慧聪集团
HC GROUP

INTERIM REPORT 2019 中期報告

HC GROUP INC. 慧聰集團有限公司

Stock Code 股份代號：02280

MESSAGE FROM THE CHAIRMAN

The board (the "Board") of directors (the "Directors") of HC Group Inc. (the "Company") hereby announces the unaudited financial results of the Company and all its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019 (the "Period"), together with the comparative figures for the corresponding periods ended 30 June 2018 to the shareholders of the Company (the "Shareholders").

Financial Highlights

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Revenue	**6,963,900**	3,778,622
EBITDA*	**84,771**	364,231
(Loss)/Profit attributable to equity holders	**(163,964)**	190,958
Diluted EPS	**(0.1463)**	0.1705

Key Financial Figures for the six months ended 30 June 2019

- **Revenue** was approximately **RMB6,963.9 million**, increased by approximately **RMB3,185.3 million**, or **increased 84.3%**, when compared to approximately **RMB3,778.6 million** recorded for the corresponding period in 2018.

- The Group's **EBITDA**(note) was approximately **RMB84.8 million**, decreased by approximately **RMB279.4 million** from **RMB364.2 million** in the first half year of 2018.

- **Loss attributable to Equity Holders of the Company** was approximately **RMB164.0 million** during the first half of 2019, while a profit attributable to equity holders of the Company of approximately **RMB191.0 million** was recorded for the corresponding period in 2018.

- The **Diluted EPS** was **RMB(0.1463)**, when compared to **RMB0.1705** of last year, on a period-on-period basis.

Note: Profit before interest, income tax, depreciation and amortisations of intangible assets, right-of-use assets, investment properties and share based payment

FINANCIAL REVIEW

Revenue	Technology-Driven New Retail Segment *RMB'000*	Smart Industries Segment *RMB'000*	Platform and Corporate Services Segment *RMB'000*	O2O Business Exhibition Centre Segment *RMB'000*	Total *RMB'000*
First half of 2019	400,882	6,110,523	442,087	10,408	6,963,900
First half of 2018	270,175	3,052,234	386,083	70,130	3,778,622
Variance	48.4%	100.2%	14.5%	-85.2%	84.3%

During the Period, the Group recorded a revenue of approximately RMB6,963.9 million (2018: RMB3,778.6 million), representing an increase of approximately 84.3% as compared the same period of 2018. The increase of revenue was mainly derived from the segment of smart industries through our B2B trading platforms.

The above table shows the revenue breakdown of the Group.

The Group's operating expenses decreased from approximately RMB535.3 million for the half year ended 30 June 2018 to approximately RMB532.1 million in the same period of 2019.

During the Period, the Group recorded an impairment loss on goodwill amounting to RMB76.2 million (2018: Nil) as the two operating segments, namely, online services – garment industry and integrated marketing and advertising, could not achieve the expected results. For details, please refer to note 14 to the condensed consolidated interim financial information in this report.

The loss attributable to equity holders of the Company was approximately RMB164.0 million for the six months ended 30 June 2019, while a profit attributable to equity holders of the Company of approximately RMB191.0 million was recorded, for the same period last year. The decrease is mainly attributable to, among other things: (i) the Group further contributing its resources to continue promoting the strategic iteration of industrial internet and the construction of transaction scenarios; (ii) a decrease in the high gross profit margin revenue of the Group as compared to the corresponding period last year, as well as an increase in interest expense. The gross profit decreased from RMB669.3 million to RMB507.0 million, indicating a decrease of approximately 24.2%; (iii) the provisions amounting to RMB106.5 million for certain financial assets and goodwill made by the Group; and (iv) a decrease in other gains derived from investment as compared to the corresponding period last year.

BUSINESS REVIEW

During the first half of 2019, the Group continued to work for its vision of becoming a leading group for "Industrial Internet" in China by leveraging internet thinking, instruments and methods to ramp up industrial efficiency, empower supply chains and industrial chains, and establish a win-win ecosystem to serve customers.

By focusing on and integrating advantageous resources, the Group has classified its business into three major segments, namely the business groups of technology-driven new retail, smart industries, and platform and corporate services.

Business group for technology-driven new retail

In late 2018, the Group regarded zol.com.cn as the principal entity, and combined Beijing Rongshang Tonglian Technology Co., Ltd.* (北京融商通聯科技有限公司) ("Rongshang Tonglian") and Huicong Yunshang (Foshan) Internet Technology Co., Ltd.* (慧聰雲商(佛山)網絡科技有限公司) ("jdhui.com") to become the business group of technology-driven new retail for the Group.

Zol.com.cn is China's first vertical tech media. It provides integrated service solutions that combine product data, professional consultation, tech video, and interactive marketing for the Fortune Global 500 companies. During last year, zol.com.cn has introduced its online users to offline shops; and internet instruments such as SaaS are also utilized to connect paid retailers which increases their ability to attract customers, profitability and operational efficiency. Furthermore, with the data collected through offline sales channels and analysis of data application, zol.com.cn is able to provide comprehensive "online + offline" marketing solutions to customers for increasing their core competitiveness and providing solutions to key issues faced by various parties along the 3C and home appliances industrial chain.

Rongshang Tonglian is a professional SaaS solutions service provider in industrial internet. By providing SaaS products and services channels, the Company empowers their customers with new retail capabilities. Meanwhile, Rongshang Tonglian creates synergy between the operating revenue and profit in each industry, which are increased by the empowerments on supply chain and internet finance, introduces integrated industrial resources into industrial internets and empowers partners.

jdhui.com is an e-commerce transaction service platform focuses on home appliances across the industrial chain. Through the "Supply Chain + SaaS System + Service" model, jdhui.com leverages on its coverage on transactions, finance, payments, warehousing and logistics and after-sales services, which assists traditional home appliances retail shops to upgrade to "online + offline shops", enhances their overall competitiveness and transforms home appliances distributors into new retailers.

Incorporating the power of "zol.com.cn", "Rongshang Tonglian", and "jdhui.com", the technology-driven new retail business group improved its capability in media influence, SaaS, supply chain and data.

In June 2019, after the official kick-off of the cooperation with Baidu Smart Mini Program, zol.com.cn has introduced 100 brick-and-mortar retailers into the ecosystem of Baidu Smart Mini Program for model verification. For zol.com.cn, the cooperation with Baidu Smart Mini Program system is an alliance with a strong power like Baidu Internet Ecosystem in respect of content service, marketing service and technical service capacities.

We have built up service ecosystem closed loop from media to trade, from channel to supply chain, and from online to offline by providing multi-dimensional services such as marketing and client acquisition, operation and management, and supply chain. During the first half of 2019, the business group of technology-driven new retail garnered more than 30 million technology product purchasers, and linked to over 7,000 SaaS paid retailers.

Business group of smart industries

The business group of smart industries, which mainly comprises of five key components, namely four vertical service platforms for industrial internet ("ibuychem.com", "Union Cotton", "China Formwork" and "www.efu.com.cn") and PanPass, an IoT solutions provider for digital transformation. "Focus" and "Significant Verticality" are the Group's important strategies.

Positioned to provide centralized purchasing and integrated e-business service for chemicals and plastics, ibuychem.com was incubated by the Group as a non-wholly-owned subsidiary in March 2015, and originated from the chemical e-business platform established by the Group over 20 years ago. It has developed into a leading B2B platform in the domestic chemical industry. Its services cover nearly one million enterprises and eight million online members in the chemical rubber and plastics industry chain in China. The platform focuses on the spot trading of chemical rubber and plastic products. In the first half of 2019, the ibuychem.com platform had about 6,500 transaction customers, including well-known enterprises from home and abroad such as PetroChina, Sinopec, DuPont, Akzo Nobel and 3trees, with a transaction size exceeding RMB3 billion in the first half of 2019.

Positioned as an excellent spot transaction platform for cotton, Shanghai Mianlian E-Commerce Co., Ltd.* (上海棉聯電子商務有限公司, "Union Cotton") provides integrated B2B e-business service for spot cotton through online platforms, including self-operated online shopping stores, supply-chain financing service and warehouse receipt pledge. "Union Cotton", one of the earliest B2B e-business operators in the cotton industry, has accumulated extensive industrial experience and significant market resources in the cotton industry, with a transaction size exceeding RMB2.4 billion in the first half of 2019.

Positioned to develop a national material bank for the construction formwork industry, Zhongmoyun (Tianjin) Construction Science and Technology Co., Ltd.* (中模雲(天津)建築科技有限公司, "China Formwork") provides smart attached lifting scaffolding, aluminum alloy formwork system, glass fiber formwork system, building smart device, etc. Relying on the internet SaaS system, IoT technology and industrial parks, China Formwork provides design, installation, maintenance, refurbishment, supply chain finance, sub-leasing and leasing business that cater to materials. As at the first half of 2019, the business coverage of China Formwork had extended to 17 provinces and cities nationwide, serving over 1,000 buildings under construction. Currently, China Formwork manages assets worth more than RMB550 million.

"www.efu.com.cn", which is operated by Zhejiang ZhongFu Internet Technology Company Limited* (浙江中服網絡科技有限公司, "Zhongfu" or "Zhejiang Zhongfu"), a 80.38% non-wholly owned subsidiary of the Company acquired by the Group in December 2015, is positioned to practice "to B" new retail for apparel. During the first half of FY2019, the online service business of www.efu.com.cn could not achieve the original budget. The management of the Company reviewed the development of the operation and the business plan of Zhongfu. The operating environment of online services in garment industry continues to be very challenging. In April 2019, the Group has revised the business plan in order to transform Zhongfu's business from traditional online services provider into advanced technology-driven retail solution provider.

Beijing PanPass Information Technology Co., Ltd.* (北京兆信信息技術股份有限公司, "PanPass") (OTC Stock Code: 430073) relies on its core platform Z-SCM, a proprietary supply chain management system, and is based on carriers such as IoT, big data, artificial intelligence and cloud computing, digital code, QR code, RFID and other markers, providing lifetime traceability and management service for brand clients. In the first half of 2019, the lifetime product traceability and management services of PanPass have made progress in stages, and have continued further cooperation with various customers with long business history such as PetroChina, Junlebao, Lulu (露露), Tong Ren Tang and Hongyuan Waterproof. Taking advantages of "One Product, One Code", a new type of retailing, PanPass rendered service to the market by building a big data bank among enterprises, products, distributors and consumers which became a sales channel for Chinese liquors, where serviced customers included Maotai, Langjiu, Luzhoulaojiao, Banchengjiu (板城酒), Sitejiu (四特酒), Shangzhuanglaojiu (山莊老酒) and Hankejiuye (酣客酒業).

During the first half of the year, PanPass was awarded the certificate of "Quality Credit 3A Grade Enterprise (企業質量信用3A)" and named "Outstanding Chinese Enterprise in Anti-counterfeiting (中國防偽行業優秀企業稱號)", respectively, by China Trade Association for Anti-counterfeiting. PanPass has gained a total of five certificates of practical new patent and two certificates of computer software copyright. PanPass continued to put more efforts in R&D and product investment, and committed to the R&D and innovation of products in areas of data identity management, supply chain management and marketing management. It has been improving the performance of the software and hardware based on different tested products and parameter requirements to enhance customers' satisfaction and create greater value for them.

Business group of platform and corporate services

Leveraging on "hc360.com", "Huijia" and the Group's financial services, our business group of platform and corporate services is committed to developing industrial internet instruments that can help small and medium-sized enterprises (SMEs) improve industrial efficiency and create value for customers. This business group also works to build industrial data chains and business scenarios to empower SMEs and serves as a toolbox for SMEs by providing them with more value-added services such as financial service, data marketing and SaaS, to facilitate their transformation and upgrade and serve the economic development of the PRC.

"hc360.com" centered on continuous in-depth upgrade of internet information services, including improving and enhancing traditional product service and customer experience such as Mai Mai Tong ("買賣通") and focusing on utilising technological innovations to drive the upgrade of products, service and technology as well as efficient operation. By utilizing artificial intelligence (AI), the most suitable products and services can be matched up with sellers and buyers accurately, effectively reducing the operation cost of customers, accurately reaching target users and enhancing user experience, which will achieve the purpose of maximising marketing effectiveness.

On 26 December 2018, the Group and Tencent CCM, an enterprise product under Tencent Cloud, announced their strategic cooperation to jointly carry out product research and development, sales promotion and other business. In addition, "Huicong Youke" (慧聰友客), a precision marketing product under hc360.com, combined its advantages with those of Tencent CCM to engage in product cooperation and joint marketing in technical aspects such as AI, machine learning, IoT, SaaS and IM.

As at March 2019, hc360.com established further strategic cooperation with b2b.baidu.com and jointly launched the product of "Huijingcai (慧精彩)". On 8 March 2019, Huicong Youke launched its 2.0 VIP version, providing customers with various ways to search for leads (downstream companies, subscription for leads and "seeking" leads), and helping users obtain valuable sales leads and complete lifetime management of sales leads from acquisition, follow-up, conversion to retention. On 22 May 2019, hc360.com attended the Global Ecosystem Summit organized by Tencent, and greatly promoted the launch of "Huiqitong (慧企通)" together with Tencent. On 18 June 2019, hc360.com held its 4th Purchasing Festival, which gained support and recognition from market supervision department.

Huijia Yuantian Limited ("Huijia"), a wholly-owned subsidiary of the Company, provides customised and precise integrated marketing service through online advertisement and market data analysis, and also develops marketing of new areas such as big-data and new media in order to provide new solutions on data and technology to the branded customers. During the first half of 2019, Huijia was affected by the reduction of media placement from sizeable enterprises (in particular, automotive industry companies in China, which is the major customer sector of Huijia, was facing a more difficult operating environment). The Group has adjusted its budget forecast for Huijia.

In the first half of 2019, approximately 5.8% of the Group's revenue came from its business group of technology-driven new retail, approximately 87.8% was from the business group of smart industries, approximately 6.3% came from the business group of platform and corporate services, and approximately 0.1% was from the O2O business exhibition centre.

Prospect

With the extension of trade friction between China and the United States and the intensified market competition, China is accelerating the pace of industrial upgrading. Domestic enterprises are keen to apply new technologies, such as the internet and big data, to accelerate their transformation and upgrade, cut costs and enhance efficiency. This has ushered in a new period of development opportunities for the sector of industrial internet in China. It has been widely accepted in the industry that "industrial internet will dominate the next stage of internet development".

In addition, in response to the call of the central "Promoting the Nation with Science and Technology", some cities' economic development zones have accelerated the implementation of science and technology innovation strategies, adjusted and optimized industrial structures, and accelerated the development of new industries and new formats. Against this background, on 27 June 2019, the Group entered into cooperation agreements with Huizhou Daya Bay Economic and Technological Development Zone ("Daya Bay Development Zone") Management Committee ("Daya Bay Development Zone Management Committee"), Logan Group (龍光集團) and Huizhou Dejie Transport Equipment Co., Ltd. (惠州德捷運輸設備有限公司) ("Huizhou Dejie Transport"), in relation to the intention to jointly construct and operate Smart Bay – a new generation of information technology industry port with a total gross floor area of approximately 1.8 million square metres on the land, to jointly work on the Daya Bay Development Zone Industrial Development Fund project and to establish the Company's headquarters in the zone.

Bay economy stands as a key driving force for Chinese economic development and a leader in pioneering technological transformations. Committed to becoming a leading domestic industrial internet group, the Group is able to firmly grasp opportunities and actively respond to challenges. By concentrating on the vertical tracks of industrial internet and stressing on ecosystem construction, the Group will focus on combining the positioning of the industrial internet strategy with the advantages of the interconnection and exchanges within the Guangdong-Hong Kong Macau Greater Bay Area, to help the Group to achieve high-quality and high-efficiency development. By establishing its presence in Huizhou Daya Bay Development Zone, the Group will strive to lead large-scale development with industrial internet projects and rapidly ramp up the scale and quality of the Company. It is believed that supported by the call for developing the Guangdong-Hong Kong-Macau Greater Bay Area by the Central Government and the favorable policies provided by Huizhou, the Group will make solid steps to become a leading industrial internet group based on the innovation and enhancement of industrial internet projects in sync with the development of the Guangdong-Hong Kong-Macau Greater Bay Area.

On behalf of the Board, I would like to take this opportunity to thank the management team and every staff member of the Group for their on-going dedication and hard work.

Liu Jun
Chairman

Hong Kong, 28 August 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 30 June 2019 the Group had cash and bank balance of approximately RMB430.4 million which are principally denominated in RMB and net current assets of approximately RMB1,374.3 million. The Group maintained a strong working capital position during the six months ended 30 June 2019.

As at 30 June 2019, the Group had a total borrowings of RMB2,395,985,000 (31 December 2018: RMB2,127,338,000, of which RMB1,610,935,000 (31 December 2018: RMB1,228,244,000) were bank borrowings which bear an average interest rate of 6.11% per annum (31 December 2018: 6.17% per annum) and mature ranging from 2019 to 2022, and RMB785,050,000 (31 December 2018: RMB899,094,000) were other borrowings. As at 30 June 2019, the Group has undrawn banking facilities amounting to approximately RMB94,850,000 (31 December 2018: Nil). Other borrowings of RMB27,816,000 were provided by a non-controlling shareholder of a subsidiary in which 25% of its equity interest is effectively held by Mr. Liu Jun, an executive director of the Company. The borrowings are unsecured, mature ranging from 2019 to 2020 and bear average interest rate of 6.34% per annum (31 December 2018: 6.34% per annum). The remaining other borrowings are provided by independent third parties and bear interest rate ranging from 4.35% to 14.28% per annum (31 December 2018: 4.5% to 13.7% per annum). The Group's borrowings were mainly made in RMB. As at 30 June 2019, the Group was in net debt position, whereas the Group's gearing ratio is 28%, which is calculated as net debt, including lease liabilities, divided by total capital.

The capital and reserves attributable to equity holders of the Company decreased by approximately RMB127.7 million from approximately RMB4,337.7 million as at 31 December 2018 to approximately RMB4,210.0 million as at 30 June 2019.

Treasury Policy

To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Significant investments

Save as disclosed in this report, the Group had no significant investments during the six months ended 30 June 2019.

Future plans for material investments

Save as disclosed in this report, the Group had no future plans for material investments during the six months ended 30 June 2019.

Staff

The continued success of the Group relies on the skills, motivation and commitment of its staff. As at 30 June 2019, the Group had 2,686 employees.

Remuneration of employees is generally in line with the market trend and commensurate with the rate in the industry. Share options and share awarded are granted to employees based on individual performance. Other benefits to the Group's employees include medical insurance, retirement schemes, training programs and educational subsidies.

Capital structure

During the six months ended 30 June 2019, 450,000 shares of the Company ("Shares") were issued upon exercise of share option under the share option scheme of the Company (the "Share Option Scheme").

During the six months ended 30 June 2019, 1,100,000 Shares were repurchased by the Company pursuant to the general mandate to repurchase shares but have not yet been cancelled.

The total number of issued Shares was 1,120,852,210 as at 30 June 2019 (31 December 2018: 1,120,402,210).

Material acquisition and disposal

Save as disclosed in this report, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2019.

Charges on Group assets

As at 30 June 2019, the Group's bank borrowings amounting to RMB645,000,000 are secured by properties, investment properties and land use right, which is classified as right of use assets after the adoption of HKFRS 16 with carrying value amounting to RMB980,926,000 (31 December 2018: RMB771,035,000). Borrowings amounting to RMB251,500,000 (31 December 2018: RMB251,500,000) are secured by restricted bank deposits with carrying amount of RMB277,093,000 (31 December 2018: RMB276,003,000).

Borrowings amounting to RMB344,547,000 (31 December 2018: RMB519,917,000) are secured either by certain loan receivables, inventories, and listed equity shares held by the Group with a total carrying amount of RMB578,266,000 (31 December 2018: RMB783,401,000) or guaranteed by the Company.

Exchange risk

As the Group's operations are principally in the People's Republic of China ("PRC"), and majority of the Group's assets and liabilities are denominated in Renminbi ("RMB"), the Directors believe that the operations of the Group are not subject to significant exchange risk.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2019.

SIGNIFICANT EVENT(S)

Change of Directors

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the changes and updated information regarding the Directors since the Company's last published annual report and up to the date of this report are set out below:

1) (i) Appointment of executive Director; (ii) resignation of co-president; (iii) re-designation as president; (iv) change of chief executive officer; (v) resignation of executive Director; and (vi) change of authorised representative of the Company

   With effect from 4 January 2019:

   (i) Mr. Zhang Yonghong has been appointed as the executive Director and as the chief executive officer of the Company and has resigned as the co-president of the Company;

   (ii) Mr. Liu Xiaodong has been re-designated from the co-president of the Company to the president of the Company;

   (iii) Mr. Liu Jun has resigned as chief executive officer of the Company, but continues to serve as the chairman of the Board;

   (iv) Mr. Lee Wee Ong has resigned as an executive Director, but continues to serve as the chief financial officer of the Company; and

   (v) Mr. Lee Wee Ong has ceased to be the authorised representative of the Company for the purpose of the Listing Rules (the "Authorised Representative") and Mr. Zhang Yonghong has been appointed as the Authorised Representative.

   Following the appointment of Mr. Zhang Yonghong as the chief executive officer of the Company in place of Mr. Liu Jun on 4 January 2019, the Company has complied with the Code Provision A.2.1 of the Code in respect of the separation of the roles of chairman and chief executive officer. For more details, please refer to the announcement of the Company dated 4 January 2019.

2) Change of non-executive Director and member of the remuneration committee of the Company

   With effect from 27 May 2019,

   (i) Mr. Sun Yang has been appointed as the non-executive Director and a member of the remuneration committee; and

   (ii) Mr. Wong Chi Keung resigned as the non-executive Director and ceased to be a member of the remuneration committee.

For more details, please refer to the announcement of the Company dated 14 May 2019.

Fulfilment of Zhongfu Performance Target and Huijia Performance Target for the year ended 31 December 2018

Zhongfu Performance Target
Pursuant to the subscription agreement dated 5 January 2018 entered into between Daxiong Holdings Limited, Hanson He Holdings Limited, Richard Chen Holdings Limited, Grand Novel Developments Limited (浩新發展有限公司) and Mr Moustache Holdings Limited (together, the "Zhongfu Sellers") and the Company, the yearly target amount of the audited consolidated distributable profit (after-tax) of ZheJiang ZhongFu ("Zhongfu Performance Target") for the year ended 31 December 2018 was RMB16,900,000. According to the audited consolidated financial statement of Zhejiang Zhongfu for the year ended 31 December 2018 dated 26 March 2019, the audited consolidated distributable profit (after-tax) of Zhejiang Zhongfu for the year ended 31 December 2018 exceeded RMB16,900,000. Accordingly, the Zhongfu Performance Target for the year ended 31 December 2018 has been met, and 3,014,250 new shares had been released to the Zhongfu Sellers, representing approximately 0.27% of the issued share capital of the Company as at the date of this report.

Huijia Performance Target
Pursuant to the subscription agreement dated 5 January 2018 entered into between Mu Hao Holdings Limited, Hong Rui Technology Holdings Limited, Chance Technology Co. Ltd and Vanguard Technology Holdings Limited (together, the "Huijia Vendors") and the Company, the yearly target amount of the audited consolidated profit attributable to equity holders of Beijing Huijiayuantian Cultural Media Company Limited* (北京慧嘉元天文化傳媒有限公司, "Beijing Huijia") ("Huijia Performance Target") for the year ended 31 December 2018 was RMB26,000,000. According to the audited consolidated financial statement of Beijing Huijia for the year ended 31 December 2018 dated 26 March 2019, the audited consolidated distributable profit attributable to equity holders of Beijing Huijia for the year ended 31 December 2018 exceeded RMB26,000,000. Accordingly, the Huijia Performance Target for the year ended 31 December 2018 has been met, and 10,909,090 new shares had been released to the Huijia Vendors, representing approximately 0.97% of the issued share capital of the Company as at the date of this report.

For more details, please refer to the announcement of the Company dated 26 March 2019.

Refreshment of the Existing Scheme Limit on the grant of options under the share option scheme

Pursuant to the passing of resolution by the then shareholders of the Company in the extraordinary general meeting of the Company on 22 May 2015, the Share Option Scheme was adopted. The maximum number of shares which may be issued upon exercise of all options granted/to be granted under the Share Option Scheme, being 10% of the issued share capital of the Company as at the date of approval of the adoption of the Share Option Scheme was 66,774,661 Shares (the "Existing Scheme Limit"). Prior to an extraordinary general meeting of the Company (the "EGM") held on 24 May 2019, only 844,661 Shares (representing approximately 0.08% of the Existing Scheme Limit) might be issued pursuant to the grant of further options under the Share Option Scheme. An ordinary resolution approving the refreshment of the Existing Scheme Limit were passed by the Shareholders at the EGM. Accordingly, the Company is allowed under the "refreshed limit" to grant options carrying the rights to subscribe for up to a total of 112,085,221 Shares, representing 10% of the issued share capital of the Company as at the EGM.

For more details, please refer to the circular of the Company dated 25 April 2019.

Connected transaction in relation to provision of loan to Chongqing Micro-credit

On 20 June 2019, 北京慧聰互聯信息技術有限公司 (Beijing Huicong Internet Information Technology Co., Ltd*, "Beijing Huicong"), a wholly-owned subsidiary of the Company, entered into a loan agreement (the "Loan Agreement") with 重慶神州數碼慧聰小額貸款有限公司 (Chongqing Digital China Huicong Micro-Credit Co., Ltd.*, "Chongqing Micro-Credit"), a non-wholly owned subsidiary of the Company, pursuant to which Beijing Huicong agreed to grant to Chongqing Micro-Credit an unsecured loan in the principal amount up to RMB100,000,000, bearing interest at a rate of 8% per annum for a period of one (1) year.

Chongqing Micro-Credit is indirectly owned as to 30% by Digital China Holdings Limited ("Digital China"), which, together with its associates, held approximately 22.63% of the total issued shares of the Company as at the date of this report. Digital China is thus a substantial Shareholder and a connected person of the Company at the issuer level. Therefore, Chongqing Micro-Credit is a connected subsidiary of the Company under the Listing Rules. As one or more of the applicable percentage ratios in respect of the Loan Agreement are more than 0.1% but less than 5%, the Loan Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For more details, please refer to the announcement of the Company dated 20 June 2019.

Grant of Options

The Board had resolved on 20 June 2019 to grant 10,000,000 share options (the "Options") to subscribe for the ordinary shares of HK$0.10 each in the share capital of the Company (the "Share(s)") at an exercise price of HK$4.6 per Share to Mr. Zhang Yonghong, the executive Director and chief executive officer of the Company under the Share Option Scheme, subject to the acceptance of Mr. Zhang Yonghong.

For more details, please refer to the announcement of the Company dated 20 June 2019.

SUBSEQUENT EVENT(S)

Renewal of Scheme Limit and Grant of Awarded Shares pursuant to the Employees Share Award Scheme

As the existing maximum number of shares ("Awarded Shares") to be granted under the share award scheme of the Company adopted by the Board on 17 November 2011 (the "Scheme") has almost been utilized, on 8 July 2019, the Board resolved to amend and renew the existing limit to grant Awarded Shares up to 56,000,000 Shares ("Renewed Scheme Limit"), representing not more than 5% of the total issued share capital of the Company as at 8 July 2019.

On 8 July 2019, after the approval of the Renewed Scheme Limit and pursuant to the Scheme, the Board resolved to grant an aggregate of 28,100,000 Awarded Shares, representing approximately 2.51% of the total issued share capital of the Company, to 26 selected employees, of which 4,000,000 Awarded Shares is granted to Mr. Zhang Yonghong, an executive Director and chief executive officer of the Company, and 2,000,000 Awarded Shares is granted to Mr. Liu Xiaodong, an executive Director and president of the Company, subject to the vesting periods and conditions of the grant of the Awarded Shares.

For more details, please refer to the announcement of the Company dated 8 July 2019.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF HC GROUP INC.

(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 17 to 66, which comprises the condensed consolidated interim statement of financial position of HC Group Inc. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 August 2019

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited six months ended 30 June 2019 RMB'000	2018 RMB'000
Revenue	*7*	**6,908,267**	3,700,334
Interest income from financing services	*7*	**55,633**	78,288
		6,963,900	3,778,622
Cost of revenue		**(6,456,938)**	(3,109,332)
Other income		**15,440**	16,773
Other gains, net		**30,180**	115,241
Selling and marketing expenses		**(340,253)**	(355,081)
Administrative expenses		**(191,892)**	(180,254)
Impairment loss on goodwill		**(76,202)**	–
(Provision for)/reversal of impairment of financial assets		**(30,258)**	1,248
Operating (loss)/profit		**(86,023)**	267,217
Finance cost, net	*10*	**(75,611)**	(35,025)
Share of post-tax profits of associates	*17*	**1,533**	1,108
(Loss)/profit before income tax		**(160,101)**	233,300
Income tax expense	*11*	**(9,094)**	(33,863)
(Loss)/profit for the period		**(169,195)**	199,437
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss	*24*		
Currency translation differences		**(4,995)**	2,248
Item that will not be reclassified to profit or loss			
Fair value gain/(loss) on financial assets at fair value through other comprehensive income	*24*	**1,822**	(11,131)
Currency translation differences for financial assets at fair value through other comprehensive income	*24*	**338**	–
Total comprehensive (loss)/income for the period, net of tax		**(172,030)**	190,554

	Note	Unaudited six months ended 30 June 2019 RMB'000	2018 RMB'000
(Loss)/profit attributable to:			
Equity holders of the Company		**(163,964)**	190,958
Non-controlling interests		**(5,231)**	8,479
		(169,195)	199,437
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		**(166,799)**	182,075
Non-controlling interests		**(5,231)**	8,479
		(172,030)	190,554
(Loss)/earnings per share attributable to the equity holders of the Company during the period (expressed in RMB per share)			
Basic (loss)/earnings per share	*12*	**(0.1463)**	0.1708
Diluted (loss)/earnings per share	*12*	**(0.1463)**	0.1705

The above unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Assets			
Non-current assets			
Land use rights	14	–	161,934
Investment properties	14	614,700	623,829
Property, plant and equipment	14	590,806	533,787
Right-of-use assets	4(c)	242,420	–
Intangible assets	14	2,865,991	2,992,052
Long-term deposits, prepayments and other receivables	15	3,514	5,604
Loans and interest receivables	16	65,136	103,160
Deferred income tax assets	23	45,789	31,292
Investments accounted for using equity method	17	657,526	677,808
Finance lease receivables		34,875	25,000
Financial assets at fair value through other comprehensive income	18	65,167	95,247
Financial assets at fair value through profit or loss	18	16,590	16,758
Total non-current assets		5,202,514	5,266,471
Current assets			
Completed properties held for sale		82,500	82,500
Finance lease receivables		51,276	63,855
Loans and interest receivables	16	1,645,375	1,419,592
Deposits, prepayments and other receivables	15	409,982	281,079
Trade receivables	15	493,732	512,094
Contract assets	15	125,098	38,965
Inventories		181,280	354,984
Financial assets at fair value through profit or loss	18	30,910	740
Restricted bank deposit		277,093	276,003
Cash and cash equivalents		430,423	471,672
Total current assets		3,727,669	3,501,484
Total assets		8,930,183	8,767,955
Equity			
Equity attributable to the Company's equity holders			
Share capital	22	103,664	103,625
Other reserves	24	3,130,454	3,092,149
Retained earnings		975,845	1,141,955
		4,209,963	4,337,729
Non-controlling interests		873,683	883,895
Total equity		5,083,646	5,221,624

	Note	**Unaudited 30 June 2019 *RMB'000***	Audited 31 December 2018 *RMB'000*
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	*21*	**562,000**	368,000
Non-current portion of other borrowings	*21*	**358,972**	351,162
Lease liabilities	*4(c)*	**57,438**	–
Deferred government grants		**160,883**	165,808
Convertible bonds – liabilities portion		**86,838**	83,145
Deferred income tax liabilities	*23*	**267,080**	274,100
Contract liabilities	*19*	**–**	36,622
Total non-current liabilities		**1,493,211**	1,278,837
Current liabilities			
Trade payables	*20*	**191,479**	94,922
Accrued expenses and other payables	*20*	**124,174**	282,652
Contract liabilities	*19*	**358,115**	348,866
Current portion of bank borrowings	*21*	**1,048,935**	860,244
Current portion of other borrowings	*21*	**426,078**	547,932
Lease liabilities	*4(c)*	**77,563**	–
Deferred government grants		**11,450**	10,650
Convertible bonds – liabilities portion		**45,127**	44,417
Other taxes payables		**15,658**	25,882
Income tax payables		**54,747**	51,929
Total current liabilities		**2,353,326**	2,267,494
Total liabilities		**3,846,537**	3,546,331
Total equity and liabilities		**8,930,183**	8,767,955

Note: Under the transition method chosen, comparative information is not restated for the initial adoption of HKFRS 16. See Note 4 for details.

The above unaudited condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Share Capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2019		103,625	3,092,149	1,141,955	4,337,729	883,895	5,221,624
Effect on adoption of HKFRS 16	4(a)	–	–	(2,146)	(2,146)	(4,589)	(6,735)
Comprehensive loss							
Loss for the period		–	–	(163,964)	(163,964)	(5,231)	(169,195)
Other comprehensive (loss)/income							
Fair value gain on financial assets at fair value through other comprehensive income, net of deferred tax	24	–	1,822	–	1,822	–	1,822
Currency translation differences	24	–	(4,657)	–	(4,657)	–	(4,657)
Total comprehensive loss for the period ended 30 June 2019		–	(2,835)	(163,964)	(166,799)	(5,231)	(172,030)
Transactions with owners							
Exercise of share options	24	39	279	–	318	–	318
Buy-back of shares	22(b), 24	–	(3,034)	–	(3,034)	–	(3,034)
Share based compensation-value of employee services	24	–	36,545	–	36,545	–	36,545
Contribution from non-controlling shareholders of subsidiaries		–	–	–	–	4,236	4,236
Transactions with non-controlling interests	25	–	7,350	–	7,350	(3,020)	4,330
Dividend paid to non-controlling interests of subsidiaries		–	–	–	–	(1,608)	(1,608)
Balance at 30 June 2019		103,664	3,130,454	975,845	4,209,963	873,683	5,083,646

	Note	Share Capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2018		100,740	2,737,941	815,417	3,654,098	803,031	4,457,129
Effect on adoption of HKFRS 9	*24*	–	(63,515)	51,042	(12,473)	(1,760)	(14,233)
Comprehensive income							
Profit for the period		–	–	190,958	190,958	8,479	199,437
Other comprehensive (loss)/income							
Fair value loss on financial assets at fair value through other comprehensive income, net of deferred tax	*24*	–	(11,131)	–	(11,131)	–	(11,131)
Currency translation differences	*24*	–	2,248	–	2,248	–	2,248
Total comprehensive (loss)/income for the period ended 30 June 2018		–	(8,883)	190,958	182,075	8,479	190,554
Transactions with owners							
Non-controlling interests arising on business combination		–	–	–	–	33,489	33,489
Issuance of shares in relation to contingent consideration arrangement		2,964	163,620	–	166,584	–	166,584
Buy-back of shares		–	(2,764)	–	(2,764)	–	(2,764)
Share based compensation-value of employee services		–	28,691	–	28,691	–	28,691
Contribution from non-controlling shareholders of subsidiaries		–	–	–	–	9,238	9,238
Transactions with non-controlling interests		–	(11,671)	–	(11,671)	(9,910)	(21,581)
Balance at 30 June 2018		103,704	2,843,419	1,057,417	4,004,540	842,567	4,847,107

In accordance with the Law of the People Republic of China ("PRC") on Enterprises with Foreign Investments, foreign investment enterprises in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by the foreign investment enterprises in the PRC to their respective statutory reserves. The percentage of net profit to be appropriated to the statutory reserves is not less than 10% of the net profit. When the balance of the statutory reserves reaches 50% of the registered capital, such transfer needs not be made.

During the six months ended 30 June 2019, retained earnings amounted to approximately RMB7,437,000 (30 June 2018: RMB8,519,000) had been transferred to the statutory reserves. As at 30 June 2019, retained earnings comprise statutory reserve fund amounting to RMB119,248,000 (31 December 2018: RMB111,810,000).

The above unaudited condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Note	Unaudited six months ended 30 June 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash used in operations		**(60,687)**	(127,626)
Interest received		**6,571**	5,371
Interest paid		**(67,910)**	(38,994)
The People's Republic of China ("PRC") tax paid		**(28,170)**	(59,110)
Net cash used in operating activities		**(150,256)**	(220,359)
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired		**(35,742)**	(9,844)
Additions of property, plant and equipment		**(107,455)**	(4,312)
Additions of intangible assets		**–**	–
Prepayment for acquisition of a subsidiary		**–**	(38,590)
Proceeds from disposal of property, plant and equipment		**669**	606
Loans to associates		**–**	(7,000)
Loan repayment received from associates		**–**	9,000
Loan repayment received from employees		**–**	2,169
Investment in financial assets at fair value through profit or loss		**–**	(3,500)
Proceed from disposal of certain interest in a subsidiary	*25*	**4,330**	–
Proceeds from disposal of an associate		**–**	10,000
Proceeds from disposal of financial assets at fair value through other comprehensive income		**5,000**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	152,011
Dividend received	*17*	**21,815**	413
Net cash (used in)/generated from investing activities		**(111,383)**	110,953
Cash flows from financing activities			
Buy-back of shares	*22(b)*	**(3,034)**	(2,764)
Proceeds from bank borrowings		**428,800**	151,709
Process from other borrowings		**249,263**	–
Repayment of bank borrowings		**(46,656)**	(26,543)
Repayment of other borrowings		**(377,113)**	–
Repayment of lease liabilities		**(33,863)**	–
Acquisition of additional equity interests in a subsidiary		**–**	(21,581)
Capital contribution from non-controlling interests		**4,236**	8,065
Dividend paid to non-controlling interests		**(1,608)**	–
Exercise of share option		**318**	–
Net cash generated from financing activities		**220,343**	108,886
Net decrease in cash and cash equivalents		**(41,296)**	(520)
Cash and cash equivalents at beginning of the period		**471,672**	401,918
Exchange gain/(loss) on cash and cash equivalents		**47**	359
Cash and cash equivalents at end of the period		**430,423**	401,757

The above unaudited condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 4th Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands, British West Indies. The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited.

The Group is principally engaged in the following activities in the PRC:

– Providing industrial internet trading platform and advertising services through its B2B website "hc360.com" and offering comprehensive IT-related product information by "zol.com.cn";

– Sales of goods through its B2B trading platforms;

– Providing SaaS (Software as a Service) services in 3C industrial internet and new technology retail solutions in PRC;

– Providing cross-industrial integrated marketing and advertising services;

– Providing anti-counterfeiting products and services and supply chain management to enterprises;

– Engaging in finance business; including micro-credit financing, lease financing and factoring services;

– Providing construction equipment rental services;

– Sales of properties and provision of property rental and management services via its O2O business exhibition centre;

– Hosting exhibitions and seminars.

The condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. The interim condensed consolidated financial information has been approved for issue by the Board on 28 August 2019.

This condensed consolidated interim financial information has not been audited, but has been reviewed by the external auditor of the Group.

Significant events

On 27 June 2019, the Group entered into cooperation agreements with Daya Bay Development Zone Management Committee, Logan Group and Huizhou Dejie Transport, as stated in the Business Review. The operations of the Group's domestic headquarters and personnel will be relocated to Daya Bay Development Zone in phases within one year after the completion of the project.

During the period ended 30 June 2019, due to the challenging operating environment for online service of garment services and downtrend of the automotive industry in China which is a major customer sector of Huijia, impairment indicators were identified in two CGUs, namely online services – garment industry and integrated marketing and advertising services. The management has revised the business forecast and made impairment for goodwill amounting to RMB38,426,000 and RMB37,776,000 respectively.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2019 has 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"). The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by HC Group Inc.

3 Accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

(a) *New and amended standards adopted by the Group*

A number of new or amended standards became applicable for the current reporting period:

Amendments to annual improvements project	Annual improvements to HKFRS 2015-2017 cycle
HKAS 19 (Amendments)	Employee benefits
HKAS 28 (Amendments)	Investments in associates and joint ventures
HKFRS 9 (Amendments)	Prepayment features with negative compensation
HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over income tax treatments

The impact of the adoption of HKFRS 16 "Lease" and the new accounting policies are disclosed in note 4 below. The other standards did not have any material impact on the Group's accounting policies and did not require retrospective adjustments.

(b) *Impact of standards issued but not yet applied by the Group*

The following new standards and amendments to standards and interpretations have been issued but not yet to be effective for the financial year beginning 1 January 2019 and have not been early adopted:

Amendments to HKFRS 3	Definition of a business[1]
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting[1]
HKFRS 17	Insurance contracts[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate and joint venture[3]

(1) Effective for the Group for annual period beginning on 1 January 2020.
(2) Effective for the Group for annual period beginning on 1 January 2021.
(3) Effective date to be determined.

4 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's condensed consolidated financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 4(b) below.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was around 7.11%.

The remeasurements to the lease liabilities recognised as adjustments to the related right-of-use assets immediately after the date of initial application is as follows:

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	**185,063**
Discounted using the lessee's incremental borrowing rate as at the date of initial application	**170,825**
Less: short-term leases recognised on a straight-line basis as expense	**(7,515)**
Lease liabilities recognised as at 1 January 2019	**163,310**
Of which are:	
Current lease liabilities	**70,714**
Non-current lease liabilities	**92,596**
	163,310

The Group has adopted HKFRS 16 on 1 January 2019, which results in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provision under HKFRS 16, the Group has applied the simplified transition approach, and all right-of-use assets were measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses). Comparative figures for the 2018 financial year have not been restated.

The recognized right-of-use assets were all related to properties. "Land use rights" previously presented as a separate item on the condensed consolidated statement of financial position is reclassified as part of right-of-use assets with effect from 1 January 2019.

Condensed consolidated statement of financial position (extract)	As at 1 January 2019		
	As previously stated	Effect on adoption of HKFRS 16	As restated
	RMB'000	*RMB'000*	*RMB'000*
Assets			
Non-current assets			
Land use rights	161,934	(161,934)	–
Right-of-use assets	–	259,118	259,118
Equity			
Equity attributable to the Company's equity holders			
Retained earnings	1,141,955	(2,146)	1,139,809
Non-controlling interests	883,895	(4,589)	879,306
Liabilities			
Non-current liabilities			
Lease liabilities	–	92,596	92,596
Current liabilities			
Accrued expenses and other payables	282,652	(46,582)	236,070
Contract liabilities	348,866	(12,809)	336,057
Lease liabilities	–	70,714	70,714

(i) *Impact on earnings per shares*

Earnings per share decreased by RMB0.34 cent per share for the six months to 30 June 2019 as a result of the adoption of HKFRS 16.

(ii) *Practical expedient applied*

In applying HKFRS 16 for the first time, the Group has used the expedient permitted by the standard in relation to the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases. The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) – 4 "Determining whether an Arrangement contains a Lease".

(b) The Group's leasing activities and how these are account for

As a lessee

The Group leases various offices. Rental contracts are typically made for fixed periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the followings:

– The amount of the initial measurement of lease liabilities;

– Any lease payments made at or before the commencement date less any lease incentives received;

– Any initial direct costs; and

– Restoration cost.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

As a lessor
The Group leases out various offices under non-cancellable operating lease arrangements. The lease terms are between 1 and 20 years. The Group has classified these leases as operating leases.

The accounting policies applicable to the Group as a lessor in the comparative period are not different from HKFRS 16. The Group is not required to make any adjustments on transition to HKFRS 16 for leases in which it acts as a lessor.

(c) *Amounts recognised in the statement of financial position and comprehensive income*

Right-of-use assets

	Properties *RMB'000*	**Land use rights** *RMB'000*	**Total** *RMB'000*
Balance at 1 January 2019	–	–	–
Effect on adoption of HKFRS 16	97,184	161,934	259,118
Adjusted balance at 1 January 2019	97,184	161,934	259,118
Additions	5,554	–	5,554
Depreciation	(19,884)	(2,368)	(22,252)
Balance at 30 June 2019	82,854	159,566	242,420

Lease liabilities

	As at 30 June 2019 *RMB'000*
Current portion	77,563
Non-current portion	57,438
	135,001

5 Estimates and judgement

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018, except for the impact from the changes in accounting policies as disclosed in Note 4.

6 Financial risk management and financial instruments

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

There have been no changes in the risk management policies since year end.

6.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

6.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are at fair value at:

30 June 2019

	Level 1 *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Assets				
Financial assets at fair value through other comprehensive income	**65,167**	**–**	**–**	**65,167**
Financial assets at fair value through profit or loss	**–**	**–**	**47,500**	**47,500**
	65,167	**–**	**47,500**	**112,667**

31 December 2018

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets				
Financial assets at fair value through other comprehensive income	62,647	–	32,600	95,247
Financial assets at fair value through profit or loss	–	–	17,498	17,498
	62,647	–	50,098	112,745

There were no transfers between Level 1 and 3 and no other changes in valuation techniques during the year.

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, price services or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(b) *Financial instruments in level 3*

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Financial liabilities at fair value through profit or loss		Available-for-sale financial assets	
	2019 *RMB'000*	2018 *RMB'000*	**2019** *RMB'000*	2018 *RMB'000*	**2019** *RMB'000*	2018 *RMB'000*	**2019** *RMB'000*	2018 *RMB'000*
As at 1 January	**17,498**	2,100	**32,600**	–	**–**	(169,000)	**–**	528,960
Effect on adoption of HKFRS 9	**–**	494,425	**–**	34,535	**–**	–	**–**	(528,960)
Additions	**–**	3,500	**–**	–	**–**	–	**–**	–
Disposals	**–**	–	**(32,600)**	–	**–**	–	**–**	–
Transferred to investment in an associate	**–**	(541,000)	**–**	–	**–**	–	**–**	–
Issuance of shares in related to contingent consideration arrangement	**–**	3,040	**–**	–	**–**	–	**–**	–
Cancellation of contingent consideration arrangement	**–**	–	**–**	–	**–**	165,626	**–**	–
Fair value changes credited to consolidated statement of comprehensive income	**30,002**	84,183	**–**	–	**–**	3,374	**–**	–
Fair value changes credited to other comprehensive income	**–**	(28,750)	**–**	(1,935)	**–**	–	**–**	–
As at 30 June	**47,500**	17,498	**–**	32,600	**–**	–	**–**	–

The Groups' finance department includes a team that performs the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussion of valuation processes and results are held between the CFO, AC and the valuation team at leave once every half year, in line with the Group's half-yearly reporting dates.

(ii) The fair value of the financial assets through profit or loss represent contingent consideration arrangements related to the acquisition of Zale Inc. and Huijia Yuantian Limited. The financial assets are estimated by applying income approach which considers the probability that the performance target could be achieved and the market price of the consideration share at the valuation date.

The key unobservable assumption in calculating this contingent consideration are:

	30 June 2019	31 December 2018
Zale Inc.		
Risk-free rate	0.66%	0.66%
Probability to achieve the performance target	90%	90%
Huijia Yuantian Limited		
Risk-free rate	1.67%	1.63%
Probability to achieve the performance target	19%	80%

7 Segment information

The chief operating decision-maker ("CODM") has been identified as the Executive Directors. The Executive Directors review the Group's internal report in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Executive Directors assess the performance of the operating segments based on a measure of profit before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments.

As at 30 June 2019, the Group is organised into the following business segments:

(i) Technology-driven new retail segment, which mainly includes integrated offline and online retail of electronics products by leveraging big data and information technology, and provision of online services through "zol.com.cn".

(ii) Smart industries segment, which mainly includes B2B trading platform and the anti-counterfeiting products and services, and supply chain management.

(iii) Platform and corporate services segment, which mainly includes the online services provided through "hc360.com", advance marketing services utilising the digital big data and tools, and provision of financing and other services.

(iv) O2O business exhibition centre segment, which mainly includes sales of properties and provision of properties rental and management services.

The table below shows the segment information of sales or other transactions between the business segments for the period ended 30 June 2019 and 2018.

	Unaudited six months ended 30 June 2019				
	Technology-driven New Retail Segment *RMB'000*	Smart industries Segment *RMB'000*	Platform and Corporate services Segment *RMB'000*	O2O Business Exhibition Centre Segment *RMB'000*	Total *RMB'000*
Revenue *(note)*	400,882	6,110,523	386,454	10,408	6,908,267
Interest income from financing services	–	–	55,633	–	55,633
Total revenue	400,882	6,110,523	442,087	10,408	6,963,900
Impairment loss on goodwill	–	(38,426)	(37,776)	–	(76,202)
Depreciation and amortisation	(31,237)	(52,015)	(28,059)	(21,405)	(132,716)
Segment results	(25,749)	(18,005)	(48,755)	(39,134)	(131,643)
Share of post-tax profits of associates					1,533
Other income					15,440
Other gains, net					30,180
Finance cost, net					(75,611)
Loss before income tax					(160,101)

	Unaudited six months ended 30 June 2018				
	Technology-driven New Retail Segment *RMB'000*	Smart industries Segment *RMB'000*	Platform and Corporate services Segment *RMB'000*	O2O Business Exhibition Centre Segment *RMB'000*	Total *RMB'000*
Revenue	270,175	3,052,234	307,795	70,130	3,700,334
Interest income from financing services	–	–	78,288	–	78,288
Total revenue	270,175	3,052,234	386,083	70,130	3,778,622
Depreciation and amortisation	(19,099)	(8,176)	(28,007)	(11,933)	(67,215)
Segment results	58,114	(23,398)	84,164	16,323	135,203
Share of post-tax profits of associates					1,108
Other income					16,773
Other gains, net					115,241
Finance cost, net					(35,025)
Profit before income tax					233,300

The Group is domiciled in the PRC. For the six months ended 30 June 2019, all the sales to external customers were in the PRC (2018: same).

The comparative amounts have been reclassified to conform with the current period's presentation.

Note:

Disaggregation of revenue

	Unaudited six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Timing of revenue recognition		
– At a point in time	**6,501,910**	3,249,385
– Overtime	**461,990**	529,237

8 Other gains, net

Other gains include the following:

	Unaudited six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Change in fair value on financial asset at fair value through profit or loss in relation to Jingu	**–**	94,000
Change in fair value on other financial assets at fair value through profit or loss	**30,002**	15,704
Change in fair value on financial liabilities at fair value through profit or loss	**–**	3,590

9 (Loss)/profit before income tax

The (loss)/profit before income tax is arrived at after charging/(crediting):

	Unaudited six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Cost of properties sold	**–**	22,370
Direct expenses of B2B trading platform	**6,266,508**	3,003,499
Marketing and consultancy expenses	**82,465**	124,719
Amortisation of land use rights	**–**	2,368
Amortisation of investment properties	**9,129**	9,129
Amortisation of intangible assets	**50,583**	38,994
Depreciation of property, plant and equipment	**50,752**	16,724
Depreciation of right-of-use assets	**22,252**	–
Employee benefits expenses, including directors' emoluments	**242,319**	210,286
Provision for impairment and direct write-off of trade receivables	**8,210**	2,807
Provision for/(reversal of) impairment of loans and interest receivables	**21,098**	(4,458)
Provision for impairment of contract assets	**950**	325
Provision for impairment of finance lease receivables	**–**	78
Operating lease payments in respect of land and buildings	**–**	27,216
Expenses relating to short term leases	**2,231**	–
Impairment loss on goodwill *(note 14)*	**76,202**	–

10 Finance cost, net

	Unaudited six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest expense:		
– Bank borrowings	**(44,157)**	(35,629)
– Other borrowings	**(26,275)**	(1,781)
– Convertible bonds	**(7,386)**	(1,506)
– Lease liabilities	**(4,746)**	–
– Others	**(2,101)**	(2,794)
Finance cost	**(84,665)**	(41,710)
Amount capitalised on qualifying assets *(note)*	**766**	–
Finance income	**8,288**	6,685
Finance cost, net	**(75,611)**	(35,025)

Note: The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings during the period was around 6.85%.

11 Income tax expense

	Unaudited six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current income tax expense		
– Hong Kong Profits Tax (i)	**–**	–
– The PRC Corporate Income Tax ("CIT") (ii)	**(30,988)**	(35,249)
– The PRC Land Appreciation Tax ("LAT")	**–**	(15,771)
Deferred income tax credit		
– The PRC Corporate Income Tax	**21,894**	17,157
Income tax expense	**(9,094)**	(33,863)

(i) No Hong Kong Profits Tax has been provided as there is no assessable profits arising in Hong Kong for the period (2018: Nil).

(ii) The PRC Corporate Income Tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

The tax rate applicable to the subsidiaries in the PRC is 25%, except for certain subsidiaries of the Group in the PRC which were approved as High and New Technology Enterprises and accordingly, they were subject to a reduced preferential CIT rate of 15% for the period. Moreover, certain subsidiaries were qualified for the local government tax concession scheme to enjoy a preferential tax rate for the period.

12 Earnings per share

	Unaudited six months ended 30 June 2019 RMB'000	2018 RMB'000
(Loss)/profit attributable to equity holders of the Company	**(163,964)**	190,958

	Unaudited six months ended 30 June 2019 No. of shares '000	2018 No. of shares '000
Weighted average number of shares in issue	**1,120,562**	1,118,167
Incremental shares from assumed exercise of share options granted	**970**	1,971
Diluted weighted average number of shares	**1,121,532**	1,120,138

	Unaudited six months ended 30 June 2019	2018
Basic (loss)/earnings per share (in RMB)	**(0.1463)**	0.1708
Diluted (loss)/earnings per share (in RMB)	**(0.1463)**	0.1705

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period excluding ordinary shares repurchased by the Company.

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. Since diluted (loss)/earnings per share is decreased/increased when taking into account the adjustment on conversion of the convertible debt, the convertible debt is anti-dilutive and is ignored in the calculation of diluted (loss)/earnings per share.

During the period ended 30 June 2019, these convertible debt and share options had anti-dilutive effect to the Company and it is ignored in the calculation of diluted (loss)/earnings per share.

13 Dividends

No dividends was paid or declared by the Company during the period (30 June 2018: Nil).

14 Property, plant and equipment, land use rights, investment properties and intangible assets

	Property, plant and equipment *RMB'000*	Land use rights *RMB'000*	Investment properties *RMB'000*	Intangible assets *RMB'000*	Goodwill *RMB'000*
Opening net book amount as at 1 January 2019	**533,787**	**161,934**	**623,829**	**1,148,267**	**1,843,785**
Effect on adoption of HKFRS 16	**–**	**(161,934)**	**–**	**–**	**–**
Additions	**108,221**	**–**	**–**	**291**	**–**
Disposals	**(450)**	**–**	**–**	**–**	**–**
Impairment	**–**	**–**	**–**	**–**	**(76,202)**
Depreciation and amortisation	**(50,752)**	**–**	**(9,129)**	**(50,583)**	**–**
Exchange difference	**–**	**–**	**–**	**112**	**321**
Closing net book amount as at 30 June 2019	**590,806**	**–**	**614,700**	**1,098,087**	**1,767,904**
Opening net book amount as at 1 January 2018	286,358	166,671	642,087	1,051,173	1,325,227
Additions	9,743	–	–	–	–
Acquisition of a subsidiary	128	–	–	17,300	21,544
Disposals	(305)	–	–	–	–
Depreciation and amortisation	(16,724)	(2,368)	(9,129)	(38,994)	–
Closing net book amount as at 30 June 2018	279,200	164,303	632,958	1,029,479	1,346,771

All the lands located in the PRC are leased from respective governments according to corresponding regulations applied across the countries. Upon the adoption of HKFRS 16, land use rights was reclassified to "right-of-use assets", as disclosed in note 4(c).

The investment properties are carried at cost.

An independent valuation of the Group's investment properties was performed by the valuer, Vigers Appraisal and Consulting Limited, to determine the fair value of the investment properties which amounted to RMB804,000,000 as at 30 June 2019 (31 December 2018: RMB878,000,000). Fair value of the investment properties is derived using the market comparison approach. This valuation method is essentially a means of valuing the properties by assuming sale of each of these properties in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and with adjustments to valuer's interpretation on the difference in factors such as location and property size.

The fair value is valued by independent professionally qualified valuer who holds a recognised relevant professional qualification and has recent experience in the location of the investment property valued.

The Group's finance department includes a team that reviews the valuation performed by the independent valuer for financial reporting purpose. This team reports directly to the chief financial officer (CFO) and the audit committee (AC).

At each financial period end, finance department

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussion with the independent valuer.

Impairment test for goodwill
Management reviews the business performance based on type of business. Goodwill are allocated to nine identified cash-generating units ("CGUs") identified. Goodwill is monitored by the management at the operating segment level.

	30 June 2019 *RMB'000*	31 December 2018 *RMB'000*
Anti-counterfeiting products and services	**50,314**	50,314
Online services – B2B2C business	**980,247**	980,247
Online services – garment industry *(note i)*	**–**	38,426
Integrated marketing and advertising services *(note ii)*	**210,563**	248,018
Financing services	**19,626**	19,626
Trading services – cotton industry	**21,544**	21,544
Construction equipment rental services	**14,933**	14,933
Electronic appliance e-business	**15,957**	15,957
New technology retails solution	**454,720**	454,720
	1,767,904	1,843,785

During the six months ended 30 June 2019, management identified impairment indicators on the goodwill, intangible assets and other assets of two CGUs might be impaired, therefore, the management has performed impairment assessment related to online services – garment industry (note i) and integrated marketing and advertising services CGU (note ii) in accordance with HKAS 36.

The recoverable amount of the CGUs are determined based on a value-in-use calculation. These calculations use cash flow projections based on financial budgets approved by the board of directors covering five financial years. Cash flows beyond the five financial years are extrapolated using the estimated terminal growth rate of the CGU. Management estimates the applicable discount rate that reflects market assessment of the time value of money and specific risk relating to the relevant industry.

Note:

(i) *Impairment test for goodwill related to "online services – garment industry"*
On 18 December 2015, the Group completed the acquisition of the entire equity interest in ZhongFu Holdings Limited ("Zhongfu"), which is principally engaged in the online service business in relation to the garment industry in the PRC. The total consideration was HK$170,807,500 (equivalent to approximately RMB144,573,000), of which HK$70,095,000 (equivalent to approximately RMB59,329,000) was settled in cash and the remaining portion was settled by the issuance and allotment of convertible bonds that are subject to downward adjustments stipulated in the sale and purchase agreement. The Group recognised identifiable intangible assets amounted to RMB69,900,000 and goodwill amounted to RMB38,426,000 in relation to such acquisition and allocated to the "Online services – garment industry" CGU at the acquisition date.

Management reviews the development of the operation and the business plan in Zhongfu, the operating environment in online services in garment industry continues to be very challenging. In April 2019, the Group has revised the business plan in order to transform Zhongfu business from traditional online services provider into advanced technology-driven retails solution provider.

As at 30 June 2019, the recoverable amount of the CGU is determined based on a value-in-use calculation which uses a revised cash flow projection based on financial budgets of the ZhongFu Holdings Group covering a five-financial years, and a pre-tax discount rate of 20% (2018: 16%) per annum. Assumed growth rate is used to extrapolate the cash flows in the following years. The financial budgets are prepared based on a 5-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments and achievement of business targets. The financial model assumes an average growth rate of 12% (2018: 14%) for five financial years budgets and a terminal growth rate of 3% (2018: 3%) per annum beyond the 5-year period taking into account of long term gross domestic product growth, inflation rate and other relevant economic factors. The Directors assessed the recoverable amount of the CGU with reference to the valuation performed by Ravia Global Appraisal Advisory Limited, an independent professional valuer.

As at 30 June 2019, the recoverable amount of the CGU determined based on the value-in-use calculations was lower than the carrying amount of the CGU. Accordingly, the management has provided impairment loss on goodwill amounting to RMB38,426,000 was charged to profit or loss in the period ended 30 June 2019.

(ii) *Impairment test for goodwill related to integrated marketing and advertising services*
On 13 January 2017, the Group completed the acquisition of the entire equity interest in Huijia Yuantian Limited ("Huijia"), which is principally engaged in the integrated marketing and advertising services in the PRC. The total consideration was RMB362,000,000 (equivalent to approximately HK$409,091,000), of which RMB162,652,000 (equivalent to approximately RMB184,091,000) was settled in cash and the remaining portion was settled by the issuance and allotment of convertible bonds that are subject to downward adjustments stipulated in the sale and purchase agreement. The Group recognised identifiable intangible assets amounted to RMB105,500,000 in total and goodwill amounted to RMB250,096,000 in relation to such acquisition and allocated to the "Integrated marketing and advertising services" CGU at the acquisition date.

The impairment is mainly due to the downtrend of the automotive industry in China, which is the major customer sector of Huijia. During the 6 months ended 30 June 2019, the performance of Huijia is significantly lower than the budgeted amount, therefore, the management has revised the budget forecast.

As at 30 June 2019, the recoverable amount of the CGU is determined based on a value-in-use calculation which uses cash flow projection based on the revised financial budgets of the Huijia covering five financial years, and a pre-tax discount rate of 18% (2018: 15%) per annum. Assumed growth rate is used to extrapolate the cash flows in the following years. The financial budgets are prepared based on a 5-year business plan which is appropriate after considering the sustainability of business growth, stability of core business developments and achievement of business targets. The financial model assumes an average growth rate of 17% (2018: 12%) for five financial years budgets and a terminal growth rate of 3% (2018: 3%) per annum beyond the 5-year period taking into account of long term gross domestic product growth, inflation rate and other relevant economic factors. The Directors assessed the recoverable amount of the CGU with reference to the valuation performed by Ravia Global Appraisal Advisory Limited, an independent professional valuer.

As at 30 June 2019, the recoverable amount of the CGU determined based on the value-in-use calculations was lower than the carrying amount of the CGU. Accordingly, the management has provided impairment loss on goodwill amounting to RMB37,776,000 was charged to profit or loss in the period ended 30 June 2019.

Key assumptions of the financial budgets covering the five to ten years and other key assumptions used in the calculations are as follows:

	As at 30 June 2019	As at 31 December 2018
Online services – garment industry		
Average growth rate	**12%**	14%
Pre-tax discount rate	**20%**	16%
Terminal growth rate	**3%**	3%
Integrated marketing and advertising services		
Average growth rate	**17%**	12%
Pre-tax discount rate	**18%**	15%
Terminal growth rate	**3%**	3%

(a) Average revenue growth rate used in the budget for the five financial years ending 31 December 2024.

(b) The discount rate used is pre-tax and reflects specific risks relating to the relevant business.

(c) Reasonably possible changes in key assumptions would not cause significant changes to the recoverable amount.

(iii) *Impairment test for remaining CGUs*

As at 30 June 2019, the directors assessed and reviewed the business performance of the remaining CGUs and considered there were no impairment indicators in relation to their goodwill, intangible assets and other assets.

15 Trade receivables, contract assets, deposits, prepayments and other receivables

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Trade receivables *(note a)*	533,769	544,521
Less: provision for impairment of trade receivables	(40,037)	(32,427)
Trade receivables – net	493,732	512,094
Deposits, prepayments and other receivables *(note b)*	413,496	286,683
Contract assets *(note c)*	125,098	38,965
	1,032,326	837,742
Less: Non-current deposits, prepayments and other receivables *(note b)*	(3,514)	(5,604)
Current portion	1,028,812	832,138

(a) *Trade receivables*

The Group generally grants a credit period ranging from 90 days to 270 days to customers depending on business segment. The aging analysis of the gross trade receivables based on invoice date are as follows:

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Current to 90 days	295,513	349,430
91 to 180 days	54,654	117,500
181 to 365 days	133,229	29,819
Over 1 year	50,373	47,772
	533,769	544,521

Note:

The carrying amounts of trade receivables approximate their fair values.

Balances are denominated in RMB and there is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers nationally dispersed.

The Group has recognised a loss of approximately RMB8,210,000 for the impairment of its trade receivables during the period ended 30 June 2019 (30 June 2018: RMB2,807,000).

(b) *Deposits, prepayments and other receivables*

	Unaudited 30 June 2019 ***RMB'000***	Audited 31 December 2018 *RMB'000*
Non-current portion:		
– Deposits	**3,514**	5,204
– Other prepayments	**–**	400
	3,514	5,604
Current portion:		
– Deposits	**19,919**	21,614
– Prepayments	**318,885**	240,637
– Other receivables	**71,178**	18,828
	409,982	281,079
	413,496	286,683
The fair values are as follows:		
Deposits	**23,433**	26,818
Prepayments	**318,885**	241,037
Other receivables	**71,178**	18,828
	413,496	286,683
Denominated in:		
HK dollars	**2,950**	2,506
Renminbi	**410,546**	284,177
	413,496	286,683

(c) *Contract assets*

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Contract assets	**126,156**	39,073
Less: loss allowance	**(1,058)**	(108)
Total contract assets	**125,098**	38,965

Analysed by nature

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Unbilled revenue related to online services – net *(note i)*	**28,524**	8,134
Unbilled revenue related to construction and rental services – net *(note ii)*	**72,391**	–
Costs to fulfil contracts *(note iii)*	**24,183**	30,831
	125,098	38,965

Notes:

(i) These contract assets mainly represent unbilled revenue arising from online services recognised prior to the date on which it is invoiced to customers.

(ii) These contract assets mainly represent unbilled revenue arising from construction and rental services recognised prior to the date on which it is invoiced to customers.

(iii) These contract assets mainly represent sales commissions and agency fees paid in respect of subscription revenue received in advance, the Group has capitalised the amounts and amortised when the related revenue are recognised.

16 Loans and interest receivables

Loans and interest receivables reflect the outstanding balance of loans granted to associates, employees and customers.

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Loans to customers of financing services business *(note)*	**1,760,658**	1,552,826
Loans to employees	**3,885**	3,885
Loans to associates	**47,540**	47,540
Interest receivables	**25,234**	24,209
Loans and interest receivables, gross	**1,837,317**	1,628,460
Less: impairment allowance		
– Collective assessed:		
Loans and interest receivables from customers of financing services business	**(21,342)**	(31,681)
Loans and interest receivables from employees and associates	**(987)**	(964)
– Individually assessed:		
Loans and interest receivables from customers of financing services business	**(104,477)**	(73,063)
Total allowances for impairment losses	**(126,806)**	(105,708)
Loans and interest receivables, net	**1,710,511**	1,522,752
Less: Non-current portion	**(65,136)**	(103,160)
Current portion	**1,645,375**	1,419,592

Note:

The following analysis only comprises loans granted to customers of financing services business (i.e. exclude interest receivables):

(a) Analysed by nature

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Loans to customers of financing services business	1,760,658	1,552,826
Less: allowances for impairment losses	(125,648)	(104,563)
Loan receivables, net	1,635,010	1,448,263

For the period ended 30 June 2019, the weighted average annual interest rate for the loan receivables to customers of financing services business were approximately 10.2% (2018: 11.2%), and the outstanding loan receivables were RMB1,760,658,000 as at 30 June 2019 (2018: RMB1,552,826,000).

(b) Analysed by type of collateral

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Unsecured loans	481,858	443,084
Guaranteed loans	1,134,258	834,612
Collateralised loans	144,542	275,130
Loans to customers of financing services business, gross	1,760,658	1,552,826
Less: allowances for impairment losses	(125,648)	(104,563)
Loan receivables, net	1,635,010	1,448,263

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system (Five-Tier Principle) and year-end stage classification.

	As at 30 June 2019			
	Stage 1 *RMB'000*	**Stage 2** *RMB'000*	**Stage 3** *RMB'000*	**Total** *RMB'000*
Normal	**1,469,702**	**–**	**–**	**1,469,702**
Special mentioned	**–**	**114,498**	**–**	**114,498**
Sub-standard	**–**	**–**	**37,304**	**37,304**
Doubtful	**–**	**–**	**86,692**	**86,692**
Loss	**–**	**–**	**52,462**	**52,462**
	1,469,702	**114,498**	**176,458**	**1,760,658**
Less: allowances for impairment losses	**(18,706)**	**(1,862)**	**(105,080)**	**(125,648)**
Loan receivables, net	**1,450,996**	**112,636**	**71,378**	**1,635,010**

	As at 31 December 2018			
	Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
Normal	1,249,211	–	–	1,249,211
Special mentioned	–	154,386	–	154,386
Sub-standard	–	–	54,945	54,945
Doubtful	–	–	53,054	53,054
Loss	–	–	41,230	41,230
	1,249,211	154,386	149,229	1,552,826
Less: allowances for impairment losses	(27,981)	(2,650)	(73,932)	(104,563)
Loan receivables, net	1,221,230	151,736	75,297	1,448,263

(c) Overdue loans analysed by type of collateral and overdue period

	As at 30 June 2019				
	Not overdue *RMB'000*	Overdue within 3 months *RMB'000*	Overdue more than 3 months to one year *RMB'000*	Overdue more than one year *RMB'000*	Total *RMB'000*
Unsecured loans	455,294	–	5,455	21,109	481,858
Guaranteed loans	972,318	–	57,081	104,859	1,134,258
Collateralised loans	41,988	2,519	24,957	75,078	144,542
Loan receivables, gross	1,469,600	2,519	87,493	201,046	1,760,658

	As at 31 December 2018				
	Not overdue *RMB'000*	Overdue within 3 months *RMB'000*	Overdue more than 3 months to one year *RMB'000*	Overdue more than one year *RMB'000*	Total *RMB'000*
Unsecured loans	420,363	1,232	17,276	4,213	443,084
Guaranteed loans	671,739	10,413	90,843	61,617	834,612
Collateralised loans	129,054	23,153	74,579	48,344	275,130
Loan receivables, gross	1,221,156	34,798	182,698	114,174	1,552,826

Overdue loans represent loan receivables of which the whole or part of the principal or interest was overdue for one day or more. All amounts are shown as gross amount of overdue loans before any allowance for impairment losses.

(d) Movements of allowances for impairment losses

	Collectively assessed *RMB'000*	Individually assessed *RMB'000*	Total *RMB'000*
As at 1 January 2019	**32,645**	**73,063**	**105,708**
(Reversal)/charge for the period	**(10,316)**	**31,414**	**21,098**
As at 30 June 2019	**22,329**	**104,477**	**126,806**
As at 1 January 2018	16,176	61,074	77,250
Effect on adoption of HKFRS 9	4,027	3,363	7,390
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	20,203	64,437	84,640
Reversal for the period	(976)	(3,482)	(4,458)
As at 30 June 2018	19,227	60,955	80,182

17 Investments accounted for using equity method

The amounts recognised in the condensed consolidated interim statement of financial position are as follows:

	Unaudited 30 June 2019 ***RMB'000***	Audited 31 December 2018 *RMB'000*
Associates	**657,526**	677,808

Movements in the investment in associates are as follows:

	Unaudited six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**677,808**	124,418
Dividends received from an associate *(note 3)*	**(21,815)**	–
Transfer from financial asset at fair value through profit or loss	**–**	541,000
Disposal	**–**	(10,735)
Deemed disposal	**–**	(4,096)
Share of post-tax profits of associates	**1,533**	1,108
At 30 June	**657,526**	651,695

The associates as listed below have share capital consisting solely of ordinary shares, which are held by the Group; the country of establishment or registration is also their principal place of business, in the opinion of Directors, are material to the Group and are accounted for using equity method.

Name of entity	**Place of business/ country of establishment**	**% of effective interest 30 June 2019 and 31 December 2018**	**Nature of the relationship**	**Measurement method**	**Carrying amount**	
					Unaudited 30 June 2019	**Audited 31 December 2018**
Hui De Holding Co., Ltd.* ("慧德控股有限公司")	PRC	12.0	*Associate (note 1)*	Equity	25,440	28,140
Zhejiang Huicong Investment Co., Ltd* ("浙江慧聰投資有限公司")	PRC	29.6	*Associate (note 2)*	Equity	36,299	39,169
Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Limited ("內蒙古呼和浩特金谷農村商業銀行股份有限公司")	PRC	9.8	*Associate (note 3)*	Equity	546,822	561,162

* English names are translated for identification purpose only

Note 1: Hui De Holding Co., Ltd* ("Hui De") provides investment management and project investments in the PRC. The Group holds 60% equity interests of its subsidiary, Huicong (Tianjin) E-commerce Company Limited* ("慧聰(天津)電子商務有限公司"), which in turn holds 20% of equity interest in Hui De.

Note 2: Zhejiang Huicong Investment Co., Limited* ("Zhejiang HC") engages in investment in real estate construction and management. The Group directly holds 20% equity shares of Zhejiang HC and indirectly holds 9.6% equity interests through Hui De. Hence, the Group effectively holds 29.6% equity interests in Zhejiang HC.

Note 3: The Group directly holds 9.79% of equity interest of Jingu, which provides products and services on bank deposits, loans and advances in PRC and other business approved by the China Banking Regulatory Commission ("CBRC"). On 27 June 2018, the Group obtained approval from the CBRC for the director appointment, which allowed the Group to exercise significant influence to Jingu. The investment had been reclassified from "financial assets of fair value through profit or loss" to "investment in associate company" on the approval date. During six months ended 30 June 2019, the Group received dividend from Jingu amounting RMB21,815,000.

18 Financial assets at fair value

Financial assets at fair value through profit or loss and other comprehensive income

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	
	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*	**Unaudited 30 June 2019 *RMB'000***	Audited 31 December 2018 *RMB'000*
Contingent shares in relation to acquisition of Zale Inc.	**310**	340	**–**	–
Contingent shares in relation to acquisition of Huijia Yuantian Limited	**30,600**	400	**–**	–
Trading securities – listed securities *(note i)*	**–**	–	**65,167**	62,647
Equity investment – unlisted securities *(note ii)*	**16,590**	16,758	**–**	32,600
Financial assets at fair value portion	**47,500**	17,498	**65,167**	95,247
Less: Non-current portion	**(16,590)**	(16,758)	**(65,167)**	(95,247)
Current portion	**30,910**	740	**–**	–

As at 30 June 2019, the fair value of the contingent consideration was of approximately RMB30,910,000 (31 December 2018: RMB740,000). The change in the fair value of RMB30,170,000 for the period was charged to "other gains, net" in the condensed consolidated statement of comprehensive income. The fair value of the contingent consideration arrangement was estimated by applying income approach which considers the probability that the performance target could be completed and the market prices of the consideration shares at the valuation date.

For the fair value of the financial assets at fair value through profit or loss, please refer to Note 6.3(b)(ii).

Note (i): Trading securities – listed securities
At the adoption of HKFRS 9, certain investments in listed securities held as long-term strategic investments that are not expected to be sold in the short to medium term were reclassified from financial assets at FVPL to FVOCI. All of the trading securities are listed in the Hong Kong Stock Exchange and their fair value were based on their current bid prices in active market at the balance sheet date, which are within level 1 of the fair value hierarchy (note 6.3).

Note (ii): Equity investment – unlisted securities
Investments in private investment fund and unlisted companies held for trading by the Group are classified as financial assets at fair value. At the adoption of HKFRS 9, certain investment in unlisted company held as long-term strategic investments that are not expected to be sold in the short to medium term were reclassified to FVOCI. As these instruments are not trade in an active market, they are within level 3 of the fair value hierarchy (note 6.3).

19 Contract liabilities

	2019	2018
	RMB'000	*RMB'000*
Contract liabilities related to online services *(note i)*	**164,665**	140,190
Contract liabilities related to sales of goods on B2B trading platform *(note ii)*	**139,221**	185,856
Contract liabilities related to sales of properties *(note iii)*	**54,229**	59,442
	358,115	385,488
Less: Non-current portion	**–**	(36,622)
Current portion	**358,115**	348,866

Notes:

(i) These contract liabilities consist of deferred revenue resulting from online services when the Group received payments from customers in advance.

(ii) These contract liabilities consist of advanced payments, related to the B2B trading platform business, received from customers for goods that have not yet been transferred to the customers.

(iii) These contract liabilities consist of advanced payments received from customers.

20 Trade payables and accrued expenses and other payables

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Trade payables *(note a)*	191,479	94,922
Accrued salaries and staff benefits	21,379	35,577
Accrued agency commission	15,258	14,459
Accrued consideration for acquisition	–	35,742
Accrued expenses	28,003	100,502
Deposits from customers	36,518	66,908
Other payables	23,016	29,464
	315,653	377,574

(a) *Trade payables*

The aging analysis of the trade payables based on invoice date are as follows:

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Current to 90 days	141,761	83,415
91 to 180 days	36,887	8,756
181 to 365 days	12,212	2,345
Over 1 year	619	406
	191,479	94,922

21 Borrowings

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Non-current portion:		
Bank borrowings	**562,000**	368,000
Other borrowings	**358,972**	351,162
	920,972	719,162
Current portion:		
Bank borrowings	**1,048,935**	860,244
Other borrowings	**426,078**	547,932
	1,475,013	1,408,176
Total borrowings	**2,395,985**	2,127,338

Bank borrowings bear average interest rate of 6.11% per annum (31 December 2018: 6.17% per annum), mature ranging from 2019 to 2022, part of which amounting to RMB645,000,000 (31 December 2018: RMB372,376,000) are secured by properties, investment properties and land use right, which is classified as right-of-use assets after the adoption of HKFRS 16 with carrying value amounting to RMB980,926,000 (31 December 2018: RMB771,035,000). Borrowings amounting to RMB251,500,000 (31 December 2018: RMB251,500,000) are secured by restricted bank deposits with carrying amount of RMB277,093,000 (31 December 2018: RMB276,003,000). Bank borrowings of RMB107,000,000 are secured by properties of an associate of the Group.

Other borrowings of RMB27,816,000 were provided by a non-controlling shareholder of a subsidiary, in which 25% of its equity interest is effectively held by Liu Jun, an executive director of the Company. The borrowings are unsecured, mature ranging from 2019 to 2020 and bear average interest rate of 6.34% per annum (31 December 2018: 6.34% per annum). During the period ended 30 June 2019, the corresponding interest expenses was approximately RMB882,000 (30 June 2018: RMB882,000).

The remaining other borrowings are provided by independent third parties and bear interest rate ranging from 4.35% to 14.28% per annum (31 December 2018: 4.5% to 13.7% per annum). Borrowing amounting to RMB344,547,000 (31 December 2018: RMB519,917,000) are secured either by certain loan receivables, inventories, and listed equity shares held by the Group with a total carrying amount of RMB578,266,000 (31 December 2018: RMB783,401,000) or guaranteed by the Company.

The table below summarizes the maturity analysis of bank and other borrowings based on agreed scheduled repayments set out in the loan agreements:

	Bank borrowings		Other borrowings	
	Unaudited 30 June 2019 ***RMB'000***	Audited 31 December 2018 *RMB'000*	**Unaudited 30 June 2019** ***RMB'000***	Audited 31 December 2018 *RMB'000*
Within 1 year	**1,048,935**	860,244	**426,078**	547,932
Between 1 and 2 years	**440,750**	233,000	**358,972**	351,162
Between 2 and 5 years	**121,250**	135,000	**–**	–
	1,610,935	1,228,244	**785,050**	899,094

As at 30 June 2019, the Group has undrawn banking facilities amounting to approximately RMB94,850,000 (31 December 2018: Nil).

22 Share capital

	Number of Ordinary shares	Par Value *RMB'000*
At 1 January 2019	1,120,402,210	103,625
Exercise of share options *(note c)*	450,000	39
As at 30 June 2019	1,120,852,210	103,664
As at 1 January 2018	1,085,323,710	100,740
Issuance of shares in relation to contingent consideration arrangement *(note a)*	36,028,500	2,964
At 30 June 2018	1,121,352,210	103,704

The total authorised number of ordinary shares is 2,000,000,000 shares (31 December 2018: 2,000,000,000) with a par value of HK$0.1 per share (31 December 2018: HK$0.1 per share). All issued shares are fully paid.

During the six months ended 30 June 2019, 450,000 shares of the Company were issued upon the exercise of share options under the share option scheme of the Company at exercise price of HK$0.82 and resulted in approximately RMB39,000 increase in share capital and RMB279,000 increase in share premium (30 June 2018: No share option had been exercised.)

The total number of issued shares of the Company were 1,120,852,210 as at 30 June 2019 (31 December 2018: 1,120,402,210).

(a) *Issuance of shares in related to contingent consideration arrangement*
The company issued 36,028,500 shares on 16 January 2018 to the bondholders of the convertible bonds in relations to the acquisition of ZhongFu Holdings Limited and Huijia Yuantian Limited completed in 2016 and 2017, respectively, in exchange for their surrender of the convertible bonds of the Company. The fair value of the shares issued amounted to RMB166,584,000 (HK$5.6 per share) on the issuance date.

(b) *Buy-Back of shares*
During the six months ended 30 June 2019, the Group repurchased 1,100,000 (2018: 750,000) of its own shares through the Stock Exchange of Hong Kong Limited. RMB3,034,000 (2018: RMB2,764,000) had been deducted from shareholders' equity.

(c) *Share options*
On 20 June 2019, a total of 10,000,000 share options were granted to a director pursuant to share option scheme. The grantee can exercise these options at an exercise price of HK$4.6 per share in ten years period starting from the expiry of the twelve months from the date of granting of option, being 20 June 2019, Commencing from the first anniversary of the date of grant, the relevant grantee may exercise options up to 33.3% and gradually up to 100% at the third anniversary of the date of grant.

During the period ended 30 June 2019, 450,000 share options were exercised (30 June 2018: Nil).

Movements in the number of share options outstanding and their exercise prices are as follows:

	2019		2018	
	Exercise price in HK$ per share	**Share options**	Exercise price in HK$ per share	Share options
At 1 January	**0.604**	**–**	0.604	400,000
	0.82	**1,438,000**	0.82	1,438,000
	1.108	**200,000**	1.108	200,000
	4.402	**1,500,000**	4.402	1,500,000
	9.84	**9,972,000**	9.84	9,972,000
	6.476	**29,930,000**	6.476	29,930,000
	4.6	**36,000,000**	–	–
Granted	**0.604**	**–**	0.604	–
	0.82	**–**	0.82	–
	1.108	**–**	1.108	–
	4.402	**–**	4.402	–
	9.84	**–**	9.84	–
	6.476	**–**	6.476	–
	4.6	**10,000,000**	4.6	36,000,000
Lapsed and exercised	**0.604**	**–**	0.604	(400,000)
	0.82	**(450,000)**	0.82	–
	1.108	**–**	1.108	–
	4.402	**–**	4.402	–
	9.84	**(6,592,000)**	9.84	–
	6.476	**–**	6.476	–
	4.6	**(4,500,000)**	4.6	–
At 30 June 2019 and 31 December 2018	**0.604**	**–**	0.604	–
	0.82	**988,000**	0.82	1,438,000
	1.108	**200,000**	1.108	200,000
	4.402	**1,500,000**	4.402	1,500,000
	9.84	**3,380,000**	9.84	9,972,000
	6.476	**29,930,000**	6.476	29,930,000
	4.6	**41,500,000**	4.6	36,000,000

Expiry date	Exercise price HK$ per share	Share options Unaudited 30 June 2019	Exercise price HK$ per share	Audited 31 December 2018
7 April 2020	0.82	**988,000**	0.82	1,438,000
28 March 2021	1.108	**200,000**	1.108	200,000
3 April 2023	4.402	**1,500,000**	4.402	1,500,000
18 November 2023	9.84	**3,380,000**	9.84	9,972,000
13 October 2027	6.476	**29,930,000**	6.476	29,930,000
19 July 2028	4.6	**31,500,000**	4.6	36,000,000
20 June 2029	4.6	**10,000,000**	–	–

(d) *Share Award Scheme*

On 23 November 2011 and pursuant to the Share Award Scheme, the Board resolved to grant an aggregate of 24,181,000 shares to 72 selected employees (including an executive director of the Company).

On 14 June 2012, the Board resolved to grant Lee Wee Ong, an executive director of the Company, 3,000,000 shares, subjected to a vesting period of 36 months.

On 20 August 2012, the shareholders resolved to grant Guo Jiang, an executive director of the Company, 16,700,000 shares, subjected to a vesting period of 72 months.

The following table represents the movements for number of unvested shares under the Share Award Scheme for the period ended 30 June 2019 and 30 June 2018.

	Number of shares (in thousand unit)
At 1 January 2019	13,000
Amount vested during the period	(1,920)
At 30 June 2019	11,080
At 1 January 2018	15,360
Amount vested during the period	(2,360)
At 30 June 2018	13,000

23 Deferred income tax

The net movements of the deferred income tax account is as follows:

	Unaudited six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**(242,808)**	(250,595)
Effect on adoption of HKFRS 9	**–**	1,716
Credited to the consolidated statement of comprehensive income	**21,894**	17,157
Credited to the other comprehensive income	**(377)**	2,201
Acquisition of a subsidiary	**–**	(3,875)
At 30 June	**(221,291)**	(233,396)

24 Other reserves

	Share premium *RMB'000*	Convertible bond reserve *RMB'000*	Others reserve *RMB'000*	Merger reserve *RMB'000*	Share-based compensation reserves *RMB'000*	Share and capital redemption reserve *RMB'000*	Exchange reserve *RMB'000*	Share held for share award scheme *RMB'000*	Financial assets at fair value through other comprehensive income reserve *RMB'000*	Total *RMB'000*
As at 1 January 2019	2,668,590	15,723	197,382	109,817	188,330	1,592	18,159	(90,588)	(16,856)	3,092,149
Exercise of share options	279	–	–	–	–	–	–	–	–	279
Buy-back of shares	–	–	–	–	–	(3,034)	–	–	–	(3,034)
Share based compensation-value of employee services	–	–	–	–	36,545	–	–	–	–	36,545
Vesting of awarded share	(392)	–	–	–	(8,609)	–	–	9,001	–	–
Fair value gain on financial assets at fair value through other comprehensive income, net of deferred tax	–	–	–	–	–	–	–	–	1,822	1,822
Transaction with non-controlling interests *(note 25)*	–	–	7,350	–	–	–	–	–	–	7,350
Currency translation differences	–	–	–	–	–	–	(4,657)	–	–	(4,657)
As at 30 June 2019	2,668,477	15,723	204,732	109,817	216,266	(1,442)	13,502	(81,587)	(15,034)	3,130,454

	Share premium *RMB'000*	Convertible bond reserve *RMB'000*	Others reserve *RMB'000*	Merger reserve *RMB'000*	Share-based compensation reserves *RMB'000*	Share and capital redemption reserve *RMB'000*	Exchange reserve *RMB'000*	Share held for share award scheme *RMB'000*	AFS reserve *RMB'000*	Financial assets at fair value through other comprehensive income reserve *RMB'000*	Total *RMB'000*
As at 1 January 2018	2,509,775	3,364	27,507	109,817	122,589	1,478	(686)	(99,418)	63,515	–	2,737,941
Effect on adoption of HKFRS 9	–	–	–	–	–	–	–	–	(63,515)	–	(63,515)
Buy-back of shares	–	–	–	–	–	(2,764)	–	–	–	–	(2,764)
Issuance of shares in relation to contingent consideration arrangement	163,620	–	–	–	–	–	–	–	–	–	163,620
Share based compensation- value of employee services	–	–	–	–	28,691	–	–	–	–	–	28,691
Vesting of awarded share	14	–	–	–	(8,839)	–	–	8,825	–	–	–
Fair value loss on financial assets at fair value through other comprehensive income, net of deferred tax	–	–	–	–	–	–	–	–	–	(11,131)	(11,131)
Transaction with non-controlling interests	–	–	(11,671)	–	–	–	–	–	–	–	(11,671)
Currency translation differences	–	–	–	–	–	–	2,248	–	–	–	2,248
As at 30 June 2018	2,673,409	3,364	15,836	109,817	142,441	(1,286)	1,562	(90,593)	–	(11,131)	2,843,419

25 Transaction with non-controlling interests

Disposal of certain interest in a subsidiary

In April 2019, Beijing Huicong Zaichuang Technology Co., Limited ("北京慧聰再創科技有限公司", or "Beijing Zaichuang"), a wholly-owned subsidiary of the Company, has entered into share purchase agreements with 天津陽林源管理諮詢合夥企業("天津陽林源"). Pursuant to the agreement, Beijing Zaichuang agreed to transfer 5% of the issued share of 中模雲(天津)建築科技有限公司 ("中模雲") to 天津陽林源 for a consideration of RMB4,330,000.

In May 2019, 中模雲 has entered into a share purchase agreement with the non-controlling interests of its subsidiaries, 湖南中模綠建科技有限公司 and 湖南玖安模架工程技術有限公司 (the "Subsidiaries). Pursuant to the agreement, 中模雲 acquired the remaining equity interests in the Subsidiaries settled by the allotment and issuance of 20% 中模雲 consideration shares.

The Group recognised a decrease in non-controlling interests of RMB3,020,000 and increase in other reserve of RMB7,350,000. After the above transactions, the Group holds 36.8% of the issued shares of 中模雲.

*   English names are translated for identification purpose only.

26 Related-party transactions

Apart from the transactions already disclosed in other notes in these financial information, the Group has the following significant transactions that were carried out with related parties:

(a) *Key management compensation*

The remuneration of directors and other members of key management during the period were as follows:

	Unaudited six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**4,443**	3,400
Share-based payments	**29,929**	24,267
	34,372	27,667

(b) *Related party transaction*

Other than those disclosed elsewhere in the condensed consolidated financial statements, transactions were carried out with related parties in normal course of Group's business.

		Unaudited six months ended 30 June	
	Nature of transactions	**2019** ***RMB'000***	2018 *RMB'000*
Associates *(note i)*	Interest income	**1,978**	2,655
Key management personnel *(note i)*	Interest income	**160**	563

Note (i): The Group has granted loan receivables to certain associates and certain key management personnel of the Group and subsidiaries. The loans are charged at terms mutually agreed by the parties concerned or in accordance with the terms of the underlying agreements, where appropriate.

(c) *Related party balance*

Saved as disclosed in the condensed consolidated financial statements, the Group has following balances with related parties as at 30 June 2019 and 31 December 2018, respectively.

	Unaudited 30 June 2019 ***RMB'000***	Audited 31 December 2018 *RMB'000*
Borrowing from:		
Associate *(note i)*	**570,050**	581,050
Loan and interest receivable from:		
Associate *(note ii)*	**67,529**	59,708
Key management personnel *(note iii)*	**3,971**	8,403

Note (i): The balance represents bank borrowings from Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Limited, which become an associate of the Group since 27 June 2018. Part of the borrowings amounting to RMB335,000,000 will mature on 25 October 2019, and is interest bearing at a rate of 6.2% per annum. Part of the borrowings amounting to RMB234,000,000 will mature on 20 October 2020, and is interest bearing at a rate of 7.1% per annum. These borrowings is guaranteed by another associate of the Group.

Note (ii): The balance mainly represents loans granted to 慧德控股有限公司 ("Hui De"). The Group granted loans amounting to RMB20,800,000, RMB20,800,000 and RMB5,940,000 to Hui De during the years ended 31 December 2014, 2015 and 2016 respectively. The loans will mature during the years ending 31 December 2020, 2020 and 2019 respectively, and are interest bearing at a rate of 7%, 7% and 6% per annum.

Note (iii): The Group granted loans amounting to RMB3,935,000 (2018: RMB3,935,000) to one (2018: one) management personnel of Beijing Panpass Information Technology Co., Ltd ("Panpass"), a subsidiary acquired by the Group on 8 October 2014, for their sole purpose of purchase of shares of Panpass at market price and the shares purchased are pledged to secure the loans. The loans will mature on 28 September 2021, and is interest bearing at a rate of 5% per annum. These management personnel hold 3% (2018: 3%) issued share capital of Panpass as of 30 June 2019.

27 Business combinations

Acquisition of Zale Inc.

On 22 May 2015, the Group acquired 51% equity interest in Beijing Rongshang Tonglian Technology Co., Ltd. ("北京融商通聯科技有限公司", or "Rongshang Tonglian") by subscribing its newly issued ordinary shares for a cash consideration of RMB12,750,000. On 16 June 2016, 20 December 2017 and 14 May 2018, the new shareholders injected capital amounting to RMB11,821,000 into Rongshang Tonglian. After the transaction, the Group's entity interest in Rongshang Tonglian was diluted from 51% to 34.63%. The investment was classified as an associate under "Investments accounted for using the equity method" as the Group has significant influence in Rongshang Tonglian.

On 27 December 2018, Z.Tech Holdings Limited ("Z.Tech"), a wholly-owned subsidiary of the Group, completed the acquisition of 100% equity interest in Zale Inc. ("Zale") from Zale Limited, Ruthfly Limited and Fejack Limited (collectively, the "Vendors") for a total consideration of RMB366,500,000, among which RMB100,000,000 to be payable by cash and the remaining part by way of allotment and issuance of 10.66% Z.Tech consideration shares.

Pursuant to the sale and purchase agreement, the vendor guarantors undertook to the Group that Rongshang Tonglian shall achieve the performance target (i.e. a GMV of RMB1,800,000,000) for the financial year ending 31 December 2019. If the Performance Target cannot be achieved, the Group shall have the right, to repurchase and cancel all or part of the Z.Tech consideration shares held by each of the Vendors.

Zale indirectly holds the 65.37% equity interest in Rongshang Tonglian. Following the completion of transaction and issuance of 10.66% share consideration, the Group effectively holds 89.34% equity interest in Zale and Rongshang Tonglian. As a result, Zale and Rongshang Tonglian became consolidated subsidiaries of the Group.

The initial accounting has not been completed as the business combination occurred in late December 2018, being close to the Group's year end and when the fair value is not easily determinable. Therefore, management is in the view of accounting for the business combination using provisionally determined amounts for goodwill, other intangible assets and deferred tax liabilities arising from business combination.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Consideration: **On 27 December 2018**	*RMB'000*
Cash Consideration	100,000
Fair value of Z.Tech's consideration shares	266,500
Fair value of equity interests in Rongshang Tonglian previously held by the Group	164,878
Adjustment to consideration based on the net assets value as at acquisition date	44,177
Financial assets at fair value through profit and loss	(340)
Total consideration	575,215

The assets and liabilities recognised as a result of the acquisition are as follows:

Cash and cash equivalents	53,266
Property, plant and equipment	47
Investment in associates	452
Inventories	457
Trade and other receivables	9,783
Intangible asset – platform	112,000
Trade and other payables	(27,455)
Deferred tax liabilities	(28,000)
Net identifiable assets acquired	120,550
Non-controlling interest	(55)
Goodwill	454,720
Net assets acquired	575,215

During the period ended 30 June 2019, following the finalisation of the provisional fair value for goodwill, other intangible assets and deferred tax liabilities, there is no change in the fair value of net assets acquired with no restatement of prior year numbers.

28 Contingent liabilities

As at 30 June 2019, there were no material contingent liabilities to the Group (31 December 2018: Nil).

29 Operating lease rentals receivable

(i) As a lessor

At 30 June 2019, the Group had future aggregate minimum lease receivables under non – cancellable operating leases in respect of buildings which expire as follows:

	Unaudited 30 June 2019 ***RMB'000***	Audited 31 December 2018 *RMB'000*
Within one year	**181,084**	252,198
In the second to fifth year inclusive	**–**	10,639
Over the fifth year	**–**	24,127
	181,084	286,964

30 Financial Guarantee

The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. Such guarantees terminate upon the earlier of (i) issuance of the real estate ownership certificate which will generally be available within an average period of two to three years upon the completion of guarantee registration; or (ii) the satisfaction of mortgaged loan by the purchasers of properties.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the mortgages. As at 30 June 2019, the amount of outstanding guarantees for mortgages were approximately RMB38,796,000 (31 December 2018: RMB51,040,000).

The directors consider that the likelihood of default in payments by purchasers is minimal and therefore the financial guarantees measured at fair value is immaterial.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were 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 they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

(a) Directors' and chief executive's long positions in the Shares

Name of Director	Class of Shares	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total number of Shares	Percentage of shareholding (approximate)
Liu Jun	Ordinary	Beneficial owner	79,850,000 *(note 1)*	–	–	–	79,850,000	7.12%
Zhang Yonghong	Ordinary	Beneficial owner	10,100,000 *(note 2)*				10,100,000	0.90%
Liu Xiaodong	Ordinary	Beneficial owner and Interest of controlled corporation	4,000,000 *(note 3)*		62,273,794 *(note 3)*		66,273,794	5.91%
Guo Fansheng	Ordinary	Beneficial owner	57,749,015 *(note 4)*	–	–	–	57,749,015	5.15%
Li Jianguang	Ordinary	Interest of controlled corporation	–	–	32,000,384 *(note 5)*	–	32,000,384	2.86%

Notes:

1. Such interests in the Company comprise: (i) 49,920,000 Shares, of which 44,870,000 Shares have been provided as security to Chance Talent Management Limited for the Notes and the 2020 Convertible Bonds and (ii) 29,930,000 underlying Shares derived from the Options held by Mr. Liu Jun.

2. Such interests in the Company comprise: (i) 100,000 Shares and (ii) 10,000,000 underlying Shares derived from the Options held by Mr. Zhang Yonghong.

3. Such interests in the Company comprise: (i) 4,000,000 underlying Shares from the Options held by Mr. Liu Xiaodong and (ii) 62,273,794 Shares held by Wisdom Limited (a company wholly and beneficially owned by Mr. Liu Xiaodong) which have been provided as security to Chance Talent Management Limited for the Notes and the 2020 Convertible Bonds. Mr. Liu Xiaodong is deemed, or taken to have, interested in all the Shares held by Wisdom Limited pursuant to the SFO.

4. Such interest in the Company comprises:

   (a) 35,000,000 Shares (long position) held by Mr. Guo Fansheng; and

   (b) 22,749,015 Shares (long position) held by a trustee of a trust of which Mr. Guo Fansheng is a founder of a discretionary trust who can influence how the trustee exercise his discretion.

5. The references to 32,000,384 Shares relate to the same block of shares of the Company held by Venture Profits Holdings Limited, the entire share capital of which is held by Malvern PTC Limited, a trustee of a trust of which Mr. Li Jianguang is a founder of a discretionary trust who can influence how the trustee exercise his discretion. Accordingly, Mr. Li Jianguang is deemed, or taken to have, interested in the said 32,000,384 Shares pursuant to the SFO.

Save as disclosed above, none of the Directors and chief executive of the Company has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 they are taken or deemed to have under such provision of the SFO) or required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES

Pursuant to written resolutions of the shareholders of the Company dated 30 November 2003, among others, a share option scheme (the "Share Option Scheme") was adopted by the Company. The principal terms of the Share Option Scheme were summarised in the paragraph headed "Share options" under the section headed "Statutory and General Information" in Appendix V of the prospectus of the Company dated 8 December 2003. Following the listing of the Shares being transferred from the Growth Enterprise Market to the Main Board of the Stock Exchange on 10 October 2014, the Share Option Scheme adopted by the Company was terminated on 10 October 2014. Notwithstanding the termination of the Share Option Scheme, the outstanding options under the Share Option Scheme shall continue to be valid and exercisable in accordance with the Share Option Scheme.

On 22 May 2015, a new share option scheme were approved by the shareholders of the Company ("2015 Share Option Scheme"). The principal terms of the 2015 Share Option Scheme were summarized in the Appendix of the circular of the Company dated 5 May 2015.

OUTSTANDING SHARE OPTIONS

Share Option Scheme

As at 30 June 2019, options to subscribe for an aggregate of 77,498,000 Shares granted pursuant to the Share Option Scheme were outstanding. Details of which were as follows:

			Number of share options				
Name of grantee	Date of grant	Exercise price per share *HK$*	As at 1 January 2019	Granted during the Period	Exercised during the Period	Lapsed during the Period	As at 30 June 2019 *(note1)*
Directors							
Liu Jun *(note 15)*	13 October 2017	6.476	29,930,000				29,930,000
Zhang Yonghong *(note 15)*	20 June 2019			10,000,000			10,000,000
Liu Xiaodong *(note 15)*	19 July 2018	4.6	4,000,000				4,000,000
Senior management							
Lee Wee Ong *(note 14)*	3 April 2013	4.402	1,500,000				1,500,000
(note 15)	19 July 2018	4.6	2,200,000				2,200,000
Wu Lei *(note 15)*	19 July 2018	4.6	3,500,000				3,500,000
Song Bingchen *(note 15)*	19 July 2018	4.6	3,000,000				3,000,000
Other employees							
In aggregate *(note 2, 14)*	7 April 2010	0.82	1,438,000		(450,000)		988,000
In aggregate *(note 3, 14)*	28 March 2011	1.108	200,000				200,000
In aggregate *(note 4, 14)*	18 November 2013	9.84	9,972,000			(6,592,000)	3,380,000
In aggregate *(note 5, 15)*	19 July 2018	4.6	23,300,000			(4,500,000)	18,800,000
Total			79,040,000	10,000,000	(450,000)	(11,092,000)	77,498,000

Notes:

1. Each Option has a 10-year exercise period, which may be exercised after the expiry of twelve months from the date of the grant of Options.

   For the Options exercisable at HK$0.82 granted on 7 April 2010, the relevant grantees may exercise Options up to 50% and 100%, respectively, of the Shares comprised in his or her option (less any number of Shares in respect of which the Option has been previously exercised), commencing from the first and second anniversaries of the date of the grant of Options.

   For the Options exercisable at HK$1.108 granted on 28 March 2011, the relevant grantees may exercise Options up to 50% and 100%, respectively, of the Shares comprised in his or her Option (less any number of Shares in respect of which the Option has been previously exercised), commencing from the first and second anniversaries of the date of the grant of Options.

   For the Options exercisable at HK$9.84 granted on 18 November 2013, the relevant grantees may exercise Options up to 10%, 20%, 40%, 70% and 100%, respectively, of the Shares comprised in his or her Option (less any number of Shares in respect of which the Option has been previously exercised), commencing from the first, second, third, fourth and fifth anniversaries of the date of the grant of Options.

   For the Options exercisable at HK$6.476 granted on 13 October 2017, the relevant grantees may exercise Options up to 20%, 40%, 60%, 80% and 100%, respectively, of the Shares comprised in his or her Option (less any number of Shares in respect of which the Option has been previously exercised), commencing from the first, second, third, fourth and fifth anniversaries of the date of the grant of Options.

   For the Options exercisable at HK$4.60 granted on 19 July 2018, the relevant grantees may exercise Options up to 33.3%, 66.6% and 100%, respectively, of the Shares comprised in his or her Option (less any number of Shares in respect of which the Option has been previously exercised), commencing from the first, second and third anniversaries of the date of the grant of Options.

   For the Options exercisable at HK$4.60 granted on 20 June 2019, the relevant grantees may exercise Options up to 33.3%, 66.6% and 100%, respectively, of the Shares comprised in his Option (less any number of shares of the Company in respect of which the option has been previously exercised), commencing from the first, second and third anniversaries of the date of the grant of Options.

2. 2 employees have been granted Options under the Share Option Scheme to subscribe an aggregate of 988,000 Shares at HK$0.82 per Share.

3. 2 employees have been granted Options under the Share Option Scheme to subscribe an aggregate of 200,000 Shares at HK$1.108 per Share.

4. 16 employees have been granted Options under the Share Option Scheme to subscribe an aggregate of 3,380,000 Shares at HK$9.84 per Share.

5. 14 employees have been granted Options under the Share Option Scheme to subscribe an aggregate of 18,800,000 Shares at HK$4.6 per Share.

6. The fair value of Options granted under the Share Option Scheme on 7 April 2010, determined using the Binomial Model valuation model, was approximately RMB12,527,000. The significant inputs into the model were exercise price of HK$0.82 standard deviation of expected share price returns of 79.8%, expected life of Options ranging from 3.4 to 5.9 years expected dividend paid out rate of 0% and annual risk-free interest rate of 2.865%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

7. The fair value of Options granted under the Share Option Scheme on 28 March 2011, determined using the Binomial Model valuation model, was approximately RMB1,377,000. The significant inputs into the model were exercise price of HK$1.108 standard deviation of expected share price returns of 77.4%, expected life of Options ranging from 3.8 to 4.9 years expected dividend paid out rate of 0% and annual risk-free interest rate 2.82%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

8. The fair value of Options granted under the Share Option Scheme on 3 April 2013, determined using the Binomial Model valuation model, was approximately RMB3,754,000. The significant inputs into the model were exercise price of HK$4.402 standard deviation of expected share price returns of 75%, expected life of Options ranging from 9.1 to 9.6 years expected dividend paid out rate of 0% and annual risk-free interest rate 1.111%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

9. The fair value of Options granted under the Share Option Scheme on 18 November 2013, determined using the Binomial Model valuation model, was approximately RMB50,125,000. The significant inputs into the model were exercise price of HK$9.84 standard deviation of expected share price returns of 71.5%, expected life of Options ranging from 4.7 to 7.9 years expected dividend paid out rate of 0% and annual risk-free interest rate 1.915%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

10. The fair value of Options granted under the Share Option Scheme on 13 October 2017, determined using the Binomial Model valuation model, was approximately RMB100,356,000. The significant inputs into the model were exercise price of HK$6.476 standard deviation of expected share price returns of 62%, expected life of Options 4.9 years expected dividend paid out rate of 0.9% and annual risk-free interest rate 1.745%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

11. The fair value of Options granted under the 2015 Share Option Scheme on 19 July 2018, determined using the Binomial Model valuation model, was approximately RMB70,258,000. The significant inputs into the model were exercise price of HK$4.6 standard deviation of expected share price returns of 70%, expected life of Options 10 years expected dividend paid out rate of 0% and annual risk-free interest rate 2.13%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

12. In respect of employees resigned during the period whose Options have not been vested, such Options are lapsed, and the share compensation costs recognised previously are credited to condensed consolidated final statement of comprehensive income.

13. The values of Options recognised in share-based compensation reserves are subject to a number of assumptions and with regard to the limitation of the valuation model.

14. The Options were granted under the 2003 Share Option Scheme.

15. The Options were granted under the 2015 Share Option Scheme.

16. The weighted average closing price of the Shares immediately before the date on which these Options were exercised was approximately HK$4.37 per Share.

Save as disclosed, no options were granted, lapsed or cancelled during the Period.

EMPLOYEES' SHARE AWARD SCHEME

On 17 November 2011, the Board adopted an employees' share award scheme pursuant to which existing shares of the Company will be acquired by the trustee from the market at the cost of the Company and be held in trust for the selected employees until such shares are vested with the relevant selected employees in accordance with the provision of the share award scheme. For principal terms of the employees' share award scheme, please refer to the announcement of the Company dated 17 November 2011.

On 8 July 2019, after the approval of the Renewed Scheme Limit and pursuant to the Scheme, the Board resolved to grant an aggregate of 28,100,000 Awarded Shares, representing approximately 2.51% of the total issued share capital of the Company, to 26 selected employees, of which 4,000,000 Awarded Shares is granted to Mr. Zhang Yonghong, an executive Director and chief executive officer of the Company, and 2,000,000 Awarded Shares is granted to Mr. Liu Xiaodong, an executive Director and president of the Company, subject to the vesting periods and conditions of the grant of the Awarded Shares.

Since the adoption date, a total of 74,981,000 Shares has been granted up to the date of this report, representing approximately 6.69% of the issued share capital of the Company as at the date of this report. The Awarded Shares remain outstanding as at 30 June 2019 are set out below:

Name of Grantee	Date of grant	As at 1 January 2019	Granted during the period	Vested during the period	As at 30 June 2019
Ex-director					
Guo Jiang	20 August 2012	8,351,000			8,351,000
Other employees					
In aggregate *(note 1)*	23 November 2011	2,649,780			2,649,780
	17 January 2014	2,000,000		(1,921,001)	78,999
Total		13,000,780			11,079,779

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2019, the interests and short positions of substantial Shareholders (not being Directors and the chief executive of the Company) in the Shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Class of Shares	Long position	Short position	Capacity	Approximate percentage of shareholding as at 30 June 2019
Talent Gain Developments Limited	Ordinary	253,671,964 *(note 1)*		Interest in controlled corporation	22.63%
Digital China Holdings Limited	Ordinary	341,314,821 *(note 1)*		Beneficial owner and Interest in controlled corporation	30.45%
Geng Yi	Ordinary	167,810,271 *(note 2)*	40,000,000	Beneficial Owner and Family Interest	14.97% (long position) 3.57% (short position)
Guo Jiang	Ordinary	167,810,271 *(note 2)*	40,000,000	Beneficial Owner and Family Interest	14.97% (long position) 3.57% (short position)
China Construction Bank Corporation	Ordinary	123,810,461 *(note 3)*		Interest in controlled corporation and person having a security interest in Shares	11.05%
Central Huijin Investment Ltd.	Ordinary	123,810,461 *(note 3)*		Interest in controlled corporation and person having a security interest in Shares	11.05%
Chance Talent Management Limited	Ordinary	123,810,461 *(note 3)*		Interest in controlled corporation and person having a security interest in Shares	11.05%

Notes:

1. Such interests in the Company comprise: (1) 230,263,964 Shares held by Talent Gain Developments Limited; (2) 23,408,000 Shares held by and Unique Golden Limited; and (3) 87,642,857 underlying shares derived from the proposed subscription of the Company by Digital China Holdings Limited pursuant to the formal sale and purchase agreement dated 19 May 2017. Unique Golden Limited is wholly and beneficially owned by Talent Gain Developments Limited, which in turn is wholly and beneficially owned by Digital China (BVI) Limited and indirectly wholly and beneficially owned by Digital China Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 861). Therefore, Talent Gain Developments Limited, is deemed to be interested in the Shares held by Unique Golden Limited, and each of Digital China (BVI) Limited and Digital China Holdings Limited is deemed to be interested in the Shares held by Talent Gain Developments Limited and Unique Golden Limited.

2. Ms. Geng Yi is the spouse of Mr. Guo Jiang. Such interest in the Company comprises: (a) 116,794,146 Shares are held by Guo Jiang and 7,665,125 Shares are held by Ms. Geng Yi; (b) 8,351,000 underlying Shares derived from the awarded shares granted to Mr. Guo Jiang under the employees' share award scheme adopted on 17 November 2011; and (c) 35,000,000 Shares which were borrowed by Mr. Guo Jiang from Mr. Guo Fansheng pursuant to a stock borrowing agreement dated 9 May 2016 entered into between Mr. Guo Jiang and Mr. Guo Fansheng, of which 35,000,000 Shares were subsequently pledged to an independent third party. Ms. Geng Yi is deemed, or taken to have, interested in the shares and underlying shares held by Mr. Guo Jiang pursuant to the SFO.

3. Such interests in the Company comprise: (1) the convertible bonds (i.e. the 2.85% guaranteed and secured convertible bonds due 2020 issued by the Company) subscribed to by Chance Talent Management Limited on 16 November 2018 which may be fully converted to 16,666,667 Shares; and (2) 107,143,794 Shares held by Chance Talent Management Limited as person having security interest. Chance Talent Management Limited is wholly and beneficially owned by CCBI Investments Limited which in turn is wholly and beneficially owned by CCB International (Holdings) Limited which in turn is wholly and beneficially owned by CCB Financial Holdings Limited which in turn is wholly and beneficially owned by CCB International Group Holdings Limited which in turn is wholly and beneficially owned by China Construction Bank Corporation, a company listed on the main board of the Stock Exchange (Stock Code: 939) and the Shanghai Stock Exchange (Stock Code: 601939). China Construction Bank Corporation is owned as to 57.11% by Central Huijin Investment Ltd. Therefore, all of the abovementioned companies in this note 3 and Central Huijin Investment Ltd. are deemed to be interested in the Shares held by Chance Talent Management Limited pursuant to the SFO.

Save as disclosed above, as at 30 June 2019, the Company had not been notified of any interests or short positions of substantial Shareholders or other persons in the shares and underlying shares of the Company which are required to be kept under Section 336 of the SFO.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted written guidelines regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standard of dealings and the said guidelines regarding Directors' securities transactions during the six months ended 30 June 2019.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 24 July 2003 with written terms of reference based on the guidelines set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises two independent non-executive Directors Mr. Zhang Ke and Ms. Qiyan and a non-executive Director, Mr. Li Jianguang. Mr. Zhang Ke is the Chairman of the Audit Committee.

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, and the unaudited interim results of the Group for the period ended 30 June 2019.

AUDITOR

PricewaterhouseCoopers, the auditor of the Company has reviewed these unaudited interim financial information of the Group for the Period.

DIRECTORS' AND MANAGEMENT SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Each of the Directors or the management shareholders of the Company and their respective associates (as defined in the Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the six months ended 30 June 2019.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board had reviewed the Company's corporate governance practices and was satisfied that save as disclosed in the paragraph headed "Significant Event(s) – Change of Directors" in this report, the Company had been in compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2019, 1,100,000 Shares were repurchased by the Company but had not yet been cancelled as at the date of this report.

Save as disclosed in this report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2019.

By order of the Board
HC Group Inc.
Liu Jun
Chairman

Hong Kong, 28 August 2019

As at the date of this report, the Board comprises:
Mr. Liu Jun *(Executive Director and Chairman)*
Mr. Zhang Yonghong *(Executive Director and Chief Executive Officer)*
Mr. Liu Xiaodong *(Executive Director and President)*
Mr. Guo Fansheng *(Non-executive Director)*
Mr. Li Jianguang *(Non-executive Director)*
Mr. Sun Yang *(Non-executive Director)*
Mr. Zhang Ke *(Independent non-executive Director)*
Mr. Zhang Tim Tianwei *(Independent non-executive Director)*
Ms. Qi Yan *(Independent non-executive Director)*