organization and the employees.

With the establishment of Employee Mutual Aid Fund, the Group will continue to offer support to those employees in need. We foster to construct a harmonious working environment, and aim at raising the happiness level of our employees. With the strong support and participation of employees, the number of Employee Mutual Aid Fund members in 2020 was 6,912 and we collected membership fees of RMB829,400, including donations from some of the Group's senior executives. The Group put great emphasis on discipline, and the senior management strictly observes the regulations and takes the lead. In the event of any late attendance by senior management on meetings of the Group, the voluntary donation mechanism will be triggered for them, and the donated funds into the mutual aid fund from the senior management individual(s) will be used for employee assistance. In 2020, the Group's employee mutual aid fund completed a total of 7 cases of assistance to injured and sick employees, with a total support of RMB303,200. From 2018 to 2020, we have one employee casualty case due to work injury. In 2020, a total of 4 employees were injured at work, and 3,656 working hours were reported.

We strictly abide by the laws and regulations pertaining to occupational health and safety at the place we operate. At our work premises, necessary 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 high-quality working environment.

- 2017 onwards, the Group installed new ventilation and fresh air purification systems to ensure the high-quality air in the office and protect the health of its employees. The administration department of the Group is responsible for coordinating the day and night security of the Digital Technology Plaza, maintenance of fire-fighting equipment and first-aid kits, and fire drills.

- In 2018, the Group carried out a comprehensive upgrade and refurbishment of the fitness center in the building. Improvements were made to the facilities with the addition of rowing machines, spin bikes sets, table football and other fitness facilities, which are open to all employees of the Group free of charge. These facilities have been provided to encourage staff to pay attention to their health and fitness amidst hard work and dedication.

- 2019 onwards, in order to maximize the safety and quality of drinking water for our employees 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 2020, to prevent and combat the sudden pandemic, we took a series of measures to protect the health and safety of employees. We distribute masks to employees; regularly organize key disinfection and cleaning of office areas; implement access management where personnel entry requires temperature measurement, and work card inspection registration; arrange employees to decentralized offices where conference rooms are adjusted, and daily pandemic prevention and protection work are carried out to protect the safety of employees in the office area during the pandemic. In addition, under the premise of full protection of our employees in the pandemic, restaurant tables and chairs have been completely replaced, and leisure meeting rooms have been set up to enable employees to utilize a clean, tidy, relaxing and pleasant environment.

Visit our website to download our DC Holdings Occupational Health and Safety Policy.

- **Communication channels**

DC Holdings encourages dialogue on an equal footing between superiors and subordinates. This kind of positive, harmonious and candid interpersonal relationship and communication maintains a mutually trusted working atmosphere to form the foundation of efficient collaboration, and we could achieve progressive development together within the Group. The Group has established comprehensive communication channels. The employees' direct superiors, departments, and human resources department provide assistance to employees in terms of job satisfaction, labor protection, career psychological counseling and grievance handling. The Human Resources Department is responsible for collecting suggestions from employees, and they would evaluate and follow up in a timely manner.

In 2019, we decided to hold staff meetings quarterly, through which the management could share with all employees updated corporate strategies and business performance. Our employees took an active part in the communication and expressed their interests about the Group's future development, and treated staff meeting as an effective channel to understand the Group's strategy and business conditions. The Group also followed up and gave feedback on the questions and suggestions raised by our employees, such as changing the format of the staff meeting and establishing a key talent pool. Through staff meetings, the Group could effectively cascade corporate goals and allow employees to better understand the Group's core values and mission, and employees could further review and develop their careers within the organization. During the 2020 pandemic, the Group introduced online staff gathering. Employees actively participated and raised lots of questions online, and we could ensure continuous communication within the Group during pandemic.

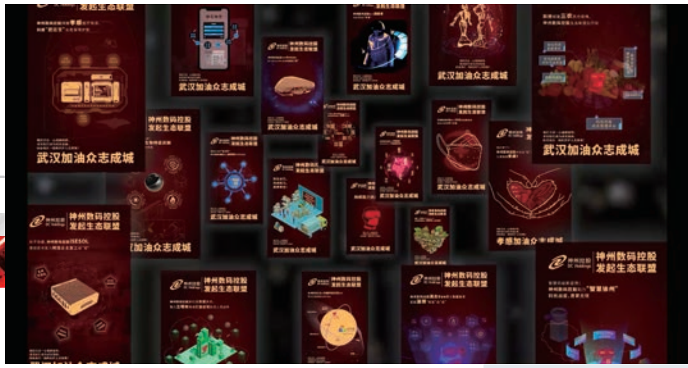

Online Staff Meeting

In 2020, DC Holdings celebrated the 19th anniversary, and we organized online staff gathering during pandemic. Employees across the country participated in the event to celebrate and share the happy moments altogether.

## COMMUNITY

- **Anti-pandemic with technology**

Right after the outbreak of COVID-19, DC Holdings immediately initiated the establishment of an anti-pandemic alliance. With the alliance and smart supply chain model, we achieved zero confirmed cases in the team and ensured the safety of our staff. At the same time, we continued to fight against the pandemic and collaborated with our business partners, including Huawei, Cisco, Toread, Laiyifen, China Mobile, Gulf Security Technology, CloudMinds, and 360 Charity Foundation to support the first line of the pandemic areas with medical supplies, equipment, and funding. In addition, we dedicated our existing business resources into the anti-pandemic alliance, such as providing logistic, and warehouse support with our leading big data solution. As a result, the anti-pandemic alliance and its members were awarded the title of "Advanced Private Enterprise in Anti-pandemic" issued by All-China Federation of Industry and Commerce.



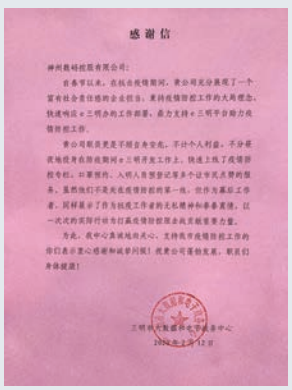

DC Holdings-led anti-pandemic alliance

On the other hand, with "Yan Cloud DaaS", the technology which awarded the first prize for National Technology Invention Award, DC Holdings was able to quickly collect data, medical history and other relevant information from patient, and connect and share such information on multiple databases and big data platforms. The government was able to have a full view of the situation and enhance decision making capabilities on a real time basis. We applied our leading technologies, such as big data, cloud computing and artificial intelligence, into the battle against the pandemic and encouraged sharing and collaboration among cities and provinces, including Sanming, Zhangshou and Longyan city in Fujian Province, Weihai City in Shandong Province, Wuhan City in Hubei Province, Xiaogan City, Yanqing District in Beijing, Nankai District in Tianjin, Tangshan City in Hebei Province, Xuzhou City of Jiangsu Province and many more. After winning over the pandemic, we assisted in resumption of function for those previously affected areas. We had received many thank you letters from governments and institutions.

Thank you letter from hospital and government


汉川市人民医院
武汉大学人民医院汉川医院

感谢函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神州数码控股有限公司:

In Sanming City, the government collaborated with DC Holdings to develop the "e-Sanming" platform using our leading big data solution Yan Cloud DaaS, in order to improve the efficiency and react quickly during the pandemic. Thus, the city was able to resume to work and production relatively quickly. During the pandemic, "e-Sanming" platform spread the knowledge and information of COVID-19 prevention to public, handled their inquiries and offered free consultation services, so the public could be informed immediately when there is any update of the pandemic. The platform also offered the mask reservation services with 1.35 million masks supplying to the citizens. In addition, the platform allows the public to perform more transactions and applications via the systems, to avoid physical contact and prevent further breakout of the virus. The system played a key role for the battle of pandemic and led the city back into function.

In Zhangzhou city, with our big data solution Yan Cloud DaaS, the government and DC Holdings built up an online public service platforms "Zhangzhoutong" together, to help with the economy recovery after the pandemic in many ways: launched "travel code" with the support of big data solutions to gather the travel history from the public to prevent further outbreak of COVID-19; launched events "Invoice Lottery" and "Passenger Car Subsidiary" to stimulate public consumption and recovery of the post-COVID economy; handled more public services through online platform to reduce physical contact and encouraged instant inquiries and reports from public and social awareness.

In Weihai City, DC Holdings provided the government technical support on data integration with our solution Yan Cloud DaaS in order to solve the matters on pandemic monitoring, pandemic prevention and control, command control, business coordination, work and production monitoring, etc. The government then was able to have instant, accurate and precise data and information and reached a better decision making ultimately.

At the "2020 China-Europe Green Smart City Summit", with the outstanding tracking records in Saming, Zhangzhou and Weihai City, DC Holdings was selected out of a large number of global cities and awarded "2020's highlight of combating the pandemic with digitalization" to serve as an example for others. The efforts made by DC Holdings during the pandemic was once again recognized by the government locally and globally.

Trophy of "2020 Digital Anti-pandemic Outstanding Cases"

- **Public charity**

  Our mission is "Digital China", and this comes along with a strong sense of responsibility and the pursuit of innovation. In our daily activities, we adhere to the social responsibility and ensure all our decisions are aligned with our mission and two beliefs. DC Holdings and all its staff act on behalf of our mission and beliefs. We established DC Holdings Charity Foundation, and donated thousands of funding, supplies and digitalization services, with a total amount of over RMB49 million, into social welfare activities in the past decade, such as earthquake relief, education and poverty relief and etc. This showcases that DC Holdings acts on its word and puts our mission and belief into action with positive corporate culture and social responsibilities. The main charity donations made by the Group in 2020 are listed as below:

  - Supplies and service donation to anti-pandemic efforts worth RMB30 million: During the pandemic, DC Holdings offered our supplies and digitalization services for free which were worth approximately RMB30 million and also led to the donations from members of the afore mentioned alliance with a total amount of over RMB200 million.

  - Capital donation to Hebei for anti-pandemic efforts worth RMB1 million: After the COVID-19 outbreak, we donated RMB1 million to Hubei Province, the most affected province, through one of our subsidiaries to the Hubei Provincial Poverty Alleviation Foundation in order to help the battle against the pandemic and recovery of Hubei during and after the pandemic.

  - Capital donation to support youth education worth RMB500,000: In order to support our next generation and let children in poorer areas receive better education, our Group donated RMB500,000 to Dongrun Charity Foundation in November 2020. With this, we hope to let the children obtain fair education opportunities and offer them chances to get out of poverty.

  - Capital donation to Nanjing for flood relief worth RMB200,000: In 2020, affected by heavy precipitation and tides, the Gaochun district in Nanjing City and its surrounding areas suffered from severe losses. Although the post-disaster reconstruction were carried out in an orderly manner, the community in the areas faced serious damage and losses. The Group donated RMB200,000 to Charity Federation of Nanjing Gaochun to boost progress of flood relief.


捐赠证书

神州数码系统集成服务有限公司：

感谢贵司参与"2020东润慈善夜暨东润公益基金会五周年庆典"活动，并在公益认捐环节慷慨捐助，我们对贵司用实际行动支持公益事业的崇高精神表示诚挚的敬意。

特颁此证，以示感谢！

东润公益基金会
DONGRUN FOUNDATION

东润公益基金会
2020年12月

Public Welfare Certification of Donation

The above statements have fulfilled the corresponding control procedures and requirement of information disclosure. For details, please refer to the publication on "Securities Times"and CNINFO. The titles of such articles are "Announcement on External Donations to Help Hubei Poverty Alleviation after the Pandemic", "Announcement of the Donation to Dongrun Charity Foundation" and "Announcement of Donation on Flood Relief Fund to the Charity Federation of Gaochun District in Nanjing City".

DC Holdings will continue to advocate corporate and social responsibility to encourage the development and harmony of society. Through the platform of Aixin Fund, we encourage employees to interact more often with charitable organizations, participate in public welfare and give back to the society.

- **Educational support**

  Since 2002, the Group has led employees in the fund-raising campaign for education support of youth generation. With the funds raised, we had established a total of ten "DC Holdings Hope Primary School" located within Sichuan, Hubei and Hebei provinces. The fund-raising campaign has been on-going for more than 19 years, with accumulated donation amounting to RMB3.7 million. As at the end of 2020, the DC Holdings Hope Primary Schools located in Chengdu and Xi'an respectively had been merged to other school systems according to the instruction from the local government. The remaining 8 DC Holdings Hope Primary Schools are under normal operation.

  In addition, the Group also proactively contributed to online education. Since the outbreak of COVID-19, the demand of online education increased dramatically. As one of the key market players in supply chain industry, the Group accelerated the trend of online education with our leading big data technology. Until now, we have collaborated with the top 3 online education platforms in the industry to provide supply chain service to them.

- **Public welfare and poverty alleviation**

  DC Holdings has contributed to the society and offered more assistance and care to people who need help. Actions included the following:

  *Caring for Beijing Sun Village*

  Beijing Sun Village is located Zhaoquanying town of Shunyi District. It is a non-profit organization registered under the government. Zhang Shuqin, the founder of Sun Village, gathered resources from the public to help prisoners take care of their unaccompanied minor children free of charge. To provide the best environment for the next generation, DC Holdings have been proactively involved in such social welfare activity since 2008 and have also donated learning and living supplies and cares to children.

  *Poverty Alleviation in Longyan with big data support – Longyan City*

  In Longyan City of Fujian Province, DC Holdings was engaged by the government to set up an information platform for the purpose of poverty alleviation. The platform provides services across government departments, enterprises and individuals. From government departments, we consolidated the data among data sources in different departments with our own big data solutions and provided the government an overall picture for decision making, especially in the field of fighting poverty. From enterprises, we created a platform for the program "Helping 10000 villages with 10000 enterprise" and connected more than 60,000 private entities into the program. On the individual level, we built up a platform "i-Help" and allowed the public and citizens to participate in poverty alleviation, including helping impoverished college students or the poor suffering from illnesses. With our support, students with college admission opportunities will no longer need to bear the burden of unaffordable tuition fee.

- **Volunteering**

  During the operation of DC Holding Hope Primary School, our employees, who are enthusiastic about charity, actively volunteered in the scheme, including participating in the teaching session and various of group activities. Our Aixin fund in our Group will organize and offer more volunteer opportunities to our employees.

- **Rural development**

In an era of digitalization, even poverty alleviation begins to align with technology. With technology, we are able to pinpoint the causes more precisely and accurately and solve the elements of poverty efficiently and effectively. Luochuan Country in Shaanxi Province, also known as the "Hometown of apples in China", is responsible for approximately of 80% of total supply of apples in China and 95% of the local populace in the local county are involved in the production of apples. To fight against poverty and bring prosperity to the county, the county government collaborated with DC Holdings and established an online platform to gather millions of different data sources from the production line of apples, including farmlands, farmers, stores, fruit banks, orchards, employers and other players in the value chain across the county. With all the data, the county was able to extract accurate data out from the platform, gather and utilize the resources available in a more efficient manner in order to increase the profit margin and earning income for the county and its citizens, and also encourage the development of the wider industry.

In addition to data-usage in the agricultural scenario, DC Holdings worked with domestic financial institutions to offer more financial aid and services to the industry with the technology solution input from our side, in order to reduce the cost and increase the margin for each party involved. One of the key obstacles rural areas are facing is that the information and resources are completely unorganized such that a system could not be implemented effectively (for example a credit rating system). Therefore, it was difficult for financial institutions to provide financial aid or services to parties like farmers. DC Holdings cooperated with Luochuan Commercial Bank to offer financial services to farmers and merchants based on the data from our supply chain management to assist credit assessment for loan pledge information (warehouse receipt, purchase invoices, etc.)

- **Innovation Center**

The Group continues to enhance the innovation center by bringing in more usage cases, latest technologies, R&D equipment and talent to the platform, and promoting our mission "Digital China" as well as technology innovation for the country.

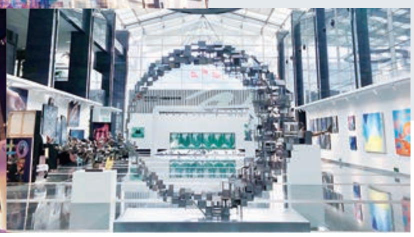
As a key platform for companies and talent to showcase their ideas and products, we have constantly promoted the innovation center via various channels and upgraded the market branding and thus attracted more resources to the platform. On the other hand, we also educated the public on our mission, beliefs and our enhanced ecosystem capabilities.

Picture of Innovation Center

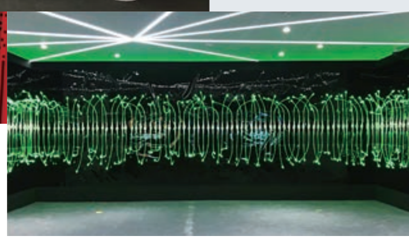

Currently, we are collaborating with multiple cities on setting up new innovation hubs and incubators in their district in order to empower the development and creation an ecosystem for technology innovation. This aligns with the trend of smart city development and digital transformation and form connection between cities.

- **Integration of technology and art**

  DC Holdings pays attention to development and integration of technology and art. We are actively supporting young artists and we promote art and culture. We have worked with domestic and foreign art academies to bring in more resources for art and creative talents, in order to provide them a better environment to practice and develop their talents and specialties through participating in more exhibitions, forums, salons and public events. On the other hand, we enable the world to get in touch with more Chinese contemporary art and cutting-edge technology together with it.



Picture Collection of Art & Science Design Exhibition



Up to the moment, the Group has organized over 100 events with more than 80 artists. Moreover, we have been involved and provided one-stop IT solution to multiple projects for infrastructure and establishment of smart city, innovation lab and exhibition center. The Group strives to coordinate arts, humanities, science and technology, and develop a new environment for cross-border teaching and interactions, and thus to lead the society into creation and harmonious integration.

## INTELLECTUAL PROPERTY RIGHTS

Innovation represents a core competitive edge in the business development of the Group and one of our underlying values. Proprietary intellectual property rights are not only important tools, investment capital and the source of future core products that enhance our business capabilities and income, but also a powerful driver to promote the progress of standardization of national new infrastructure construction, big data, smart city, fintech and other core industries.

In terms of intellectual property rights, the Group's legal department and dedicated personnel in each business unit are responsible for the daily management of legal matters involving trademarks, patents, software copyrights and other intellectual property rights. In 2020, the Group improved the intellectual property rights management measures, further regulated the management of intellectual property rights of various business units, safeguarded the Group's intellectual property rights, and protected them from infringement.

As of the end of 2020, the Group owned 1,846 intellectual property rights, including 1,483 software copyrights, 99 patents, and 264 trademarks.

In the field of urban big data, we have independent research and development, global unique deep web mining data technology, "Yan Cloud DaaS" national invention patent and software copyrights of related products. This technology was awared the first prize of National Technology Invention Award in 2018. For our clients without the source code and without the cooperation of their original product/service vendor, our technology is applied to quickly break isolated data sources, saving users more than 90% of project communication and coordination time, and shortening more than 50% of the project implementation cycle. In addition, we also own numerous software products and related software copyrights in various fields such as citizen services, urban management, and industrial convergence, assisting cooperative cities to build an urban database, link cities, enterprises and citizens, open up urban digital ecosystem networks and rapidly promote the construction of a new type of smart city centered on the city brain and city digital twins.

In the field of industry big data, we continue to build collaborative management software for the entire life cycle of the supply chain to enhance the efficiency of upstream and downstream collaboration in the supply chain. We own the software copyrights of supply chain big data tools and our "Treasure Vault" series products, and have also completed the comprehensive upgrade of our product suite, and the technical architecture reconstruction of core products OMS, WMS, TMS, and BMS. Focus was put on building three new systems i.e. human resources, asset management, and supplier management, all which provided a solid technical base for the Group to create a new record in the industry of 4.5 million orders on a single warehouse basis during the Double Eleven Shopping Festival. At the same time, in order to improve the shortcomings of the traditional AGV (automated guided vehicle) sorting solution method, we innovatively proposed a new robot intelligent sorting solution, which can cope with the business scenarios of ultra-high flexibility and has uniqueness and leadership in industry application. Among them, the "Human + Robot" series technologies have obtained national invention patents.

In the future, we will continue to advance the management of intellectual property rights by optimizing online protection to facilitate continuous efficient operation, with a special focus on trials in the capitalization and commercialization of intellectual property rights in search of new business growth pockets for DC Holdings. We will continue to actively encourage innovation and increase our effort in the R&D and design of our 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 new technologies in China.

## SUPPLY CHAIN & ANTI-FRAUD

- **Supplier and procurement management**

  In terms of procurement management, the Group actively establishes good partnerships with suppliers, always insists on treating suppliers with integrity, and has established a fair and impartial evaluation system to ensure the control of procurement costs and quality, thereby enhancing customer satisfaction. At present, the Group has established a long-term stable cooperative relationship with more than 2,000 well-known IT equipment and service vendors, including 5 overseas suppliers. Through strategic cooperation and alliance, the Group actively explores ways of industrial development and ecological construction, brings overseas and domestic advanced technologies and products to users, provides users with comprehensive solutions and high-quality and efficient services, and jointly enhances the overall influence of the enterprises on economy, society and environment.

  To protect the respective legal rights and interests of the Group and its suppliers in business dealings, and to fully embody the fairness and justice of the cooperation spirit, the Group has established a comprehensive supplier management plan and process supervision mechanism. In the selection of qualified suppliers, we usually make inquiries with at least three suppliers, and comprehensively consider various factors such as cost, lead time, and supplier's technical capabilities etc. The Group strictly implements supplier access standards, checks supplier credit and qualifications based on the duration of cooperation, order volume, and nature of demand, and strengthens the management of intellectual property rights. For new suppliers, they are required to provide the necessary qualification documents，the copyright of the corresponding products and the certification documents of the intellectual property rights. The Group will also pay close attention to the performance of cooperative suppliers in related media and stop the cooperation with tainted suppliers.

  The Group pays great attention to risk prevention and control in the procurement process, has formulated an open and transparent procurement and bidding process, has developed a relatively comprehensive procurement management system, and has taken necessary management and control measures to meet the relevant requirements of the ISO quality management system, internal control and compliance of listed companies. In the procurement process, information on the supplier's supply quality, delivery date, technical support and after-sales service and other key aspects is collected, tracked and evaluated so as to comply with the procurement process and the quality control of the procured goods.

  The Group has always advocated the cooperation concept of "Work together for a win-win situation and create a better future", and actively signed cooperation clauses on "Environmental Protection and Occupational Health and Safety Maintenance Initiative" with suppliers. Factors such as environment, business integrity and ethics, work standards and practices (such as the prohibition of child labor, etc.), occupational health and safety, etc. are incorporated into the consideration of supplier selection procedures and procurement decisions. In the process of cooperation with suppliers, we promote the resources and energy conservation，protect the ecological environment, ensure the health and safety of employees, and contribute to the sustainable development of society.

  Visit our website to download our DC Holdings Supplier Policy and DC Holdings Sustainable Procurement Policy.

- **Fighting fraud and emphasizing integrity**

  The "People's Republic of China Anti-Unfair Competition Law" stipulates that business operators must not use property or other means to bribe specific units or individuals to seek trading opportunities or competitive advantages. The "Criminal Law of the People's Republic of China" stipulates that the use of the convenience of their position by the personnel of a unit to occupy the property of the unit illegally as their own may constitute the crime of embezzlement. In addition, with regard to money laundering, the "Anti-Money Laundering Law of the People's Republic of China" stipulates that any unit or individual who discovers money laundering activities shall have the right to report to the anti-money laundering administrative department or the public security agency.

DC Holdings passionately believes that fairness, honesty, and integrity are the most important business assets of the Group. We strictly abide by the anti-corruption laws and regulations, and promote the values of integrity, enterprising, collaboration and creativity. We have formulated systematic anti-corruption systems and measures to check and prevent corruption, bribery or any other fraudulent behaviors, and continue to carry out internal audit on risk management and risk monitoring. The Group is a non-financial institution, but the risk management and internal control departments keep a close watch on possible criminal activities such as money laundering in daily operation, and do not overlook any suspicious transactions.

- **Risk management and internal control policies**

  Since 2016, we have updated our risk management and internal control policies and established a three-line protection system. The first line of protection is the Group's functional and business departments at various levels. The second line of protection is the risk management and internal control departments of business units, and the Internal Audit department acts as the third line of protection. The policy clarifies the roles and responsibilities of different stakeholders in risk management and internal control, and emphasizes that the management of each business unit is mainly responsible for the risk management and internal control of the department. Once any fraud is discovered, the management of the relevant department should immediately improve the monitoring procedures to prevent the recurrence of such incidents. The risk management and internal control department has a designated team to provide internal control and risk management support for each business unit. The internal audit department also conducts continuous audits of major businesses, timely and systematically inspects violations, identifies risks, and improves the effectiveness of fraud risk management and internal control.

  In 2020, the Group's risk management evaluation project team also organized a comprehensive evaluation of the Group's principal related risks. The main procedures of risk assessment include: risk identification, risk assessment and risk countering. Among them, the assessment of corruption risks covers all the main businesses of the Group, and no major corruption risks have been identified or assessed in the current period.

  In 2020, the Group further strengthened the construction of the fraud detection system and the promotion of integrity and improved the construction of the anti-corruption and integrity promotion system from multiple perspectives such as system construction, audit supervision, and industry integrity alliance.

- **Fighting fraud and whistleblowing system**

  The Group has published the "DC Holdings Anti-corruption Policy" and "DC Holdings Whistleblowing Policy" to convey the message of zero tolerance of fraud to all employees, suppliers, and business partners. The "DC Holdings Anti-corruption Policy" promotes the integrity and self-discipline of employees and clarifies the code of conduct for employees. The "DC Holdings Whistleblowing Policy" encourages all employees, suppliers, and business partners to report about any existing or potential fraud and violations. The Whistleblowing Policy clearly states that employees, suppliers, and business partners can report all kinds of fraud and violations through the reporting mailbox: (dchaudit@dcholdings.com). If the Group recovers losses due to reporting in a timely manner, the whistleblower will be rewarded for reporting. The Group's audit department will investigate the reported matter, and the whistleblower's information will be kept strictly confidential.

  Visit our website to download our DC Holdings Anti-corruption Policy and DC Holdings Whistleblowing Policy.

- **Fraud inspection and prevention**

  When receiving a report of suspected fraud, the audit department will be assigned to conduct the investigation independently. After the investigation is completed, if any employee is found to have received any form of rebate or other benefits, he will be dismissed immediately. If the circumstances are serious, the Group will pursue his/her legal liabilities; if any supplier or other business partner is found to be fraudulent in the cooperation or has other violations, the Group will blacklist it and terminate cooperation. If the circumstances are serious, the Group will pursue and recover its legal liabilities. At the same time, with the assistance of the risk management and internal control departments, the relevant business department will take corrective actions to deal with business risks or loopholes discovered during the investigation process.

In order to nurture a fair and healthy business environment, build a good ecosystem of supplier cooperation, and communicate our determination to combat fraud, during the year ended December 31, 2020, the Group has signed the "Partner Integrity Agreement" with all new suppliers to promote the cooperation with integrity and honesty, oppose commercial bribery, and build mutual cooperation under the premise of trust, honesty, frankness and integrity. We are not aware that our suppliers have involved in any commercial bribery. In daily operation, the Group also continuously strengthens anti-commercial bribery laws and regulation education, carries out occupational ethics publicity, establishes uprightness within the Group, resolutely resists unhealthy practices, and strengthens the ideological and moral defense of employees. The Group has established a strict supplier evaluation system and process, and regularly evaluates suppliers. Suppliers who fail in the evaluation will be blacklisted and the cooperation will be terminated. The Group's good partnership ecosystem over the years has been recognized and trusted by many suppliers.

- **Fighting fraud publicity training**

  To popularize anti-corruption publicity, all employees of the Group will receive anti-corruption training upon entry. In 2020, in order to further extend the anti-corruption publicity efforts, the Group's Audit Department, together with the Legal Department and the Human Resources Department, convened a total of 4 seminars on Integrity and Honesty, covering all business units of the Group internally, and employees joined the seminars online and offline with full participation, 100% coverage. It also radiated to external suppliers of some businesses. These seminars not only carried out a vivid anti-corruption publicity to the Group's employees, but also expressed the requirements of integrity and honesty to the Group's suppliers and the long-term cooperation expectation to the suppliers of the Group, which created a positive publicity impact both internally and externally.




Fighting fraud publicity training

- **Fraud investigation case**

  In addition to the fighting fraud publicity efforts, the Group's audit department does not give up any potential leads to fraudulent practice, vigorously carries out fraud investigations, and severely deals with it in accordance with laws and regulations. In 2020, 1 fraud case or violation of laws and regulations was investigated. It involved 1 employee, Mr. Zhang, a warehouse worker, who was suspected of stealing goods in the warehouse with a total amount of RMB2,543. In accordance with the provisions of the "DC Holdings Anti-corruption Policy", Mr. Zhang was dismissed and transferred to the judiciary. In November 2020, the first instance of the judiciary judged Mr. Zhang to be imprisoned for nine months and fined RMB5,000.

- **Industry integrity alliance**

  In the first half of 2019, the Group joined the Trust and Integrity Enterprise Alliance. The Trust and Integrity Enterprise Alliance was initiated and established by well-known enterprises in the industry with the mission of operating with integrity, self-discipline, and compliance, together to create a business environment for honest operation and safe consumption, and jointly build the security wall for anti-corruption, anti-fraud and anti-counterfeiting and jointly enhance the performance of the internal control departments and the construction of the occupational ethics of employees. At present, the Trust and Integrity Enterprise Alliance has more than 500 member companies, including Baidu, JD, Meituan, Procter & Gamble, Tencent, Xiaomi, Didi and many other well-known companies.

  As a member company of the Trust and Integrity Enterprise Alliance, the Group shares data and information with the alliance in anti-corruption and other related aspects, and jointly creates a trust and integrity business environment: through the data exchange platform showing anti-brushing to fabricate sales, anti-posting fake positive reviews and anti-fraud as common examples, we gather the Alliance's efforts to combat corrupt industry chain, establish a brand protection cooperation mechanism; through information security sharing mechanism, exchange and share information security investigation experience, and jointly combat information security crimes. The Alliance of Untrustworthy Information Sharing System is open to the Group's human resources, realizes the information sharing of employees who violated laws, automatically recognizes the offenders and gives out early warning, increases the cost of violations of laws, and builds a corporate integrity environment of "the trustworthy people gain access, the untrustworthy people are restricted everywhere".

## ENVIRONMENT

Protecting the environment and conserving natural resources is one of our fundamental national policies. The Law of the People's Republic of China on Energy Conservation stipulates that any unit or individual should fulfil the obligation to conserve energy in accordance with the law. The Law of the People's Republic of China on Environmental Protection stipulates that all units and individuals have the obligation to protect the environment and that enterprises should reduce their waste emissions and ecological impact. We recognize the importance of environmental protection and conservation of natural resources, and we conduct our daily operations and business operations in accordance with the principles of environmental protection and sustainable development. In 2020, the Group complied with all applicable laws and regulations on the protection and conservation of the environment.

The Group has strict management standards for environmental management and its subsidiaries have certificated ISO14001 Environmental Management System (《ISO14001環境管理體系認證證書》). We focus on implementing energy conservation and environmental protection in our day-to-day operations to create a low-carbon, green and environmentally friendly working model。At the same time, we have taken a number of actions to improve energy efficiency, reduce energy consumption and reduce harmful emissions and waste. In addition, we are committed to using technology and innovation to drive urban ecology and environmental protection. Through these various actions, we minimize the negative impact on the environment and climate change.

- **Helping to protect the environment**

  DC Holdings is committed to using innovative technology to help urban ecology and environmental protection. In Yanqing District, Beijing, DC Holdings has joined with the Yanqing District Government to build an international first-class ecological civilization demonstration zone, which is the strategic goal of Yanqing District, and make full use of advanced technologies such as Internet of Things, big data and cloud computing to establish a Yanqing intelligent environmental protection system which can collaborate and share information. The system will provide high-quality environmental protection for the International Horticultural Exhibition and Winter Olympic Games, and help Yanqing to achieve world-class ecological quality. Yanqing District, Beijing, also received the 2019 Sino-Euroepan Green and Sm@rt City – Technology Innovation City Award.

Yanqing Smart Environmental System Map

In the implementation of the project, DC Holdings has applied the Yan Cloud DaaS platform, which won the First Prize National Technology Invention Award, to achieve data interconnection and business collaboration between the Ministry of Environmental Protection and other agencies, to measure the impact of multiple factors on the regional environment, and to realize online and offline collaboration of environmental enforcement through the grid-based platform and applications, enhancing the timeliness and efficiency of environmental enforcement, and providing effective data support and solution reference for the Ministry of Environmental Protection's decision making in environmental business.

- **Energy saving**

  Energy saving and consumption reduction actions implemented in the Group's major office buildings, data centers and warehouses include:

  - *Electricity saving*

    1. *Central air-conditioning main systems*

       On the premise of meeting staff needs and office comfort, the start and stop times of equipment are strictly controlled according to changes in ambient temperature, and the energy saving target is achieved by adjusting the hot and cold water outlet temperature of the central air-conditioning mainframe.

    2. *Elevator transport systems*

       Adjusting the operation and management of lifts to achieve greater energy efficiency through decentralized control, rational repair and maintenance and scientific day-to-day management.

3. *Lighting systems*
   New energy-efficient LED lamps are being used in the major office and warehouse buildings. At the same time, the lighting and equipment in all public areas are switched on and off at agreed times, and the responsible departments and persons are assigned to strictly enforce the lighting hours so as to achieve the goal of reducing consumption. Outdoor lighting in roads and car parks is adjusted according to seasonal changes.

4. *Drainage systems*
   The water supply uses frequency conversion technology to control the operation of the pumps and the drainage operates automatically by level control to achieve energy saving targets.

5. *Ventilation systems*
   The fresh air units are switched on with the outdoor temperature, for example, 10:00 – 15:00 in spring, 8:00 – 18:00 in summer, 10:00 – 17:00 in autumn and not in winter; in order to achieve energy saving targets.

6. *Data Center*
   The Group's data center uses multiple micro-module enclosed cold channels and precision air conditioning for cooling, with constant temperature and humidity and high cooling efficiency. By reducing the number of physical servers through virtualization technology, the energy consumption of computing equipment is reduced while the energy consumption of air conditioning is also reduced due to the decrease in heat generation, resulting in an overall PUE of less than 1.5.

   In recent years, the Group has been committed to building high-density virtualized clusters in the data center, migrating systems from the existing old physical servers to virtualized clusters and replacing a large number of existing physical servers with clusters consisting of only a small number of high-performance servers. In FY20, a total of 264 physical servers were offloaded from the data center, reducing the electricity consumption of servers alone by 700,000 kWh per year.

- ***Water conservation***
  1. At the same time, we regularly check the water supply facilities and arrange for repairs to be carried out in a timely manner if we find any issues of dripping or leaking water.

  2. For pipes for air-conditioning water and drainage, the Group's duty staff will make regular inspections and resolve any problems promptly.

- ***Conserve paper and maximize the use of renewable resources***
  1. Promote paperless office: the Group unifies the construction of information systems, realizes office automation, promotes conference solutions such as teleconferencing, video conferencing and web conferencing, and promotes paperless reimbursement of electronic invoices to minimize the use of paper

  2. Discarded single-sided papers are recycled for secondary use if permitted.

Visit our website to download our DC Holdings Energy Policy.

- **Emissions reduction**

  The actions adopted for the Group's major office and warehouse buildings include:

  - Directly reducing carbon emissions: Smart industry chain business has taken actions to reduce exhaust emissions from logistics vehicles, such as replacing vehicles in Beijing in accordance with the National VI Vehicle Emission Standards, while encouraging partner carriers to use electric energy vehicles for delivery in urban areas.

  - Indirectly reducing carbon emissions: Encourage less frequent travel and indirect carbon reduction through video conferencing, online communication, etc.

  - Ensuring qualified air quality in office: In 2020, the building's centralized air-conditioning ventilation system was cleaned and tested for fresh air volume, the amount of respirable particulates and harmful germs in the supply air to ensure qualified air quality in office premises.

  - Ensuring the waste water disposal from the building meets the standards：In FY2020, the catering effluent discharge was retrofitted with oil-water separation and purification devices, and the chemical oxygen demand, ammonia nitrogen, suspended solids and PH value of the catering effluent were tested to meet the national effluent discharge standards.

  - Ensuring the building's fume emissions comply with standards：In FY2020, fume purification devices were retrofitted to catering fume emissions, and fixed source exhaust gases were tested for particulate matter, catering fumes and non-methane total hydrocarbons to meet national emission standards.

- **Environment protection**

  The actions adopted for the Group's major office buildings, data centers, warehouses include:

  - Environmentally friendly furniture is used in the office and dining room to avoid air pollution.

  - We actively respond to the policy of waste separation by placing different types of bins in offices and other areas, collecting and treating each type of waste separately to minimize environmental pollution.

  - Waste generated at work and in life is treatment separately：Solid waste and hazardous waste generated at offices are cleaned and collected by each department at all times and delivered to designated locations. Kitchen waste and used oils are collected by designated disposal units of the sanitation department and treated centrally. Solid waste generated during logistics services is collected by workplace personnel before the end of each day and placed in designated bins according to classification markings.

  Visit our website to download our DC Holdings Environmental Policy.

- **Climate change response**

  The Group understands the importance of acting on climate change. To ensure the normal operation of our business, in addition to daily summer heat protection, winter cold protection, spring and autumn fire protection, we have also made contingency plans for the possible impact of flooding, winter snowstorms and other disasters on lives, and the Group will issue early warnings and respond in advance to minimize climate change and its impact on business operations. We also strive to use big data software and other technologies to help government departments and other users actively respond to the impacts of climate change, such as the use of intelligent transportation systems to make timely evacuation decisions in the event of disaster and weather conditions.

Looking to the future, we are committed to achieving the Group's "Carbon Limits, Carbon Neutral" targets and to making carbon emissions reduction one of our key sustainability objectives to better response climate change. Related measures include:

- Reducing greenhouse gas emissions and carbon footprint.
- Considering and adopting the best initiatives to improve the efficiency of the energy used in business operations.
- Using renewable energy, low-carbon and energy-efficient products and materials wherever possible
- Increasing the green area of properties where feasible to mitigate climate change risks.
- Monitoring and reacting to the latest developments in markets, technologies and policies related to climate change in a timely manner.

Visit our website to download our DC Holdings Climate Change Policy.

## Environmental Performance Indicators

Here are some of the Group's environmental performance indicators, prepared in accordance with the ESG Reporting Guide. Unless otherwise stated, the data below covers the Group's major office buildings and data centers in Mainland China.

As shown in the table below, the Group's greenhouse gas emissions from the direct use of gasoline, diesel and natural gas in FY2020 decreased from 62.94 tonnes in 2019 to 44.19 tonnes in 2020, a decrease of 29.8%, due to a further reduction in the use of the Group's own vehicles.

| **Emissions & Waste** | **For the year ended 31 December** | |
|---|---|---|
| Type | **FY2020** | FY2019 |
| Total greenhouse gas emissions (tonnes) | **1,326.97** | 1,280.89 |
| Direct greenhouse gas emissions (tonnes) | **44.19** | 62.94 |
| Of which: Petrol (tonnes) | **6.00** | 13.65 |
| Diesel (tonnes) | **12.25** | 22.48 |
| Natural gas (tonnes) | **25.94** | 26.81 |
| Total Indirect greenhouse gas Emissions (tonnes) | **1,282.78** | 1,217.95 |
| Of which: Purchased Electricity (tonnes) | **1,282.78** | 1,217.95 |
| Greenhouse gas emissions per capita (tonnes/employee) | **0.09** | 0.09 |
| Volume of hazardous waste (tonnes) | **1.00** | This data is not counted in FY2019 |
| Hazardous waste per capita (tonnes/employee) | **0.00007** | |
| Volume of non-hazardous waste (tonnes) | **1,200.00** | |
| Non-hazardous waste per capita (tonnes/employee) | **0.08** | |

**Remarks:**

1. Due to the nature of its business, the Group's major gas emissions are greenhouse gas emissions, which arise from the use of fuels and purchased electricity converted from fossil fuels.

2. The Group's greenhouse gas inventory is dominated by carbon dioxide. The greenhouse gas emission data for the years ended 31 December 2020 and 31 December 2019 are presented in carbon dioxide equivalent and are based on the 2017 Emission Factors for the China Regional Grid Baseline for Emission Reduction Projects (《年度減排項目中國區域電網基準線排放因子》)published by the Ministry of Ministry of Ecology and Environment of the People's Republic of China, and the 2006 IPCC (Intergovernmental Panel on Climate Change) Guidelines for National Greenhouse Gas Inventories (IPCC) Guidelines for National Greenhouse Gas Inventories (《2006年IPCC (政府間氣候變化專門委員會) 國家溫室氣體清單指南》). Total carbon emissions in FY20 increased by 46.08 tonnes or 3.6% over FY19, mainly due to the increase in electricity consumption as a result of the expansion of the IT Logistics, a subsidiary of DC Holdings business and the increase in warehouses.

3. Consumption of petrol and diesel is mainly from the Group's own vehicles.

4. Consumption of natural gas, mainly for equipment such as heating of the Group's buildings

5. The types of hazardous waste involved in the operations of the Group's office building mainly include waste toner cartridges and ink cartridges generated from printing equipment and waste batteries generated from some electrical equipment. These hazardous wastes are centrally managed and placed in qualified recycling units for recycling.

6. The types of non-hazardous waste involved in the operation of the Group's office buildings mainly include domestic waste and non-hazardous office waste. Domestic waste is handled by property management companies and food waste recyclers and cannot be measured separately. We have estimated the domestic waste generated by office buildings according to the "Handbook of Urban Domestic Source Production and Discharge Coefficients for the First National Pollution Source Census" (《第一次全國污染源普查城鎮生活源產排污係數手》) issued by the General Office of the State Council of the People's Republic of China. Non-hazardous office waste is collected and disposed centrally by recyclers, including all the Group's office buildings in Mainland China.

| Use of resources | For the year ended 31 December | |
|---|---|---|
| Type | **FY2020** | FY2019 |
| Total energy consumption (MWh) | **16,202.98** | 16,271.69 |
| Direct energy consumption (MWh) | **1,905.96** | 2,683.82 |
| Of which: petrol (MWh) | **310.40** | 705.93 |
| Diesel (MWh) | **409.60** | 751.95 |
| Natural gas (MWh) | **1,185.96** | 1,225.94 |
| Indirect energy consumption (MWh) | **14,297.02** | 13,587.88 |
| Of which: purchased power (MWh) | **14,297.02** | 13,587.88 |
| Total energy consumption per capita (MWh/staff) | **1.13** | 1.13 |
| Tap water usage (tonnes) | **80,497.53** | 56,017.12 |
| Tap water usage per capita (tonnes/staff) | **5.59** | 3.89 |
| Steam usage (tonnes) | **718.10** | 967.48 |
| Steam usage per capita (tonnes/staff) | **0.05** | 0.07 |
| Total package usage (tonnes) | **25,996.87** | 21,391.70 |
| Average consumption per order (tonnes/order) | **0.000250** | 0.000246 |

**Remarks:**

1. The water used by the Group is sourced from municipal tap water supply. Tap water consumption in 2010 increased by 24,480.41 tonnes, representing a growth rate of 43.7%, as compared with that in 2019, mainly due to the increase in water consumption as a result of the expansion of the IT Logistics, a subsidiary of DC Holdings business and the increase in warehouses.

2. The steam used by the Group is sourced from municipal heating units.

3. Energy consumption, calculated based on the consumption of purchased electricity and fuel and the conversion factors in the 2006 IPCC Guidelines for National Greenhouse Gas Inventories (《2006年IPCC國家溫室氣體清單指南》)and the General Rules for Calculating Integrated Energy Consumption (《綜合能耗計算通則》).

4. The packaging materials used by the Group are mostly packaging cartons used by the Smart Industry Chain business. Wooden boxes are not counted because of minimal usage.

# 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 2020.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries are set out in note 49 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2020 and the Group's financial position at that date are set out in the financial statements on pages 102 to 243 of this annual report.

The board of directors recommends the payment of a final dividend of HK10 cents per ordinary share for the year ended 31 December 2020.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 is set out in the section headed "Management Discussion and Analysis" on pages 16 to 26 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 245 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 2020 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 2020 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 2020 are set out in note 37 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the Companies Act of Bermuda, amounted to HK$1,116,919,000. In addition, the Company's share premium account, in the amount of HK$4,651,977,000, 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 2020 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. PENG Jing
Mr. ZENG Shuigen *(Note 1)*
Mr. YU Ziping *(Note 2)*

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

*Notes:*

1. Mr. ZENG Shuigen was appointed as the Non-executive Director of the Company with effect from the conclusion of the annual general meeting of the Company held on 30 June 2020.

2. Mr. YU Ziping retired as the Non-executive Director of the Company with effect from the conclusion of the annual general meeting of the Company held on 30 June 2020.

In accordance with Bye-Law 99 of the New Bye-Laws, Dr. LIU Yun, John, Ms. YAN Xiaoyan and Mr. KING William will retire from office by rotation. In accordance with Bye-Law 102(A) of the New Bye-Laws, Mr. ZENG Shuigen who was appointed as director with effect from the conclusion of the annual general meeting on 30 June 2020 of the Company will hold office until the forthcoming annual general meeting of the Company. 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 |
|---|---|
| Dr. LIU Yun, John | • Appointed as the board member of dormakaba Holdings AG (whose shares are listed in the SIX Swiss Exchange) since October 2020 |
| | • Appointed as the CEO of Shenzhen Afiniti Technology Co. Ltd. since 1 October 2020 |
| ZENG Shuigen | • Appointed as the director of Guangzhou Broadband Backbone Network Co. Ltd. since December 2020 |

## 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 2020 or at any time during the year ended 31 December 2020.

## SHARE OPTION SCHEME

The Company's share option scheme was adopted on 15 August 2011 (the "**2011 Share Option Scheme**"), with life span of ten years. Details of the 2011 Share Option Scheme as well as movements in the share options during the year ended 31 December 2020 are set out in note 39 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 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.

(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.

(8) 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.

(9) 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 and the share options outstanding at the beginning and end of the year:

| | Number of the share options | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grantee | Outstanding as at 1/1/2020 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31/12/2020 | Exercise price per share | Date of grant | Exercisable period |
| DCITS director | – | – | – | – | – | – | – | – |
| DCITS other employees | 22,270,000 | – | (5,687,554) | (950,000) | 15,632,446 | 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.

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".

According to the provisions of the Restricted Share Incentive Scheme of DCITS, the grant price of such restricted shares was adjusted from RMB6.38 per share to RMB6.345 per share (due to DCITS's dividends).

The following shows the movements in the restricted shares under the Restricted Share Incentive Scheme during the year:

| | Number of Restricted Shares | | | | |
|---|---|---|---|---|---|
| Grantee | Outstanding as at 1/1/2020 | Granted during the year | Buyback and cancelled during the year | Vested during the year | Outstanding as at 31/12/2020 |
| DCITS Director | 1,000,000 | – | – | (500,000) | 500,000 |
| DCITS other employees | 5,950,000 | – | (300,000) | (2,825,000) | 2,825,000 |

## EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "Share Option Scheme", "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 Scheme" 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 2020, 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 | Shares held under personal interests | Corporate interests | Number of outstanding share options | Total *(Note 1)* | Approximate percentage of aggregate interests (%) *(Note 6)* |
|---|---|---|---|---|---|---|
| GUO Wei | Beneficial owner and interests of a controlled corporation | 95,328,707 | 86,767,857 *(Note 2)* | 94,116,974 *(Note 3 & 4)* | 276,213,538 | 16.52 |
| LIN Yang | Beneficial owner | 3,571,734 | – | 15,116,974 *(Note 3 & 4)* | 18,688,708 | 1.12 |
| WONG Man Chung, Francis | Beneficial owner | 100,000 *(Note 5)* | – | 2,000,000 *(Note 4)* | 2,100,000 | 0.13 |
| NI Hong (Hope) | Beneficial owner | 100,000 *(Note 5)* | – | 2,000,000 *(Note 4)* | 2,100,000 | 0.13 |
| LIU Yun, John | Beneficial owner | 100,000 *(Note 5)* | – | 2,000,000 *(Note 4)* | 2,100,000 | 0.13 |
| YAN Xiaoyan | Beneficial owner | – | – | 2,000,000 *(Note 4)* | 2,000,000 | 0.12 |
| KING William | Beneficial owner | 100,000 *(Note 5)* | – | 2,000,000 *(Note 4)* | 2,100,000 | 0.13 |

*Notes:*

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

2. These 86,767,857 Shares were beneficially held by Kosalaki Investments Limited ("**KIL**"), of which Mr. GUO Wei is the controlling shareholder and also a director of KIL, therefore, Mr. GUO Wei was deemed to be interested in such Shares in which KIL was interested.

3. On 25 January 2017, 12,500,000 share options were granted to each of Mr. GUO Wei and Mr. LIN Yang, which was each adjusted to 13,116,974 share options as a result of the completion of rights issue on 18 September 2017. 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. On 13 July 2020, 81,000,000 share options were granted to Mr. GUO Wei and 2,000,000 share options were granted to each of Mr. LIN Yang, Mr. WONG Man Chung, Francis, Ms. NI Hong (Hope), Dr. LIU Yun, John, Ms. YAN Xiaoyan and Mr. KING William. These share options are exercisable from 13 July 2020 to 12 July 2028 at an exercise price of HK$6.60 per Share for subscription of ordinary shares of the Company.

5. On 2 June 2020, these shares were granted under the Restricted Share Award Scheme, and was vested in 2021 pursuant to the terms and conditions of the Scheme.

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

Save as disclosed above, at 31 December 2020, 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 2020, 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 *(Note3)* | 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 | 394,433,928 *(Note4(a))* | 23.58 |
| Guangzhou City Investment Co., Ltd.* (廣州市城投投資有限公司) ("**GZ Investment**") | Interests of a controlled corporation | 394,433,928 *(Note4(b))* | 23.58 |
| 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 | 362,992,000 *(Note4(c))* | 21.70 |
| 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 | 362,992,000 *(Note4(d))* | 21.70 |
| Guangzhou Radio Group Co., Ltd.* (廣州無線電集團有限公司) ("**Guangzhou Radio Group**") | Interests of a controlled corporation | 212,966,250 *(Note5)* | 12.73 |
| 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 | 212,966,250 *(Note5)* | 12.73 |
| BOCI-Prudential Trustee Limited as Trustee of Digital China Holdings Limited Restricted Share Award Scheme Trust | Trustee | 100,418,250 | 6.00 |
| Allianz SE | Interests of a controlled corporation | 83,679,750 | 5.00 |

*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.

4. (a) Pursuant to a Form 2 – Corporate Substantial Shareholders Notice filed by GZ Infrastructure on 21 December 2020, GZ Infrastructure was interested in 394,433,928 Shares in aggregate, of which, 362,992,000 Shares were held by GZ Jiazi and 31,441,928 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 owned as to 80% by GZ Infrastructure and 20% by Guangzhou Industry Investment Fund Management Co. Ltd.*, (廣州產業投資基金管理有限公司) ("**GZ Industry Fund**") which is wholly-owned by GZ Infrastructure. GZ Infrastructure was deemed to be interested in 394,433,928 Shares.

   (b) Pursuant to a Form 2 – Corporate Substantial Shareholders Notice filed by GZ Investment on 21 December 2020, GZ Investment was interested in 394,433,928 Shares in aggregate, of which, 362,992,000 Shares were held by GZ Jiazi and 31,441,928 Shares were held by Suitong HK.

   (c) Pursuant to a Form 2 – Corporate Substantial Shareholders Notice filed by GZ Jiapeng on 21 December 2020, GZ Jiapeng was interested in 362, 992,000 Shares.

   (d) Pursuant to a Form 2 – Corporate Substantial Shareholders Notice filed by GZ Jiapeng on 21 December 2020, GZ Jiazi was interested in 362, 992,000 Shares.

5. These 212,966,250 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 52.96% 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, as at 31 December 2020, 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 2020, the Group made donation of HK$1,954,000 (for the year ended 31 December 2019: HK$2,208,000).

## 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 2019: less than 30%) of the Group's total revenue for the year ended 31 December 2020.

The aggregate percentage of purchases attributable to the Group's five largest suppliers was approximately 53% (for the year ended 31 December 2019: approximately 45%) of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier was approximately 20% (for the year ended 31 December 2019: approximately 14%) for the year ended 31 December 2020.

During the year ended 31 December 2020, 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 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## AUDITOR

In the year 2018, Ernst & Young resigned as the auditor of the Company and SHINEWING (HK) CPA Limited was 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 dated 21 December 2018 for more details regarding the change of auditor.

The consolidated financial statements of the Group for the year ended 31 December 2020 was 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 2020 and up to the date of this report as required under the Listing Rules.

## EVENT AFTER THE REPORTING PERIOD

No significant event of the Group occurred after the Reporting Period and up to the date of this report.

Approved by the Board on 30 March 2021

**GUO Wei**
*Chairman*

# Independent Auditor's Report

**SHINEWING** (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

**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 102 to 243, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 116.

**The key audit matter**

As at 31 December 2020, the carrying amount of the Group's goodwill was approximately HK$1,877,561,000. During the year ended 31 December 2020, an impairment of goodwill approximately HK$141,324,000 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 AND CONTRACT ASSETS

Refer to note 30 and 32 to the consolidated financial statements and the accounting policies on pages 133 to 134.

**The key audit matter**

As at 31 December 2020, the carrying amount of the Group's accounts and bills receivables was approximately HK$3,762,356,000, net of loss allowance of approximately HK$682,352,000 and contract assets of HK$2,405,241,000, net of loss allowance of approximately HK$292,700,000.

The Group has adopted ECL model to estimate the loss allowance of accounts and bills receivables and contract assets. 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 and contract assets 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 and contract assets:

- evaluated the design and implementation of 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 pages 119 to 120.

**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 technology services are recognised over time with reference to the progress towards complete satisfaction of a performance obligation in accordance with input method in accounting for its contract revenue. Significant management judgement is involved in using input method as 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.

During the year, the Group recognised revenue over time and at a point in time amounted to approximately HK$7,790,204,000 and HK$11,648,044,000 respectively.

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 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 design, implementation and operating effectiveness of 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 checked calculation of significant components of budgeted contract costs to 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 130 to 132.

**The key audit matter**

As at 31 December 2020, 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$1,122,414,000 and HK$714,300,000 respectively.

During the year, the Group recognised fair value loss on financial assets at fair value through profit or loss of approximately HK$10,071,000 and fair value gain on financial assets at fair value through other comprehensive income of approximately HK$114,406,000.

The Group engaged an external valuation specialist to perform valuation of significant 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 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 based on the subscription price of latest round of financing of the equity interests and disposal value with the transactions of similar assets.

## VALUATION OF INVESTMENT PROPERTIES

Refer to note 15 to the consolidated financial statements and the accounting policies on pages 128 to 129.

**The key audit matter**

As at 31 December 2020, the fair value of the Group's investment properties was approximately HK$5,126,601,000, with a net fair value gain of approximately HK$701,000 recognised in the consolidated statement of profit or loss for the year ended 31 December 2020.

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
30 March 2021

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

| | *NOTES* | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|---|
| Revenue | 6 | **19,819,527** | 17,727,429 |
| Cost of sales and services | | **(16,460,691)** | (14,572,646) |
| Gross profit | | **3,358,836** | 3,154,783 |
| Other income and gains | 6 | **235,050** | 178,101 |
| (Loss) gain on deemed partial disposal of equity interests in associates | 21 | **(142,941)** | 143,311 |
| Gain on disposal/partial disposal of equity interests in associates | 21 | **982,080** | 233,358 |
| Gain on disposal of equity interests in joint ventures | 20 | **106,961** | – |
| Selling and distribution expenses | | **(1,348,040)** | (1,315,401) |
| Administrative expenses | | **(573,842)** | (527,781) |
| Other expenses, net | | **(1,056,187)** | (810,709) |
| Finance costs | 8 | **(148,456)** | (227,506) |
| Impairment of goodwill | 18 | **(141,324)** | (201,787) |
| Share of loss of associates | | **(113,866)** | (55,895) |
| Share of loss of joint ventures | | **(11,401)** | (23,774) |
| Profit before tax | 7 | **1,146,870** | 546,700 |
| Income tax expense | 11 | **(181,518)** | (96,524) |
| Profit for the year | | **965,352** | 450,176 |
| Attributable to: | | | |
| Equity holders of the parent | | **612,970** | 301,844 |
| Non-controlling interests | | **352,382** | 148,332 |
| | | **965,352** | 450,176 |
| Earnings per share attributable to equity holders of the parent | 13 | | |
| Basic (HK cents) | | **37.74** | 18.31 |
| Diluted (HK cents) | | **37.59** | 18.31 |

# Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2020

| | NOTES | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Profit for the year | | **965,352** | 450,176 |
| Other comprehensive income (expense) | | | |
| Other comprehensive income (expense) that may be reclassified to profit or loss in subsequent periods: | | | |
| Exchange differences arising on translation of financial statements of foreign operations | | **715,512** | (197,450) |
| Share of other comprehensive income of associates | | **2,361** | 11,269 |
| Net other comprehensive income (expense) that may be reclassified to profit or loss in subsequent periods | | **717,873** | (186,181) |
| Other comprehensive income (expense) 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 | | **114,406** | (3,696) |
| Gain on property revaluation | 15 | **6,379** | 20,597 |
| Income tax effect | 26 | **(17,334)** | (10,814) |
| Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods | | **103,451** | 6,087 |
| Other comprehensive income (expense) for the year, net of tax | | **821,324** | (180,094) |
| Total comprehensive income for the year | | **1,786,676** | 270,082 |
| Attributable to: | | | |
| Equity holders of the parent | | **1,206,660** | 184,948 |
| Non-controlling interests | | **580,016** | 85,134 |
| | | **1,786,676** | 270,082 |

# Consolidated Statement of Financial Position

At 31 December 2020

| | NOTES | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **992,378** | 1,027,562 |
| Right-of-use assets | 16 | **202,970** | 233,656 |
| Investment properties | 15 | **5,126,601** | 4,598,840 |
| Goodwill | 18 | **1,877,561** | 1,887,695 |
| Other intangible assets | 19 | **195,700** | 157,765 |
| Interests in joint ventures | 20 | **73,725** | 185,890 |
| Interests in associates | 21 | **2,430,714** | 3,150,086 |
| Financial assets at fair value through other comprehensive income | 23 | **714,300** | 408,572 |
| Finance lease receivables | 25 | **788** | 2,310 |
| Accounts receivables | 30 | **130,513** | – |
| Other receivables | 31 | **883,936** | 908,780 |
| Deferred tax assets | 26 | **225,211** | 173,125 |
| | | **12,854,397** | 12,734,281 |
| **Current assets** | | | |
| Inventories | 27 | **2,614,291** | 1,848,844 |
| Properties under development | 28 | **–** | – |
| Completed properties held for sale | 29 | **694,716** | 24,722 |
| Accounts and bills receivables | 30 | **3,631,843** | 5,362,493 |
| Prepayments, deposits and other receivables | 31 | **1,339,906** | 1,499,292 |
| Contract assets | 32a | **2,405,241** | 527,073 |
| Financial assets at fair value through profit or loss | 24 | **1,122,414** | 929,091 |
| Finance lease receivables | 25 | **53,154** | 54,528 |
| Restricted bank balances | 33 | **228,286** | 115,488 |
| Cash and cash equivalents | 33 | **3,076,717** | 1,890,171 |
| | | **15,166,568** | 12,251,702 |
| Assets classified as held for sale | 22 | **–** | 565,118 |
| | | **15,166,568** | 12,816,820 |
| **Current liabilities** | | | |
| Accounts and bills payables | 34 | **3,620,499** | 3,832,793 |
| Other payables and accruals | 35 | **2,517,610** | 2,046,205 |
| Lease liabilities | 17 | **83,215** | 103,070 |
| Contract liabilities | 32b | **2,407,732** | 1,396,496 |
| Tax payables | | **120,216** | 66,455 |
| Interest-bearing bank and other borrowings | 36 | **2,077,309** | 3,468,959 |
| | | **10,826,581** | 10,913,978 |
| **Net current assets** | | **4,339,987** | 1,902,842 |
| **Total assets less current liabilities** | | **17,194,384** | 14,637,123 |

At 31 December 2020

| | *NOTES* | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Interest-bearing bank and other borrowings | 36 | **2,301,295** | 1,625,741 |
| Deferred tax liabilities | 26 | **465,878** | 350,261 |
| Deferred income | 47 | **25,888** | 37,033 |
| Lease liabilities | 17 | **50,547** | 60,616 |
| Other financial liability | 48 | **586,144** | – |
| | | **3,429,752** | 2,073,651 |
| **Net assets** | | **13,764,632** | 12,563,472 |
| **Capital and reserves** | | | |
| Share capital | 37 | **167,250** | 167,098 |
| Reserves | 38 | **9,262,477** | 8,769,325 |
| Equity attributable to equity holders of the parent | | **9,429,727** | 8,936,423 |
| Non-controlling interests | | **4,334,905** | 3,627,049 |
| **Total equity** | | **13,764,632** | 12,563,472 |

The consolidated financial statements on pages 102 to 243 were approved and authorised for issue by the board of directors on 30 March 2021 and are signed on its behalf by:

**GUO Wei**
*Director*

**LIN Yang**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

| | 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$'000 | Reserve funds HK$'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 2020 | 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 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 612,970 | 612,970 | 352,382 | 965,352 |
| Changes in fair value on financial assets measured at fair value through other comprehensive income, net of tax | - | - | - | - | - | - | 69,015 | - | - | - | 69,015 | 29,652 | 98,667 |
| Exchange differences arising on translation of financial statements of foreign operations | - | - | - | - | - | - | - | - | 509,566 | - | 509,566 | 205,946 | 715,512 |
| Share of other comprehensive income of associates | - | - | - | - | - | - | 9,924 | - | 401 | - | 10.325 | (7,964) | 2,361 |
| Disposal of financial assets at fair value through other comprehensive income | - | - | - | - | - | - | (6,466) | - | - | 6,466 | - | - | - |
| Gain on property revaluation, net of tax | - | - | - | - | - | 4,784 | - | - | - | - | 4,784 | - | 4,784 |
| Total comprehensive income for the year | - | - | - | - | - | 4,784 | 72,473 | - | 509,967 | 619,436 | 1,206,660 | 580,016 | 1,786,676 |
| Share-based compensation | - | - | - | - | 63,101 | - | - | - | - | - | 63,101 | 20,654 | 83,755 |
| Capital contribution from non-controlling shareholders of subsidiaries *(note 42(f))* | - | - | (84,111) | - | - | - | - | - | - | - | (84,111) | 251,991 | 167,880 |
| Deemed acquisition of additional interests in non-wholly-owned subsidiaries *(note 42(d))* | - | - | (42,015) | - | - | - | - | - | - | - | (42,015) | (122,547) | (164,562) |
| Contribution to employee shares trusts | - | - | - | (493,623) | - | - | - | - | - | - | (493,623) | - | (493,623) |
| Exercise of share options | 152 | 8,119 | - | - | (1,640) | - | - | - | - | - | 6,631 | - | 6,631 |
| Acquisition of additional interests in non-wholly-owned subsidiaries *(note 42(c)* | - | - | (510) | - | - | - | - | - | - | - | (510) | 448 | (62) |
| Partial disposal of subsidiaries *(note 42(b))* | - | - | - | - | - | - | - | - | - | - | - | (1,967) | (1,967) |
| Disposal of subsidiaries *(note 42(e))* | - | - | - | - | - | - | - | - | - | - | - | 8,000 | 8,000 |
| Dividends paid to non-controlling shareholders | - | - | - | - | - | - | - | - | - | - | - | (28,739) | (28,739) |
| Transfer to reserve funds | - | - | - | - | - | - | - | 85,137 | - | (85,137) | - | - | - |
| Dividends paid *(note 12)* | - | - | - | - | - | - | - | - | - | (162,829) | (162,829) | - | (162,829) |
| At 31 December 2020 | 167,250 | 4,651,977 | 1,766,449 | (554,490) | 128,489 | 501,212 | 114,979 | 561,694 | 162,053 | 1,930,114 | 9,429,727 | 4,334,905 | 13,764,632 |

For the year ended 31 December 2020

| | 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 (expense) 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 shares trusts | - | - | - | (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(c))* | - | - | (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) | - | - | - |
| Dividends 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 2020

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before tax: | 1,146,870 | 546,700 |
| Adjustments for: | | |
| Finance costs | 148,456 | 227,506 |
| Share of loss of associates | 113,866 | 55,895 |
| Share of loss of joint ventures | 11,401 | 23,774 |
| Interest on bank deposits | (10,759) | (10,284) |
| Income from wealth management products | (23,544) | (32,209) |
| Deferred income recognised | (44,800) | (20,902) |
| 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 | (6,396) | (232) |
| Impairment of goodwill | 141,324 | 201,787 |
| Impairment of accounts and bills receivables, other receivables and contract assets | 273,186 | 94,635 |
| Reversal of impairment of finance lease receivables | (1,695) | (6,829) |
| Impairment of properties under development | – | 12,394 |
| Impairment of interests in associates | – | 2,286 |
| Loss on disposal of property, plant and equipment | 2,293 | 4,022 |
| Loss on write-off of other intangible assets | 1,777 | 4,882 |
| Fair value gain on investment properties | (701) | (32,532) |
| Fair value loss on financial assets at fair value through profit or loss | 10,071 | 3,263 |
| Fair value gain on transfer to investment properties from completed properties held for sale | (6,969) | – |
| Gain on partial disposal of equity interest in a subsidiary | (12,346) | – |
| Gain on disposal/partial disposal of equity interests in associates | (982,080) | (233,358) |
| Gain on disposal of equity interests in joint ventures | (106,961) | – |
| Gain on disposal of financial assets at fair value through profit or loss | – | (4,371) |
| Gain on disposal of equity interests in subsidiaries | (16,161) | (890) |
| Loss (gain) on deemed partial disposal of equity interests in associates | 142,941 | (143,311) |
| Depreciation of property, plant and equipment | 126,886 | 135,754 |
| Depreciation of right-of-use assets | 121,200 | 108,278 |
| Amortisation of other intangible assets | 51,369 | 47,050 |
| Provisions for and write-off of obsolete inventories | 109,038 | 87,554 |
| Share-based compensation | 82,831 | 18,369 |
| | 1,271,097 | 1,088,756 |
| Increase in inventories | (859,273) | (884,300) |
| Decrease in completed properties held for sale | 7,771 | – |
| Decrease (increase) in accounts and bills receivables | 1,668,636 | (569,711) |
| Increase in prepayments, deposits and other receivables | (30,824) | (66,798) |
| Decrease in finance lease receivables | 4,591 | 118,792 |
| (Decrease) increase in accounts and bills payables | (173,542) | 622,178 |
| Increase in other payables and accruals and deferred income | 569,111 | 412,310 |
| (Increase) decrease in contract assets | (2,153,913) | 624,396 |
| Increase (decrease) in contract liabilities | 915,603 | (229,339) |
| Increase in restricted bank balances | (112,798) | (45,871) |
| Effect of foreign exchange rate changes, net | 119,520 | (29,849) |
| Cash generated from operations | 1,225,979 | 1,040,564 |
| Interest received | 15,320 | 19,594 |
| Hong Kong profits tax paid | – | (263) |
| Mainland China income tax paid | (95,625) | (70,666) |
| NET CASH FROM OPERATING ACTIVITIES | 1,145,674 | 989,229 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2020

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | **(60,043)** | (199,135) |
| Proceeds from disposal of property, plant and equipment | **1,528** | 6,968 |
| Additions to other intangible assets | **(70,052)** | (50,164) |
| Acquisition of subsidiaries | **(414,844)** | (42,587) |
| Disposal of subsidiaries | **7,914** | (2,850) |
| Proceeds from disposal of investment properties | **117,386** | – |
| Proceeds from disposal of investment in joint ventures | **113,093** | – |
| Proceeds from disposal of investment in associates | **1,642,194** | 115,049 |
| Proceeds from partial disposal of investment in a subsidiary | **5,575** | – |
| Proceeds from disposal of financial assets at fair value through other comprehensive income | **40,196** | 7,886 |
| Proceeds from disposal of financial assets at fair value through profit or loss | **1,160,782** | 1,190,212 |
| 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 | **6,396** | 232 |
| Dividends received from joint ventures | **93,294** | – |
| Dividends received from associates | **26,473** | 31,571 |
| Investments in joint ventures | **–** | (23,981) |
| Investments in associates | **(35,041)** | (41,486) |
| Purchase of financial assets at fair value through profit or loss | **(1,125,061)** | (799,646) |
| NET CASH FROM INVESTING ACTIVITIES | **1,509,790** | 192,544 |
| FINANCING ACTIVITIES | | |
| Exercise of shares options | **6,631** | – |
| Shares buy back | **–** | (20,539) |
| New bank borrowings | **2,925,161** | 3,630,668 |
| Repayment of bank borrowings | **(4,018,992)** | (4,111,711) |
| Repayment of lease liabilities | **(118,803)** | (106,240) |
| Proceeds from issue of corporate bonds | **–** | 1,949 |
| Repayment of corporate bonds | **(2,439)** | (569,854) |
| Interest paid | **(142,123)** | (227,506) |
| Dividends paid | **(162,829)** | (51,112) |
| Dividends paid to non-controlling shareholders | **(28,739)** | (22,889) |
| Purchase of shares under the restricted share award scheme | **(493,623)** | (39,296) |
| Payments to acquire additional interests in non-wholly-owned subsidiaries | **(62)** | (79) |
| Repurchase of shares of a subsidiary | **(164,562)** | – |
| Contribution from non-controlling shareholders of subsidiaries | **664,124** | 20,959 |
| Capital reduction by a non-controlling shareholder of a subsidiary | **–** | (3,495) |
| NET CASH USED IN FINANCING ACTIVITIES | **(1,536,256)** | (1,499,145) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **1,119,208** | (317,372) |
| Cash and cash equivalents at beginning of year | **1,890,171** | 2,204,872 |
| Effect of foreign exchange rate changes, net | **67,338** | 2,671 |
| CASH AND CASH EQUIVALENTS AT THE END OF YEAR | **3,076,717** | 1,890,171 |
| Analysis of components of cash and cash Equivalents | | |
| Bank balances and cash | **3,051,467** | 1,885,691 |
| Non-pledged time deposits | **25,250** | 4,480 |
| Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of the cash flows | **3,076,717** | 1,890,171 |

## 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 business, etc.
- provision of supply chain services, including e-commerce supply chain services and logistics services.
- 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 the first time, the Amendments to References to the Conceptual Framework in HKFRSs and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning 1 January 2020:

| | |
|---|---|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 7, HKFRS 9 and HKAS 39 | Interest Rate Benchmark Reform |

In addition, the Group has early applied Amendment to HKFRS 16, COVID-19-Related Rent Concessions, which is effective for annual periods beginning on or after 1 June 2020.

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods 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)

### Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The application of these amendments in the current year had no impact on the consolidated financial statements.

### Amendments to HKFRS 3 Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020. These amendments had no impact on the consolidated financial statements in the current year.

### Amendments to HKFRS 7, HKFRS 9 and HKAS 39 Interest Rate Benchmark Reform

Amendments to HKFRS 7, HKFRS 9 and HKAS 39 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

### Early application of Amendment to HKFRS 16 COVID-19-Related Rent Concessions

The amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease.

A lease applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 as if the changes were not lease modifications. Forgiveness or waiver of lease payments is accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. During the current year, the COVID-19-related rent concessions recognised in the profit or loss amounted to HK$850,000. There is no impact on the opening balance of equity at 1 January 2020.

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

### New and amendments to 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 and related Amendment[4] |
| Amendments to HKFRS 3 | Reference to Conceptual Framework[3] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5(2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4] |
| Amendments to HKAS 16 | Property, plant and Equipment: Proceeds before Intended Use[3] |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract[3] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase2[1] |
| Amendment to HKFRSs | Annual Improvements to HKFRSs 2018 – 2020 cycle[3] |

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

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

3 Effective for annual periods beginning on or after 1 January 2022

4 Effective for annual periods beginning on or after 1 January 2023

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

### Amendments to HKFRS 3 – Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

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

### Amendments to HKAS 1 – Classification of liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments to HKAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

Hong Kong Interpretation 5 was revised as a consequence of Amendments to HKAS 1 Classification of Liabilities as Current or Non-current to align the corresponding wordings with no change in conclusion.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in change in the classification of the Group's liabilities.

### Amendments to HKAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

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

### Amendments to HKAS 16 – Property, Plant and Equipment — Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with HKAS 2 Inventories.

The amendments also clarify the meaning of "testing whether an asset is functioning properly". HKAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, 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 assets measured at fair value, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

### 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, except that deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with HKAS 12 Income Taxes.

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.

### 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 ("**CGUs**") (or groups of CGUs) that is expected to benefit from the synergies of the combination.

A CGU (or groups of CGUs) 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 (or group of CGUs) 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 (or groups of CGU). 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

If an associate or a joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's or joint venture's accounting policies conform to those of the Group when the associate's or joint venture's financial statements are used by the Group in applying the equity method.

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.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

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 requirements of HKAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments in associates and joint ventures (Continued)

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 any 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.

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.

The Group applies HKFRS 9, including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied and which form part of the net investment in the investee. In applying HKFRS 9 to long-term interests, the Group does not take into account adjustments to their carrying amount required by HKAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with HKAS 28).

### 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.

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).

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Non-current assets held for sale (Continued)

Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal, except for financial assets within the scope of HKFRS 9, investment properties, which continue to be measured in accordance with the relevant accounting policies.

### 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

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.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exists regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payments and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For contracts where the Group transferred the associated goods or services before payments from customers in which the Group adjusts for the promised amount of consideration for significant financing components, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The Group recognises interest income during the period between the payment from customers and the transfer of the associated goods or services, and adjusting related receivables.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leasing

*Definition of a lease*

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 from the commencement date and do not contain a purchase option) 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leasing (Continued)

*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, and adjusted for any remeasurement of lease liabilities. 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 as a separate line in the consolidated statement of financial position.

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.

When the Group obtains ownership of the underlying leased assets at the end of the lease term upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

*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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leasing (Continued)

*COVID-19-Related Rent Concessions*

For rental concessions relating to lease contracts that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether a COVID-19-Related Rent Concession for lease contracts is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.



*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.

*Lease modification*

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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).

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

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 of income or expense that are taxable or deductible in other years and 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (Continued)

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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 under fair value model.

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.

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 profits when it is derecognised.

If a property held for sale becomes an investment property when there is a change in use, as supported by observable evidence, any difference between the carrying amount and the fair value of that property at the date of transfer is recognised in profit or loss.

### Intangible assets

*Intangible assets acquired separately*

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.

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at the fair value at the acquisition date (which is regarded as their cost).

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Intangible assets (Continued)

*Intangible assets acquired in a business combination (Continued)*

Subsequent to initial recognition, intangible assets with finite useful lives 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. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

### 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.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### *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.

*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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### *Financial assets (Continued)*

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 profits.

Dividends from 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 51.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Financial assets (Continued)***

*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. 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 trade receivables and bill 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.

*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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

#### *Financial assets (Continued)*

*Significant increase in credit risk (Continued)*

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 debt 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 assets 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Financial assets (Continued)***

*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 trade receivables and bill 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.

*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.

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 profits.

## 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.

*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.

*Redemption liability*

The obligation of the Group to purchase the equity instruments of a group entity at discretion of a third party (written put option) upon it become unconditional is classified as a financial liability (i.e. redemption liability).

The redemption liability is recognised initially at the present value of the redemption price. It is subsequently measured at amortised cost using the effective interest rate method.

The carrying amount of the redemption liability is reclassified as equity if the contract (written put option) expires without delivery.

## 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 a 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. At the time when the award shares are vested, 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 property, plant and equipment, right-of-use assets and intangible 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 property, plant and equipment, right-of-use assets 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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. 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.

### Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

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

### Critical judgements in applying accounting policies (Continued)

*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 2020 (2019: nil).

*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").

*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 40.28% (2019: 40.14%) 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*

*DigiWin Software Co. Ltd. ("DWS")*

In 2019 and up to the date of disposal of DWS in 2020 as disclosed in note 21, the Group considers that it has significant influence even though it owns 19.26% (2019: 19.26%) (15.44% (2019:15.44%) was held through DCITS while 3.82% (2019: 3.82%) was held through its wholly-owned subsidiary) ownership interest and voting power of DWS taking into account 1) the Group is the single major 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. There is no change in representation and composition of the board of directors during 2020 and 2019.

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

### Critical judgements in applying accounting policies (Continued)

***Significant influence over associates (Continued)***

*HC Group Inc. ("HCI")*

The Group considers that it has significant influence in HCI even though it owns 19.37% (2019: 22.64%) ownership interest and voting power taking into account 1) the Group is the single largest shareholder 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 HCI. There is no change in representation and composition of the board of directors during 2020 and 2019.

*Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Limited ("Jingu")*

The Group considers that it has significant influence in Jingu even though it owns 9.78% (2019: 9.71%) 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 Jingu. There is no change in representation and composition of the board of directors during 2020 and 2019.

### 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.

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.

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

### Key sources of estimation uncertainty (Continued)

*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 a suitable discount rate in order to calculate the present value. The future cash flow is estimated based on past performance and expectation for market development, including but not limited to the impacts of COVID-19 pandemic. As the current environment is uncertain, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainty. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2020, the carrying amount of goodwill is approximately HK$1,877,561,000 (2019: HK$1,887,695,000). An impairment loss of approximately HK$141,324,000 was recognised during the year ended 31 December 2020 (2019: HK$201,787,000). 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 51, 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 2020, the carrying amount of the unlisted equity instruments classified as FVTOCI was approximately HK$714,300,000 (2019: HK$408,572,000). As at 31 December 2020, the carrying amount of the unlisted investments classified as financial assets at FVTPL was approximately HK$922,911,000 (2019: HK$925,766,000). 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 2020 is HK$992,378,000 (2019: HK$1,027,562,000) and HK$195,700,000 (2019: HK$157,765,000) respectively.

*Fair values of investment properties*

As at 31 December 2020, the Group's investment properties amounted to HK$5,126,601,000 (2019: HK$4,598,840,000). They are stated at estimated fair value, determined by directors, based on an independent external appraisal. The valuation of the Group's property portfolio is inherently subjective due to a number of factors including the individual nature of each property, its location, expectation of future rentals and the discount yield applied to those cash flows. This has been particularly relevant in light of the market uncertainty due to the COVID-19 pandemic. As a result, the valuations placed on the property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions that may not prove to be accurate, particularly in years of volatility or low transaction flow in the market.

## 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, other receivables and contract assets*

The impairment provisions for accounts and bills receivables and other receivables and contract assets are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, bases 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 2020, impairment loss of accounts and bills receivables of approximately HK$86,734,000 was reversed (2019: HK$90,722,000 was recognised) in the consolidated statement of profit and loss for the year. The carrying amount of accounts and bills receivables was approximately HK$3,762,356,000 (2019: HK$5,362,493,000), net of loss allowance of approximately HK$682,352,000 (2019: HK$750,029,000).

During the year ended 31 December 2020, impairment loss of other receivables of approximately HK$84,175,000 (2019: HK$3,645,000) was recognised in the consolidated statement of profit and loss for the year. The carrying amount of deposits and other receivables was approximately HK$1,835,656,000 (2019: HK$2,006,082,000), net of loss allowance of approximately HK$225,607,000 (2019: HK$133,045,000).

During the year ended 31 December 2020, impairment loss of contract assets of approximately HK$275,745,000 (2019: HK$268,000) was recognised in the consolidated statement of profit and loss for the year. The carrying amount of contract assets was approximately HK$2,405,241,000 (2019: HK$527,073,000), net of loss allowance of approximately HK$292,700,000 (2019: HK$2,054,000).

#### *Estimated impairment of property, plant and equipment, right-of-use assets and intangible assets*

Property, plant and equipment, right-of-use assets and intangible asset are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs.

The future cash flow is estimated based on past performance and expectation for market development, including but not limited to the impacts of COVID-19 pandemic. As the current environment is uncertain, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainty. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

As at 31 December 2020, the carrying amounts of right-of-use assets, property, plant and equipment, and intangible assets were HK$202,970,000, HK$992,378,000 and HK$195,700,000 (2019: HK$233,656,000, HK$1,027,562,000 and HK$157,765,000) respectively. Details of the impairment of right- of-use assets, property, plant and equipment, and intangible assets are disclosed in Notes 16, 14 and 19, respectively. Further details are given in respective notes.

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

### Key sources of estimation uncertainty (Continued)

*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 using input method.

*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 2020, provisions for and write-off of obsolete inventories of approximately HK$109,038,000 (2019: HK$87,554,000) was recognised in the consolidated statement of profit or loss. As at 31 December 2020, the carrying amount of inventories was approximately HK$2,614,291,000 (2019: HK$1,848,844,000).

*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$2,430,714,000 (2019: HK$3,150,086,000) and HK$73,725,000 (2019:HK$185,890,000) 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 the 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, no impairment loss of associates and joint ventures (2019: impairment loss of associates of HK$2,286,000 and no impairment loss of joint ventures) has been recognised in the consolidated profit or loss.

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

### Key sources of estimation uncertainty (Continued)

***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. 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 2020 were approximately HK$225,211,000 (2019: HK$173,125,000) and HK$465,878,000 (2019: HK$350,261,000), respectively. The amount of unrecognised tax losses and certain deductible temporary differences at 31 December 2020 was approximately HK$1,565,069,000 (2019: HK$1,446,350,000). 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.

In view of the increased scale and business importance of new business investments made by the Group, and to help investors better understand the Group's business structure and financial performance, a new segment named "Investing Business" has been separated from "Other Business" segment from second half of 2020 onwards, both in the internal reports to the CODM and in the consolidated financial statements of the Group. The new "Investing Business" segment primarily consists of: (a) equity investment in information technology related business and (b) participation in, and co-investment with, investment funds that invest in companies operating in the development of new products or services, technological improvements and advancements in scientific research relating to, but not limited to, the areas of big data, fintech, automation and intelligent manufacturing. Prior year segment disclosures have been re-presented to conform with the current year's presentation. The Board believes that the above changes in segment information better reflect current market trends, as well as resource allocation and future business development of the Group.

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

(a) The "DCITS" segment: primarily engaged in system integration, 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 cloud construction and operation services for key industries including government, enterprises and agriculture.

(b) The "Smart Industry Chain Business" segment: primarily engaged in providing customers with one-stop end-to-end supply chain services through the implementation of a "Warehouse + Big Data + Artificial Intelligence" model, which generate big data insights into both the upstream and downstream supply chain process, enhance the overall efficiency in the industry supply chain and create a new intelligent form of supply chain management. The Group primarily generated revenue from logistics business and e-commerce supply chain services in this segment.

(c) The "Sm@rt City Business" segment: primarily engaged in the "Smart City" sector, providing big data software and solutions to build comprehensive city-wide big data platforms for the city to solve issues including but not limited to medical, transportation, energy supply and social security issues. The Group primarily generated revenue from big data related system integration, software development and technical services business in this segment.

(d) The "Investing Business" segment: primarily engaged in improving the Group's core products, services and capabilities of our supply chain offering, building the Group's sustainable development through continuous innovation and incubation through investment, and supporting the wider construction of a big data ecosystem through mergers and acquisitions, equity investment and specialised capital operations such as investment incubation.

## 5. SEGMENT INFORMATION (CONTINUED)

(e) The "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.

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 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 2020 and 2019.

| | DCITS | | Smart Industry Chain Business | | Sm@rt City Business | | Investing Business | | Other Business | | Elimination | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 |
| Segment revenue: | | | | | | | | | | | | | | |
| External | 11,455,143 | 11,503,811 | 7,359,282 | 5,373,826 | 337,571 | 242,917 | - | - | 667,531 | 606,875 | - | - | 19,819,527 | 17,727,429 |
| Inter-segment | 1,486 | 1,768 | 51,986 | 8,485 | 139,525 | 83,776 | - | - | 35,464 | 27,609 | (228,461) | (121,638) | - | - |
| | 11,456,629 | 11,505,579 | 7,411,268 | 5,382,311 | 477,096 | 326,693 | - | - | 702,995 | 634,484 | (228,461) | (121,638) | 19,819,527 | 17,727,429 |
| Segment gross profit | 2,059,221 | 2,101,791 | 875,016 | 689,845 | 129,509 | 74,689 | - | - | 295,090 | 288,458 | | | 3,358,836 | 3,154,783 |
| Segment results | 614,803 | 301,344 | 199,546 | 105,635 | 28,656 | 11,492 | 396,520 | 220,665 | 152,188 | 170,704 | | | 1,391,713 | 809,840 |
| Unallocated | | | | | | | | | | | | | | |
| Interest income | | | | | | | | | | | | | 5,095 | 2,994 |
| Income and gains | | | | | | | | | | | | | 2,039 | 4,956 |
| Unallocated expenses | | | | | | | | | | | | | (161,684) | (143,191) |
| Profit from operating activities | | | | | | | | | | | | | 1,237,163 | 674,599 |
| Finance costs | | | | | | | | | | | | | (90,293) | (127,899) |
| Profit before tax | | | | | | | | | | | | | 1,146,870 | 546,700 |

| | DCITS | | Smart Industry Chain Business | | Sm@rt City Business | | Investing Business | | Other Business | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 |
| Assets and liabilities | | | | | | | | | | | | |
| Segment assets | 14,049,497 | 12,046,747 | 1,288,823 | 1,848,396 | 584,832 | 478,885 | 2,947,514 | 3,433,023 | 7,924,138 | 7,059,402 | 26,794,804 | 24,866,453 |
| Unallocated assets | | | | | | | | | | | 1,226,161 | 684,648 |
| Total assets | | | | | | | | | | | 28,020,965 | 25,551,101 |
| Segment liabilities | 6,996,144 | 5,985,510 | 1,515,173 | 1,762,663 | 335,261 | 171,375 | 3 | 161 | 599,021 | 543,936 | 9,445,602 | 8,463,645 |
| Unallocated liabilities | | | | | | | | | | | 4,810,731 | 4,523,984 |
| Total liabilities | | | | | | | | | | | 14,256,333 | 12,987,629 |

## 5. SEGMENT INFORMATION (CONTINUED)

| | DCITS | | Smart Industry Chain Business | | Sm@rt City Business | | Investing Business | | Other Business | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 | 2020 HK$'000 | 2019 HK$'000 |
| **Other segment information:** | | | | | | | | | | | | | | |
| Depreciation of property, plant and equipment | 64,461 | 67,346 | 35,840 | 41,989 | 1,896 | 3,402 | - | - | 17,581 | 18,798 | 7,108 | 4,219 | 126,886 | 135,754 |
| Depreciation of right-of-use assets | 8,222 | 4,248 | 97,198 | 91,246 | 507 | 578 | - | - | 15,273 | 12,206 | - | - | 121,200 | 108,278 |
| Amortisation of other intangible assets | 46,301 | 47,050 | 3,307 | - | 1,761 | - | - | - | - | - | - | - | 51,369 | 47,050 |
| Capital expenditure* | 83,944 | 57,738 | 93,333 | 92,530 | 21,453 | 13,915 | - | - | 234,838 | 5,174 | 7,137 | 163,067 | 440,705 | 332,424 |
| Impairment (reversal of impairment) of accounts and bills receivables, other receivables and contract assets | 150,968 | 93,587 | (6,911) | 6,774 | 49,714 | 23,643 | - | - | 79,415 | (29,369) | - | - | 273,186 | 94,635 |
| Reversal of impairment of finance lease receivables | - | - | - | - | - | - | - | - | (1,695) | (6,829) | - | - | (1,695) | (6,829) |
| Provision for and write-off of (reversal of provision for) obsolete inventories | 106,284 | 86,072 | 2,106 | 1,640 | - | - | - | - | 648 | (158) | - | - | 109,038 | 87,554 |
| Share of (loss) profit of associates | 15,542 | 18,791 | - | - | (3,080) | (1,822) | (126,328) | (72,864) | - | - | - | - | (113,866) | (55,895) |
| Share of (loss) profit of joint ventures | 512 | 3,199 | - | - | 973 | (227) | (10.293) | (26,911) | (2,593) | 165 | - | - | (11,401) | (23,774) |
| Government grants | 65,330 | 62,120 | 9,117 | 11,948 | 29,140 | 8,648 | - | - | 2,629 | 1,916 | 1,319 | 1,580 | 107,535 | 86,212 |
| (Loss) gain on deemed partial disposal of equity interests in associates | 3,118 | - | - | - | - | - | (146,059) | 143,311 | - | - | - | - | (142,941) | 143,311 |
| Fair value (loss) gain on investment properties | (4,733) | 729 | - | - | - | - | - | - | 5,434 | 31,803 | - | - | 701 | 32,532 |
| Gain on disposal of equity interests in joint ventures | 4,234 | - | - | - | 266 | - | - | - | 102,461 | - | - | - | 106,961 | - |
| Gain on disposal of financial assets at fair value through profit or loss | - | 4,371 | - | - | - | - | - | - | - | - | - | - | - | 4,371 |
| Gain on disposal/partial disposal of equity interests in subsidiaries | 28,507 | - | - | - | - | 890 | - | - | - | - | - | - | 28,507 | 890 |
| Gain on disposal/partial disposal of equity interests in associates | 269,169 | 46,526 | - | - | - | 9,183 | 712,911 | 177,649 | - | - | - | - | 982,080 | 233,358 |
| Impairment loss of goodwill | 141,324 | 201,787 | - | - | - | - | - | - | - | - | - | - | 141,324 | 201,787 |
| Interests in associates | 192,863 | 528,076 | - | - | 103,110 | 101,897 | 2,134,741 | 2,520,113 | - | - | - | - | 2,430,714 | 3,150,086 |
| Interests in joint ventures | - | 8,695 | - | - | 28,262 | 26,795 | 45,463 | 53,621 | - | 96,779 | - | - | 73,725 | 185,890 |
| Interest income on bank deposits | 5,664 | 7,290 | - | - | - | - | - | - | - | - | 5,095 | 2,994 | 10,759 | 10,284 |
| Finance costs | 49,792 | 91,755 | 6,144 | 6,545 | 21 | 45 | - | - | 2,206 | 1,262 | 90,293 | 127,899 | 148,456 | 227,506 |
| Income tax expense# | 52,389 | 65,951 | - | - | - | - | - | - | - | - | 129,129 | 30,573 | 181,518 | 96,524 |

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets, investment properties and other intangible assets (including assets from the acquisition of subsidiaries of approximately HK$213,812,000 (2019: HK$144,000).

\# Income tax expense is regularly provided to the CODM but not included in the measurement 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 interests 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 2020 and 2019, 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 is as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Revenue from contracts with customers | **19,438,248** | 17,334,793 |
| Revenue from other sources | **381,279** | 392,636 |
| Total revenue | **19,819,527** | 17,727,429 |

### (i) Revenue from contract with customers

During the year ended 31 December 2020, the Group continues to generate revenue from contracts with customers from four major sources: (i) System integration, (ii) Software development and technical services, (iii) Logistics services and (iv) E-commence supply chain services. In order to help investors better understand the Group's business structure and financial performance and to better reflect current market trends, the Board further disaggregated the Group's revenue from contracts with customers as follows:

– Big data income mainly represents income from software development, sale of digital products and tailor-made service on digital products in which related to the data aggregation, data collection, data sharing, data security and data governance.

– Service income mainly represents the income from provision of technical services and provision of logistics services.

– Solutions income mainly represents the income from system integration business and software development.

– Ecosystems income mainly represents the relevant income generated by the ecological layout of the upstream and downstream of the industrial chain in order to achieve the growth and stability of core business. For instance, the business flow, capital flow and information flow generated from the e-commerce platform can become the business support and drainage carrier of big data income and logistic service income.

## 6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### (i) Revenue from contracts with customers (Continued)

Disaggregated by major products or services lines:

| | Big data HK$'000 | Services HK$'000 | Solutions HK$'000 | Ecosystems HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **2020** | | | | | |
| System integration business | – | – | 6,231,637 | – | 6,231,637 |
| Software development and technical service business | 58,424 | 3,878,511 | 1,617,473 | – | 5,554,408 |
| Logistics business | 101,401 | 2,134,395 | – | – | 2,235,796 |
| E-commerce supply chain services business | 71,462 | 10,992 | – | 4,805,082 | 4,887,536 |
| | 231,287 | 6,023,898 | 7,849,110 | 4,805,082 | 18,909,377 |
| Others | | | | | 528,871 |
| Total revenue from contracts with customers | | | | | 19,438,248 |

| | Big data HK$'000 | Services HK$'000 | Solutions HK$'000 | Ecosystems HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| System integration business | – | – | 5,442,136 | – | 5,442,136 |
| Software development and technical service business | 23,882 | 4,094,131 | 2,185,029 | – | 6,303,042 |
| Logistics business | 24,842 | 1,943,324 | – | – | 1,968,166 |
| E-commerce supply chain services business | 54,283 | 6,389 | – | 2,835,272 | 2,895,944 |
| | 103,007 | 6,043,844 | 7,627,165 | 2,835,272 | 16,609,288 |
| Others | | | | | 725,505 |
| Total revenue from contracts with customers | | | | | 17,334,793 |

## 6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### (i) Revenue from contracts with customers (Continued)

Disaggregated of revenue by timing of recognition

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Timing of revenue recognition | | |
| At a point in time | **11,648,044** | 9,053,238 |
| Over time | **7,790,204** | 8,281,555 |
| Total revenue from contracts with customers | **19,438,248** | 17,334,793 |

### (ii) Revenue from other sources

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Rental income from investment properties under operating lease | **357,849** | 348,736 |
| Financial services business | **23,430** | 43,900 |
| Total revenue from other sources | **381,279** | 392,636 |

### Transaction price allocated to the remaining performance obligations for contracts with customers

As at 31 December 2020, the aggregate amount of transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) is approximately HK$7,776,000,000 (2019: HK$5,157,000,000). The amount represents revenue expected to be recognised from system integration business and software development and technical service business.

The Group will recognise this revenue as the service is completed, which is expected to occur within three years (2019: within three years).

## 6. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

### (iii) Other income and gains

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Other income** | | | |
| Government grants | 47 | **107,535** | 86,212 |
| Interest on bank deposits | | **10,759** | 10,284 |
| Income from wealth management products | | **23,544** | 32,209 |
| Dividends income from financial assets at fair value through other comprehensive income | | **6,396** | 232 |
| Dividends income from financial assets at fair value through profit or loss | | **–** | 475 |
| Others | | **48,809** | 10,462 |
| | | **197,043** | 139,874 |
| **Gains** | | | |
| Net exchange gains | | **1,830** | – |
| Fair value gain on investment properties | 15 | **701** | 32,532 |
| Fair value gain on transfer to investment properties from completed properties held for sale | 15 | **6,969** | – |
| Gain on partial disposal of equity interest in a subsidiary | 42(b) | **12,346** | – |
| Gain on disposal of equity interests in subsidiaries | 42(e) | **16,161** | 890 |
| Gain on disposal of financial assets at fair value through profit or loss | 24 | **–** | 4,371 |
| Others | | **–** | 434 |
| | | **38,007** | 38,227 |
| Total other income and gains | | **235,050** | 178,101 |

## 7. PROFIT BEFORE TAX

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Employee benefit expense (including directors' and chief executives' remuneration (note 9)): | | |
| Salaries and allowances | **2,288,735** | 2,015,157 |
| Share-based compensation | **82,831** | 18,369 |
| Pension scheme contributions[1] | **74,947** | 285,769 |
| Other benefits | **345,981** | 255,535 |
| | **2,792,494** | 2,574,830 |
| Amount of inventories recognised as an expense | **10,499,493** | 8,194,050 |
| Auditor's remuneration | **2,900** | 2,700 |
| Depreciation of property, plant and equipment | **126,886** | 135,754 |
| Depreciation of right-of-use assets | **121,200** | 108,278 |
| Research and development costs[2] | **592,457** | 538,048 |
| Amortisation of other intangible assets[2] | **51,369** | 47,050 |
| Provisions for and write-off of obsolete inventories[2] | **109,038** | 87,554 |
| Impairment of accounts and bills receivables, other receivables and contract assets[2] | **273,186** | 94,635 |
| Reversal of impairment of finance lease receivables[2] | **(1,695)** | (6,829) |
| Impairment of interests in associates[2] | **–** | 2,286 |
| Impairment of properties under development[2] | **–** | 12,394 |
| Loss on disposal of property, plant and equipment | **2,293** | 4,022 |
| Loss on write-off of intangible assets | **1,777** | 4,882 |
| Fair value loss on financial assets at fair value through profit or loss[2] | **10,071** | 3,263 |
| Net exchange (gain) loss[2] | **(1,830)** | 11,926 |
| COVID-19 related rent concessions[3] | **(850)** | – |
| Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties[4] | **24,313** | 31,949 |

1 At 31 December 2020 and 2019, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years.

2 The net amount of these income or expenses are included in "Other expenses, net" in the consolidated statement of profit or loss.

3 Due to the outbreak of COVID-19, the Group has received numerous forms of rent concessions from lessors including rent forgiveness and deferrals of rent. The Group has early adopted Amendment to HKFRS 16 and applied the practical expedient not to assess whether a rent concession occurring as a direct consequence of the covid-19 pandemic is a lease modification.

4 During the year ended 31 December 2020, the Group recognised rental income of approximately HK$357,849,000 (2019: HK$348,736,000).

## 8. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Interest on bank and other borrowings | **114,645** | 177,663 |
| Interest on corporate bonds | **–** | 19,068 |
| Interest on discounted bills | **18,428** | 20,541 |
| Interest on lease liabilities | **9,050** | 10,234 |
| Interest on other financial liabilities | **6,333** | – |
| | **148,456** | 227,506 |

## 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 | |
|---|---|---|
| | **2020 HK$'000** | 2019 HK$'000 |
| Fees | **1,200** | 1,200 |
| Other emoluments: | | |
| Salaries and allowances | **7,792** | 3,590 |
| Pension scheme contributions | **870** | 510 |
| Share-based compensation | **37,306** | – |
| | **45,968** | 4,100 |
| | **47,168** | 5,300 |

## 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:

| | 2020 | | | 2019 |
|---|---|---|---|---|
| | Fees | Share-based compensation | Total | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Mr. WONG Man Chung, Francis | 300 | 1,209 | 1,509 | 300 |
| Ms. NI Hong, Hope | 300 | 1,209 | 1,509 | 300 |
| Dr. LIU Yun, John | 300 | 1,209 | 1,509 | 300 |
| Ms. YAN Xiaoyan | – | 764 | 764 | – |
| Mr. KING William | 300 | 1,209 | 1,509 | 300 |
| | 1,200 | 5,600 | 6,800 | 1,200 |

During the current year, there were 100,000 RSUs granted to each independent non-executive directors except Ms. YAN Xiaoyan and 2,000,000 share options at the exercise price of HK$6.60 per share granted to each independent non-executive directors during the year (2019: Nil).

### (b) Executive directors, non-executive directors and the chief executives

| | Fees | Salaries and allowances | Performance related bonus | Share-based compensation | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | | | *(Note 39)* | | |
| **2020** | | | | | | |
| Executive directors: | | | | | | |
| Mr. GUO Wei | – | 4,222 | – | 30,942 | 422 | 35,586 |
| Mr. LIN Yang | – | 3,570 | – | 764 | 448 | 4,782 |
| | – | 7,792 | – | 31,706 | 870 | 40,368 |
| Non-executive directors: | | | | | | |
| Mr. PENG Jing | – | – | – | – | – | – |
| Mr. ZENG Shuigen[1] | – | – | – | – | – | – |
| Mr. YU Ziping[2] | – | – | – | – | – | – |
| | – | – | – | – | – | – |
| | – | 7,792 | – | 31,706 | 870 | 40,368 |

1 Appointed on 30 June 2020

2 Retired on 30 June 2020

## 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 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Executive directors: | | | | | | |
| Mr. GUO Wei | – | – | – | – | – | – |
| Mr. LIN Yang | – | 3,590 | – | – | 510 | 4,100 |
| | – | 3,590 | – | – | 510 | 4,100 |
| Non-executive directors: | | | | | | |
| Mr. PENG Jing | – | – | – | – | – | – |
| Mr. YU Ziping | – | – | – | – | – | – |
| | – | – | – | – | – | – |
| | – | 3,590 | – | – | 510 | 4,100 |

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 (2019: one) was director and the chief executive of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining four (2019: four) individuals were as follows:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and allowances | **5,746** | 8,224 |
| Performance related bonuses | **4,148** | 4,289 |
| Share-based compensation | **3,178** | 1,654 |
| Pension scheme contributions | **375** | 331 |
| | **13,447** | 14,498 |

Their emoluments were within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **2020** | 2019 |
| HK$2,000,001 to HK$2,500,000 | **–** | 2 |
| HK$2,500,001 to HK$3,000,000 | **1** | – |
| HK$3,000,001 to HK$3,500,000 | **1** | – |
| HK$3,500,001 to HK$4,000,000 | **1** | – |
| HK$4,000,001 to HK$4,500,000 | **1** | 1 |
| HK$5,000,001 to HK$5,500,000 | **–** | 1 |
| | **4** | 4 |

## 11. INCOME TAX EXPENSE

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Current – PRC | | |
| EIT | | |
| Charge for the year | **156,735** | 96,845 |
| Over provision in prior years | **(8,205)** | (6,393) |
| LAT | **29** | 187 |
| | **148,559** | 90,639 |
| Current – Hong Kong | | |
| Charge for the year | **177** | – |
| Under provision in prior years | **95** | 17 |
| | **272** | 17 |
| Deferred tax *(note 26)* | **32,687** | 5,868 |
| Total tax charge for the year | **181,518** | 96,524 |

(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.

(c) Hong Kong Profits Tax is charged 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 2020 and 2019, 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 credit attributable to joint ventures of approximately HK$2,311,000 (2019: tax charge of HK$665,000) and the share of tax credit attributable to associates of approximately HK$10,173,000 (2019: tax charge of HK$39,050,000) are included in "Share of loss of joint ventures" and "Share of loss of associates", respectively, in the consolidated statement of profit or loss.

## 11. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the year can be reconciled to the profit before tax per consolidated statement of profit or loss as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Profit before tax | **1,146,870** | 546,700 |
| Tax at the applicable tax rate | **286,718** | 136,675 |
| Income tax on concessionary rates | **(138,850)** | (59,383) |
| Adjustments in respect of current tax of previous periods | **(8,110)** | (6,376) |
| Profits and losses attributable to joint ventures and associates | **31,317** | 19,917 |
| Tax effect of unused tax losses not recognised | **93,242** | 71,894 |
| Tax effect of deductible temporary differences not recognised | **64,261** | 14,893 |
| Super-deduction of research and development expenses | **(65,887)** | (61,535) |
| Income not subject to tax | **(24,486)** | (514) |
| Expenses not deductible to tax | **81,796** | 61,792 |
| Tax losses utilised from previous periods | **(138,512)** | (81,026) |
| LAT | **29** | 187 |
| Tax charge at the Group's effective rate | **181,518** | 96,524 |

## 12. DIVIDENDS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Dividends paid during the year: | | |
| 2018 Final dividends (HK3.1 cents per ordinary share) | **–** | 51,112 |
| 2019 Final dividends (HK6.4 cents per ordinary share) | **104,283** | – |
| 2020 Interim dividends (HK3.6 cents per ordinary share) | **58,546** | – |
| | **162,829** | 51,112 |

Subsequent to the end of the reporting period, the directors of the Company recommend the payment of a final dividend of HK10 cents per ordinary share, with a total amount of HK$155,930,000 (2019: HK$104,283,000) for the year ended 31 December 2020 (2019: HK6.4 cents per ordinary share) to the shareholders of the Company and is subject to the approval of the shareholders in the forthcoming annual general meeting. The date of the forthcoming annual general meeting of the Company, the date of book closure and the date of dividend payment will be announced in due course.

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 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 RSA Scheme of 1,624,064,132 (2019: 1,648,397,272) 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 with an adjustment on effect of dilutive potential ordinary shares of a subsidiary. 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 calculations of the basic and diluted earnings per share are based on the following data:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Earnings** | | |
| Profit for the year attributable to equity holders of the parent, used in basic earnings per share calculation | **612,970** | 301,844 |
| Effect of dilutive potential ordinary shares of a subsidiary | **(1,125)** | – |
| Earnings for the purpose of diluted earnings per share | **611,845** | 301,844 |

| | **Number of shares** | |
|---|---|---|
| | **2020** | 2019 |
| **Shares** | | |
| Weighted average number of shares in issue less shares held under the RSA Scheme during the year, used in the basic earnings per share calculation | **1,624,064,132** | 1,648,397,272 |
| Effect of dilutive potential ordinary shares: | | |
| Share-based incentive schemes | **3,501,087** | – |
| Weighted average number of shares during the year used in the diluted earnings per share calculation | **1,627,565,219** | 1,648,397,272 |

The diluted earnings per share for the year ended 31 December 2019 were 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 2019 and at 1 January 2020: | | | | | | |
| 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 |
| At 1 January 2020, net of accumulated depreciation | 763,747 | 44,317 | 216,886 | 1,764 | 848 | 1,027,562 |
| Additions | – | 10,613 | 43,571 | 276 | 5,583 | 60,043 |
| Disposals | – | (590) | (3,209) | (22) | – | (3,821) |
| Acquired on acquisition of subsidiaries *(note 42(a))* | – | – | 347 | 736 | – | 1,083 |
| Disposal of subsidiaries *(note 42(b)&(e))* | – | – | (1,039) | (8) | – | (1,047) |
| Surplus on revaluation upon transfer to investment properties | 6,379 | – | – | – | – | 6,379 |
| Transfers | – | 1,694 | 826 | – | (2,520) | – |
| Transfer to investment properties *(note 15)* | (14,588) | – | – | – | – | (14,588) |
| Depreciation provided for the year | (19,065) | (25,861) | (81,205) | (755) | – | (126,886) |
| Exchange realignment | 33,066 | 1,595 | 8,702 | 103 | 187 | 43,653 |
| At 31 December 2020, net of accumulated depreciation | 769,539 | 31,768 | 184,879 | 2,094 | 4,098 | 992,378 |
| At 31 December 2020: | | | | | | |
| Cost | 884,792 | 204,392 | 619,811 | 13,808 | 4,098 | 1,726,901 |
| Accumulated depreciation | (115,253) | (172,624) | (434,932) | (11,714) | – | (734,523) |
| Net carrying amount | 769,539 | 31,768 | 184,879 | 2,094 | 4,098 | 992,378 |

## 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 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) |
| Acquired on acquisition of a subsidiary *(note 42(a)(iii))* | – | – | 93 | 51 | – | 144 |
| Disposal of a subsidiary *(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 for 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 |

At 31 December 2020, the Group's property, plant and equipment with net carrying amount of approximately HK$299,619,000 (2019: HK$136,226,000) 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:

| | 2020 | | 2019 | | |
|---|---|---|---|---|---|
| | **Completed Investment properties 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 | **4,598,840** | **4,598,840** | 4,600,892 | 112,040 | 4,712,932 |
| Acquired on acquisition of a subsidiary *(note 42(a)(ii))* | **201,797** | **201,797** | – | – | – |
| Transfer from owner-occupied properties and right-of-use assets *(note 14 and 16)* | **16,865** | **16,865** | 42,795 | – | 42,795 |
| Transfer from completed properties held for sale *(note 29)* | **31,165** | **31,165** | – | – | – |
| Transfer to assets classified as held for sale *(note 22)* | **–** | **–** | – | (108,170) | (108,170) |
| Net gain in fair value recognised in profit or loss | **701** | **701** | 34,716 | (2,184) | 32,532 |
| Exchange realignment | **277,233** | **277,233** | (79,563) | (1,686) | (81,249) |
| As at 31 December | **5,126,601** | **5,126,601** | 4,598,840 | – | 4,598,840 |

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 2020 and 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 PG Advisory, independent professionally qualified valuers not connected to the Group, at approximately HK$5,126,601,000 (2019: HK$4,598,840,000) 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.

At 31 December 2019, the Group had 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 from the relevant government authorities. The relevant real estate ownership certificates have been obtained during the year ended 31 December 2020.

## 15. INVESTMENT PROPERTIES (CONTINUED)

At 31 December 2020, the Group's investment properties with a carrying value of HK$3,937,103,000 (2019: HK$3,576,944,000) were pledged to secure certain bank loans of the Group (note 36).

During the year ended 31 December 2020, certain owner-occupied properties of HK$14,588,000 (2019: HK$41,099,000) and related right-of-use assets of HK$2,277,000 (2019: HK$1,696,000) at aggregate fair value of HK$16,865,000 (2019: HK$42,795,000) 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$6,379,000 (2019: HK$20,597,000) is recognised in other comprehensive income and accumulated in assets revaluation reserve.

During the year ended 31 December 2020, certain completed properties held for sale at a fair value of HK$31,165,000 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$6,969,000 is recognised in profit or loss.

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:

| | **(Level 1)<br>HK$'000** | **(Level 2)<br>HK$'000** | **(Level 3)<br>HK$'000** | **Fair value<br>2020<br>Total<br>HK$'000** |
|---|---|---|---|---|
| Recurring fair value measurement for: | | | | |
| Commercial properties | **–** | **–** | **5,126,601** | **5,126,601** |

| | (Level 1)<br>HK$'000 | (Level 2)<br>HK$'000 | (Level 3)<br>HK$'000 | Fair value<br>2019<br>Total<br>HK$'000 |
|---|---|---|---|---|
| Recurring fair value measurement for: | | | | |
| Commercial properties | – | – | 4,598,840 | 4,598,840 |

There were no transfers between levels of fair value hierarchy during the years ended 31 December 2020 and 2019.

## 15. INVESTMENT PROPERTIES (CONTINUED)

The following table gives information about how the fair values of the investment properties as at 31 December 2020 and 2019 are determined (in particular, the valuation techniques and inputs used):

| | Valuation techniques and key inputs | Significant unobservable inputs | Range or weighted average 2020 | 2019 |
|---|---|---|---|---|
| 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 24 to 395** | From 19 to 330 |
| | | Long term vacancy rate | **From 5% To 18%** | From 5% to 15% |
| | | Discount rate | **From 6% To 8%** | From 6% to 8% |
| | 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 | **From 4% to 9%** | From 4% to 9% |

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.

A 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.

## 16. RIGHT-OF USE ASSETS

Movement of the Group's right-of-use assets is as below:

| | Land<br>HK$'000 | Building<br>HK$'000 | Total<br>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 (note 22) | (5,866) | – | (5,866) |
| Depreciation | (1,675) | (106,603) | (108,278) |
| Exchange realignment | (1,168) | (2,823) | (3,991) |
| At 31 December 2019 and 1 January 2020 | 58,825 | 174,831 | 233,656 |
| Additions | – | 96,798 | 96,798 |
| Transfer to investment properties | (2,277) | – | (2,277) |
| Write-off | – | (14,593) | (14,593) |
| Depreciation | (1,529) | (119,671) | (121,200) |
| Exchange realignment | 3,063 | 7,523 | 10,586 |
| At 31 December 2020 | 58,082 | 144,888 | 202,970 |

As at 31 December 2020 and 2019, right-of-use assets of HK$58,082,000 (2019:HK$58,825,000) represent land use rights located in the PRC.

As at 31 December 2020, the Group's land use rights with a carrying value of approximately HK$20,291,000 (2019: 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 warehouse). The lease terms generally ranged from two to five years.

## 17. LEASES

### (i) Lease liabilities

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Non-current | **50,547** | 60,616 |
| Current | **83,215** | 103,070 |
| | **133,762** | 163,686 |

| **Amounts payable under lease liabilities** | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Within one year | **83,215** | 103,070 |
| After one year but within two years | **38,749** | 40,842 |
| After two years but within five years | **11,798** | 19,774 |
| | **133,762** | 163,686 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(83,215)** | (103,070) |
| Amount due for settlement after 12 months | **50,547** | 60,616 |

During the year ended 31 December 2020, the Group entered into a number of new lease agreements for building and recognised lease liability of HK$96,798,000 (2019: HK$82,981,000).

*Rent concessions*

During the year, the Group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19.

The Group has early applied amendment to HKFRS 16 and the lease concession is a direct consequence of COVID-19.

These rent concessions occurred as a direct consequence of COVID-19 pandemic, which met of all of the conditions in HKFRS16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. Accordingly, during the current year, rent concessions totaling HK$850,000 have been accounted for as negative variable lease payments and recognised in the profit or loss, with the corresponding adjustments made to the lease liabilities.

## 17. LEASES (CONTINUED)

### (ii) Amounts recognised in profit or loss

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Expense relating to short-term leases | **21,552** | 100,549 |
| Depreciation of right-of-use assets | **121,200** | 108,278 |
| Rent concession related to COVID-19 *(note)* | **850** | – |
| Interest on lease liabilities | **9,050** | 10,234 |

*Note:* As disclosed in note 3 and note 17 (i), the Group has early adopted the Amendment to HKFRS 16, COVID-19-Related Rent Concessions, and applies the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the year.

### (iii) Others

At 31 December 2020 and 2019, the Group did not have committed lease agreements that were not yet commenced.

During the year ended 31 December 2020, the total cash outflow for leases amounted to HK$149,405,000 (2019: HK$217,023,000).

As at 31 December 2020, lease liabilities of HK$133,762,000 are recognised with related right-of-use assets of HK$144,888,000 (2019: lease liabilities of HK$163,686,000 and related right-of-use assets of HK$174,831,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## 18. GOODWILL

The amount of goodwill capitalised as an asset, arising from the acquisition of subsidiaries, was as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At 1 January: | | |
| Cost | **2,306,392** | 2,278,632 |
| Accumulated impairment | **(418,697)** | (220,695) |
| Net carrying amount | **1,887,695** | 2,057,937 |
| Cost at 1 January, net of accumulated impairment | **1,887,695** | 2,057,937 |
| Arising on acquisition of subsidiaries *(note 42(a))* | **23,536** | 66,834 |
| Impairment loss recognised for the year | **(141,324)** | (201,787) |
| Exchange realignment | **107,654** | (35,289) |
| Cost at 31 December, net of accumulated impairment | **1,877,561** | 1,887,695 |
| At 31 December: | | |
| Cost | **2,461,213** | 2,306,392 |
| Accumulated impairment | **(583,652)** | (418,697) |
| Net carrying amount | **1,877,561** | 1,887,695 |

For the purpose of impairment assessment, property, plant and equipment, intangible assets and right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill are also included in the respective CGU.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Rural information services | **623,044** | 723,531 |
| Mobile network optimisation and big data services for communications | **1,032,203** | 977,059 |
| Data integration and management software sales | **83,863** | 79,382 |
| Agricultural internet of things services | **23,456** | 22,203 |
| Technical services | **19,740** | 18,686 |
| Agricultural internet services | **70,605** | 66,834 |
| Cloud Services | **24,650** | – |
| Total | **1,877,561** | 1,887,695 |

## 18. GOODWILL (CONTINUED)

### Impairment testing of goodwill

*Rural information services CGU*

During the year ended 31 December 2020, the Group recognised an impairment loss of HK$141,324,000 (2019: 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 13.15% (2019: 13.83%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2.3% (2019: 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 12.39% (2019: 13.07%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2.5% (2019: 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% (2019: 16%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2019: 3%).

*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 12.56% (2019: 12.85%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2.5% (2019: 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 13.38% and 16.5% (2019: 14.04% and 16.5%) and cash flows beyond the five-year period are extrapolated using growth rate ranging of 2.5% and 3% (2019: 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 15.16% (2019:14.70%) and cash flows beyond the five-year period are extrapolated using a growth rate of 2.5% (2019: 0%).

## 18. GOODWILL (CONTINUED)

### Impairment testing of goodwill (Continued)

*Cloud Services CGU*

The recoverable amount of the Cloud 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 13.55% and cash flows beyond the five-year period are extrapolated using a growth rate of 2.5%.

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 discount rate will decrease the value in use of a CGU, vice versa.

The values assigned to the key assumptions on market development and discount 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 2020 | | | | |
| At 1 January 2020: | | | | |
| 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 |
| Cost at 1 January 2020, net of accumulated amortisation and impairment | 4,513 | 69,247 | 84,005 | 157,765 |
| Additions | 720 | 59,067 | 10,265 | 70,052 |
| Acquired on acquisition of a subsidiary *(note 42 (a))* | – | 2,976 | 7,956 | 10,932 |
| Write-off | – | (1,777) | – | (1,777) |
| Amortisation provided for the year | (114) | – | (51,255) | (51,369) |
| Transfers | – | (74,791) | 74,791 | – |
| Exchange realignment | 297 | 5,182 | 4,618 | 10,097 |
| At 31 December 2020 | 5,416 | 59,904 | 130,380 | 195,700 |
| At 31 December 2020: | | | | |
| Cost | 24,129 | 59,904 | 302,744 | 386,777 |
| Accumulated amortisation and impairment | (18,713) | – | (172,364) | (191,077) |
| Net carrying amount | 5,416 | 59,904 | 130,380 | 195,700 |

## 19. OTHER INTANGIBLE ASSETS (CONTINUED)

| | 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 for 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 |

## 20. INTERESTS IN JOINT VENTURES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Share of net assets | **50,790** | 150,050 |
| Goodwill on acquisition | **22,935** | 35,840 |
| | **73,725** | 185,890 |

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 in certain joint ventures. No investment was made in 2020.

As at 31 December 2020 and 2019, 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 2020 HK$'000 | Carrying amount 2019 HK$'000 | Percentage of ownership interest attributable to the Group indirectly held 2020 | Percentage of ownership interest attributable to the Group indirectly held 2019 | Proportion of voting power held 2020 | Proportion of voting power held 2019 | Principal activity |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | - | 49% | - | 60% | Technology Industry project investment |

As at 31 December 2019, 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 requires unanimous consent between the Group and the other joint venture partner. During the year ended 31 December 2020, the Group disposed of the entire interest in 神州數碼科技產業投資有限責任公司 and certain insignificant joint ventures.

During the year ended 31 December 2020, the Group disposed of its entire equity interests in certain joint ventures with an aggregate carrying amount of approximately HK$6,132,000 for an aggregate cash consideration of approximately HK$113,093,000 and the gain on disposal of equity interests in joint ventures of approximately HK$106,961,000 has been recognised in profit or loss.

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:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Aggregate carrying amount of the Group's interests in joint ventures | **73,725** | 185,890 |
| Share of the joint ventures' loss for the year | **(11,401)** | (23,774) |
| Share of the joint ventures' total comprehensive expense for the year | **(11,401)** | (23,774) |
| Dividend received from joint ventures during the year | **93,294** | – |

## 21. INTERESTS IN ASSOCIATES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Share of net assets | **1,918,276** | 2,485,080 |
| Goodwill on acquisition | **512,438** | 665,006 |
| | **2,430,714** | 3,150,086 |
| Analysed into: | | |
| Unlisted shares | **1,350,703** | 1,338,598 |
| Shares listed in Hong Kong | **1,080,011** | 1,323,287 |
| Shares listed in Mainland China | **–** | 488,201 |
| | **2,430,714** | 3,150,086 |

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.

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 2020 and 2019, 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 2020 | 2019 | Principal activities |
|---|---|---|---|---|---|
| DWS* | PRC/Mainland China | RMB266,254,353 | **note (ii)** | 10.02% | Provision of ERP software and related services |
| HCI** | Cayman Islands/ Mainland China | HK$130,993,112 | **19.37%** | 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. Goodwill relating to DWS included in the carrying amount of approximately HK$488,201,000 was approximately HK$183,253,000.

** 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 2020 was approximately HK$281,576,000 (2019: HK$588,519,000). The market value is lower than the carrying amount of interest in HCI, 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$1,080,011,000 (2019: HK$1,323,287,000) is approximately HK$348,951,000 (2019: HK$427,622,000).

*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 2020, the Group invested HK$35,041,000 (2019: HK$41,486,000) in certain associates which are not individually material to the Group.

### Significant changes in interest in associates

#### *i. Digital China Health Technologies Co., Ltd ("Digital China Health")*

During the year ended 31 December 2019, the Group partially disposed of its interests in Digital China Health with carrying amount of HK$50,957,000 for cash consideration of approximately HK$228,171,000, which was included in other receivables as at 31 December 2019 and has been fully received during 2020. The disposal resulted in gain on partial disposal of HK$177,214,000.

On 14 January 2020, the Group entered into a sale and purchase agreement with an independent third party (the "**Transferee 1**") pursuant to which the Group has agreed to sell the entire equity interest in Beijing Lizhi Weixin Technology Co., Ltd, an indirect non-wholly-owned subsidiary of the Company, which in turn holds 32,720,636 shares in 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 1 shall be the U.S. dollar equivalent of RMB500,000,000 (equivalent to approximately HK$548,089,000). Details were set out in the Company's announcement dated 15 January 2020. The 14.05% equity interest in Digital China Health had been reclassified to assets classified as held for sale (note 22) during the year ended 31 December 2019.

## 21. INTERESTS IN ASSOCIATES (CONTINUED)

### Significant changes in interest in associates (Continued)

#### *i. Digital China Health Technologies Co., Ltd ("Digital China Health") (Continued)*

After completion of the disposal in 2020, the equity interests 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 retained interest at fair value of HK$191,935,000 has been accounted for a financial asset at FVTOCI for medium to long-term strategic purpose. Details of fair value measurement are set out in note 51. The resulted gain on disposal of interest in Digital China Health of approximately HK$441,456,000 has been recognised in profit or loss and is calculated as follow:

| | 2020<br>HK$'000 |
|---|---|
| Proceeds from disposal | 548,089 |
| Plus: fair value of investment retained (5.99%) | 191,935 |
| Less: carrying amount of 20.04% investment on the date of loss of significant influence (including 14.05% investment in asset classified as held for sale *(note 22)* | (298,568) |
| Gain recognised | 441,456 |

#### *ii. DWS*

In 2019 and up to the date of disposal of DWS in 2020, the Group owns 19.26% ownership interest in DWS (2019: 19.26%) (of which 15.44% (2019: 15.44%) was held through DCITS, a non-wholly-owned subsidiary, while 3.82% (2019: 3.82%) was held through its wholly-owned subsidiary).

During the year ended 31 December 2019, the Group partially disposed of its interests in DWS with carrying amount of HK$51,021,000 for cash consideration of approximately HK$96,785,000. Together with release of other comprehensive income recognised in the prior years, the disposal resulted in gain on partial disposal of HK$46,525,000.

During the year ended 31 December 2020, the Group disposed of aggregate 16.94% of equity interest in DWS in at an aggregate consideration of RMB688,880,000 (equivalent to approximately HK$809,685,000).

After completion of the series of disposals, the aggregate equity interests of the Group in DWS decreased from 19.26% to 2.32%, and DWS ceased to be an associate of the Company. The retained interest at fair value of HK$199,431,000 has been accounted for a financial asset at fair value through profit or loss for trading purpose. Details of fair value measurement are set out in note 51. The resulted gain on disposals of interest in DWS of approximately HK$474,748,000 has been recognised in profit or loss and is calculated as follow:

| | 2020<br>HK$'000 |
|---|---|
| Proceeds from disposal | 809,685 |
| Plus: fair value of investment retained (2.32%) | 199,431 |
| Less: carrying amount of 19.26% investment on the date of loss of significant influence | (534,368) |
| Gain recognised | 474,748 |

## 21. INTERESTS IN ASSOCIATES (CONTINUED)

### Significant changes in interest in associates (Continued)

#### *iii. Deemed partial disposal of equity interests in associates*

During the year ended 31 December 2020, 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 loss on deemed partial disposal of approximately HK$142,941,000 (2019: gain on deemed partial disposal of approximately HK$143,311,000) in profit or loss.

#### *iv. Disposal of associates*

During the year ended 31 December 2020, the Group disposed of its entire equity interests in certain associates with an aggregate carrying amount of approximately HK$17,148,000 (2019: HK$8,645,000) for an aggregate cash consideration of approximately HK$83,024,000 (2019: HK$18,264,000) and the resulted gain on disposal of equity interests in associates of approximately HK$65,876,000 (2019: HK$9,619,000) has been recognised in profit or loss.

#### *v. Financial information of associates*

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[1] | | HCI | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Current assets | **N/A** | 1,362,283 | **3,418,794** | 3,539,753 |
| Non-current assets | **N/A** | 1,179,882 | **4,071,687** | 5,246,701 |
| Current liabilities | **N/A** | (953,506) | **(2,649,853)** | (2,964,443) |
| Non-current liabilities | **N/A** | (8,434) | **(439,453)** | (972,840) |
| Net assets | **N/A** | 1,580,225 | **4,401,175** | 4,849,171 |
| Less: Non-controlling interests | **N/A** | 10,069 | **599,836** | 791,323 |
| Net assets attributable to shareholders of the associates | **N/A** | 1,570,156 | **3,801,339** | 4,057,848 |
| Revenue | **N/A** | 1,642,259 | **16,367,418** | 16,722,471 |
| Loss for the year | **N/A** | 117,962 | **(839,739)** | (415,657) |
| Other comprehensive (expense) income for the year | **N/A** | (32,401) | **2,479** | (24,493) |
| Total comprehensive income(expense) for the year | **N/A** | 85,561 | **(837,260)** | (440,150) |
| Dividend received from associates during the year | **N/A** | 5,857 | **–** | – |

1 Summarised financial information of DWS for 2020 is not presented as it is no longer the group's associate since disposal.

## 21. INTERESTS IN ASSOCIATES (CONTINUED)

### v. *Financial information of associates (Continued)*

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Aggregate carrying amount of the Group's investments in associates that are not individually material | **1,350,703** | 1,338,598 |
| Share of the associates' profit for the year | **53,879** | 15,490 |
| Share of the associates' total comprehensive income for the year | **53,879** | 15,490 |
| Dividend received from associates during the year | **26,473** | 25,714 |
| 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:

| | 31/12/2019<br>HK$'000 |
|---|---|
| Interest in an associate (note (i)) | **214,565** |
| Property, plant and equipment (note (ii)) | **4,477** |
| Properties under development (note (ii)) | **232,040** |
| Investment properties (note (ii)) | **108,170** |
| Right-of-use assets (note (ii)) | **5,866** |
| Total assets classified as held for sale | **565,118** |

*Notes:*

i. During the year ended 31 December 2019, the Group committed a plan to dispose of 32,720,636 shares in an associate, Digital China Health, representing approximately 14.05% of the entire issued share capital of Digital China Health. The disposal has been completed during the year ended 31 December 2020 (note 21(i)).

ii. During the year ended 31 December 2019, 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. 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 disposal has been completed in 2020 and all remaining considerations have been received in 2020.

The fair value of the investment properties classified as held for sale is determined at level 3 of fair value hierarchy, based on income approach on valuations performed by Savills Valuation and Professional Services Limited, an independent professionally qualified valuer not connected to the Group.

## 23. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at FVTOCI comprise:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Equity instruments designated as at FVTOCI** | | |
| Unlisted equity investments | **714,300** | 408,572 |

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 51.

During the year ended 31 December 2020, certain unlisted equity investments with a fair value of approximately HK$191,935,000 were reclassified from "interests in associates" to "financial assets at FVTOCI". Details are set out in note 21(i).

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at FVTPL comprise:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Financial assets measured at FVTPL** | | |
| Listed equity securities | **199,503** | 3,325 |
| Unlisted wealth management products *(Note)* | **922,911** | 925,766 |
| | **1,122,414** | 929,091 |

There is no disposal of listed equity securities during the year ended 2020. 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 for a cash consideration of approximately HK$30,791,000 and resulted in a gain on disposal of approximately HK$4,371,000 had been recognised in profit or loss and included in other income and gains.

Details of the fair value of these investments are disclosed in note 51.

During the year ended 31 December 2020, certain listed equity investments with a fair value of approximately HK$199,431,000 were reclassified from "interests in associates" to "financial assets at FVTPL". Details are set out in note 21(ii). During the years ended 31 December  2020 and 2019, the group did not acquire listed equity securities.

*Note:*

The wealth management products as at 31 December 2020 and 2019 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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Finance lease receivables | **83,216** | 86,242 |
| Less: loss allowance | **(29,274)** | (29,404) |
| | **53,942** | 56,838 |
| **Analysis by:** | | |
| Current portion | **53,154** | 54,528 |
| Non-current portion | **788** | 2,310 |
| | **53,942** | 56,838 |

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 | |
|---|---|---|---|---|
| | **2020**<br>**HK$'000** | 2019<br>HK$'000 | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
| Net finance lease receivables: | | | | |
| Due with one year | **59,037** | 60,769 | **53,154** | 54,528 |
| Due in one to two years | **788** | 1,564 | **788** | 1,564 |
| Due in two to three years | **–** | 746 | **–** | 746 |
| | **59,825** | 63,079 | **53,942** | 56,838 |
| Less: unearned finance income | **(5,883)** | (6,241) | | |
| Present value of minimum lease payment receivables | **53,942** | 56,838 | | |

## 25. FINANCE LEASE RECEIVABLES (CONTINUED)

The movement in the loss allowance of finance lease receivables is as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At the beginning of year | **29,404** | 36,936 |
| Reversal of impairment loss | **(1,695)** | (6,829) |
| Exchange realignment | **1,565** | (703) |
| At the end of the year | **29,274** | 29,404 |

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$29,274,000 (2019: HK$29,404,000).

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 2020 and 2019, 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:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Deferred tax assets | **225,211** | 173,125 |
| Deferred tax liabilities | **(465,878)** | (350,261) |
| | **(240,667)** | (177,136) |

## 26. DEFERRED TAX (CONTINUED)

The movements in deferred tax assets and liabilities during the year are as follows:

2020 Deferred tax assets movement

### Deferred tax assets

| | Asset provisions HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2020 | 117,585 | 85,983 | 203,568 |
| Deferred tax credited (charged) to profit or loss | 49,490 | (20,577) | 28,913 |
| Deferred tax credited directly to equity | – | 924 | 924 |
| Exchange realignment | 8,348 | 2,659 | 11,007 |
| Gross deferred tax assets at 31 December 2020 | 175,423 | 68,989 | 244,412 |

### Deferred tax liabilities

| | Revaluation of properties HK$'000 | Assets revaluation HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2020 | **296,768** | **23,790** | **60,146** | **380,704** |
| Acquisition of subsidiaries *(note 42(a)(i))* | **–** | **–** | **380** | **380** |
| Deferred tax charged to profit or loss | **1,917** | **34,918** | **24,765** | **61,600** |
| Deferred tax charged to other comprehensive income | **1,595** | **15,739** | **–** | **17,334** |
| Exchange realignment | **17,105** | **5,571** | **2,385** | **25,061** |
| Gross deferred tax liabilities at 31 December 2020 | **317,385** | **80,018** | **87,676** | **485,079** |
| Net deferred tax charged to the statement of profit or loss during the year *(note 11)* | | | | **(32,687)** |
| Net deferred tax liabilities at 31 December 2020 | | | | **(240,667)** |

## 26. DEFERRED TAX (CONTINUED)

2019 Deferred tax assets movement

### Deferred tax assets

| | Asset provisions HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 January 2019 | 121,786 | 61,847 | 183,633 |
| Deferred tax (charged) credited to profit or loss | (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 |

### Deferred tax liabilities

| | 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 profit or loss | 8,133 | 265 | 20,442 | 28,840 |
| Deferred tax charged to other comprehensive income | 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) |

The Group's tax losses arising in Mainland China of HK$818,485,000 (2019: HK$1,028,591,000) 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$746,584,000 (2019: HK$417,759,000) 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 deferred tax liabilities for undistributed earnings of subsidiaries which have not been recognised was HK$57,145,000 (31 December 2019: HK$44,477,000). No liability has been recognised in respect of the temporary differences associated with undistributed earrings of subsidiaries 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

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trading stock | **2,614,291** | 1,848,844 |

## 28. PROPERTIES UNDER DEVELOPMENT

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 January | **–** | 250,501 |
| Transfer from property, plant and equipment *(note 14)* | **–** | 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) |
| At 31 December | **–** | – |

The Group's properties under development were situated in Mainland China and stated at the lower of cost or net realisable value.

## 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.

During the year ended 31 December 2020, certain completed properties held for sale of HK$24,196,000 at a fair value of HK$31,165,000 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$6,969,000 is recognised in profit or loss.

## 30. ACCOUNTS AND BILLS RECEIVABLES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Receivables at amortised cost comprise | | |
| Accounts and bills receivables | **4,444,708** | 6,112,522 |
| Less: loss allowance | **(682,352)** | (750,029) |
| Total | **3,762,356** | 5,362,493 |
| Analysis by: | | |
| Current portion | **3,631,843** | 5,362,493 |
| Non-current portion | **130,513** | – |
| | **3,762,356** | 5,362,493 |

At as 31 December 2020, the gross amount of trade receivable arising from contracts with customers amounted to approximately HK$4,444,708,000 (2019: HK$6,112,522,000).

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.

Included in accounts and bills receivables is amount due from a customer of HK$130,513,000 (2019: Nil), (net of loss allowance of HK$2,664,000 (2019: Nil)), of which will be settled after 12 months from the end of the reporting period as per agreed repayment schedule.

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.

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within 30 days | **1,369,718** | 3,249,133 |
| 31 to 60 days | **610,916** | 318,493 |
| 61 to 90 days | **115,855** | 89,379 |
| 91 to 180 days | **524,292** | 441,465 |
| Over 181 days | **1,141,575** | 1,264,023 |
| | **3,762,356** | 5,362,493 |

## 30. ACCOUNTS AND BILLS RECEIVABLES (CONTINUED)

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. Due to the financial uncertainty arising from COVID-19, the Group have increased the expected loss rate for trade receivable based on their judgment as to the impact of COVID-19 on certain individual debtors. There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

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 2020**

| | Weighted average expected loss rate | Gross carrying amount | Loss allowance | Net amount |
|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 |
| **Individually** | 100% | 114,687 | 114,687 | – |
| **Collectively** | | | | |
| Current (not past due) | 1% | 2,631,443 | 29,783 | 2,601,660 |
| Less than 90 days past due | 7% | 330,569 | 22,029 | 308,540 |
| 91 to 180 days past due | 8% | 289,488 | 23,521 | 265,967 |
| 181 to 360 days past due | 20% | 401,868 | 80,561 | 321,307 |
| 361 to 720 days past due | 39% | 431,491 | 166,609 | 264,882 |
| More than 721 days past due | 100% | 245,162 | 245,162 | – |
| | | 4,444,708 | 682,352 | 3,762,356 |

## 30. ACCOUNTS AND BILLS RECEIVABLES (CONTINUED)

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 |
| More than 721 days past due | 100% | 239,905 | 239,905 | – |
| | | 6,112,522 | 750,029 | 5,362,493 |

The movements in loss allowance of accounts and bills receivables are as follows:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| At the beginning of year | **750,029** | 677,948 |
| Impairment losses (reversed) recognised | **(86,734)** | 90,722 |
| Write-off as uncollectible | **(17,910)** | (1,548) |
| Exchange realignment | **36,967** | (17,093) |
| At the end of year | **682,352** | 750,029 |

Included in the Group's accounts and bills receivables are amounts due from joint ventures, associates and related companies (note 46(b)) of approximately HK$64,829,000 (2019: HK$65,725,000), HK$3,019,000 (2019: HK$1,638,000) and HK$51,290,000 (2019: HK$19,815,000), 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* | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|---|
| Deposits and other receivables | (i) | **2,061,263** | 2,139,127 |
| Less: loss allowance | | **(225,607)** | (133,045) |
| | | **1,835,656** | 2,006,082 |
| Prepayments | | **210,924** | 191,694 |
| Loans to joint ventures | (ii) | **177,262** | 210,296 |
| | | **2,223,842** | 2,408,072 |
| **Analysis by:** | | | |
| Current portion | | **1,339,906** | 1,499,292 |
| Non-current portion | | **883,936** | 908,780 |
| | | **2,223,842** | 2,408,072 |

*Note:*

(i) As at 31 December 2020, included in Group's prepayments, deposits and other receivables were loan receivables with carrying amount of approximately HK$1,074,237,000 (2019: HK$1,088,914,000) that were secured by the properties of the borrowers. Out of the loan receivables were amount of approximately HK$883,936,000 (2019: HK$908,780,000) 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 2023. As such, these balances were classified as non-current assets. For the remaining balance of approximately HK$190,301,000 (2019: HK$180,134,000), they were classified as current assets as the collaterals are expected to be realised by end of 2021.

(ii) At 31 December 2020, included in the Group's prepayments, deposits and other receivables are the loans of approximately HK$177,262,000 (2019: HK$210,296,000) to a joint venture of the Group, which are unsecured, bears interest at rates ranging from 4.35% (2019: 4.35% to 18%) per annum and are repayable within one year from the end o f the reporting period.

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

The movements in loss allowance of other receivables are as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At the beginning of year | 133,045 | 131,571 |
| Impairment losses recognised | 84,175 | 3,645 |
| Exchange realignment | 8,387 | (2,171) |
| At the end of year | 225,607 | 133,045 |

The directors of the Company estimate the loss allowance on deposits and other receivables 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 2020 is approximately HK$225,607,000 (2019: HK$133,045,000). 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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Contract assets | 2,697,941 | 529,127 |
| Less: loss allowance | (292,700) | (2,054) |
| | 2,405,241 | 527,073 |

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 movements in loss allowance of contract assets are as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At the beginning of year | 2,054 | 1,747 |
| Impairment losses recognised | 275,745 | 268 |
| Exchange realignment | 14,901 | 39 |
| At the end of year | 292,700 | 2,054 |

## 32. CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

### (b) Contract liabilities

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Receipt in advance | **2,160,544** | 1,059,683 |
| Due to contract customers | **247,188** | 336,813 |
| Total contract liabilities | **2,407,732** | 1,396,496 |

Contract liabilities include advances received to render services and unfulfilled performance obligation for contract customers.

Revenue recognised during the year ended 31 December 2020 that was included in the contract liabilities at the beginning of the year is approximately HK$1,396,496,000 (2019: HK$1,612,372,000). 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

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Cash and bank balances | **3,279,753** | 2,001,179 |
| Time deposits | **25,250** | 4,480 |
| | **3,305,003** | 2,005,659 |
| Less: Restricted bank balances | **228,286** | 115,488 |
| Cash and cash equivalents | **3,076,717** | 1,890,171 |

At the end of the reporting period, the cash and bank equivalents of the Group denominated in Renminbi ("**RMB**") amounted to HK$2,988,760,000 (2019: HK$1,719,661,000). 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.

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within 30 days | **1,507,471** | 1,974,814 |
| 31 to 60 days | **808,988** | 442,991 |
| 61 to 90 days | **137,255** | 120,659 |
| Over 90 days | **1,166,785** | 1,294,329 |
| | **3,620,499** | 3,832,793 |

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 2020, included in the Group's accounts and bills payables were amounts due to joint ventures, associates and related companies of the Group of approximately HK$1,475,000 (2019: HK$735,000), HK$42,384,000 (2019: HK$5,823,000) and HK$91,780,000 (2019: HK$91,909,000), respectively, which are repayable on credit terms similar to those obtained from the major suppliers of the Group.

## 35. OTHER PAYABLES AND ACCRUALS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Other payables | **1,092,849** | 996,471 |
| Accruals | **993,616** | 752,953 |
| Payroll payables | **418,358** | 292,379 |
| Deferred income *(note 47)* | **12,787** | 4,402 |
| | **2,517,610** | 2,046,205 |

Included in the Group's other payables are amounts due to associates and related companies (note 46(b)(iv)) of approximately HK$432,000 (2019: HK$27,821,000) and HK$1,700,000 (2019: HK$5,223,000) respectively.

At 31 December 2020 and 2019, other payables are unsecured and non-interest-bearing and have an average term of three months.

## 36. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Bank loans, unsecured | **948,397** | 1,385,891 |
| Bank loans, secured | **3,378,737** | 3,650,350 |
| Other borrowings | **51,470** | 51,520 |
| Corporate bonds *(note d)* | **–** | 6,939 |
| | **4,378,604** | 5,094,700 |
| Analysed for reporting purpose as: | | |
| Current | **2,077,309** | 3,468,959 |
| Non-current | **2,301,295** | 1,625,741 |
| | **4,378,604** | 5,094,700 |

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Bank loans repayable (based on scheduled repayment dates set out in the loan agreements dates): | | |
| Within one year | **2,025,839** | 3,417,439 |
| In the second year | **466,123** | 147,840 |
| In the third to fifth years, inclusive | **792,679** | 554,174 |
| Beyond five years | **1,042,493** | 916,788 |
| | **4,327,134** | 5,036,241 |
| Other borrowings and corporate bonds repayable: | | |
| Within one year | **51,470** | 51,520 |
| In the third to fifth years, inclusive | **–** | 6,939 |
| | **51,470** | 58,459 |

## 36. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **HK$'000** | Effective interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Bank loans, unsecured | **2.50-4.79** | **2021** | **948,397** | 2.80-5.22 | 2020 | 1,335,491 |
| Bank loans, secured | **1.45-6.70** | **2021** | **875,121** | 3.53-7.25 | 2020 | 1,439,406 |
| Current portion of long term bank loans, | | | | | | |
| – unsecured | **N/A** | **N/A** | **–** | 4.75 | 2020 | 50,400 |
| – secured | **1.82-7.00** | **2021** | **202,321** | 4.94-9.80 | 2020 | 592,142 |
| Other borrowings | **15** | **2021** | **51,470** | 15 | 2020 | 51,520 |
| | | | **2,077,309** | | | 3,468,959 |
| **Non-current** | | | | | | |
| Bank loans, secured | **1.82-7.00** | **2022-2034** | **2,301,295** | 4.00-6.62 | 2021-2034 | 1,618,802 |
| Corporate bonds (notes c and d) | **N/A** | **N/A** | **–** | – | 2021 | 6,939 |
| | | | **2,301,295** | | | 1,625,741 |
| | | | **4,378,604** | | | 5,094,700 |

The ranges of effective interest rates on the Group's bank borrowings are as follows:

| | **2020** | 2019 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | **2.50%-7%** | 2.8% – 9.8% |
| Variable-rate borrowings | **1.45%-6.62%** | 3.53% – 6.62% |

As at 31 December 2020, the Group's borrowings carrying interest at floating rates and fixed rates amounted approximately to HK$1,823,386,000 (2019: HK$2,869,405,000) and HK$2,555,218,000 (2019: HK$2,225,295,000) respectively.

## 36. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

*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$299,619,000 (2019: HK$136,226,000) (note 14);

(ii) mortgages over investments properties, which had an aggregate carrying value at the end of the reporting period of HK$3,937,103,000 (2019: HK$3,576,944,000) (note 15);

(iii) mortgage over the land use right, which had an aggregate carrying value at the end of the reporting period of HK$20,291,000 (2019: HK$19,785,000) (notes 16);

(iv) The Group's borrowings of approximately HK$994,486,000 (2019: HK$1,375,906,000) provided by certain financial institutions were secured by 130,960,000 (2019: 247,869,570) ordinary shares issued by DCITS with an aggregate fair value of HK$2,401,770,000 (2019: HK$4,111,449,000) as at 31 December 2020;

(b) At 31 December 2020, except for the bank borrowings of HK$157,666,000 (2019: HK$260,332,000) and HK$Nil (2019: HK$79,733,000) 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 carried interest at the rate of 4.9% per annum and would 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 ended 31 December 2019, principal amount was fully redeemed by the investors.

(d) In previous years, 神州靈雲（北京）科技有限公司 ("Shenzhou Lingyun"), a non-wholly owned subsidiary of the Group, issued convertible bonds to its 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.

As at 31 December 2019, the convertible bond of approximately RMB32,600,000 (equivalent to approximately HK$35,730,000) was outstanding, including approximately RMB26,400,000 (equivalent to approximately HK$28,940,000) provided by DCITS and approximately RMB6,200,000 (equivalent to approximately HK$6,939,000) by other investors.

On 15 April 2020, DCITS and other investors signed the "Transfer Agreement" with an independent third party (the "**Lingyun Transferee**"), and all parties agreed to transferred their equity interest in Shenzhou Lingyun to the Lingyun Transferee, and withdrew from Shenzhou Lingyun. Approximately RMB7,200,000 (equivalent to approximately HK$8,134,000) consideration was paid for DCITS's equity interest in Shenzhou Lingyun. Upon completion of the transaction, Shenzhou Lingyun ceased to be a subsidiary of the Group and hence the convertible bond is fully derecognised.

## 37. SHARE CAPITAL

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Authorised:<br>2,500,000,000 (2019: 2,500,000,000) ordinary shares of HK$0.1 (2019: HK$0.1) each | **250,000** | 250,000 |
| Issued and fully paid:<br>2020: 1,672,497,376 (2019: 1,670,977,976) ordinary shares of HK$0.1 (2019: HK$0.1) each | **167,250** | 167,098 |

A summary of the movements in the Company's issued share capital and share premium account during the years ended 31 December 2020 and 2019 is as follows:

| | Number of ordinary shares in issue | Issued capital<br>HK$'000 | Share premium account<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| 1 January 2019 | 1,677,261,976 | 167,726 | 4,665,095 | 4,832,821 |
| Share repurchase *(note)* | (6,284,000) | (628) | (21,237) | (21,865) |
| 31 December 2019 and 1 January 2020 | 1,670,977,976 | 167,098 | 4,643,858 | 4,810,956 |
| Exercise of share options *(note 39)* | 1,519,400 | 152 | 8,119 | 8,271 |
| At 31 December 2020 | 1,672,497,376 | 167,250 | 4,651,977 | 4,819,227 |

Note: During the year ended 31 December 2019, the Company purchased 5,911,000 its own shares of HK$0.10 each with highest and lowest prices of HK$3.60 and HK$3.37 per share respectively for an aggregate cash consideration (including transaction cost) of approximately HK$20,539,000 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 2020.

## 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 equity instruments of the Group and associates designated 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 Scheme*

The share option scheme of the Company was adopted on 15 August 2011 (the "2011 Share Option Scheme"). The 2011 Share Options Schemes has life span of ten years.

The principal terms of the 2011 Share Option Scheme are as follows:

*(I) Purpose*

The Share Option Scheme 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 (2019: 167,726,197), which represent 10.03% (2019: 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 Scheme 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 Scheme (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 Scheme 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 Scheme*

The 2011 Share Option Scheme shall remain valid and effective for a period of ten years commencing from 15 August 2011, being the date on which the scheme was deemed to take effect in accordance with its terms.

## 39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

### Share-based Incentive Schemes of the Company (Continued)

#### *(a) Share Option Scheme (Continued)*

The following table shows the movements in the Company's share options under the 2011 Share Option Scheme during the year and the options outstanding at the beginning and end of the year 2020:

| | Number of share options | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Grantee | Outstanding as at 1/1/2020 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31/12/2020 | Exercise price per share HK$ | Closing price immediately before the date of grant HK$ | Date of grant | Exercisable period | Notes |
| Directors | | | | | | | | | | |
| GUO Wei | 13,116,974 | – | – | – | 13,116,974 | 6.394 | 6.73 | 25/1/2017 | 25/1/2017–24/1/2025 | (i), (ii) |
| | – | 81,000,000 | – | – | 81,000,000 | 6.60 | 6.54 | 13/7/2020 | (iv) | (v) |
| LIN Yang | 13,116,974 | – | – | – | 13,116,974 | 6.394 | 6.73 | 25/1/2017 | 25/1/2017–24/1/2025 | (i), (ii) |
| | – | 2,000,000 | – | – | 2,000,000 | 6.60 | 6.54 | 13/7/2020 | (iv) | (v) |
| WONG Man Chung, Francis | – | 2,000,000 | – | – | 2,000,000 | 6.60 | 6.54 | 13/7/2020 | (iv) | (v) |
| NI Hong (Hope) | – | 2,000,000 | – | – | 2,000,000 | 6.60 | 6.54 | 13/7/2020 | (iv) | (v) |
| LIU Yun, John | – | 2,000,000 | – | – | 2,000,000 | 6.60 | 6.54 | 13/7/2020 | (iv) | (v) |
| YAN Xiaoyan | – | 2,000,000 | – | – | 2,000,000 | 6.60 | 6.54 | 13/7/2020 | (iv) | (v) |
| KING William | – | 2,000,000 | – | – | 2,000,000 | 6.60 | 6.54 | 13/7/2020 | (iv) | (v) |
| Other employees | 62,646,667 | – | – | (56,665,327) | 5,981,340 | 6.394 | 6.73 | 25/1/2017 | 25/1/2017–24/1/2025 | (i), (ii) |
| Other employees | 5,000,000 | – | (601,000) | (1,600,000) | 2,799,000 | 4.818 | 4.87 | 21/5/2018 | 21/5/2019–20/5/2026 | (iii) |
| Other employees | 5,700,000 | – | (401,000) | (3,300,000) | 1,999,000 | 3.88 | 3.88 | 20/11/2018 | 20/11/2019–19/11/2026 | (iii) |
| Other employees | 6,970,000 | – | (317,400) | (1,450,000) | 5,202,600 | 4.32 | 4.26 | 28/3/2019 | 28/3/2020–27/3/2027 | (iii) |
| Other employees | 3,200,000 | – | (200,000) | (800,000) | 2,200,000 | 4.04 | 3.95 | 2/9/2019 | 2/9/2020–1/9/2027 | (iii) |
| Other employees | 30,000 | – | – | (30,000) | – | 4.172 | 4.10 | 7/11/2019 | 7/11/2020–6/11/2027 | (iii) |
| Other employees | – | 7,570,000 | – | (1,020,000) | 6,550,000 | 4.17 | 4.16 | 27/4/2020 | 27/4/2021–26/4/2028 | (iii) |
| Other employees | – | 2,620,000 | – | (150,000) | 2,470,000 | 4.48 | 4.27 | 11/6/2020 | 11/6/2021–10/6/2028 | (iii) |
| Other employees | – | 14,000,000 | – | (1,000,000) | 13,000,000 | 6.60 | 6.54 | 13/7/2020 | (iv) | (v) |
| Other employees | – | 1,900,000 | – | (110,000) | 1,790,000 | 6.60 | 6.54 | 13/7/2020 | 13/7/2021–12/7/2028 | (iii) |
| In aggregate | 109,780,615 | 119,090,000 | (1,519,400) | (66,125,327) | 161,225,888 | | | | | |
| Exercisable at the end of the year | | | | | 35,399,888 | | | | | |
| Weighted average exercise price (HK$) | 5.991 | 6.399 | 4.364 | 6.120 | 6.254 | | | | | |

## 39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

### Share-based Incentive Schemes of the Company (Continued)

### *(a) Share Option Scheme (Continued)*

The following table shows the movements in the Company's share options under the 2011 Share Option Scheme during the year and the options outstanding at the beginning and end of the year 2019:

| | Number od 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$ | Closing price immediately before the date of grant HK$ | Date of grant | Exercisable period | Notes |
| Directors | | | | | | | | | |
| GUO Wei | 13,116,974 | – | – | 13,116,974 | 6.394 | 6.73 | 25/1/2017 | 25/1/2017-24/1/2025 | (i), (ii) |
| LIN Yang | 13,116,974 | – | – | 13,116,974 | 6.394 | 6.73 | 25/1/2017 | 25/1/2017-24/1/2025 | (i), (ii) |
| Other employees | 62,646,667 | – | – | 62,646,667 | 6.394 | 6.73 | 25/1/2017 | 25/1/2017-24/1/2025 | (i), (ii) |
| Other employees | 9,100,000 | – | (4,100,000) | 5,000,000 | 4.818 | 4.87 | 21/5/2018 | 21/5/2019-20/5/2026 | (iii) |
| Other employees | 6,000,000 | – | (300,000) | 5,700,000 | 3.88 | 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 | 4.26 | 28/3/2019 | 28/3/2020-27/3/2027 | (iii) |
| Other employees | – | 3,200,000 | – | 3,200,000 | 4.04 | 3.95 | 2/9/2019 | 2/9/2020-1/9/2027 | (iii) |
| Other employees | – | 30,000 | – | 30,000 | 4.172 | 4.10 | 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 | 5.991 | | | | | |

*Notes:*

(i) As a result of the rights issue which was completed on 18 September 2017, the exercise prices was adjusted from HK$6.71 to HK$6.394 under the 2011 Share Option Scheme, and the numbers of outstanding share options were adjusted accordingly.

(ii) All options granted under the 2011 Share Option Scheme in 2017 are exercisable in whole or in part at anytime during the exercisable period.

(iii) The options granted under the 2011 Share Option Scheme 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.

(iv) Exerciable period is from the date of satisfaction of certain conditions to 12 July 2028. Details of the conditions please refer to Note (v).

## 39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

### Share-based Incentive Schemes of the Company (Continued)

### *(a) Share Option Scheme (Continued)*

*Notes:* (Continued)

(v) The vesting and exercise of the Share Options shall be conditional upon satisfaction of, among others, certain performance conditions (including, among others, key performance indicators, profit performance target(s) and/or individual results performance target etc.) for the year ending 31 December 2020, 2021 and 2022 as set out in the respective granting document (if any) and the following conditions:

(a) the Group's audited net profit after tax (before share-based payment expenses) and deduction of net profit after tax attributable to non-controlling interests for the financial year ending 31 December 2020 based on the audited consolidated financial statements of the Company amounts to HK$500 million or above (the "Condition (a)")), in which case one third of the Share Options shall vest and become exercisable on the relevant vesting date as mentioned below;

(b) the Group's audited net profit after tax (before sharebased payment expenses) and deduction of net profit after tax attributable to non-controlling interests for the financial year ending 31 December 2021 based on the audited consolidated financial statements of the Company amounts to HK$800 million or above (the "Condition (b)"), in which case one third of the Share Options shall vest and become exercisable on the relevant vesting date as mentioned below; or

(c) the Group's audited net profit after tax (before sharebased payment expenses) and deduction of net profit after tax attributable to non-controlling interests for the financial year ending 31 December 2022 based on the audited consolidated financial statements of the Company amounts to HK$1.2 billion or above (the "Condition (c)"), in which case one third of the Share Options shall vest and become exercisable on the relevant vesting date as mentioned below.

The vesting of the relevant portion of the Share Option upon satisfaction of Condition (a), Condition (b) and Condition (c) shall take place on the date on which the relevant date of issue of the audited consolidated financial statements of the Company for the financial year ending 31 December 2020, 2021 and 2022, respectively.

No share options were granted to participants other than those set out in the tables above.

No options under the 2011 Share Option Scheme were cancelled during the year ended 31 December 2020 and year ended 31 December 2019 and no options under the 2011 Share Option Scheme were exercised during the year ended 31 December 2019.

Share options do not confer rights on the holders to dividends or to vote at general meetings.

The fair values of the share options granted under the 2011 Share Option Scheme during the current year amounted to approximately HK$220,768,000 (2019: HK$12,181,000) in aggregate of which HK$47,792,000 (2019: HK$8,327,000) was recognised as share option expenses during the year.

The fair values of the share options granted during 2020 and 2019 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:** | **2020** | 2019 |
|---|---|---|
| Exercise price (HK$ per share) | **4.17-6.6** | 4.04-4.32 |
| Dividend yield (%) | **1.1-2.65 per annum** | 2.6-3 per annum |
| Expected volatility (%) | **37.9-38.1 per annum** | 38.5-39.5 per annum |
| Expected life (year) | **8** | 8 |
| Risk-free interest rate (%) | **0.41-0.56 per annum** | 1.12-1.57 per annum |
| Weighted average share price (HK$ per share) | **4.17-6.6** | 4.04-4.32 |

## 39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

### Share-based Incentive Schemes of the Company (Continued)

#### *(a) Share Option Scheme (Continued)*

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 2020, the Company had 161,225,888 (2019: 109,780,615) 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 161,225,888 (2019: 109,780,615) additional ordinary shares of the Company and additional share capital of approximately HK$16,123,000 (2019: HK$10,978,000) and share premium of approximately HK$992,260,000 (2019: HK$646,694,000) (before issue expenses and transfer of employee share-based compensation reserve).

At the date of approval of these financial statements, the Company had 161,065,888 share options outstanding (2019: 109,780,615) under the 2011 Share Option Scheme, which represented approximately 9.63% (2019: 6.57%) of the Company's shares in issue as at that date.

#### *(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 2020, the trustee purchased 82,012,000 (2019: 3,639,000) shares of the Company at a total cost (including related transaction costs) of approximately HK$493,623,000 (2019: HK$14,055,000) and a total of 2,150,000 RSUs (2019: nil) were granted to certain Directors and other employees of the Group in order to motivate them to work for the Group. The share price of the Company's Shares as at the date of grant of the RSUs were HK$4.30 (1,750,000 RSUs were granted to other employees on 7 May 2020) and HK$4.45 (400,000 RSUs were granted to Directors on 2 June 2020) during the year.

The fair values of the RSUs granted under the RSA Scheme at granted date during the current year amount to approximately HK$9,305,000 (2019: nil).

During the current year, the Group recognised the total expenses of HK$2,898,000 (2019: nil) in relation to RSUs granted by the Company.

## 39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

### 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 DCITS Share Option Incentive Scheme is to further promote the establishment and improvement of DCITS's long term incentive mechanism, attract and retain high calibre 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 DCITS 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 DCITS Share Option Incentive Scheme must have employment, labour or service relationships with DCITS within the validity period of the DCITS Share Option Incentive Scheme.

(3) According to the DCITS 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 DCITS 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 DCITS 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 DCITS Share Option Incentive Scheme shall be the A ordinary shares to be issued by DCITS to the participants of the DCITS Share Option Incentive Scheme.

(5) The minimum period for which share options granted under the DCITS 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 DCITS Share Option Incentive Scheme ("**Option Registration Date**").

## 39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

### Equity Incentive Schemes of a subsidiary (Continued)

#### *(c) Share Option Incentive Scheme of DCITS (Continued)*

(6) Subject to the fulfillment of the conditions for exercising the share options under the DCITS 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 DCITS Share Option Incentive Scheme shall be RMB12.76 per share.

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

(9) During the exercise period of the DCITS 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.

## 39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

### Equity Incentive Schemes of a subsidiary (Continued)

#### *(c) Share Option Incentive Scheme of DCITS (Continued)*

(9) (Continued)

(b) None of the following events having occurred on the part of the grantee of the DCITS 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 exercisable period, share options granted under the DCITS 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 DCITS 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 DCITS Share Option Incentive Scheme, DCITS granted 22,470,000 share options under the DCITS 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 twelve months as at 31 December 2020 and the share options outstanding at the beginning and end of the year 2020:

| | Number of the share options | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grantee | Outstanding as at 1/1/2020 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31/12/2020 | Exercise price per share RMB | Date of grant | Exercisable period |
| DCITS director | – | – | – | – | – | – | – | – |
| DCITS other employees | 22,270,000 | – | (5,687,554) | (950,000) | 15,632,446 | 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 | | | | | 5,022,446 | | | |
| Weighted average exercise price (RMB) | 12.76 | – | 12.76 | 12.76 | 12.76 | | | |

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

The following table shows the movements in the share options under DCITS Share Option Incentive Scheme for the twelve months ended at 31 December 2019:

| | Number of the share options | | | | | | |
|---|---|---|---|---|---|---|---|
| Grantee | Granted in 2019 | Exercised in 2019 | Lapsed in 2019 | 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 DCITS 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 fair values of the share options granted during 2019 under the DCITS Share Option 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 share 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 is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

The binomial model has been used to estimate the fair value of the share 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 share option varies with different variables of certain subjective assumptions.

The fair values of the share options granted under the DCITS Share Option Inventive Scheme during the year ended 31 December 2019 amounted to approximately HK$32,330,000.

During the current year, the Group recognised the total expenses of HK$18,901,000 (2019: HK$5,835,000) in relation to share options granted by DCITS.

### *(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 calibre 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.

## 39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

### Equity Incentive Schemes of a subsidiary (Continued)

#### *(d) Restricted Share Incentive Scheme of DCITS (Continued)*

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**".

According to the provisions of the Restricted Share Incentive Scheme of DCITS, the grant price of such restricted shares was adjusted from RMB6.38 per share to RMB6.345 per share (due to DCITS's dividends).

## 39. SHARE-BASED INCENTIVE SCHEMES (CONTINUED)

### Equity Incentive Schemes of a subsidiary (Continued)

*(d) Restricted Share Incentive Scheme of DCITS (Continued)*

The following table shows the movements in the restricted shares under the Restricted Share Incentive Scheme of DCITS during the year:

| | Number of Restricted Shares | | | | |
|---|---|---|---|---|---|
| Grantee | Outstanding as at 1/1/2020 | Granted during the year | Buyback and cancelled during the year | Vested during the year | Outstanding as at 31/12/2020 |
| DCITS Director | 1,000,000 | – | – | (500,000) | 500,000 |
| DCITS other employees | 5,950,000 | – | (300,000) | (2,825,000) | 2,825,000 |

During the year ended 31 December 2019, a total of 6,950,000 restricted shares were granted to Directors and other employees of DCITS which remained outstanding as at 31 December 2019.

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 year ended 31 December 2019 amounted to approximately HK$21,966,000.

During the current year, the Group recognised the total expenses of HK$13,240,000 (2019: HK$4,207,000) in relation to restricted shares granted by DCITS.

## 40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

As at 31 December 2020, the Group indirectly held the equity interests in DCITS was 40.28% (2019: 40.14%), the Group still retained its rights to nominate three out of the five (2019: 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.

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests: | | |
| DCITS | **59.72%** | 59.86% |

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Profit for the year allocated to non-controlling interests: | | |
| DCITS and its subsidiaries | **341,100** | 131,634 |
| Accumulated balances of non-controlling interests at the reporting date: | | |
| DCITS and its subsidiaries | **3,979,766** | 3,450,374 |

## 40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any intragroup eliminations:

| | DCITS and its subsidiaries | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Revenue and other income | **11,891,993** | 11,663,139 |
| Total cost and expenses | **(11,329,579)** | (11,427,746) |
| Profit for the year | **562,414** | 235,393 |
| – attributable to equity holders of DCITS and subsidiaries | **571,474** | 228,010 |
| Total comprehensive income for the year | **858,593** | 171,087 |
| – attributable to equity holders of DCITS and subsidiaries | **867,653** | 163,704 |
| Dividend paid to non-controlling interest | **(24,832)** | (22,889) |
| Current assets | **10,799,446** | 8,691,961 |
| Non-current assets | **3,250,052** | 3,354,786 |
| Current liabilities | **6,915,467** | 5,907,585 |
| Non-current liabilities | **80,677** | 77,925 |
| Net cash inflows from operating activities | **380,823** | 324,763 |
| Net cash from investing activities | **629,701** | 410,578 |
| Net cash used in financing activities | **(499,546)** | (882,872) |
| Net increase (decrease) in cash and cash equivalents | **510,978** | (147,531) |

## 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 2020 HK$'000 | Financing cash flows HK$'000 | Non cash changes<br>Finance costs incurred HK$'000 | New lease recognised (net) HK$'000 | Acquisition of subsidiaries HK$'000 *(note 42(a))* | Disposal of subsidiaries HK$'000 *(note 42(e))* | Exchange realignment HK$'000 | 31 December 2020 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Interest-bearing bank and other borrowings | 5,087,761 | (1,093,831) | – | – | 216,556 | (19,218) | 187,336 | 4,378,604 |
| Interest paid | – | (142,123) | 142,123 | – | – | – | – | – |
| Lease liabilities | 163,686 | (118,803) | – | 81,355 | – | – | 7,524 | 133,762 |
| Other financial liability | – | 566,789 | 6,333 | – | – | – | 13,022 | 586,144 |
| Corporate bonds | 6,939 | (2,439) | – | – | – | (4,652) | 152 | – |
| | 5,258,386 | (790,407) | 148,456 | 81,355 | 216,556 | (23,870) | 208,034 | 5,098,510 |

| | 1 January 2019 HK$'000 | Financing cash flows HK$'000 | Non cash changes<br>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 |

## 42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

### (a) Acquisition of subsidiaries accounted for as business combinations

#### *(i) Acquisition of 北京雲核網絡技術有限公司("Beijing Cloud Core")*

In July 2020, the Group entered into a sales and purchase agreement with an independent third party, to acquire the entire equity interest in Beijing Cloud Core at a cash consideration of RMB43,500,000 (equivalent to HK$49,144,000). This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was HK$23,536,000. Beijing Cloud Core is principally engaged in provision of cloud application system services. The acquisition was completed on 31 August 2020.

The consideration transferred for the acquisition of Beijing Cloud Core is satisfied by:

| | HK$'000 |
|---|---|
| Cash consideration | 49,144 |

The assets acquired and liabilities assumed at the acquisition date are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 92 |
| Other intangible assets | 10,932 |
| Inventories | 15,817 |
| Accounts receivables and contract assets | 23,147 |
| Prepayments, deposits and other receivables | 1,164 |
| Cash and cash equivalents | 1,665 |
| Account payables | (3,221) |
| Other payables and accruals | (3,228) |
| Contract liabilities | (9,765) |
| Tax payables | (673) |
| Bank borrowings | (9,942) |
| Deferred tax liabilities | (380) |
| Total net identifiable assets acquired | 25,608 |
| Goodwill | 23,536 |
| | 49,144 |

| | |
|---|---|
| Cash consideration paid on acquisition | 49,144 |
| Less: Cash and cash equivalents acquired | 1,665 |
| Net cash outflow arising from acquisition | 47,479 |

The goodwill arising from the acquisition is not tax deductible. During the period from date of acquisition to 31 December 2020, Beijing Cloud Core made insignificant contribution to the Group's revenue, profit and cash flows.

## 42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

### (a) Acquisition of subsidiaries accounted for as business combinations (Continued)

#### *(ii) Acquisition of 昆山鹿鳴置業有限公司 ("Kunshan Luming")*

In July 2020, the Group entered into a sales and purchase agreement with an independent third party, to acquire the entire equity interest in Kunshan Luming at a cash consideration of RMB68,000,000 (equivalent to HK$75,285,000). As part of the acquisition, the Group committed to provide shareholder's loan of RMB298,535,000 (equivalent to HK$330,521,000) to Kunshan Luming before the completion of the acquisition. This acquisition has been accounted for using the acquisition method. Kunshan Luming is principally engaged in property investment and development. The acquisition was completed on 27 July 2020.

The aggregate consideration transferred for the acquisition of Kunshan Luming is satisfied by:

| | HK$'000 |
|---|---|
| Cash consideration | 405,806 |

The assets acquired and liabilities assumed at the acquisition date are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 991 |
| Investment properties | 201,797 |
| Completed properties held for sale | 657,323 |
| Accounts receivables | 12,389 |
| Prepayments, deposits and other receivables | 464 |
| Cash and cash equivalents | 5,227 |
| Other payables and accruals | (158,776) |
| Contract liabilities | (92,746) |
| Tax payables | (14,249) |
| Bank borrowings | (206,614) |
| Total net identifiable assets acquired | 405,806 |
| Cash consideration paid on acquisition | 405,806 |
| Less: Consideration payable (including in other payables) | 33,214 |
| Less: Cash and cash equivalents acquired | 5,227 |
| Net cash outflow arising from acquisition | 367,365 |

During the period from date of acquisition to 31 December 2020, Kunshan Luming made insignificant contribution to the Group's revenue, profit and cash flows.

## 42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

### (a) Acquisition of subsidiaries accounted for as business combinations (Continued)

#### *(iii) 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 | 53,154 |

The net value of 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 payables | (1,383) |
| Other payables 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) The partial disposal of equity interest in a subsidiary

*北京神州邦邦技術服務有限公司 ("DCBB")*

DCBB was an indirect non-wholly owned subsidiary of the Group. The Group's interest in DCBB was 40%, which represented the major shareholder and control two-third of seats in the board of directors of DCBB. In September 2020, the Group entered into a sale and purchase agreement with an independent third party to dispose of 20% of its equity interest in DCBB at a cash consideration of approximately RMB6,000,000 (equivalent to approximately HK$6,828,000). Following the completion of the disposal, the Group's interest in DCBB was reduced from 40% to 20% and the Group lost control over DCBB since then. The retained interest in DCBB was accounted for as an associate as the Group can exercise significant influence over DCBB. The deemed disposal was completed on 29 September 2020.

The consideration received:

| | HK$'000 |
|---|---|
| Fair value of retained interest | 6,828 |
| Cash consideration | 6,828 |
| | 13,656 |

Analysis of assets and liabilities over which control was lost:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 4 |
| Financial assets at FVTPL | 5,121 |
| Accounts receivables | 40,934 |
| Prepayments, deposits and other receivables | 567 |
| Inventories | 3,246 |
| Cash and cash equivalents | 1,253 |
| Accounts payables | (39,970) |
| Contract liabilities | (6,647) |
| Other payables and accruals | (617) |
| Tax payables | (614) |
| Non-controlling interests | (1,967) |
| Net assets disposed of | 1,310 |

## 42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

### (b) The partial disposal of equity interest in a subsidiary (Continued)

*北京神州邦邦技術服務有限公司 ("DCBB") (Continued)*

Gain on disposal of a subsidiary:

| | HK$'000 |
|---|---|
| Consideration | 13,656 |
| Less: net assets disposed of | 1,310 |
| Gain on disposal | 12,346 |

Net cash inflow arising on disposal:

| | HK$'000 |
|---|---|
| Cash consideration received | 6,828 |
| Less: cash and cash equivalents disposed of | 1,253 |
| | 5,575 |

### (c) Acquisition of additional interests in non-wholly-owned subsidiaries

During the year ended 31 December 2020, the Group acquired additional interests in certain non-wholly-owned subsidiaries with an aggregate carrying amount of net liabilities of approximately HK$448,000 (2019: net assets of approximately HK$47,000) at an aggregate cash consideration of HK$62,000 (2019: HK$79,000) from the non-controlling interests. The difference arising from such acquisitions of approximately HK$510,000 (2019: HK$32,000) was charged to capital reserve.

### (d) Deemed acquisition of additional interests in non-wholly-owned subsidiaries

During the year ended 31 December 2020, DCITS repurchased in aggregate 8,775,208 shares from the public at an aggregate consideration of approximately RMB139,237,000 (equivalent to approximately HK$164,747,000), represented 0.8993% of DCITS's issued capital as at 31 December 2020.

The difference between the change in non-controlling interest and the consideration paid arising from such transaction of approximately HK$42,015,000 was charged to capital reserve.

## 42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

### (e) Disposal of subsidiaries

Pursuant to the Transfer Agreement mentioned in note 36(d) to the consolidated financial statements, the Group disposed of its entire equity interests in a non-wholly-owned subsidiary, Shenzhou Lingyun, at a cash consideration of RMB7,200,000 (equivalent to HK$8,134,000).

Analysis of assets and liabilities over which control was lost:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 1,038 |
| Inventories | 667 |
| Account receivables | 12,996 |
| Prepayments, deposits and other receivables | 1,028 |
| Cash and cash equivalents | 871 |
| Account payables | (2,003) |
| Other payables and accruals | (5,823) |
| Contract liabilities | (232) |
| Tax payables | (57) |
| Other borrowings | (19,218) |
| Corporate bond | (4,652) |
| Non-controlling interests | 8,000 |
| Net liabilities disposed of | (7,385) |

Gain on disposal of subsidiaries:

| | HK$'000 |
|---|---|
| Consideration | 8,134 |
| Less: net liabilities disposed of | (7,385) |
| Gain on disposal | 15,519 |

Net cash inflow arising on disposal:

| | HK$'000 |
|---|---|
| Cash consideration received | 8,134 |
| Less: cash and cash equivalents disposed of | 871 |
| | 7,263 |

During the year ended 31 December 2020, the Group also disposed of an insignificant subsidiary at a cash consideration of HK$733,000 and recognised a gain on disposal of HK$642,000 and resulted in net cash inflow arising on disposal of HK$651,000.

## 42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

### (e) Disposal of subsidiaries (Continued)

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 荊門智慧荊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) |
| Other payables and accruals | (2,608) |
| Contract liabilities | (3,055) |
| Non-controlling interests | (5,224) |
| Net assets disposed of | 28,829 |

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) |

## 42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

### (f) Capital contribution from non-controlling interests of subsidiaries

#### *(i) Capital contribution from non-controlling interests of 北京因特睿軟件有限公司 ("Beijing Internetware")*

On 15 September 2020,神州投資有限公司 ("**DC Investment**"), 深圳神州普惠信息有限公司("**Shenzhen Puhui**"), (both being indirect wholly-owned subsidiaries of the Company), other individual shareholders of Beijing Internetware ("**Other Individual Holders**"), Changchun Financial Holding Group Co., Ltd* (長春市金融控股集團有限公司("**Changchun Financial**") and長春淨月高新技術產業開發區國有資產投資經營有限公司("**Changchun Jingyue**"), and Beijing Internetware (being indirect non-wholly owned subsidiary of the Company) entered into a capital investment agreement, pursuant to which Changchun Financial, and Changchun Jingyue (the "**Investors**") have conditionally agreed to subscribe for approximately 6.45% and 4.84%, respectively, of the enlarged registered capital of Beijing Internetware by way of capital contribution in cash for the sum of RMB400,000,000 and RMB300,000,000, respectively. Details were set out in the Company's announcements dated 15 September 2020 and 29 September 2020.

The aggregate consideration of RMB700,000,000 shall be payable by the Investors in cash in the following manner:

(i) RMB490,000,000 (the "**First Installment**") shall be payable by the Investors to Beijing Internetware within five business days after fulfillment of all conditions precedent under the capital investment agreement; and

(ii) RMB210,000,000 shall be payable by the Investors within five business days after Beijing Internetware obtains a new business licence from the relevant department of administration for industry and commerce after the completion of the change of the registered address and tax registration address.

Prior to the capital injection, Beijing Internetware is held as to approximately 80.65% by DC Investment, 12.90% by Shenzhen Puhui and an aggregate of 6.45% by Other Individual Holders. Upon completion of the payment of the First Installment, Beijing Internetware's total registered capital will be increased to approximately RMB120,965,000, and its equity interest will be owned as to approximately 71.54% by DC Investment, 11.45% by Shenzhen Puhui, an aggregate of 5.72% by Other Individual Holders, 6.45% by Changchun Financial and 4.84% by Changchun Jingyue. Beijing Internetware remained as a subsidiary of the Company.

On the same date, the Investors, 神州數碼軟件有限公司 ("**DC Software**") (being an indirect wholly-owned subsidiary of the Company), the Company, DC Investment and Shenzhen Puhui and Beijing Internetware entered into a supplemental agreement (the "**Supplementary Agreement**"), pursuant to which, among others, a put option has been granted by DC Software to the Investors. Details of the put option are set out in note 48 to the consolidated financial statements of the Company.

The above put option constitutes a redemption liability that is recognised initially at the present value of the redemption price. It is subsequently measured at amortised cost using the effective interest rate method.

## 42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

### (f) Capital contribution from non-controlling interests of subsidiaries (Continued)

#### *(i) Capital contribution from non-controlling interests of北京因特睿軟件有限公司 ("Beijing Internetware") (Continued)*

As of 31 December 2020, the Investors had contributed the First Installment of RMB490,000,000 (equivalent to approximately HK$566,789,000). This resulted in the Group's interest in Beijing Internetware decreased from 93.55% to 82.99%, an increase in non-controlling interests of HK$128,523,000 and a decrease in equity attributable to owners of the parent of HK$128,523,000. A schedule of the effect of capital contribution from non-controlling interests of Beijing Internetware is as follow:

| | HK$'000 |
|---|---|
| Carrying amount of non-controlling interest | 128,523 |
| Consideration received from non-controlling interests | 566,789 |
| Less: Redemption financial liability *(Note 48)* | (566,789) |
| | 128,523 |

#### *(ii) Capital contribution from non-controlling interests of 科捷供應鏈有限公司 ("Instant Technology"), 楊凌農業雲服務有限公司("YLClouds") and DCBB*

On 11 December 2020, the Group entered into a subscription agreement with an independent third party and pursuant to which, the independent third party agreed to make a capital injection of approximately RMB46,080,000 (equivalent to HK$54,522,000) to Instant Technology, an indirectly wholly-owned subsidiary of the Company. This resulted in the Group's interest in Instant Technology decreased from 100% to 87.2%, an increase in non-controlling interests of approximately HK$30,609,000 and an increase in equity attributable to owners of the parent of approximately HK$23,913,000.

In 2020, the non-controlling interests of YLClouds and DCBB made capital injections of totalling RMB2,850,000 (equivalent to approximately HK$3,193,000). This resulted in increases in non-controlling interests of totalling approximately HK$3,193,000.

A schedule of the effect of above capital contributions from non-controlling interests of subsidiaries as follow:

| | HK$'000 |
|---|---|
| Aggregated carrying amount of non-controlling interests | 33,802 |
| Aggregated consideration received from non-controlling interests | 11,877 |
| Consideration receivable for Instant Technology | 45,838 |
| | (23,913) |

## 42. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (CONTINUED)

### (f) Capital contribution from non-controlling shareholders of subsidiaries (Continued)

#### *(iii) Release of restricted shares and exercise of share options of DCITS*

During the year ended 31 December 2020, the 3,325,000 shares of restricted shares of DCITS, an indirectly non-wholly owned subsidiary of the Company, have been released to the holders of restricted shares. This resulted in a dilution of the Group's equity interest in DCITS by 0.14% and resulted in an increase in non-controlling interests of approximately HK$23,452,000 and an increase in equity attributable to owners of the parent of approximately HK$1,255,000.

In addition, 5,687,554 share options of DCITS have been exercised during the year ended 31 December 2020. This resulted in a dilution of the Group's equity interest in DCITS by 0.23% and resulted in an increase in non-controlling interests of approximately HK$66,214,000 and an increase in equity attributable to owners of the parent of approximately HK$19,244,000.

A schedule of the aggregated effect of the above deemed disposal of interest in DCITS without loss of control is as follow:

| | HK$'000 |
|---|---|
| Carrying amount of non-controlling interest | 89,666 |
| Consideration received from non-controlling interests | 85,458 |
| Reversal of repurchase liabilities of restricted shares | 24,707 |
| | (20,499) |

## 43. 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 (equivalent to HK$23,948,000) for the judgement above as at 31 December 2019.

On 18 November 2020, DCITS reached an agreement with China Potevio Co., Ltd ("**Settlement Agreement**"). Pursuant to the Settlement Agreement, DCITS and China Potevio Co., Ltd. agreed to settle the case at a compensation of RMB21,000,000 (equivalent to HK$24,622,000). The Settlement Agreement has been executed on 23 November 2020 and China Potevio Co., Ltd has filed the execution proof with Beijing Municipal High People's Court.

## 44. OPERATING LEASE ARRANGEMENT

### 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 period, the Group had contracted with tenants for the following future minimum lease payments:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **196,111** | 259,038 |
| In the second year | **135,175** | 115,441 |
| In the third year | **93,320** | 56,781 |
| In the fourth year | **60,749** | 34,406 |
| In the fifth year | **37,405** | 27,949 |
| After five years | **107,551** | 111,800 |
| | **630,311** | 605,415 |

## 45. COMMITMENTS

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for, in the consolidated financial statements: | | |
| Land and buildings | **16** | 30,209 |
| Capital contributions payable to joint ventures | **32,337** | 33,969 |
| Capital contributions payable to associates | **24,847** | 23,520 |
| Capital contributions payable to financial assets at FVTOCI | **507** | 480 |
| | **57,707** | 88,178 |

## 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* | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Transactions with joint ventures** | | | |
| Sales of IT products to joint ventures | (i) | 11,025 | 9,730 |
| Provision of IT services to joint ventures | (ii) | 7,804 | 446 |
| Provision of IT services from joint ventures | (ii) | 1,343 | – |
| Rental income from joint ventures | (iv) | – | 1,268 |
| Interest income on loans to joint ventures | (v) | 8,380 | 9,422 |
| **Transactions with associates** | | | |
| Sales of IT products to associates | (i) | 5,887 | 13,057 |
| Purchases of IT products from associates | (iii) | – | 119 |
| Provision of IT services to associates | (ii) | 3,606 | 2,412 |
| Provision of IT services by associates | (ii) | 108,883 | 2,542 |
| Rental income from associates | (iv) | 8,684 | 22,387 |
| **Transactions with related companies (note (vi))** | | | |
| Sales of IT products to related companies | (i) | 60,033 | 11,828 |
| Provision of IT services to related companies | (ii) | 449,549 | 400,439 |
| Purchases of IT products from related companies | (iii) | 188,765 | 335,952 |
| Provision of IT services by related companies | (ii) | 36,986 | 46,847 |
| Rental income from related companies | (iv) | 49,271 | 45,728 |

*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.

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) 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 the joint ventures and 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.

### (c) Compensation of key management personnel

The remuneration of key management personnel (executive directors) of the Company during the year was as follows:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Short term employee benefits | **7,792** | 3,590 |
| Share-based compensation | **31,706** | – |
| Post-employment benefits | **870** | 510 |
| | **40,368** | 4,100 |

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$107,535,000 (2019: HK$86,212,000) 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 for compensation of operating costs.

Government grants of which related expenditure has not yet been undertaken are included in deferred income, of which approximately HK$25,888,000 (2019: HK$37,033,000) is classified as non-current liabilities and approximately HK$12,787,000 (2019: HK$4,402,000) is classified as current liabilities (included in other payables and accruals (note 35)), respectively.

During the year ended 31 December 2020, deferred income of approximately HK$44,800,000 (2019: HK$20,902,000) 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 2020 of approximately HK$62,735,000 (2019: HK$65,310,000) represented government grants received for which there are no unfulfilled conditions and other contingencies attaching to these government assistances.

## 48. OTHER FINANCIAL LIABILITY

Pursuant to the capital contribution from non-controlling interest of Beijing Internetware as set out in note 42(f)(i) to the consolidated financial statements, a put option has been granted by DC Software to the Investors.

If any of the triggering events occurs during the period when the Investors hold equity interest in Beijing Internetware and before the listing of Beijing Internetware, the Investors shall be entitled to require the Group to purchase all or part of their equity interest in Beijing Internetware at the put price before 31 March 2026:

The key triggering events include:

(i) the change of registered and tax registration address of Beijing Internetware to the Changchun Jingyue Hi-Tech Industry Development Zone not being completed within six months from the Investors' payment of the First Installment (or such later date as agreed by the Investors) due to reasons other than on the part of the Investors;

(ii) Beijing Internetware not being listed before 31 December 2025, or DC Software or the Company having expressly or by conduct abandoned the arrangements or works relating to the proposed listing of Beijing Internetware;

The Company will act as a guarantor in favour of the Investors to guarantee the performance of such repurchase obligations of DC Software under the supplemental agreement.

The put price ("Redemption Price") is calculated at the amount paid by the Investors under the Capital Injection plus an interest of 6% per annum less the aggregate amount actually received by the Investors from any cash dividend declared and paid by Beijing Internetware or cash indemnity paid by DC Software and/or the Company during the period when the Investors hold equity interest in Beijing Internetware.

The put option constitute a contract that contains an obligation for the Group to purchase its own equity instruments gives rise to a redemption financial liability recognised at the present value of the Redemption Price and subsequently measured at amortised cost.

The movements in the redemption financial liability are as follow:

| | 2020<br>HK$'000 |
|---|---|
| Capital contribution from non-controlling interests *(note 42(f)(i))* | **566,789** |
| Interest expense | **6,333** |
| Exchange realignment | **13,022** |
| At the end of year | **586,144** |

## 49. 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 2020 Direct | Percentage of equity attributable to the Company 2020 Indirectly | Percentage of equity attributable to the Company 2019 Direct | Percentage of equity attributable to the Company 2019 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 | Patent 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 | – | 87.2 | – | 100 | Provision of logistics services |
| Talent Gain Developments Limited | British Virgin Islands | N/A | US$1 | – | 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 |
| 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 | – | 82.99 | – | 93.55 | Operation of Sm@rt City Platform |
| Beijing Internetware Company Limited | PRC/Mainland China | Limited liability company | RMB120,964,997 | – | 82.99 | – | 93.55 | Data integration and management software sales |
| DCITS | PRC/Mainland China | Company limited by shares | RMB975,768,827 (2019: RMB970,381,273) | – | 40.28* | – | 40.14* | Systems integration services, software development and technical services |
| Digital China Jinxin Technology Co., Ltd. | PRC/Mainland China | Company limited by shares | RMB200,000,000 | – | 40.28** | – | 40.14* | Sales of financial specialised equipment |
| Beijing Zhongnong Xinda Information Technology Limited | PRC/Mainland China | Limited liability company | RMB100,000,000 | – | 40.28** | – | 40.14** | Surveying service software sales |

## 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

| Name | Place of incorporation/ registration and operation | Legal form | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company 2020 | | Percentage of equity attributable to the Company 2019 | | Principal activities |
|---|---|---|---|---|---|---|---|---|
| | | | | Direct | Indirectly | Direct | Indirectly | |
| Digital China Advanced Systems Limited | Hong Kong | N/A | HK$531,750,000 | – | 40.28** | – | 40.14** | Systems integration services |
| Nanjing Howso Technology Co., Ltd. ("Howso Technology") | PRC/Mainland China | Limited liability company | RMB102,340,000 | – | 40.24*** | – | 40.10*** | Network optimisation services |
| 北京雲核網絡技術有限公司 | PRC/Mainland China | Limited liability company | RMB13,333,333 | – | 40.28**** | – | – | Provision of cloud application system services |
| 昆山鹿鳴置業有限公司 | PRC/Mainland China | Limited liability company | RMB50,000,000 | – | 100**** | – | – | Property investment and development |

* DCITS, a Shenzhen listed company, is accounted for as a subsidiary of the Group even though the Group has only a 40.28% (2019: 40.14%) 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.

**** These companies are acquisition in of subsidiaries acquired in 2020 and accounted for as business combination.

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.

## 50. 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:

**2020**

### Financial assets

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Financial assets at amortised cost** | | |
| Finance lease receivables | **53,942** | 56,838 |
| Accounts and bills receivables | **3,762,356** | 5,362,493 |
| Financial assets included in prepayments, deposits and other receivables | **1,860,811** | 2,082,345 |
| Cash and cash equivalents | **3,076,717** | 1,890,171 |
| Restricted bank balances | **228,286** | 115,488 |
| **Financial assets at FVTPL** | | |
| Listed equity securities | **199,503** | 3,325 |
| Unlisted wealth management products | **922,911** | 925,766 |
| **Financial assets at FVTOCI** | | |
| Unlisted equity investments designated as FVTOCI | **714,300** | 408,572 |
| | **10,818,826** | 10,844,998 |

### Financial liabilities

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Financial liabilities at amortised cost** | | |
| Accounts and bills payables | **3,620,499** | 3,832,793 |
| Financial liabilities included in other payables and accruals | **1,895,360** | 1,684,542 |
| Interest-bearing bank and other borrowings | **4,378,604** | 5,094,700 |
| Other financial liability | **586,144** | – |
| | **10,480,607** | 10,612,035 |

## 51. 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 2020:

| | 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 securities | **199,503** | **–** | **–** | **199,503** |
| – Unlisted wealth management products | **–** | **–** | **922,911** | **922,911** |
| Financial assets at FVTOCI | | | | |
| – Unlisted equity investments | **–** | **–** | **714,300** | **714,300** |

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 securities | 3,325 | – | – | 3,325 |
| – Unlisted wealth management products | – | – | 925,766 | 925,766 |
| Financial assets at FVTOCI | | | | |
| – Unlisted equity investments | – | – | 408,572 | 408,572 |

## 51. 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 years ended 31 December 2020 and 2019.

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:

| | **Unlisted wealth management products** HK$'000 | **Unlisted equity investments** HK$'000 |
|---|---|---|
| As at 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 and 1 January 2020 | **925,766** | 408,572 |
| Transfer from interest in an associate *(note 21)* | **–** | 191,935 |
| Acquisition | **1,125,061** | – |
| Disposal of a subsidiary *(note 42(b))* | **(5,121)** | – |
| Redemption | **(1,160,782)** | (40,196) |
| Fair value changes | **16,727** | 114,406 |
| Exchange alignment | **21,260** | 39,583 |
| As at 31 December 2020 | **922,911** | 714,300 |

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.

## 52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include accounts and bills receivables, other receivables, accounts and bills payables, other 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. It is the Group's policy to keep a balanced portfolio of its borrowings to manage both the cash flow and fair value interest rate risk

At 31 December 2020, the Group's interest-bearing borrowings of HK$1,823,386,000 (2019: HK$2,869,405,000) 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 (2019: 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.

| | Increase (decrease) in basis points | Increase (decrease) in profit before tax for the year HK$'000 |
|---|---|---|
| **31 December 2020** | | |
| Borrowings with floating interest rates | **100** | **(18,234)** |
| Borrowings with floating interest rates | **(100)** | **18,234** |
| **31 December 2019** | | |
| Borrowings with floating interest rates | 100 | (28,694) |
| Borrowings with floating interest rates | (100) | 28,694 |

## 52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Currency risk

The Group's foreign currency exposures mainly arise from net monetary assets in currencies other than the functional currencies of approximately HK$494,927,000 (2019: HK$660,370,000) as at 31 December 2020.

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% (2019: 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 2020** | | |
| If RMB weakens against US dollars | **(1)** | **(4,987)** |
| If RMB strengthens against US dollars | **1** | **4,987** |
| **31 December 2019** | | |
| If RMB weakens against US dollars | (1) | (6,663) |
| If RMB strengthens against US dollars | 1 | 6,663 |

### Credit risk

As at 31 December 2020, 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.

## 52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Credit risk (Continued)

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.

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.

## 52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Credit risk (Continued)

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 |

### 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.

## 52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Liquidity risk (Continued)

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:

| | 2020 | | | | |
|---|---|---|---|---|---|
| | 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 | 2,133,669 | 1,489,134 | 1,508,217 | 5,131,020 | 4,378,604 |
| Accounts and bills payables | 3,620,499 | – | – | 3,620,499 | 3,620,499 |
| Financial liabilities included in other payables and accruals | 1,895,360 | – | – | 1,895,360 | 1,895,360 |
| Other financial liability | – | – | 768,748 | 768,748 | 586,144 |
| | 7,649,528 | 1,489,134 | 2,276,965 | 11,415,627 | 10,480,607 |
| Lease liabilities | 85,705 | 55,987 | – | 141,692 | 133,762 |

| | 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 |

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.

## 52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### 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 2020 and 2019.

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 | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Interest-bearing bank and other borrowings | **4,378,604** | 5,094,700 |
| Accounts and bills payables | **3,620,499** | 3,832,793 |
| Other payables and accruals | **2,517,610** | 2,046,205 |
| Lease liabilities | **133,762** | 163,686 |
| Less: Cash and cash equivalents | **(3,076,717)** | (1,890,171) |
| Restricted bank balances | **(228,286)** | (115,488) |
| Net debt | **7,345,472** | 9,131,725 |
| Equity attributable to equity holders of the parent | **9,429,727** | 8,936,423 |
| Total capital | **9,429,727** | 8,936,423 |
| Total capital and net debt | **16,775,199** | 18,068,148 |
| Gearing ratio | **44%** | 51% |

## 53. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | **39** | 72 |
| Investments in subsidiaries | **1,939,081** | 1,939,081 |
| Total non-current assets | **1,939,120** | 1,939,153 |
| **Current assets** | | |
| Prepayments, deposits and other receivables | **40,384** | 24,798 |
| Amounts due from subsidiaries | **5,013,902** | 4,460,946 |
| Cash and cash equivalents | **60,150** | 4,677 |
| | **5,114,436** | 4,490,421 |
| **Current liabilities** | | |
| Other payables and accruals | **32,136** | 13,853 |
| Amounts due to subsidiaries | **1,424,248** | 719,134 |
| Dividend payable | **159** | 87 |
| Interest-bearing bank borrowings | **64,786** | 63,500 |
| | **1,521,329** | 796,574 |
| **Net current assets** | **3,593,107** | 3,693,847 |
| **Total assets less current liabilities** | **5,532,227** | 5,633,000 |
| **Non-current liability** | | |
| Interest-bearing bank borrowings | **42,880** | 46,832 |
| **Net assets** | **5,489,347** | 5,586,168 |
| **Capital and reserves** | | |
| Issued capital | **167,250** | 167,098 |
| Reserves | **5,322,097** | 5,419,070 |
| **Total equity** | **5,489,347** | 5,586,168 |

## 53. 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 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) |
| 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 and 1 January 2020 | **4,643,858** | **623,689** | **(60,867)** | **73,805** | **–** | **138,585** | **5,419,070** |
| Profit for the year and total comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **517,474** | **517,474** |
| Dividends paid | **–** | **–** | **–** | **–** | **–** | **(162,829)** | **(162,829)** |
| Share-based compensation | **–** | **–** | **–** | **35,526** | **–** | **–** | **35,526** |
| Exercise of share options | **8,119** | **–** | **–** | **(1,640)** | **–** | **–** | **6,479** |
| Contribution to employee shares trusts | **–** | **–** | **(493,623)** | **–** | **–** | **–** | **(493,623)** |
| At 31 December 2020 | **4,651,977** | **623,689** | **(554,490)** | **107,691** | **–** | **493,230** | **5,322,097** |

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.

# Particulars of Properties

Investment properties as at 31 December 2020:

| 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% |

# Five Year Financial Summary

## RESULTS

| | Year ended 31 December 2020 HK$'000 | Year ended 31 December 2019 HK$'000 | Year ended 31 December 2018 HK$'000 | Year ended 31 December 2017 HK$'000 | Year ended 31 December 2016 HK$'000 |
|---|---|---|---|---|---|
| REVENUE FROM CONTINUING OPERATIONS | **19,819,527** | 17,727,429 | 15,254,499 | 13,246,571 | 12,251,359 |
| PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS | **1,146,870** | 546,700 | 281,534 | (47,817) | 137,713 |
| Income tax expense | **(181,518)** | (96,524) | (61,064) | (143,584) | (148,743) |
| PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS | **965,352** | 450,176 | 220,470 | (191,401) | (11,030) |
| Profit for the year from the discontinued operation | **–** | – | – | – | 559,623 |
| PROFIT (LOSS) FOR THE YEAR | **965,352** | 450,176 | 220,470 | (191,401) | 548,593 |
| Attributable to: | | | | | |
| Equity holders of the parent | **612,970** | 301,844 | 149,587 | (413,006) | 389,314 |
| Non-controlling interests | **352,382** | 148,332 | 70,883 | 221,605 | 159,279 |
| | **965,352** | 450,176 | 220,470 | (191,401) | 548,593 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | Year ended 31 December 2020 HK$'000 | Year ended 31 December 2019 HK$'000 | Year ended 31 December 2018 HK$'000 | Year ended 31 December 2017 HK$'000 | Year ended 31 December 2016 HK$'000 |
|---|---|---|---|---|---|
| TOTAL ASSETS | **28,020,965** | 25,551,101 | 25,488,174 | 27,915,561 | 23,716,121 |
| TOTAL LIABILITIES | **(14,256,333)** | (12,987,629) | (13,091,478) | (15,120,687) | (13,244,208) |
| NON-CONTROLLING INTERESTS | **(4,334,905)** | (3,627,049) | (3,546,353) | (3,685,089) | (3,303,326) |
| | **9,429,727** | 8,936,423 | 8,850,343 | 9,109,785 | 7,168,587 |

# Company Information

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Directors

Mr. PENG Jing
Mr. ZENG Shuigen

### 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:*
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Appleby

## AUDITOR

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## SHARE REGISTRARS

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### Hong Kong

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## 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

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神州控股
DC Holdings

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