神州控股
DC Holdings

DIGITAL CHINA HOLDINGS LIMITED
(神 州 數 碼 控 股 有 限 公 司*)
(Incorporated in Bermuda with limited liability)
(Stock Code: 00861)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE 2023 ANNUAL REPORT

Reference is made to the 2023 Annual Report published on 25 April 2024. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the 2023 Annual Report.

As disclosed in the 2023 Annual Report, during the Year, the Company recognised impairment losses of (i) other receivables of approximately RMB487.7 million; and (ii) interests in associates and joint ventures of approximately RMB497.0 million. The purpose of this supplemental announcement is to provide additional information to the shareholders and potential investors of the Company in relation to such impairment losses.

IMPAIRMENT LOSS OF OTHER RECEIVABLES

The impairment loss of other receivables of approximately RMB487.7 million recorded by the Company as at 31 December 2023 was mainly arising from (i) as to approximately RMB 480.6 million, the Group's indirect interest in debts (the "**Relevant Debts**") which were the underlying assets of certain wealth management products purchased by the Group (the "**WMPs**"); and (ii) as to approximately RMB7.1 million, the expected credit loss in relation to other receivables and prepayments from the daily operations of the Group, such as compensation payments and unused prepayments.

The investment in the WMPs was made in 2016. As the WMPs subsequently failed to repay the principal amount invested by the Group therein in accordance with the agreed repayment schedule, on 28 June 2018, the Group reached settlement arrangements with the issuer (the "**Issuer**") of the WMPs, pursuant to which, the Group has taken control over the underlying assets of the WMPs, including the Relevant Debts. The Group's interests in the Relevant Debts has been recorded as other receivables in its consolidated financial statements. For details of the WMPs and the settlement arrangements, please refer to the announcement of the Company dated 28 June 2018 and P.16 of the 2023 Annual Report.

As at 31 December 2023, the Relevant Debts mainly comprise (i) a debt owed by a company incorporated in the PRC ("**Company A**") to the WMPs (the "**Co A Relevant Debt**") with carrying amount of approximately RMB440.0 million (after impairment provision) as at 31 December 2023; and (ii) a debt owed by another company incorporated in the PRC ("**Company B**") to the WMPs (the "**Co B Relevant Debt**") with carrying amount of approximately RMB84.4 million (after impairment provision) as at 31 December 2023.

Set out below are details of the impairment loss relating to the Relevant Debts as at 31 December 2023:

The Co A Relevant Debt

(a) *Background and circumstances leading to the impairment*

Company A is a property project company in the PRC and the Co A Relevant Debt was secured by certain commercial complex held by Company A (the "**Pledged Properties**"). As at 31 December 2022, the net carrying amount of the Group's interest in the Co A Relevant Debt was approximately RMB847.4 million, which was derived after considering the then appraised market value of the Pledged Properties, the relevant transaction costs and the discounting impact based on the estimated time required for realizing the Pledged Properties.

In 2023, as part of its debt restructuring plan, Company A was ruled by the court to settle its outstanding debts (including both secured and unsecured debts) (the "**Total Debts**") (including the Co A Relevant Debt) by way of debt-to-equity swaps (以債轉股). Particularly, certain property interests owned by Company A (the "**Restructuring Property Interests**") will be transferred to newly established entity(ies) (the "**New Entity(ies)**") to be held by creditors of Company A (or as these creditors may direct) (the "**Restructuring Plan**").

Based on the proportion of the Co A Relevant Debt as compared to the Total Debts, pursuant to the Restructuring Plan, it is expected that the Group shall become interested in approximately 63.3% of the Restructuring Property Interests through its or the Issuer's equity interests in the New Entity(ies). As a result of the Restructuring Plan, together with the sharp decrease in property price in the PRC during the Year, the appraised value of the Restructuring Property Interests attributable to the Group as at 31 December 2023, being the underlying property interests out of which the Group may recover the Co A Relevant Debt, is significantly lower than the appraised value of the Pledged Properties as at 31 December 2022 and thus there is a decrease in the estimated recoverable amount of the Co A Relevant Debt. As a result, the Group recorded an impairment loss in respect of the Co A Relevant Debt as at 31 December 2023.

(b) *Details of the impairment assessment in relation to the Co A Relevant Debt*

The fair value of the Co A Relevant Debt was determined with reference to the estimated recoverable amount (i.e. the net proceeds from the sale or disposal of assets that are expected to be allocated to the Group) based on the discounted cash flow method. The discounted cash flow method was adopted in the determination of the fair value of the Co A Relevant Debt on the basis that it is the primary and most commonly adopted method to appraise the value of debts which are not publicly traded.

The following table sets out the details of the impairment assessment in relation to the Co A Relevant Debt as at 31 December 2023:

Market value of the Restructuring Property Interests *(RMB'000)* *(Note 1)*	(A)	987,500
Expected percentage of the Group's interests in the Restructuring Property Interests *(Note 2)*	(B)	63.3%
The market value of the expected interests of the Group in the Restructuring Property Interests *(RMB'000)*	(C) = (A)*(B)	625,088
Estimated taxes, fees and discounting impact in the process of realization of the Restructuring Property Interests *(RMB'000)*	(D)	185,088
Estimated amounts recoverable by the Group in respect of the Co A Relevant Debt *(RMB'000)*	**(E) = (C)-(D)**	**440,000**

Note:

1. *Based on the valuation conducted by APAC Asset Valuation and Consulting Limited, an independent valuer engaged by the Group, as at 31 December 2023, the appraised market value of the Restructuring Property Interests was approximately RMB987.5 million, having considered, among other things, the worsening market condition of the PRC property market during the Year and the expected sale discount resulting from the plan to dispose the Restructuring Property Interests as a single project. The appraised market value was determined based on the direct comparison method as it is the primary and most commonly adopted method to appraise the value of property interests where there are readily identifiable and recent market comparables. Key inputs of the valuation are the prevailing market prices of comparable properties and the adjustments on the difference between the subject property and market comparables in terms of size, features and location. Major assumptions of the valuation include that the Restructuring Property Interests could be sold in their existing condition with the advantage of vacant possession and be freely transferable in the market without need for paying additional land premiums or other onerous fees.*

2. *The percentage is estimated based on information available to the Company. As at 31 December 2023 and the date of this announcement, details of the Restructuring Plan was under negotiation and has yet to be finalized.*

Taking into account (i) the appraised market value of the Restructuring Property Interests as at 31 December 2023; (ii) the reduction in the value of the underlying property interests out of which the Group may recover the Co A Relevant Debt; and (iii) the fact that it is unlikely for the Group to recover the Co A Relevant Debt from the other unsecured assets of Company A, the amount expected to be recoverable by the Group through the sales of the Restructuring Property Interests would not be able to fully cover the Co A Relevant Debt and the recoverable amount in respect of the Co A Relevant Debt was estimated to be RMB440.0 million as at 31 December 2023.

Accordingly, the Group recorded an impairment loss of RMB407.4 million in respect of the Co A Relevant Debt as at 31 December 2023, which represents the difference between (a) the carrying amount of the Co A Relevant Debt as at 31 December 2022 (i.e. RMB 847.4 million); and (b) the estimated amounts recoverable by the Group in respect of the Co A Relevant Debt (item (E) in the above table).

The Co B Relevant Debt

(a) *Background and circumstances leading to the impairment*

Company B is a real estate residential project company in the PRC and had also undergone debt restructuring. The impairment loss of the Co B Relevant Debt as at 31 December 2023 were primarily arising from the sharp decrease in the market price of residential properties owned by Company B brought by (i) the overall downward market environment of the real estate market in the PRC; and (ii) the fact that during the debt restructuring process, a large amount of construction costs and other debts were paid-off by certain residential properties of the project, which resulted in the listing of a large number of property units at low prices and thereby affecting the selling price of the relevant properties under the project. As a result, the estimated recoverable amount of the Co B Relevant Debt as at 31 December 2023 has decreased as compared to that of 31 December 2022, thereby resulting in a significant impairment loss as at 31 December 2023.

(b) *Details of the impairment assessment in relation to the Co B Relevant Debt*

The fair value of the Co B Relevant Debt was determined with reference to the estimated recoverable amount based on the net proceeds from the sale or disposal of assets that are expected to be allocated to the Group. The estimated recoverable amount was adopted in the determination of the fair value of the Co B Relevant Debt on the basis that it is the primary and most commonly adopted method to appraise the value of debts which are not publicly traded.

The following table sets out the details of the impairment assessment in relation to the Co B Relevant Debt as at 31 December 2023:

Estimated total cash receivable for the sale of the residential properties of Company B (net of value-added taxes) *(RMB'000)* *(Note)*	(A)	168,490
Estimated land value-added tax, fees and expenses payable in the process of realization of the residential properties *(RMB'000)*	(B)	84,080
Estimated recoverable amount of the Co B Relevant Debt as at 31 December 2023 *(RMB'000)*	(C) = (A) – (B)	84,410

Note:
Such estimated total cash receivable was calculated based on the expected selling price of such residential properties and their ancillary facilities. Key inputs of the expected selling price are the prevailing market price of comparable properties based on the listing price of selected properties in the same residential project and adjustments due to the fact that listing price is normally higher than the actual transaction price and the major assumptions that the residential properties could be sold in their existing condition with the advantage of vacant possession and be freely transferable in the market. The primary reason for the decrease in the estimated recoverable amount of the Co B Relevant Debt as at 31 December 2023 as compared to that as at 31 December 2022 was the significant decrease in the estimated housing price of the properties owned by Company B.

The estimated recoverable amount of the Co B Relevant Debt decreased from approximately RMB158.8 million as at 31 December 2022 to approximately RMB84.4 million as at 31 December 2023. As such, the Group recorded an impairment loss of RMB73.2 million, representing the carrying amounts of the Co B Relevant Debt as at 31 December 2022 of RMB 158.8 million, after deducting (a) the amount repaid during the Year of approximately RMB1.1 million; and (b) the estimated recoverable amount of the Co B Relevant Debt as at 31 December 2023 of RMB84.4 million.

IMPAIRMENT LOSS OF INTERESTS IN ASSOCIATES AND JOINT VENTURE

Circumstances leading to the impairment loss

During the Year, the Company recognised impairment loss of interests in associates and joint ventures of approximately RMB497.0 million, out of which (a) impairment loss of RMB320.7 million was arising from the Group's interests in HCI; (b) impairment loss of RMB133.1 million was attributable to the Group's interests in Chongqing Micro-credit; and (c) the remaining impairment loss of RMB43.2 million was relating to the Group's interests in four other relatively insignificant associates or joint ventures of the Group, mainly due to their worsening business performance during the Year.

Set out below are the details of the impairment loss relating to interests in HCI and Chongqing Micro-credit for the Year:

HCI

(a) Background and circumstances leading to the impairment

As at 31 December 2023, HCI was an associate of the Company which was held as to 19.37% by the Group. The Group first invested in HCI in 2011. HCI, together with its subsidiaries, is principally engaged in, among others, trading of goods through its B2B trading platforms, provision of advertising and marketing services, and sales and provision of anti-counterfeiting products and digital identity technology and solution services.

During the Year, HCI has recorded (i) a significant loss on disposal of certain subsidiaries of RMB586.3 million; and (ii) a significant impairment of goodwill and intangible assets as at 31 December 2023 of approximately RMB1,019.7 million mainly in relation to its business of online advertising and marketing services for 3C and living technology products in the PRC. In addition, other business segments of HCI had failed to achieve their respective forecasted performance thereby impairing the expected future profitability of the HCI. In particular, HCI recorded a significant increase in its loss for the Year of approximately RMB1,890.5 million, as compared to a loss for the year ended 31 December 2022 of approximately RMB230.1 million. The share price of the HCI has also decreased significantly from HK$0.325 as at 30 December 2022 to HK$0.233 as at 29 December 2023.

(b) Details of the impairment assessment in relation to the interests in HCI

In view of the significant loss incurred by HCI during the Year and decline in the expectation on its future profitability, coupled with the fact that the Group no longer intends to hold the shares of HCI on a long term basis, the Company referred to the market price of the shares of HCI in conducting the relevant impairment assessment for Year.

The following table sets out the details of the impairment assessment in relation to the Group's interests in HCI as at 31 December 2023:

Closing price of the shares of HCI as at 29 December 2023 *(Note 1)*	(A)	HK$0.233
Number of shares of HCI held by the Group as at 31 December 2023	(B)	253,671,964
Estimated value of the shares of HCI held by the Group as at 31 December 2023	(C) = (A)*(B)	HK$59,106,000 *(Note 2)*
Carrying amount of the shares of HCI held by the Group as at 31 December 2022 *(RMB'000)*	(D)	746,335
Share of the loss and other comprehensive expenses of HCI for the Year *(RMB'000)*	(E)	372,217
Impairment loss recorded as at 31 December 2023 *(RMB'000)*	(F) = (D) – (E) – (C)	320,659

Notes:
1. *Being the last trading date of the shares of HCI on the Stock Exchange in 2023*
2. *Equivalent to approximately RMB53,459,000 (adopting an exchange rate of HK$1.105632:RMB1.00)*

Accordingly, the Group recorded an impairment loss of RMB320.7 million in respect of its interests in HCI, representing the difference between (i) the carrying amount of the Group's interests in HCI as at 31 December 2022 of approximately RMB746.3 million; and (ii) the estimated value of the shares of HCI held by the Group as at 31 December 2023 of approximately RMB53.5 million; and the share of the loss and other comprehensive expenses of HCI for the Year.

Chongqing Micro-credit

(a) *Background and circumstances leading to the impairment*

The Group first invested in Chongqing Micro-credit in 2014. As at 31 December 2023, Chongqing Micro-credit was held as to 30% by the Company and 70% by HCI. Chongqing Micro-credit is principally engaged in the provision of micro-loans in the PRC. Chongqing Micro-credit recorded a relatively significant loss for the Year. As a result of the deterioration of the overall economic environment, the quality of credit assets held by Chongqing Micro-credit also worsened. The above factors had affected the value of Chongqing Micro-credit in 2023.

To determine the fair value of the Group's interests in Chongqing Micro-credit as at 31 December 2023, the Group has engaged an independent valuer to conduct a valuation (the "**Valuation**") and the appraised value of the Group's interests in Chongqing Micro-credit was RMB80.0 million as at 31 December 2023. As a result of the relatively significant loss recorded by Chongqing Micro-credit for the Year and decrease in its appraised value, the Group has recorded impairment loss of its interest in Chongqing Micro-credit of approximately RMB133.1 million as at 31 December 2023.

(b) *Details of the impairment assessment in relation to the interests in Chongqing Micro-credit*

In conducting the Valuation, the valuer has considered the three generally accepted methods, including the income method, the cost method and the market method, and decided to adopt the market method, which is the valuation method that is commonly used in the valuation of micro-credit companies. The valuer considered that the market approach is more appropriate as compared to the other valuation methods to adopt in appraising the Group's interests in Chongqing Micro-credit on the basis that (i) the income approach is constrained by data limitations as the cash flow projections for this industry are highly susceptible to policy influences, amplifying the unpredictability of the required forecasts; and (ii) the cost approach, which entails a meticulous review of the components of assets and liabilities to calculate the revalued net assets, is unable to reflect market conditions and does not offer an intuitive basis for market comparison, making it less reflective of the company's value in relation to market dynamics.

The valuer has selected eight comparable companies based on several criteria, including (i) the comparable companies are primarily engaged in the provision of micro-credit and/or loan related services, which is similar to the business of Chongqing Micro-credit; (ii) the comparable companies are listed companies in the PRC or Hong Kong; (iii) the financial information of the comparable companies is publicly available; and (iv) the principal place of business of the comparable companies are in the PRC. The key inputs of the Valuation include (i) the price-to-book ratio of the comparable companies which ranged from 0.28 to 0.78; (ii) the value of shareholders' rights and interests in Chongqing Micro-credit as at 31 December 2023; and (iii) a discount for lack of marketability (DLOM) of 16% for private companies.

Major assumptions of the Valuation includes (i) that the basic and financial information relied upon by the valuer are true and accurate; (ii) that Chongqing Micro-credit's interests over its assets are valid and without material encumbrances; and (iii) that there is no significant change in the economic conditions and other circumstances after the date of valuation.

The decrease in the appraised value of Chongqing Micro-credit as at 31 December 2023, as compared to that of 31 December 2022, was resulted from the decrease in the valuation parameters, particularly (i) the decrease in the market value of the comparable companies due to the deterioration of the overall economic environment; (ii) the fluctuation of the stock price resulting in the increase in DLOM from 14% as at 31 December 2022 to 16% as at 31 December 2023 which was determined based on the option pricing model, which assesses the difference in the value of shares in public companies and private companies due to their liquidity taking into consideration factors such as timing of liquidity and estimated volatility of the shares of the private company; and (iii) and the decrease in the net book value of Chongqing Micro-credit.

As a result of the foregoing, the Group recorded an impairment loss of RMB133.1 million therefrom, which represents the difference between (a) the carrying amount of RMB395.0 million as at 31 December 2022; and (b) the share of the loss for the Year of RMB181.9 million and the appraised value of RMB80.0 million as at 31 December 2023, of the Group's interests in Chongqing Micro-credit.

ASSESSMENT AND VIEW OF THE BOARD

The Board had considered, among other things, the methodology and basis adopted in determining the impairment provisions in relation to the Group's interests in the Relevant Debts and associates and joint ventures. There was no material change in the valuation method or basis adopted in the impairment assessment and valuation of its assets, and the significant increase in impairment loss recorded by the Group as at 31 December 2023 was mainly due to the change in circumstances of the relevant assets which in turn affects the value of inputs used in the valuation.

Having considered the current market situation and on the basis that the methodology and basis of impairment assessment adopted are commonly used in the market and are generally consistent with the practice adopted by the Group in previous financial years and/or supported by valuation conducted by independent valuer (as applicable), the Directors are of the view that such methodology and basis are fair and reasonable.

GENERAL

The supplemental information above does not affect other information contained in the 2023 Annual Report and save as disclosed above, all other information in the 2023 Annual Report remains unchanged.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

"2023 Annual Report"	the annual report of the Company for the Year
"Board"	the board of Directors
"Chongqing Micro-credit"	Chongqing Digital China Huicong Micro-credit Co., Ltd. * (重慶神州數碼慧聰小額貸款有限公司), a company established in the PRC with limited liability and an associate of the Company
"Company"	Digital China Holdings Limited, a company incorporated under the laws of Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"HCI"	HC Group Inc., a company incorporated with limited liability under the laws of the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange (Stock Code: 2280) and an associate of the Company

"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Year"	the year ended 31 December 2023
"%"	per cent

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, 5 December 2024

As at the date 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: Ms. CONG Shan and Mr. LIU Jun Qiang

Independent Non-executive Directors: Dr. LIU Yun, John, Mr. KING William, Dr. GUO Song, Mr. CHAN Wai Hong, Michael and Dr. LI Jing

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* *For identification purpose only*