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ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board of directors (the “**Director(s)**” or the “**Board**”) of Digital China Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2022 together with the comparative figures for the corresponding period for 2021 as follows:

FINANCIAL HIGHLIGHTS	Six months ended 30 June		Year-on-year change
	2022	2021	
	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited)	
Revenue	8,681,756	8,673,158	0.1%
Of which: Big Data Products and Solutions revenue	1,167,640	770,134	51.6%
Big Data Products and Solutions gross profit as a percentage of total gross profit	29.1%	17.9%	11.2%
Profit before tax	343,139	326,467	5.1%
Profit attributable to equity holders of the parent	221,733	220,223	0.7%
Interim Dividend per Share (HK cents)	2.3	2.0	15.0%

The Board has declared an Interim Dividend of HK2.3 cents per Share for the six months ended 30 June 2022 to the Shareholders whose names appear on the register of members of the Company on Monday, 19 September 2022. The Interim Dividend will be payable on or about Thursday, 13 October 2022.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	8,681,756	8,673,158
Cost of sales and services		<u>(7,139,733)</u>	<u>(7,057,814)</u>
Gross profit		1,542,023	1,615,344
Other income and gains	3	284,012	133,468
Selling and distribution expenses		(458,370)	(582,944)
Administrative expenses		(195,203)	(224,382)
Other expenses, net		(736,283)	(539,301)
Finance costs		(70,439)	(70,234)
Share of losses of associates and joint ventures		<u>(22,601)</u>	<u>(5,484)</u>
Profit before tax	4	343,139	326,467
Income tax expense	5	<u>(27,006)</u>	<u>(21,581)</u>
Profit for the period		<u>316,133</u>	<u>304,886</u>
Attributable to:			
Equity holders of the parent		221,733	220,223
Non-controlling interests		<u>94,400</u>	<u>84,663</u>
		<u>316,133</u>	<u>304,886</u>
Earnings per share attributable to equity holders of the parent	7		
Basic (HK cents)		<u>14.67</u>	<u>14.24</u>
Diluted (HK cents)		<u>14.55</u>	<u>14.17</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Six months ended 30 June 2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Profit for the period	316,133	304,886
Other comprehensive (expense) income		
<i>Other comprehensive (expense) income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences arising on translation of financial statements of foreign operations	(480,839)	174,302
Share of other comprehensive (expense) income of associates	(3,877)	1,729
Net other comprehensive (expense) income that may be reclassified to profit or loss in subsequent periods	(484,716)	176,031
<i>Other comprehensive (expense) income that will not be reclassified to profit or loss in subsequent periods:</i>		
Net fair value changes on financial assets measured at fair value through other comprehensive income	(69,484)	1,504
Income tax effect	11,354	(193)
Net other comprehensive (expense) income that will not be reclassified to profit or loss in subsequent periods	(58,130)	1,311
Other comprehensive (expense) income for the period, net of tax	(542,846)	177,342
Total comprehensive (expense) income for the period	(226,713)	482,228
Attributable to:		
Equity holders of the parent	(156,730)	344,905
Non-controlling interests	(69,983)	137,323
	(226,713)	482,228

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2022

		30 June 2022	31 December 2021
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		856,732	914,755
Right-of-use assets		239,898	283,786
Investment properties		5,776,876	5,839,539
Goodwill		1,859,215	1,921,555
Other intangible assets		235,519	230,893
Interests in joint ventures		81,749	90,728
Interests in associates		1,727,770	1,814,012
Financial assets at fair value through other comprehensive income		1,034,558	1,166,943
Accounts receivables	8	133,803	138,191
Other receivables		992,812	1,026,102
Deferred tax assets		268,060	254,612
		13,206,992	13,681,116
Current assets			
Inventories		1,673,913	2,570,751
Completed properties held for sale		668,148	693,317
Accounts and bills receivables	8	4,042,120	3,860,041
Prepayments, deposits and other receivables		1,902,353	1,329,940
Contract assets		3,985,126	3,479,419
Financial assets at fair value through profit or loss		789,914	1,073,588
Finance lease receivables		44,287	46,302
Restricted bank balances		53,627	87,211
Cash and cash equivalents		2,189,611	2,779,214
		15,349,099	15,919,783
Current liabilities			
Accounts and bills payables	9	4,313,297	4,361,333
Other payables and accruals		1,752,615	2,175,516
Lease liabilities		96,800	110,346
Contract liabilities		2,427,681	2,329,448
Tax payable		64,980	102,487
Interest-bearing bank and other borrowings		1,823,420	1,823,037
		10,478,793	10,902,167
Net current assets		4,870,306	5,017,616
Total assets less current liabilities		18,077,298	18,698,732

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 30 June 2022

	30 June 2022	31 December 2021
	(Unaudited)	(Audited)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Interest-bearing bank and other borrowings	2,086,449	2,150,581
Deferred tax liabilities	643,510	651,420
Deferred income	28,181	22,652
Lease liabilities	80,232	105,609
Other financial liability	896,289	901,121
	<u>3,734,661</u>	<u>3,831,383</u>
Net assets	<u>14,342,637</u>	<u>14,867,349</u>
Capital and reserves		
Share capital	<i>10</i> 167,361	167,353
Reserves	9,602,614	9,992,140
	<u>9,769,975</u>	<u>10,159,493</u>
Equity attributable to equity holders of the parent	9,769,975	10,159,493
Non-controlling interests	4,572,662	4,707,856
	<u>14,342,637</u>	<u>14,867,349</u>
Total equity	<u>14,342,637</u>	<u>14,867,349</u>

NOTES:

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2022 have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). In preparing the unaudited condensed consolidated interim financial statements, the same basis of presentation, accounting policies and methods of computation as set out in the annual financial statements for the year ended 31 December 2021 had been consistently applied except for adoption in the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, HKASs and interpretations). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to HKFRS 3	Reference to Conceptual Framework
Amendment to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendment to HKFRSs	Annual Improvements to HKFRSs 2018-2020 Cycle

The application of the new and amendments to HKFRSs in the current period has had no material effect on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated interim financial statements.

2. SEGMENT INFORMATION

Segments information of the three business groups are summarised as follows:

- (a) The Big Data Products and Solutions business segment: provides sales of data software products focused on spatial-temporal big data and artificial intelligence categorised in three product suites (Data Fabric, Data Hub, Digital Twin) as well as data solutions for core use cases namely city digital native transformation, supply chain digital native transformation and fintech.
- (b) The Software and Operating Services business segment: provides end-to-end data-enables supply chain operating services, as well as software development, testing, operating and maintenance services utilising cloud technology, automation and artificial intelligence. Such services provide important support for the continued deployment of our big data products and solution business.
- (c) The Traditional Services business segment: provides systems integration services as well as e-commerce supply chain services focused on integrated solutions, providing a vast sales channel which is critical for the Group's continued deployment of its big data products and solutions as well as software and operating services. The segment also includes business related to investments, property sales and rental, as well as others.

During the six months ended 30 June 2022, reportable segments information has been revised and consistent with the presentation for the year ended 31 December 2021. Accordingly, prior period reportable segments information has been re-presented to conform with the current period's presentation.

The accounting policies of the operating segments are the same as the Group's accounting policies. 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 chief operating decision maker 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.

The following table presents revenue and results for the Group's operating segments for the six months ended 30 June 2022 and 2021:

	Big Data Products and Solutions		Software and Operating Services		Traditional Services		Eliminations		Total	
	<u>2022</u> HK\$'000	<u>2021</u> HK\$'000	<u>2022</u> HK\$'000	<u>2021</u> HK\$'000	<u>2022</u> HK\$'000	<u>2021</u> HK\$'000	<u>2022</u> HK\$'000	<u>2021</u> HK\$'000	<u>2022</u> HK\$'000	<u>2021</u> HK\$'000
Segment revenue:										
External	1,167,640	770,134	2,710,375	2,628,917	4,803,741	5,274,107	-	-	8,681,756	8,673,158
Inter-segment	13,665	18,903	50,708	45,400	13,547	9,310	(77,920)	(73,613)	-	-
	1,181,305	789,037	2,761,083	2,674,317	4,817,288	5,283,417	(77,920)	(73,613)	8,681,756	8,673,158
Segment gross profit	448,720	288,343	500,468	581,093	592,835	745,908			1,542,023	1,615,344
Segment results	(5,942)	(56,705)	155,718	167,432	337,250	440,914			487,026	551,641
<u>Unallocated</u>										
Interest income									5,307	4,220
Income and gains									88,938	19,723
Unallocated expenses									(167,693)	(178,883)
Profit from operating activities									413,578	396,701
Finance costs									(70,439)	(70,234)
Profit before tax									343,139	326,467

Note: For the Big Data Products and Solutions segment, research and development costs, and amortization of intangible assets amounted to HK\$214,525,000 in the six months ended 30 June 2022. Excluding such costs and expenses, the Big Data Products and Solutions segment realized a profit of HK\$208,583,000, an increase of 85% over the same period in the prior year.

3. 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 period.

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from contracts with customer within the scope of HKFRS 15		
Disaggregated by major products or service lines:		
Sales of software products business	64,598	95,631
Software development and technical service business	2,581,256	2,181,705
Supply chain operation and maintenance business	1,437,954	1,142,926
System integration business	2,669,556	3,456,230
E-commerce supply chain business	1,605,286	1,433,404
Others	108,214	155,282
Total revenue from contracts with customers	<u>8,466,864</u>	<u>8,465,178</u>
Revenue from other sources		
Rental income from investment properties under operating lease	199,475	195,579
Financial services business	15,417	12,401
Total revenue from other sources	<u>214,892</u>	<u>207,980</u>
Total revenue	<u>8,681,756</u>	<u>8,673,158</u>

(i) Revenue from contracts with customers

Disaggregated of revenue by timing of recognition

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Timing of revenue recognition		
At a point in time	4,447,654	5,140,547
Over time	4,019,210	3,324,631
	<u>8,466,864</u>	<u>8,465,178</u>

(ii) **Other income and gains**

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income		
Government grants	67,423	44,207
Interest on bank deposits	5,307	4,220
Income from wealth management financial products	15,158	15,158
Dividend income from financial assets at fair value through profit or loss	597	-
Others	60,806	7,522
	149,291	71,107
Gains		
Fair value gains on investment properties	126,788	61,533
Gain on partial disposal of equity interests in an associate	7,933	-
Gain on disposal of financial assets at fair value through profit or loss	-	828
	134,721	62,361
Total other income and gains	284,012	133,468

4. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Share of losses (profit) of associates	16,415	(3,052)
Share of losses of joint ventures	6,186	8,536
	22,601	5,484
Amount of inventories recognised as an expense	3,975,362	4,442,493
Depreciation of property, plant and equipment	47,850	62,342
Depreciation of right-of-use assets	67,906	66,215
Research and development costs ¹	327,300	338,501
Amortisation of other intangible assets ¹	29,465	26,055
Provisions for and write-off of obsolete inventories ¹	85,837	75,441
Impairment of accounts and bills receivables, other receivables and contract assets ¹	180,616	59,389
Reversal of impairment of finance lease receivables ¹	(307)	(17)
Loss on disposal of property, plant and equipment	3,764	1,540
Interest on bank loans and other loans	39,914	42,792
Interest on lease liabilities	5,491	6,355
Interest on other financial liabilities	25,034	21,087
Fair value loss on financial assets at fair value through profit or loss ¹	48,839	38,909
Net exchange loss ¹	11,829	3,072

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

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Current – People’s Republic of China (“PRC”)		
Enterprise income tax (“EIT”)	17,555	19,626
Land appreciation tax (“LAT”)	115	180
	<u>17,670</u>	<u>19,806</u>
Current – Hong Kong	95	-
Deferred tax	9,241	1,775
	<u>9,336</u>	<u>1,775</u>
Total tax charge for the period	<u>27,006</u>	<u>21,581</u>

- (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 six months ended 30 June 2022 and 2021, 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 the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5% of the estimated assessable profits.
- (d) The share of tax credit attributable to joint ventures of approximately HK\$1,013,000 (six months ended 30 June 2021: tax credit of HK\$3,007,000) and the share of tax charge attributable to the associates of approximately HK\$4,951,000 (six months ended 30 June 2021: HK\$7,281,000) are included in “Share of losses of associates and joint ventures”, in the condensed consolidated statement of profit or loss.

6. DIVIDENDS

During the six months ended 30 June 2022, the shareholders of the Company (“Shareholders”) approved the payment of a final dividend of HK13 cents per ordinary share in respect of the year ended 31 December 2021 (six months ended 30 June 2021: a final dividend of HK10 cents per ordinary share in respect of the year ended 31 December 2020) at the annual general meeting of the Company. The final dividend of approximately HK\$217,569,000 was paid on 25 July 2022 (six months ended 30 June 2021: approximately HK\$167,310,000).

Subsequent to the end of the reporting period, the directors of the Company declared an interim dividend of HK2.3 cents per ordinary share for the six months ended 30 June 2022 (six months ended 30 June 2021: HK2 cents) to the Shareholders. The interim dividend declared after the reporting period has not been recognised as liabilities in the unaudited condensed consolidated interim financial statements.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the six months ended 30 June 2022 attributable to equity holders of the parent, and the weighted average number of ordinary shares in issue less shares held under the restricted share award scheme (the “**RSA Scheme**”) of 1,511,327,687 (six months ended 30 June 2021: 1,546,600,376) during the six months ended 30 June 2022.

The calculation of the diluted earnings per share is based on the profit for the six months ended 30 June 2022 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 six months ended 30 June 2022 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 basic and diluted earnings per share are based on the following data:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	<i>HK\$’000</i>	<i>HK\$’000</i>
Earnings		
Profit for the period attributable to equity holders of the parent, used in the basic earnings per share calculation	221,733	220,223
Effect of dilutive potential ordinary shares of a subsidiary	(1,142)	(97)
Earnings for the purpose of diluted earnings per share	220,591	220,126
Shares		
	Number of shares	
	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Weighted average number of shares in issue less shares held under the RSA Scheme during the period, used in the basic earnings per share calculation	1,511,327,687	1,546,600,376
Effect of dilution potential ordinary shares: Share-based incentive schemes	4,686,768	6,576,329
Weighted average number of shares during the period used in the diluted earnings per share calculation	1,516,014,455	1,553,176,705

8. ACCOUNTS AND BILLS RECEIVABLES

	30 June 2022 (Unaudited) <i>HK\$'000</i>	31 December 2021 (Audited) <i>HK\$'000</i>
Receivables at amortised cost comprise:		
Accounts and bills receivables	5,055,686	4,805,022
Less: loss allowance	(879,763)	(806,790)
	<hr/>	<hr/>
Total	4,175,923	3,998,232
	<hr/> <hr/>	<hr/> <hr/>

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 from 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.

The following is an aged analysis of accounts and bills receivables net of allowance for impairment of accounts and bills receivables present based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	30 June 2022 (Unaudited) <i>HK\$'000</i>	31 December 2021 (Audited) <i>HK\$'000</i>
Within 30 days	1,506,395	2,066,132
31 to 60 days	177,566	242,055
61 to 90 days	67,343	66,196
91 to 180 days	660,722	396,320
181 to 360 days	881,605	402,158
Over 360 days	882,292	825,371
	<hr/>	<hr/>
	4,175,923	3,998,232
	<hr/> <hr/>	<hr/> <hr/>

Included in the Group's accounts and bills receivables as at 30 June 2022 are amounts due from joint ventures, associates and related companies of the Group of approximately HK\$47,246,000 (31 December 2021: HK\$52,682,000), HK\$7,760,000 (31 December 2021: HK\$3,713,000) and HK\$70,636,000 (31 December 2021: HK\$49,374,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

9. ACCOUNTS AND BILLS PAYABLES

The following is an aged analysis of the accounts and bills payables presented based on the invoice date at the end of the reporting period.

	30 June 2022 (Unaudited) <i>HK\$'000</i>	31 December 2021 (Audited) <i>HK\$'000</i>
Within 30 days	1,570,608	2,472,567
31 to 60 days	511,537	515,005
61 to 90 days	315,528	67,013
Over 90 days	1,915,624	1,306,748
	4,313,297	4,361,333

The average credit period on purchase of goods is ranging from 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables settled within the credit timeframe.

As at 30 June 2022, included in the Group's accounts and bills payables are amounts due to joint ventures, associates and related companies of the Group of approximately HK\$1,545,000 (31 December 2021: HK\$2,541,000), HK\$85,010,000 (31 December 2021: HK\$46,749,000) and HK\$160,275,000 (31 December 2021: HK\$38,568,000), respectively, which are repayable on credit terms similar to those obtained from the major suppliers of the Group.

10. SHARE CAPITAL

	30 June 2022 (Unaudited) <i>HK\$'000</i>	31 December 2021 (Audited) <i>HK\$'000</i>
Authorised:		
2,500,000,000 (31 December 2021: 2,500,000,000) ordinary shares of HK\$0.1 (31 December 2021: HK\$0.1) each	250,000	250,000
Issued and fully paid:		
1,673,607,386 (31 December 2021: 1,673,526,386) ordinary shares of HK\$0.1 (31 December 2021: HK\$0.1) each	167,361	167,353

A summary of the movements in the Company's issued share capital and share premium account during the six months ended 30 June 2022 and 2021 is as follows:

	Number of ordinary shares in issue	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2021	1,672,497,376	167,250	4,651,977	4,819,227
Exercise of share options (note a)	<u>605,010</u>	<u>60</u>	<u>3,506</u>	<u>3,566</u>
At 30 June 2021	<u>1,673,102,386</u>	<u>167,310</u>	<u>4,655,483</u>	<u>4,822,793</u>
At 1 January 2022	1,673,526,386	167,353	4,657,550	4,824,903
Exercise of share options (note b)	<u>81,000</u>	<u>8</u>	<u>392</u>	<u>400</u>
At 30 June 2022	<u>1,673,607,386</u>	<u>167,361</u>	<u>4,657,942</u>	<u>4,825,303</u>

Notes:

- (a) During the six months ended 30 June 2021, 605,010 share options were exercised at the exercise price of HK\$4.17 to HK\$4.818 per share. The total cash consideration received from the issuance of 605,010 shares was approximately HK\$2,800,000. An amount of HK\$766,000 was transferred from the employee share based compensation reserve to the share premium account upon the exercise of the share options.
- (b) During the six months ended 30 June 2022, 81,000 share options were exercised at the exercise price of HK\$4.04 to HK\$4.48 per share. The total cash consideration received from the issuance of 81,000 shares was approximately HK\$331,000. An amount of HK\$69,000 was transferred from the employee share based compensation reserve to the share premium account upon exercise of the share options.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.3 cents per ordinary share for the six months ended 30 June 2022 (“**Interim Dividend**”) (for the six months ended 30 June 2021: HK2 cents per ordinary share) to the Shareholders whose names appear on the register of members of the Company on Monday, 19 September 2022. The Interim Dividend will be payable on or about Thursday, 13 October 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 19 September 2022 to Thursday, 22 September 2022, both days inclusive for ascertaining Shareholders’ entitlement to the Interim Dividend. No transfer of Shares will be registered during the period. In order to qualify for the Interim Dividend, all transfer forms, accompanied by the relevant share certificates, must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Friday, 16 September 2022 for registration.

MANAGEMENT DISCUSSION AND ANALYSIS

As a big data technology enterprise with its vision of "Digitalizing China" since its establishment, DC Holdings focuses on executing a big data business which includes robust capabilities in spatial-temporal data analytics, diverse suite of products and solutions, and strong focus in spatial-temporal big data and artificial intelligence technology, thereby providing its customers with a full range of big data software products and solutions. The results of this strategy and execution is particularly evident during the reporting period where leveraging on the Group’s deep knowledge in big data and artificial intelligence have yielded substantial results in our focus areas.

1. Business operating performance and metrics

During the first half of 2022, whilst both the global and domestic economy remained turbulent with repeated COVID-19 outbreaks, the management team were able to navigate through the challenging environment and the Group’s overall operations remained stable. During the reporting period, the Group’s overall revenue amounted to HK\$8.682 billion, gross profits amounted to HK\$1.542 billion, and profits attributable to shareholders of the parent company amounted to HK\$222 million. The Group has an abundant revenue backlog, with a signed but unsold amount of HK\$7.177 billion.

1. Robust growth in core big data business, with revenues increasing 50% and gross profits increasing 56% compared to prior period

Driven by the Group’s big data strategy as well as benefiting from government policy tailwinds, the Group’s big data business was able to achieve rapid growth. Revenues from big data products and solutions amounted to HK\$1.181 billion, representing a year-on-year increase of 50% and gross profits amounted to HK\$449 million, representing a year-on-year increase of 56%.

During the reporting period, the Group’s big data products were further enhanced where product gross profit margins reached 83%, representing a 16% increase compared to prior period. The Group has added 143 software copyrights and patents, totaling to 2,392 intellectual properties. In addition to expanding the Group’s own portfolio, the Group had also led and participated in the drafting and creation of industry standards covering data fusion, digital twin, smart cities and fintech.

In April 2022, Yan Cloud, the Group’s flagship big data product that was awarded the First Prize of National Technological Invention Awards in 2019, was deployed in the Changchun Municipal Government to assist the government’s epidemic prevention measures. Without any support from existing software and service suppliers, the related deployment work was completed within four hours, providing the government with accurate and efficient data analytics. Compared to traditional vendors and methods, the Group’s deployment

work time was more than ten times faster.

From the supply chain side, the Group focuses on quality customers where close cooperation could be fostered over long periods of time. One such example is Panasonic (China), who has been a customer for seven years. By utilizing our proprietary warehouse management systems, we were able to assist the customer in transitioning manual-centric processes to fully online and digital and thereby solving various legacy issues in order to improve operation quality and efficiency. In addition, via big data technology, we are able to empower our customers in a variety of industries including fast-moving consumer goods, e-commerce, lifestyle and others by providing data-driven order management and sales forecasting, assisting such customers in their business profitability.

For the financial sector, the Group's contracted business with Bank of Beijing, Bank of Ningbo, Bohai Bank, Zhongyuan Bank, and Shaanxi Rural Credit increased significantly year-on-year, and the Group has also been shortlisted for the R&D center framework design for Postal Savings Bank as well as software framework design of Bohai Bank. For the government tax departments, the Group has successfully built and currently operate a new data analytics platform for the State Administration of Tax, and also helped provincial tax bureaus in Beijing, Guangdong, Hainan, and Sichuan to build a large-scale big data platform system. For the agricultural sector, the Ministry of Agriculture and Rural Affairs' public database has been successfully deployed, establishing a first-mover advantage for the Group in various applications, and the Group has begun large-scale promotion and implementation of such applications in economically developed areas of provinces such as Jiangsu, having been awarded 13 projects across 5 provinces in total.

2. Significant improvement in customer retention, quality and acquisition, with revenue from Top 30 largest customers showing a compound annual growth rate of 79% as well as 20% increase in new customer acquisition count compared to prior period

The Group adheres to a customer-centric approach to capitalize on total customer life cycle value, improving its customer stickiness and increasing its customer share of wallet, whilst also pursuing quality customer acquisition. During the reporting period, the top 30 largest customers by revenue accounted for 47% of total revenues, with a compound annual growth rate of 79% over the past two years whilst the number of large customers (defined as customers whose annual revenue contribution to the Group exceed tens of millions RMB) also reached 120 customers, representing a compound annual growth rate of 12%. Furthermore, supply chain customers continued to be a stable source of income for the Group, where net dollar retention saw 111% representing a quality, sticky base of customers. At the Group level, the total number of new customers on-boarded stood at 1,648, representing an increase of 20% compared to the prior period.

With a diverse customer base that is high in quality and large in number, the Group is able to maintain a leading position within the industry. During the reporting period, revenues from the core sectors of the Group namely technology, financial, consumer and government accounted for 45%, 27%, 14% and 7% respectively. In terms of key customers, the Group continues to serve sector leaders such as China Mobile, China Unicom, Huawei, Xiaomi, Li Ning, Jiaoxia, Bank of China, and Bank of Beijing, providing the Group's customers with one-stop solutions and services. Such customers have a variety of needs and by relying on the Group's current product and offering suite, such needs can be met in an efficient manner which will in turn improve customer familiarity and dependency on the Group's services.

The Group is also pro-active in exploring new sectors for further growth and during the reporting period, the Group have won several tenders for BYD Auto, in particular for supply chain related services, and the accumulated total tenders won exceeded the sum of 400 million RMB. With significant tailwinds for development of the renewable energy industry, the successful track record built from serving BYD, a leading enterprise in the renewable energy and electric vehicle sector, will help the Group to access more customers within the same industry.

3. Continuous business optimization, with big data products and solutions business contributing 14% of revenues and 29% of gross profits

Since the Group's renewed focus on its big data strategy in 2018, the Group has closely followed an established technology roadmap and executed differentiated business strategies in order to achieve the

required milestones. This is particularly evident as the early fruits of labor have started to show through and during the reporting period, revenues from big data products and solutions amounted to HK\$1.181 billion, representing 14% of total revenues (1H21: 9%) whilst software and operating services revenues and traditional revenues amounted to HK\$2.761 billion and HK\$4.817 billion respectively, representing 32% and 54% of total revenues respectively. In terms of gross profits, gross profit of big data products and solutions amounted to HK\$449 million, representing 29% of total gross profit (1H21: 18%) whilst software and operating services and traditional services amounted to HK\$500 million and HK\$593 million respectively, representing 32% and 39% of total gross profits respectively.

While software and operating services as well as traditional services business provides the Group with a stable source of income and cash flow, it more importantly provides an avenue for the Group to deploy its big data products and solutions. By having a diverse base of customers, the Group has a natural advantage in new use case discovery and allows the Group to explore customer conversion opportunities from traditional services to big data. With the continuous and rapid increase in revenue and gross profits of the big data products and services business, it will bring about accelerated changes in the Group's overall business layout and profitability.

2. Core business developments

During the reporting period, the Group's technological innovation in the digital economy industry was highly recognized, winning awards such as "#1 for 2022 Top 50 Digital Twin Solution Providers", "2022 Top Ten Outstanding Digital Economy Cases", "Digital Twin Service Industry Enterprise of the Year 2021" and "The 6th Golden Hong Kong Listed Enterprises Annual Best ESG Award". Recent business development aspects are set out below:

1. Big Data Products and Solutions

The big data products and solutions business provides big data software products centered on spatio-temporal big data and artificial intelligence, as well as data solutions for core application use cases such as smart cities, supply chain, and financial technology.

During the reporting period, the Group further strengthened its product offering which is centered on the three major product suites: Data Fabric, Data Hub and Digital Twin. Our flagship product, Yan Cloud Data-as-a-Service ("Yan Cloud") serves as the core component of our Data Fabric product suite, and Yan Cloud has the unique capability of enabling the process of data consolidation while not having any access of the original source code behind the application(s) and without support from the original application provider, all while ensuring minimal communication costs as well as short development cycles. This will feed into our Data Hub products which then allows the creation of a secure data network, integration of multi-source data points and governance of the whole data life-cycle, providing customers with comprehensive, safe and reliable data services for various use cases. The Digital Twin products then leverage on the Data Hub products and allow connectivity between the physical world with the digital, graphically mapping out data elements across time and space to allow an all-rounded comprehensive analysis capability and thereby allowing discovery of novel and innovative use cases.

By leveraging on over two decades of industry expertise, the Group has assimilated a vast and practical knowledge base which has been reflected in its diverse solution offering based on the actual pain points of its customers. Positioning itself as a city's "CTO", the Group is able to empower the digital development of cities across various phases including planning, construction, management, and servicing. Focusing on a "supply chain + big data + AIoT" approach, the Group assists its customers in optimizing supply chain efficiency and improve the customer's decision-making ability via its data-driven analysis and execution. The Group is able to deploy such solutions across various use cases including bank core distributed systems, agricultural-finance applications, bank-taxation applications, digital RMB allowing the Group to be a reliable digital transformation partner to its customers.

2. Software and Operating Services

The Software and Operating Services business provides end-to-end data-enabled supply chain operating

services, as well as software development, testing, operation and maintenance services utilizing cloud technology, automation and artificial intelligence. Such services provide important support for the continued roll-out of our big data products and solutions business.

During the reporting period, the Software and Operating Services business continues to strengthen its presence across cities, industries and customers by adopting a customer-centric approach, focusing on its customer's digital needs, improving its service quality and thereby improving its customer stickiness. The business continues to expand its service content and through being deeply rooted amongst cities and customers, it is able to serve as a customer channel for the deployment of the Group's big data products and solutions. Till date, the Group's customers are mainly within the technology, financial, consumer and government sectors. It is also actively expanding new sectors such as renewable energy and cross-border e-commerce services.

3. Traditional Services

The Traditional Services business segment focuses on system integration services to fulfil digital localization efforts in China. Systems integration is key to bringing together home-grown, proprietary technologies and providing enterprises operating in China with local solutions that are tailored towards the operating environment in China. Taking advantage of the Group's full-stack capabilities, e-commerce supply chain services as well as others such as ecosystem incubation, traditional services are an important channel to promote the implementation of the strategy.

3. Core competencies and competitive edge

1. Novel approach to research and development by combining elements of innovation, industry and academia to form a technological moat

Research and development are core to the Group's continued development and are key to maintaining the Group's competitive edge. During the reporting period, the Group continued to accelerate investment in research and development around the topics of data life cycle management, data categorization, IoT management platforms, city "knowledge maps", as well as low-code visual editing ability for Digital Twin procuring the required source codes and intellectual properties throughout the process.

While following the big data development roadmap, the Group facilitated an efficient approach by first discovering new use cases, building proprietary products or solutions for the case, and via replication to other similar situations, increase its standardized product and solution suite. Through continuous repetition of the approach, the Group began to actively build out its product and solutions suite and began to have a more balanced approach to customization and standardization.

During the reporting period, the Group also promoted the establishment of research facilities such as the Digital China Future Cities Institute, Shangdi Big Data Research Institute and the New Power Digital Finance Research Institute, as well as creating investment vehicles such as the DC Innovation Incubation Fund and hosting two consecutive university-oriented "Hackathons". Though integrating different elements of industry ecosystems, academia and entrepreneurship, the Group was able to build a closed-loop between talent, technology, capital and use cases to form what represents core elements of the Group's research and development model.

2. Leveraging on a vast customer ecosystem to increase diversity in use cases and situations, allowing for accelerated big data products and solutions deployment

The Group has had over two decades of experience serving supply chain, finance and government customers, covering over 10 central ministries, 300 cities in China and over one million enterprise customers including multiple Fortune 500 multinational companies, SOEs and notable private enterprises. The Group also possesses over 300 upstream supplier partners as well as over 30,000 downstream distribution channel partners. The Group has for nine consecutive years ranked first in supply chain sub-sectors such as I.T., communications and fast-moving consumer goods in China, and also ranked first for three consecutive years within the China enterprises amongst the IDC Global FinTech Top 100 list.

Through a long and distinguished service record covering a diverse set of industries, the Group has accumulated best-in-class customer service experience, has accumulated rich and deep industry insights, and has improved its big data service capabilities through helping its customers achieve digital transformation. Combining such expertise and practical experience with its technological strengths, the Group is able to maintain a leading position within the industry, and can aggregate various resources and capabilities within its customer ecosystem to provide a solid foundation for the rapid deployment of the Group's big data products and solutions business.

3. Proven management team focused on curating an entrepreneurial culture within the Group to bring about accelerated growth

Since 2018, the Group's management team has leveraged their deep experience with multinational corporations as well as vast industry expertise to advocate a much flatter and more efficient organizational culture. Through continuously observing and cultivating outstanding young talent, combined with the introduction of industry experts and technical leaders, the Group has been able to optimize human capital costs and increase management efficiency, expanding its management team capabilities. The Group had also implemented virtual organizations such as the "Partner Program" and "DC Academy" to promote startup culture in bid to accelerate business deployment. The Group proceeded to execute its big data strategy and since then, was able to turn losses to profits with the most recent financial year 2021 recording profits attributable to shareholders of approximately HK\$712 million, representing a cumulative annual growth rate of 68%.

4. Market opportunity analysis and business outlook

1. The era of the digital economy will create significant tailwinds for the big data industry, allowing the Group to leverage its core competitive edge in big data to capitalize on such growing demand for big data products and services

Whilst both the global and domestic economy remained turbulent with repeated COVID-19 outbreaks, the demand for big data products and services from governments and enterprises remains robust. Digitization has penetrated into all walks of life where related industries are constantly innovating, and the role of big data in both social and economic development continues to be prominent. In 2022, General Secretary Xi Jinping's 2nd directive was published, pointing out that the development of a digital economy is China's strategic choice to capitalize on new technological opportunities for industrial transformation. According to the "14th Five-Year Plan for Big Data Industry Development" issued by the Ministry of Industry and Information Technology of the People's Republic of China in November 2021, the annual compound growth rate of China's big data industry exceeded 30% during the previous "Five-Year Plan". By 2025, the estimated scale of the big data industry will exceed 3 trillion RMB, and the compound annual growth rate will remain at around 25%. The State Council also proposed a development goal of reaching 14 trillion RMB in the software and information technology service industry by 2025, pointing out that the value of data should be fully utilized, and that optimization of overall digital deployment should be prioritized in areas such as digital infrastructure to further enhance the digital transformation of industries. The proposal includes a series of key tasks revolving around accelerating and upgrading the digital transformation of enterprises, industrial parks and industrial sectors, enhancing the government's digital governance capabilities, and improving the level of data security. The subsequent roll-out of relevant government policies has demonstrated China's determination to make significant strides in the industry of big data, and also brought about major opportunities for the development of DC Holdings' big data strategy.

2. Focus on core capabilities, increase research and development investment, and optimize customer portfolio construction to drive gross profit improvement in the future

Facing unprecedented opportunities, the Group will leverage its vast channel capabilities via its software and operating services, as well as its traditional services, and continue to accelerate its big data strategy through constructing a more complete research and development system, strengthening its existing customer base whilst also acquiring new quality customers, optimizing its current customer portfolio, improving service quality and thereby increasing customer stickiness.

During the reporting period, the gross profit contribution from the Group's big data products and solutions business was 29%, compared to less than 1% in 2018, reflecting the result of a consistent approach on focusing on core sectors and increasing product standardization. Looking forward, the Group will further enrich its product matrix, focus on core sectors, accelerate product standardization and increase gross profit margins in order to achieve quality growth in the Group's business, and strive to create greater value for its shareholders and society.

5. Update on the settlement plans regarding certain wealth management products purchased by the Group (the "WMP")

As at 30 June 2022, the outstanding unpaid principal of the WMP was approximately HK\$1,912 million (RMB1,632 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.

The Group pushed forward with the disposal of the real estate residential project (the amount of the principal and interest involved is approximately HK\$226 million (RMB193 million)) in accordance with the action plans. The asset restructuring procedure has been substantially completed. Following the completion of the transfer of the operation and management rights of the project, the Group will be able to recover the outstanding amount from the sale proceeds. Based on the current market value of the assets of the project, it is expected that the proceeds can fully cover the Group's claims in the project.

The remaining ultimate underlying assets of the WMP, which involves investments in a market and a commercial complex, amounts to approximately HK\$1,686 million (RMB1,439 million). In accordance with the realisation and repayment plans, certain supporting facilities in the properties have been upgraded with a view to improving the valuation in preparation for subsequent sale. At the same time, the Group had been actively negotiating the sale with interested parties. During the reporting period, the court has confirmed that the Group has management rights over assets of approximately HK\$478 million (RMB408 million), which provided legal basis for accelerating the asset realisation. 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 its judgment of the recoverable amount of the relevant ultimate underlying assets of the WMP and understanding of the progress of disposal of assets, the Company's management is of the view that the corresponding amount of the WMP as set out in the interim financial statements of the Group for the six months ended 30 June 2022 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\$28,556 million as at 30 June 2022 which were financed by total liabilities of approximately HK\$14,213 million, non-controlling interests of approximately HK\$4,573 million and equity attributable to equity holders of the parent of approximately HK\$9,770 million. The Group's current ratio as at 30 June 2022 was 1.46 as compared to 1.46 as at 31 December 2021.

During the six months ended 30 June 2022, capital expenditure of approximately HK\$58 million was incurred mainly for the additions of property, plant and equipment and other intangible assets.

As at 30 June 2022, the Group had cash and bank balances of approximately HK\$2,243 million, of which approximately HK\$1,979 million were denominated in Renminbi.

The aggregate borrowings of the Group as a ratio of equity attributable to equity holders of the parent was 0.40 as at 30 June 2022 compared to 0.39 at 31 December 2021. The computation of the said ratio was based on the total interest-bearing bank and other borrowings of approximately HK\$3,910 million (31 December 2021: approximately HK\$3,974 million) and equity attributable to equity holders of the parent of approximately HK\$9,770 million (31 December 2021: approximately HK\$10,159 million).

As at 30 June 2022, the denomination of the interest-bearing bank and other borrowings of the Group were shown as follows:

	Denominated in United States dollars <i>HK\$ '000</i>	Denominated in Hong Kong dollars <i>HK\$ '000</i>	Denominated in Renminbi <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
Current				
Interest-bearing bank borrowings, unsecured	348,496	300,000	335,221	983,717
Interest-bearing bank borrowings, secured	61,204	67,791	659,741	788,736
Other borrowings	-	-	50,967	50,967
	<u>409,700</u>	<u>367,791</u>	<u>1,045,929</u>	<u>1,823,420</u>
Non-current				
Interest-bearing bank borrowings, secured	-	35,490	2,050,959	2,086,449
Total	<u>409,700</u>	<u>403,281</u>	<u>3,096,888</u>	<u>3,909,869</u>

Certain of the Group's bank borrowings of:

1. Approximately HK\$2,162 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\$4,761 million as at 30 June 2022; and
2. Approximately HK\$562 million extended by financial institutions to certain subsidiaries of the Group were secured by pledge of 97,784,000 issued shares of Digital China Information Service Company Ltd. ("DCITS"), a non-wholly-owned subsidiary of the Company, directly held by a wholly-owned subsidiary of the Company, with an aggregate fair value of approximately HK\$1,292 million as at 30 June 2022.

Included in the Group's current and non-current bank borrowings of approximately HK\$219 million and HK\$2,086 million respectively are long-term loans repayable between 2022 and 2036. As at 30 June 2022, approximately HK\$1,483 million and HK\$2,427 million of the Group's bank borrowing were charged at fixed interest rates and floating interest rates respectively.

The total available bank credit facilities for the Group as at 30 June 2022 amounted to approximately HK\$14,080 million, of which approximately HK\$2,360 million were in long-term loan facilities, approximately HK\$6,479 million were in trade lines and approximately HK\$5,241 million were in short-term and revolving money market facilities. As at 30 June 2022, the total amount drawn down by the Group was approximately HK\$2,305 million in long-term loan facilities, approximately HK\$1,616 million in trade lines facility and approximately HK\$1,554 million in short-term and revolving money market facilities.

The Group has issued performance bonds in favour of certain of its customers in the usual and ordinary course of business as a security for the Group's performance of contracts with the 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

As at 30 June 2022, the Group did not have material contingent liabilities.

Commitments

As at 30 June 2022, the Group had the following commitments:

HK\$'000

Contracted, but not provided for, in the unaudited condensed consolidated interim financial statements:	
Capital contributions payable to joint ventures	31,142
Capital contributions payable to associates	23,985
Capital contributions payable to financial assets at fair value through other comprehensive income	<u>502</u>
	<u><u>55,629</u></u>

Events After the Reporting Period

No significant event of the Group after the reporting period and up to the date of this announcement.

Human Resources and Remuneration Policy

As at 30 June 2022, the Group had 14,596 (30 June 2021: 14,142) full-time employees. The majority of these employees work in the PRC. The Group offers remuneration packages in line with industry practice. Employees' remuneration includes basic salaries and bonuses. The Group has recorded an increase by 13% in staff costs of approximately HK\$1,694 million for the six months ended 30 June 2022 as compared to approximately HK\$1,504 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 2022 HK\$'million	Actual	Un-utilised amount as at 30 June 2022 HK\$'million	Expected to be utilised by 30 June 2023 HK\$'million
			application during the six months ended 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	(488)	-	294	294
(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	(1,041)	-	294	294

Note: As at the date of this announcement, 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 purpose mentioned above. As at 30 June 2022, an aggregate of approximately HK\$1,041 million of the Net Proceeds has been utilised.

As at 30 June 2022, the un-utilised Net Proceeds from the Rights Issue amounted to approximately HK\$294 million. In 2022, 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 in mergers and acquisitions. Therefore, the un-utilised Net Proceeds had not been utilised in full as at 30 June 2022. 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 2023.

For further details of the Rights Issue, please refer to the announcements dated 21 July 2017, 24 August 2017 and 15 September 2017, the rights issue prospectus dated 23 August 2017 and the annual report for the year ended 31 December 2017 and 31 December 2018 and 31 December 2019, 31 December 2020 and 31 December 2021 of the Company.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) currently comprises three independent non-executive Directors, namely Mr. WONG Man Chung, Francis (who is the Chairman of the Audit Committee), Miss. NI Hong (Hope) and Mr. KING William. The Audit Committee has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2022 and discussed with the senior management of the Company on their respective findings, the accounting treatment, principles and practices adopted by the Group, legal and regulatory compliance, as well as other auditing, internal control, risk management and financial reporting matters. The Audit Committee did not have any disagreement on the accounting treatment adopted by the Group in its unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2022.

CORPORATE GOVERNANCE

The Company has complied with the code provisions (the “**Code Provision(s)**”) set out in Part 2 of the “Corporate Governance Code” contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2022, except the following deviations from certain Code Provisions with considered reasons as given below:

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

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.

2. Code Provision B.2.2 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 of the Company adopted on 11 June 2018, 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, save that 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.

3. Code Provision C.3.3 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 any of its 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/or currently hold or 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.

COMPLIANCE WITH THE MODEL CODE

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 securities transactions of the Directors. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2022.

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

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules throughout the six months ended 30 June 2022.

By Order of the Board
Digital China Holdings Limited
(神州數碼控股有限公司*)
GUO Wei
Chairman and Chief Executive Officer

Hong Kong, 30 August 2022

At the publication of this announcement, the Board comprises nine Directors, namely:

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

Non-executive Directors: Mr. ZENG Shuigen and Ms. CONG Shan

Independent Non-executive Directors: Mr. WONG Man Chung, Francis, Miss. NI Hong (Hope), Dr. LIU Yun, John, Mr. KING William and Mr. Timothy CHEN Yung-cheng

Website: www.dcholdings.com

** For identification purpose only*