



INTERIM REPORT

2020 中期 報告

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 2020 (the "Period"), together with the comparative figures for the corresponding periods ended 30 June 2019 to the shareholders of the Company (the "Shareholders").

Financial Highlights

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Revenue	5,062,620	6,963,900
EBITDA*	(91,947)	84,771
Loss attributable to equity holders	(248,564)	(163,964)
Diluted EPS	(0.2132)	(0.1463)

Key Financial Figures for the six months ended 30 June 2020

- **Revenue** was approximately **RMB5,062.6 million**, decreased by approximately **RMB1,901.3 million**, or **decreased 27.3%**, when compared to approximately **RMB6,963.9 million** recorded for the corresponding period in 2019.
- The Group's **EBITDA^(note)** was approximately **RMB(91.9) million**, decreased by approximately RMB176.7 million from RMB84.8 million in the first half year of 2019.
- **Loss attributable to Equity Holders of the Company** was approximately **RMB248.6 million** during the first half of 2020, while a loss attributable to equity holders of the Company of approximately RMB164.0 million was recorded for the corresponding period in 2019.
- The **Diluted EPS** was **RMB(0.2132)**, when compared to RMB(0.1463) of last year, on a period-on-period basis.

Note: Profit before interest, income tax, depreciation and amortisations, and share-based compensation

FINANCIAL REVIEW

Revenue	Technology-Driven New Retail Segment	Smart Industries Segment	Platform and Corporate Services Segment	O2O Business Exhibition Centre	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
First half of 2020	382,773	4,520,412	152,283	7,152	5,062,620
First half of 2019	400,882	6,110,523	442,087	10,408	6,963,900
Variance	-4.5%	-26.0%	-65.6%	-31.3%	-27.3%

During the Period, the Group recorded a revenue of approximately RMB5,062.6 million (2019: RMB6,963.9 million), representing a decrease of approximately 27.3% as compared the same period of 2019. The decline of revenue was mainly from the segment of smart industries. The Coronavirus Disease ("COVID-19") pandemic (the "Pandemic") has resulted in extensive nationwide obstructions on factory productions and business operations, many business exhibitions and meetings have been delayed or canceled, leading to the declines of our orders and revenue.

The above table shows the revenue breakdown of the Group.

The Group's operating expenses decreased from approximately RMB532.1 million for the six months ended 30 June 2019 to approximately RMB371.7 million in the Period. The decrease was mainly due to the tightened controls on expenditures related to marketing and staff cost.

The Group's loss attributable to equity holders was approximately RMB248.6 million for the six months ended 30 June 2020, as compared to a loss of RMB164.0 million in the corresponding period of last year, representing an increase of 152%. The loss is mainly attributable to, among other things: (i) impairment of intangible assets to be recognised by the Company for those business units which failed to achieve the expected results; (ii) further impairment provisions for the financial assets to be made by the Company in light of the adverse impact of the Pandemic and economic environment; (iii) the increase in loss shared from associates; (iv) substantial decrease in other gains from fair value change of financial assets; and (v) the Group further contributing its resources to continue promoting the strategic iteration of industrial internet and the construction of transaction scenarios.

BUSINESS REVIEW

Being adversely affected by the Pandemic, the Group's trading business customers reduced their orders in the first half of the year and the trading revenue dropped significantly. In addition, the Group continued to promote the repeated operations of the industrial internet strategy by focusing on "hc360.com (慧聪网)+zol.com.cn (中关村在线)" as its principal business, and actively constructing transaction layout for vertical runways, supporting and incubating runway companies. Although the profits from certain business units were unsatisfactory, the vertical runways were rapidly growing and developing.

As always, the Group has been moving towards its vision of becoming a leading group for "industrial internet" in China and the mission of empowering traditional industries with the Internet and data through focusing on and integrating advantageous resources. The Group's businesses are divided into the platform and corporate services segment, the technology-driven new retail segment, and the smart industries segment.

Platform and corporate services segment

The platform and corporate services segment is committed to developing industrial internet business platform instruments that can help small and medium-sized enterprises ("SMEs") to "improve industrial efficiency" and "create value for customers". This segment also aims at constructing industrial data chains and business layouts to empower SMEs by providing them with more value-added services such as financial services, data marketing and SaaS, promoting the transformation and upgrade of SMEs, and facilitating the economic development of the People's Republic of China (the "PRC").

"hc360.com", being the core operation entity of the platform and corporate services segment, has its strategy to become the "operating service platform of SMEs", with a core value of "managing and operating the infrastructures for multi-stores" for corporate customers.

In February 2020, taking into account the actual difficulties of SMEs affected by the Pandemic, hc360.com responded quickly by taking actions to support the commercial sector. Nine major measures were introduced to facilitate the business expansion of enterprises, helping them to resume production and operation by means of online matching, manual roster, etc. During the Pandemic in the first half of the year, hc360.com has helped tens of thousands of enterprises open online channels for operation and sale, providing more than 40,000 precise inquiries and clues.

Meanwhile, hc360.com launched a new product, namely "Huishengyi" (慧生意), which is a one-stop multi-contact platform, and was positioned as a "salesman in pocket" to assist consumers to automatically seize the business opportunities. Capitalising on buyers' clue lobby and manual matching services, users' demands are satisfied, so as to better improve the connection between enterprises and customers, helping them to solve the operating difficulties such as seeking customers and online operation, as well as to reduce the manual communication cost of the enterprises.

Technology-driven new retail segment

The technology-driven new retail segment is reorganised based on the Group's original "zol.com.cn" ("ZOL") as the principal entity.

The strategic objectives of the technology-driven new retail segment are to connect retailers (small b) through guiding C-end consumers, SaaS tools, reversed customisation, and supply chain services, as well as to enhance their ability to secure customers, profitability and operational efficiency. Meanwhile, with the channel data collected from small b and data analysis, we are able to provide comprehensive "online + offline" marketing solutions to corporate customers (big B) as well as the solutions to core requirements of various parties along the 3C and home appliances industrial chain, forming a B2b2C business model.

In 2020, adjustment and optimisation were made to the corporate organisation structure of the technology-driven new retail segment, establishing five segments, namely "wise marketing", "smart retail", "intelligent platform", "smart enterprise procurement segment" and "self-owned brand segment".

In "wise marketing segment", the wise marketing segment underwent strategic upgrade during the first half of the year to combine the content matrix of new media and Baidu Mini Program organically, which provided the services from Baidu search coverage, transmission of new media content and short video to the construction of retail channels for brands, merchant agent operation, information services for obtaining customers through retail channels + comprehensive agent operation for retail services. With Baidu's accessibility to users and closed-loop service experiences of smart mini programs, wise marketing segment provides users with better experience and customers with marketing services which integrates branding and effectiveness by leveraging ZOL's operating capabilities in the technology industry and media resource and reserves.

In "smart retail segment", ZOL cloud store 3.0 is a joint-brand manufacturer based on the retail matrix created by SaaS cloud store tools. Among which, the selection of products is completed by ZOL's joint manufactures via the central live broadcast rooms of the platform to gather tens of thousands of small b of distributed 2c traffic in private sector, forming a B2b2C industrial router. The products provide b-end users with fast and accurate integrated sinking retail channel. In the first half of 2020, a total of 14 to b live shows have been held successfully by smart retail segment with top-tier brands such as Midea, Little Swan, Meling, TCL, Skyworth, Robam and Fotile, with over 10,000 retailers participating in the live shows, over 300,000 orders were received and over 1 million units of products were sold. Among which, the "618 Big Promotion" activity had a transaction volume of over 200 million, representing a year-on-year increase of 272%, with 4,500 participating retailers.

In “smart enterprise procurement segment”, ZOL business (<http://www.zol.com/>) has created six functional platforms with the core components of supply chain financing, media information flow services, supply chain output and product customisation, procurement platform solutions, value-added after-sales service, and the digital logistics platforms, providing efficient one-stop, customised and intelligent cloud procurement solutions as well as precise quotations for government and corporate customers, allowing such government and corporate customers to achieve sunshine procurement and audit compliance.

In “self-owned brand segment”, the HC & RHT air purification is a national brand independently developed and patented in China. It has been designated as the supplier of air purifier system and fresh air system by fortune 500 enterprises. With the globally patented core technology, NCCO is the first air purifier brand in Mainland China to obtain the German TUV Rheinland certification. Currently, it is providing services to nearly 100 hospitals in over 10 countries around the world. In the first half of 2020, HC & RHT has fully prepared for entering into the Mainland China.

In “intelligent platform segment”, it is responsible for the realisation of technical needs and technological innovation of all businesses, protecting and safeguarding each business, and at the same time carrying out the functions of innovation and incubation of new products.

Smart industries segment

The smart industries segment, which mainly comprises of four key runways: four vertical service platforms for industrial internet (“Union Cotton”, “ibuychem.com” and “nahuomall.com”) and PanPass, an IoT solutions provider for digital transformation. “Focus” and “significant verticality” are the Group’s important strategies for the smart industries segment.

Positioned as an excellent e-commerce integrated service platform for cotton, “Union Cotton” designs a diversified trading pattern for spot commodity mall and enterprise stores, with an aim at achieving cost reduction, convenient procurement, quick financing and efficiency enhancement. It provides one-stop services, including data inquiry, online transaction, supply chain services, warehousing delivery, and settlement for cotton, by deeply integrating the upstream and downstream resources along cotton textile industrial chain through a platform-based pattern. Leveraging on a technical supporting system of the Internet, artificial intelligence and big data, it can fully create synergy effect in the supply chain of cotton textile industry, and develop an e-commerce integrated service platform of cotton with openness, intelligence, high efficiency and convenience, so as to help create value for customers by reducing cost and increasing efficiency, and implement the upgrading and transformation of the cotton textile industry in the digital era.

By sticking to the B2B3.0 strategic focus of “transactions + services” and the strategy of “promotion of the overall development by breakthrough in key points” (重點突破、以點帶面), and relying on the innovation and vitality of industrial internet application in Shanghai, Union Cotton established six regional operation centers in eastern China, central China, northern China, Shandong and Xinjiang with the headquarter in Shanghai, its business presence covers the whole country. In the first half of 2020, despite the negative impacts of the U.S.– China trade war and the global outbreak of COVID-19, it achieved a sales income from transactions of RMB2 billion, with an aggregate sales income via the platform surpassing RMB10 billion, achieving a profit for nine quarters in a row since April 2018, thus gaining extensive market influence and good business reputation in domestic cotton textile chain industry.

In April 2020, the “Union Cotton’s Sales Income Ranking in the Cotton Textile Industry in 2019” (“棉聯”2019年棉紡織行業營業收入排名) was officially released by China Cotton Textile Association. In June 2020, Union Cotton was awarded the title of Industrial E-Commerce “Double Push” Engineering Service Platform in Shanghai in 2020 (2020年度上海市產業電商「雙推」工程服務平台).

Positioned to provide a centralised purchasing and integrated e-business service for chemicals and plastics, “ibuychem.com”(買化塑) was internally incubated by the Group as a non-wholly-owned subsidiary in March 2015, and was 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 chemical, rubber and plastics and new materials industry chain in China. Focusing on procurement and sales in the chemical industry, the platform provides digital services for marketing and trading to 100,000 suppliers and downstream buyer factories through industrial internet technology. In the first half of 2020, the ibuychem.com platform had about 6,500 trading customers, including well-known domestic and overseas enterprises such as PetroChina, Sinopec, DuPont, Akzo Nobel, 3trees and Zhanchen with a trading size of approximately RMB2 billion for the first half of the year. Based on the trading data of buyers and vendors, ibuychem.com has also actively carried out the businesses of supply chain financing and logistic distribution.

Founded in 2016, “nahuomall.com”(拿貨商城) is positioned as a social e-commerce service platform in the area of home appliance 3C. As a bridge between supply chain and terminal consumers, nahuomall.com provides its members with services including supply chain, finance, logistics and after-sales services by constructing a multi-community ecology based on “member-storeowners and KOL” to enhance the trading efficiency and profitability of its member-stores and KOL, thereby building a new retail platform for startup.

Nahuo.com formed strategic cooperative relationship with many top-notch brands. It serves 580,000 home appliance retailers and venturers across the country and has conducted transactions with tens of thousands of distributors with a high purchase rate from repeating customers. By integration of “Ant Order” in retail stores with quality supply chain and reversed factory customisation, Nahuo.com has achieved a positive cycle in business, driven the integration between the channels of opinion leaders and maintenance workers, making the channels of Nahuo.com more diversified.

In January 2020, nahuo.com launched the strategic initiatives of “Three Networks in One” (三網合一) by combining the resources in media broadcast, upstream and downstream industries and trading and finance accumulated in the operation of HC home appliance network for two decades. As a result, clients and information resources of HC home appliance are rejuvenated, along with the continued growth in brand influences and operating data.

In March 2020, nahuo.com introduced a series of business operation tools including “Cloud Store”, empowering the retailers to operate the C-end community in an intelligent way, in order to maximise the social tools to transform economies of acquaintances and has reached tens of millions of users. The grow-up plan of “Super Group Owner” (超級群主) under nahuo.com helps retailers become “small stores with strong background” (小店面、大後台).

In the first half of 2020, nahuo.com had 100,000 registered members, with more than 20,000 active members, over 500 service outlets, and 225 WeChat service accounts, serving more than 250,000 targeted home appliance buyers nationwide. As of the first half of 2020, nahuo.com realise a sales of over RMB160 million by retail transformation.

Beijing PanPass Information Technology Co., Ltd. (北京兆信信息技術股份有限公司) (“PanPass”) (NEEQ Stock Code: 430073) is a platform with Z-SCM, a proprietary intellectual right supply chain management system, as its core, and is based on the technologies such as IoT, big data, artificial intelligence (AI) and computation, as well as the markers of digital code, QR code, RFID, etc. as carriers, providing a lifetime traceability and management service for brand customers.

The announcement regarding the Decision on the First Batch of Periodical Adjustment of Market Tiers in 2020 (2020年第一批市場層級定期調整決定的公告) was issued by National Equities Exchange And Quotations Co., Ltd. on 22 May 2020. As the most powerful listed company in respect of anti-counterfeiting in China, PanPass has successfully entered Innovation Tier, thus embracing greater opportunities from capital market development.

PanPass’s anti-counterfeiting traceability solutions has been serving more than 40,000 enterprises, covering the world’s top 500 enterprises, domestic leading enterprises in the industry, and the construction projects from national key platforms such as MOFCOM, MOA, MIIT. PanPass owns over 20 national invention patents, including anti-counterfeiting patent for codes, and invention patent for product logistics anti-channel conflict management system. During the first half of 2020, PanPass continued to make technological breakthroughs and innovations. PanPass has obtained 1 invention patent certificate, 2 utility model patent certificates and 2 certificates of computer software copyright.

During the first half of this year, PanPass actively participated in China's anti-pandemic works and provided public welfare product support for enterprises, practicing corporate social responsibility by concrete actions. PanPass provided 50,000 to 100,000 anti-counterfeit labels free of charge for every qualified brand enterprise recognised by China that produce social emergency supplies to protect and safeguard the enterprises and brands. They also helped the public check the authenticity and eliminate the falsehood from the truth amidst the Pandemic and shortage of supplies.

In May 2020, the western operation center of PanPass was set up in Chengdu, Sichuan province. The service scope has extended to the surrounding provinces and cities, including Sichuan (where Chengdu is located), Chongqing, Guizhou, Yunnan, Shaanxi, Gansu, and Qinghai, to promote the localisation service strategy. In June 2020, PanPass deepened the strategic cooperation with leading customers such as Langjiu (郎酒) and Luzhou Laojiao (瀘州老窖) and upgraded digital operation and construction projects. With the product digital management platform, PanPass will assist its customers in liquor industry to complete the construction of seven sub-modules including digital coding, digital production, digital logistics, digital marketing, digital internal control, big data application support, and security standard system, in order to practically achieve the digital management of closed-loop supply chain compassing "product research and development – coding production – transportation and logistics – distributors – consumption terminals – consumers – big data analysis – product research and development".

Prospect

The Group was founded in 1992. During the start-up phase from 1992 to 2003, the core product of the Group was HC Trade (慧聰商情), which is a classified advertising service based on paper media. From 2003 to 2017, the Group transformed from paper media to PC and built hc360.com, helping SMEs open stores and provide traffic referral services. In October 2017, the Group achieved a full strategic transformation and committed to becoming a leading industrial internet company in China.

In 2018, the technology-driven new retail segment, with ZOL as the principal entity, transformed from a media company into a new retail company. Through ZOL's influence on upstream and downstream manufacturers along the industry chain and 70 million technological C-end consumers, technology-driven new retail segment had connected 15,000 retailers "small B" and at the same time, helped those "small B" with the selection of products with low price, so as to help them sell their products and provide them with one-stop solutions from online shop opening, media selection for promotion and supply chain management.

Industrial internet is the process of restoring users' behavior, understanding their pain points and reviewing industries across multiple industries. Based on such consideration, among the many vertical runways of the Group, we operate the Company in a cooperative model of "joint investment + incubation" with industrial people. In addition, the Group assisted vertical runway companies to strengthen technology, update and upgrade products, and connect investment financing and traffic resources. The smart industries segment is designed based on the industrial business logic, gradually observing the business behavior of customers, disassembling the behaviours of customers in a transaction, identify the pain points of customers, and turn these pain points into solutions through the Internet, and then provides customers with one-stop solutions based on the entire industry chain. The commercial value of vertical runway company is to endow the Internet and data capabilities in vertical subdivision fields and assist the upstream and downstream customers to reduce costs and enhance efficiency.

In addition to the continuous development of the smart industries segment, the Group will mainly spend our efforts on platform and corporate services segment primarily based on hc360.com. Currently, hc360.com has a huge amount of inquiries and clues every year, proving that B-end buyers are still in rigid demand to buy goods at the right price. hc360.com has abundant resources on buyers accumulated over the past 20 years, and it also has the resources on inquiries and sellers. In the future, hc360.com will match buyers and sellers through AI algorithm to assist customers in seeking business and doing business, being the bottom clue. In addition, we will also construct the middle-level worktable of hc360.com with an open and cooperative mind. At the contact end, hc360.com actively cooperates with Internet traffic giants such as Baidu, Tencent, Sogou and Toutiao. At present, leading companies have strong demand in the TO B field, while the Group has just accumulated a large number of users and, at the same time, has a huge sales system and the competency of reaching customers. The Group and its cooperative partners will develop products collectively, hoping to construct a top-level tool for managing multiple stores and operating multiple stores.

From January 2018 to present, the Group has empowered traditional industries with technological innovation to reconstruct value chain to improve efficiency, load services, help customers in their business, and provide customers with comprehensive Internet solutions based on the pain points of the industry. Amid the weak economy due to the Pandemic, the Group will continue to encounter challenges in the second half of 2020. The Group will further strengthen its market position to overcome the present difficult business environment and challenges. In the three years ahead, while incubating the vertical runway, the Group will committed to cultivating a dual – wheel driving model of "hc360.com + zol.com.cn", meeting the rigid demands of the SMEs through platform-based companies and serving the entire industry chain of the technology industry.

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, 25 August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 30 June 2020, the Group had cash and bank balance of approximately RMB385.9 million (31 December 2019: 331.9 million), which were mainly denominated in Renminbi ("RMB"), and net current assets of approximately RMB746.6 million (31 December 2019: 716.9 million). The Group maintained a strong working capital position during the Period.

As at 30 June 2020, the Group had a total borrowings of RMB2,239,480,000 (as at 31 December 2019: RMB2,304,401,000), of which (i) RMB1,497,016,000 (31 December 2019: RMB1,591,089,000) were bank borrowings; and (ii) RMB742,464,000 (31 December 2019: RMB713,312,000) were other borrowings. The Group's borrowings were mainly denominated in RMB. The bank borrowings bear an average interest rate of 6.26% per annum (31 December 2019: 6.69% per annum) and mature ranging from 2020 to 2022.

Other borrowings with a total principal amount of RMB230,000,000 (31 December 2019: RMB200,000,000) were provided by an independent third party with maturity dates on July 2020, November 2020 and May 2021. These borrowings are interest-free and secured by certain equity shares of a subsidiary. Other borrowings of RMB27,816,000 (31 December 2019: 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 2020 to 2022 and bear average interest rate of 6.34% per annum (31 December 2019: 6.34% per annum). The remaining other borrowings are provided by independent third parties and bear an interest rate ranging from 4.4% to 14.3% per annum (31 December 2019: 4.4% to 14.3% per annum). Details of the Group's borrowings including the maturity profile and interest rate are set out in note 20 to the condensed consolidated interim financial information in this report. As at 30 June 2020, the Group's gearing ratio is 25% (31 December 2019: 28%), which is calculated as net debt divided by total capital.

The capital and reserves attributable to equity holders of the Company decreased by approximately RMB13.7 million from approximately RMB4,023.2 million as at 31 December 2019 to approximately RMB4,009.5 million as at 30 June 2020.

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, Material Acquisitions and Disposal

Save as disclosed in this report, the Group had no significant investments held, nor material acquisitions and disposal of subsidiaries, associates or joint ventures during the Period.

Future plans for material investments

Save as disclosed in this report, the Group had no future plans for material investments or capital assets during the Period.

Staff

The business development and results of the Group relies on the skills, motivation and commitment of its staff. As at 30 June 2020, the Group had 2,007 employees (31 December 2019: 2,043).

Remuneration of employees is generally in line with the market trend and commensurate with the rate in the industry. Share options and share awards 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. Total staff costs including director's emoluments for the Period amounted to approximately RMB179,438,000 (for the six months ended 30 June 2019: RMB261,487,000).

Capital structure

During the Period, 288,000 shares of the Company ("Shares") were issued under the share option scheme.

The total number of issued Shares was 1,320,840,210 as at 30 June 2020.

As at 30 June 2020, 73,393,500 options under the share option scheme (if exercised, 73,393,500 shares may be issued) remain outstanding.

Charges on Group assets

As at 30 June 2020, the Group's bank borrowings amounting to RMB554,000,000 (31 December 2019: RMB730,000,000) are secured by properties, investment properties and right of use assets with a total carrying value amounting to RMB779,087,000 (31 December 2019: RMB979,310,000). Other bank borrowings amounting to RMB358,500,000 (31 December 2019: RMB248,500,000) are secured by restricted bank deposits with carrying amount of RMB407,833,000 (31 December 2019: RMB282,171,000).

Other borrowings amounting to RMB230,000,000 (31 December 2019: RMB200,000,000) are secured by certain equity shares of a subsidiary of the Company. Other borrowings amounting to RMB419,327,000 (31 December 2019: RMB442,218,000) are either guaranteed by the executive directors or non-executive director of the Group and secured by certain inventories, right-of-use assets, listed equity shares held by the Group and the equity shares of certain subsidiaries (31 December 2019: same).

For details, please refer to note 20 to the condensed consolidated interim financial information in this report.

Exchange risk

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

During the Period, the Group did not employ any significant financial instruments for foreign exchange hedging purposes, nor did it employ any major financial instruments for hedging purposes.

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2020.

SIGNIFICANT EVENTS

Huijia Performance Target for the year 2019

According to the audited consolidated financial statement of 北京慧嘉元天文化傳媒有限公司 (Beijing Huijiayuantian Cultural Media Company Limited*, "Beijing Huijia") for the year ended 31 December 2019 dated 27 March 2020, the audited consolidated distributable profit attributable to equity holders of Beijing Huijia for the year ended 31 December 2019 is less than RMB23,660,000, being the minimum level of the performance target for the year ended 31 December 2019 set under the subscription agreement dated 5 January 2018 (the "Subscription Agreement") 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. Pursuant to the Subscription Agreement, no Shares were released to Huijia Vendors, and the Company bought back the 10,909,091 Shares on 20 July 2020 at a total consideration of HK\$1.00, all of which were cancelled on 23 July 2020.

For further details, please refer to the announcements of the Company dated 13 January 2017, 3 February 2017, 5 January 2018 and 27 March 2020.

Placing of new shares under general mandate

On 29 April 2020, the Company entered into a placing agreement (the "Placing Agreement") with Hao Tian International Securities Limited (the "Placing Agent") pursuant to which the Company conditionally agreed to place, through the Placing Agent on a best effort basis, an aggregate of up to 200,000,000 Shares (the "Placing Shares") with a total nominal value of HK\$20,000,000 to placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons (the "Placing"). The Placing Shares were allotted and issued pursuant to the general mandate granted to the Directors by resolution of the shareholders of the Company at the annual general meeting of the Company held on 24 May 2019. The Directors are of the view that the Placing will expand the Company's shareholders and capital base, and optimise the capital structure, which is conducive for lowering its indebtedness and reducing its financial burden.

The Placing was completed on 20 May 2020. An aggregate of 200,000,000 Placing Shares have been successfully placed by the Placing Agent to two Placees, namely Ideal South Limited and Fortune Value Investment Holdings Limited (the "Placees"), at the placing price of HK\$1.20 per Placing Share (the "Placing Price").

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placees and their respective ultimate beneficial owners are third party independent of and not connected with the Company and its connected persons. None of the Placees have become a substantial shareholder of the Company immediately upon the completion of the Placing.

The 200,000,000 Placing Shares represents approximately 15.14% of the issued share capital of the Company as at the date of completion of the Placing.

The Placing Price of HK\$1.20 represents (i) a discount of approximately 9.09% to the closing price of HK\$1.32 per Share as quoted on The Stock Exchange of Hong Kong Limited on the date of the Placing Agreement; and (ii) a discount of approximately 7.41% to the average closing price of HK\$1.296 per Share for the last five consecutive trading days immediately prior to the date of the Placing Agreement.

For further details, please refer to the announcements of the Company dated 29 April 2020 and 20 May 2020.

Use of Proceeds

The gross proceeds from the Placing was approximately HK\$240,000,000. The net proceeds from the Placing, after deduction of the commission for the Placing and other related expenses, amounted to approximately HK\$238,500,000.

The maximum net price raised per Share upon the completion of the Placing was approximately HK\$1.1925 per Share.

The net proceeds from the Placing are prepared to be used in accordance with the intended use as set out in the announcements of the Company dated 29 April 2020 and 20 May 2020. Set out below is the details of the use of proceeds from the Placing during the six months ended 30 June 2020:

Intended use of net proceeds	Percentage of total net proceeds	Proceeds utilised during the six months ended 30 June 2020 (HK\$)	Unutilised proceeds as at 30 June 2020 (HK\$)	Expected timeframe for utilising the remaining unutilised net proceeds (Note)
Repayment of part of the current debt of the Group	80%	38,279,000	152,521,000	August of 2020
For the Group's research and development and general working capital	20%	4,778,000	42,922,000	December of 2020
Total	100%	43,057,000	195,443,000	–

Note:

The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

For further details, please refer to the announcements of the Company dated 29 April 2020 and 20 May 2020.

Adjustment to the Conversion Price of the Convertible Bonds

The Company issued the 2.85% plus HIBOR guaranteed and secured convertible bonds due 2020 to the bondholder (the "Convertible Bonds") on 3 December 2018. As at the date of completion of the Placing, the Company has outstanding Convertible Bonds in an aggregate principal amount of HK\$100,000,000. Pursuant to the terms and conditions of the Convertible Bonds, as a result of the Placing, the conversion price of the Convertible Bonds was adjusted from HK\$4.50 to approximately HK\$4.445 with effect from 20 May 2020. After the adjustment, the maximum number of Shares issuable by the Company upon full conversion of the Convertible Bonds is 22,499,122 (the "Conversion Shares").

For the six months ended 30 June 2020 and up to the date of this report, no Conversion Shares have been issued pursuant to the Convertible Bonds, and there are no proceeds from the Convertible Bonds brought forward from the year ended 31 December 2019.

For further details, please refer to the announcements of the Company dated 16 November 2018, 4 December 2018, 31 December 2019, 29 April 2020 and 20 May 2020.

Change of Chief Financial Officer

Mr. Lee Wee Ong ("Mr. Lee") resigned as the chief financial officer of the Company for other personal commitments with effect from 31 May 2020 but remained at service to the Company as a senior consultant.

Following Mr. Lee's resignation, Ms. Zhao Hong has been appointed as the chief financial officer of the Company with effect from 31 May 2020.

For further details, please refer to the announcement of the Company dated 4 May 2020.

IMPORTANT EVENT(S) AFTER THE PERIOD

Change of Non-executive Director and Members of the Audit Committee

Mr. Li Jianguang resigned as a non-executive Director and a member of the audit committee of the Company (the "Audit Committee"), with effect from 1 July 2020 due to other businesses and personal commitments.

Following his resignation, with effect from 1 July 2020,

- (i) Mr. Lin Dewei was appointed as a non-executive Director; and
- (ii) Mr. Guo Fansheng, an existing non-executive Director, was appointed as a member of the Audit Committee.

For further details, please refer to the announcement of the Company dated 19 June 2020.

Save as disclosed in this report, there were no other important events affecting the Group from 30 June 2020 to the date of this report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF HC GROUP INC.

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 17 to 58, 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 2020 and the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim statement of 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 of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 August 2020

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	Unaudited six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Revenue	6	4,994,332	6,908,267
Interest income from financing services	6	68,288	55,633
		5,062,620	6,963,900
Cost of revenue		(4,715,198)	(6,456,938)
Other income		15,154	15,440
Other gains, net	7	4,770	30,180
Selling and marketing expenses		(236,764)	(340,253)
Administrative expenses		(134,941)	(191,892)
Impairment loss on goodwill and intangible assets	13	(84,830)	(76,202)
Net impairment losses of financial assets		(78,237)	(30,258)
Operating loss		(167,426)	(86,023)
Finance cost, net	9	(82,180)	(75,611)
Share of post-tax (losses)/profits of associates	16	(30,758)	1,533
Share of post-tax loss of a joint venture	16	(967)	–
Loss before income tax		(281,331)	(160,101)
Income tax credit/(expense)	10	14,342	(9,094)
Loss for the period		(266,989)	(169,195)
Other comprehensive income/(loss): Items that may be reclassified to profit or loss			
Currency translation differences	24	(3,854)	(4,995)
Items that will not be reclassified to profit or loss			
Fair value gain on financial assets at fair value through other comprehensive income			
– Group	24	6,096	1,822
– Associate	16	12,319	–
Currency translation differences for financial assets at fair value through other comprehensive income	24	1,129	338
Total comprehensive loss for the period, net of tax		(251,299)	(172,030)

	Note	Unaudited six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Loss attributable to:			
Equity holders of the Company		(248,564)	(163,964)
Non-controlling interests		(18,425)	(5,231)
		(266,989)	(169,195)
Total comprehensive loss attributable to:			
Equity holders of the Company		(232,874)	(166,799)
Non-controlling interests		(18,425)	(5,231)
		(251,299)	(172,030)
Loss per share attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	11	(0.2132)	(0.1463)
Diluted loss per share	11	(0.2132)	(0.1463)

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

The notes on pages 24 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Assets			
Non-current assets			
Investment properties	13	708,998	770,831
Property, plant and equipment	13	60,216	64,139
Right-of-use assets	13	192,718	214,305
Intangible assets	13	2,422,394	2,552,626
Long-term deposits and prepayments	14	23,216	3,568
Loans and interest receivables	15	47,525	42,257
Deferred income tax assets		52,485	46,969
Investments accounted for using equity method	16	936,960	969,248
Finance lease receivables		226,070	176,266
Financial assets at fair value through other comprehensive income	17	74,040	65,387
Financial assets at fair value through profit or loss	17	20,415	20,592
Total non-current assets		4,765,037	4,926,188
Current assets			
Completed properties held for sale		45,420	47,324
Finance lease receivables		151,649	153,481
Loans and interest receivables	15	1,553,015	1,591,722
Deposits, prepayments and other receivables	14	773,345	487,412
Trade receivables	14	320,167	413,698
Contract related assets	14	33,634	22,390
Inventories		129,653	147,523
Financial assets at fair value through profit or loss	17	14,549	22,671
Restricted bank deposit		407,833	282,171
Bank deposits with maturity over three months		69,000	–
Cash and cash equivalents		385,931	331,893
Total current assets		3,884,196	3,500,285
Total assets		8,649,233	8,426,473
Equity			
Equity attributable to the Company's equity holders			
Share capital	22	121,974	103,638
Other reserves	24	3,369,494	3,152,947
Retained earnings		518,022	766,586
Non-controlling interests		4,009,490	4,023,171
		683,127	706,541
Total equity		4,692,617	4,729,712

	Note	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	20	426,250	480,000
Non-current portion of other borrowings	20	24,090	23,539
Lease liabilities		5,082	17,397
Deferred government grants		151,033	155,958
Deferred income tax liabilities		212,604	236,517
Total non-current liabilities		819,059	913,411
Current liabilities			
Trade payables	19	238,686	128,209
Accrued expenses and other payables	19	154,842	130,551
Contract liabilities	18	658,497	410,987
Current portion of bank borrowings	20	1,070,766	1,111,089
Current portion of other borrowings	20	718,374	689,773
Lease liabilities		49,446	74,598
Deferred government grants		11,450	11,450
Convertible bonds – liabilities portion		94,963	90,670
Other taxes payables		95,869	90,488
Income tax payables		44,664	45,535
Total current liabilities		3,137,557	2,783,350
Total liabilities		3,956,616	3,696,761
Total equity and liabilities		8,649,233	8,426,473

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

The notes on pages 24 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	Attributable to the Company's equity holders				Non-controlling interests RMB'000	Total equity RMB'000
		Share Capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance at 1 January 2020		103,638	3,152,947	766,586	4,023,171	706,541	4,729,712
Loss for the period		-	-	(248,564)	(248,564)	(18,425)	(266,989)
Other comprehensive loss:							
Fair value gain on financial assets at fair value through other comprehensive income, net of deferred tax		-	18,415	-	18,415	-	18,415
Currency translation differences	24	-	(2,725)	-	(2,725)	-	(2,725)
Total comprehensive loss for the period ended 30 June 2020		-	15,690	(248,564)	(232,874)	(18,425)	(251,299)
Transactions with owners							
Issuance of new shares in relation to the placement	22,24	18,310	200,116	-	218,426	-	218,426
Exercise of share options	22,24	26	214	-	240	-	240
Share-based compensation	24	-	17,339	-	17,339	-	17,339
Share purchased under share award scheme		-	(8,301)	-	(8,301)	-	(8,301)
Transactions with non-controlling interests		-	(8,511)	-	(8,511)	(4,356)	(12,867)
Disposal of subsidiaries		-	-	-	-	(633)	(633)
Balance at 30 June 2020		121,974	3,369,494	518,022	4,009,490	683,127	4,692,617

	Attributable to the Company's equity holders						
	Note	Share	Other	Retained	Total	Non-	Total
		Capital	reserves	earnings		controlling	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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		-	-	(2,146)	(2,146)	(4,589)	(6,735)
Loss for the period		-	-	(163,964)	(163,964)	(5,231)	(169,195)
Other comprehensive loss:							
Fair value gain on financial assets at fair value through other comprehensive income, net of deferred tax		-	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	22,24	39	279	-	318	-	318
Buy-back of shares	24	-	(3,034)	-	(3,034)	-	(3,034)
Share-based compensation	24	-	36,545	-	36,545	-	36,545
Contribution from non-controlling shareholders of subsidiaries		-	-	-	-	4,236	4,236
Transactions with non-controlling interests		-	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

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

During the six months ended 30 June 2020, retained earnings amounted to approximately RMB4,361,000 (30 June 2019: RMB7,437,000) had been transferred to the statutory reserves. As at 30 June 2020, retained earnings comprise statutory reserves amounting to RMB117,082,000 (31 December 2019: RMB112,721,000).

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

The notes on pages 24 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Cash flows from operating activities		
Cash generated from/(used in) operations	223,584	(60,747)
Interest received	8,890	6,571
Interest paid	(71,003)	(67,910)
The People's Republic of China income tax paid	(16,789)	(28,170)
Net cash generated from/(used in) operating activities	144,682	(150,256)
Cash flows from investing activities		
Acquisition of a subsidiary, net of cash acquired	–	(35,742)
Disposal of subsidiaries, net of cash disposed	43,501	–
Additions of property, plant and equipment	(3,386)	(107,455)
Additions of intangible assets	(18)	–
Additions of investment in a joint venture	(1,840)	–
Proceeds from disposal of property, plant and equipment	325	669
Loans to associates	(8,964)	–
Transaction with non-controlling interests	–	4,330
Advance payment for acquiring intangible assets	(16,113)	–
Advance payment for acquiring a financial asset	(5,500)	–
Proceeds from disposal of financial assets at fair value through other comprehensive income	5,000	5,000
Dividend received	18,440	21,815
Net cash generated from/(used in) investing activities	31,445	(111,383)
Cash flows from financing activities		
Issuance of new shares in relation to the placement	218,426	–
Buy-back of shares	–	(3,034)
Proceeds from bank borrowings	420,000	428,800
Proceeds from other borrowings	74,748	249,263
Purchase of shares under share reward scheme	(8,301)	–
Repayment of bank borrowings	(514,000)	(46,656)
Repayment of other borrowings	(74,888)	(377,113)
Repayment of lease liabilities	(37,322)	(33,863)
Transactions with non-controlling interests	(12,867)	–
Capital contribution from non-controlling interests	–	4,236
Dividend paid to non-controlling interests	–	(1,608)
Increase in restricted bank deposit	(119,165)	–
Increase in bank deposits with maturity over three months	(69,000)	–
Exercise of share options	240	318
Net cash (used in)/generated from financing activities	(122,129)	220,343
Net increase/(decrease) in cash and cash equivalents	53,998	(41,296)
Cash and cash equivalents at beginning of the period	331,893	471,672
Exchange gain on cash and cash equivalents	40	47
Cash and cash equivalents at end of the period	385,931	430,423

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

The notes on pages 24 to 58 form an integral part of this unaudited condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

HC Group Inc. (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 Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are 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 products information via “zol.com.cn”;
- selling 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;
- selling of properties and providing property rental and management services via its O2O business exhibition centre; and
- hosting exhibitions and seminars.

The condensed consolidated interim financial information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) unless otherwise stated. The condensed consolidated interim financial information has been approved for issue by the Board on 25 August 2020.

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

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2020 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 2019 and any public announcements made by HC Group Inc. during the interim reporting period.

3 Accounting policies

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

(a) Amended standards and framework adopted by the Group

A number of amended standards and framework became applicable for the current reporting period:

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge Accounting
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 16	COVID-19-related Rental Concession

The amended standards and framework listed above did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future period.

(b) New and amended standards issued by not yet effective

Certain new and amended standards have been published that are not mandatory for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁽¹⁾
Amendments to HKAS 16	Proceeds before Intended Use ⁽¹⁾
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ⁽¹⁾
Amendments to HKFRS 3	Update Reference to the Conceptual Framework ⁽¹⁾
Amendments to annual improvements project	Annual Improvements to HKFRS 2018-2020 cycle ⁽¹⁾
HKFRS 17	Insurance Contracts ⁽²⁾
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾

⁽¹⁾ Effective for the Group for annual period beginning on 1 January 2022

⁽²⁾ Effective for the Group for annual period beginning on 1 January 2023

⁽³⁾ Effective date to be determined

Taxes on income for the interim period are accrued using the estimated tax rates that would be applicable to expected total annual assessable profit.

4 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 2019.

5 Financial risk management

5.1 Financial risk factors

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

The condensed consolidated interim financial information does 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 consolidated financial statements as at 31 December 2019.

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

5.2 Liquidity risk

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

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2020 and 31 December 2019 by level of inputs to valuation techniques used to measure the fair value. Such inputs are categorised into three levels within a fair value hierarchy 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 carried at fair value as at 30 June 2020 and 31 December 2019:

At 30 June 2020

	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	74,040	–	–	74,040
Financial assets at fair value through profit or loss	–	–	34,964	34,964
	74,040	–	34,964	109,004

At 31 December 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	65,387	–	–	65,387
Financial assets at fair value through profit or loss	–	–	43,263	43,263
	65,387	–	43,263	108,650

There were no transfers between Level 1 and 3 during the period.

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices as at the end of the reporting period. 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. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) *Financial instruments in level 3*

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include the use of quoted market prices and adjusted price-to-book ratio of similar instruments.

The following table represents the changes in level 3 instruments for the periods ended 30 Jun 2020 and 2019:

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
At 1 January	43,263	17,498	–	32,600
Disposals	–	–	–	(32,600)
Fair value changes (charged)/credited to profit or loss	(8,299)	30,002	–	–
At 30 June	34,964	47,500	–	–

The Group's finance department includes a team that performs and monitors the valuation of financial assets required for financial reporting purposes, including level 3 fair values with assistance of external valuers. 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 least once every half year, in line with the Group's half-yearly reporting dates.

6 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/(loss) before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments.

The Group is organised into the following business segments:

- (i) Technology-driven new retail segment, which mainly includes provision of online advertising services through “zol.com.cn” as well as B2B2C retail business of electronics products by leveraging big data and internet technology through the Group’s websites and trading platform.
- (ii) Smart industries segment, which mainly includes B2B trading platforms, provision of anti-counterfeiting products and services, and supply chain management service as well as sales and leases of construction equipment.

Since Hunan Zhongmoyun Construction Science and Technology Co., Limited (“Zhongmo”) and its subsidiaries (collectively, “Zhongmo Group”), which engages in sales and leases of construction equipment, ceased to be subsidiaries of the Group but accounted as associate using equity method upon its share placement on 26 December 2019. Zhongmo Group’s revenue is no longer consolidated as the Group’s segment revenue in the 2020 reporting period.

- (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 revenue and results, and there were no sales or other transactions between the business segments for the periods ended 30 June 2020 and 2019.

	Unaudited six months ended 30 June 2020				Total RMB'000
	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	
Revenue	382,773	4,520,412	83,995	7,152	4,994,332
Interest income from financing services	–	–	68,288	–	68,288
Total revenue and income (note)	382,773	4,520,412	152,283	7,152	5,062,620
Impairment loss on intangible assets	–	(37,645)	(47,185)	–	(84,830)
Segment results	(16,447)	(59,086)	(82,097)	(29,720)	(187,350)
Other income					15,154
Other gains, net					4,770
Share of post-tax losses of associates					(30,758)
Share of post-tax loss of a joint venture					(967)
Finance income					11,212
Finance cost					(93,392)
Loss before income tax					(281,331)
Other information:					
Depreciation and amortisation					89,865
Share-based compensation					17,339

	Unaudited six months ended 30 June 2019				Total RMB'000
	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	
Revenue	400,882	6,110,523	386,454	10,408	6,908,267
Interest income from financing services	–	–	55,633	–	55,633
Total revenue and income (note)	400,882	6,110,523	442,087	10,408	6,963,900
Impairment loss on goodwill	–	(38,426)	(37,776)	–	(76,202)
Segment results	(25,749)	(18,005)	(48,755)	(39,134)	(131,643)
Other income					15,440
Other gains, net					30,180
Share of post-tax profits of associates					1,533
Finance income					8,288
Finance cost					(83,899)
Loss before income tax					(160,101)
Other information:					
Depreciation and amortisation					132,716
Share-based compensation					36,545

The Group is domiciled in the PRC. For the six months ended 30 June 2020, all revenue is derived from the operation in the PRC from external customers, except for the related party transactions disclosed in note 25 (30 June 2019: same).

Note:

Disaggregation of revenue

	Unaudited six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Timing of revenue recognition		
– At a point in time	4,788,521	6,451,912
– Overtime	191,551	316,635
	4,980,072	6,768,547

	Unaudited six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Revenue from contract with customers:		
Sales of goods through B2B trading platform	4,697,961	6,300,823
Online services and advertisement	169,462	273,360
Anti-counterfeiting products and services	57,946	80,705
Marketing events, exhibition, seminars and other services	51,075	108,526
Sales of properties and properties management services	3,135	2,121
Sales of construction equipment	–	1,356
Others	493	1,656
	4,980,072	6,768,547
Income from other sources:		
Interest income from financing services	68,288	55,633
Rental income from investment properties	14,260	4,638
Rental income from leasing of construction equipment	–	135,082
Total revenue and income	5,062,620	6,963,900

7 Other gains, net

Other gains, net, mainly consist of the following:

	Unaudited six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Change in fair value on financial assets at fair value through profit or loss	(8,299)	30,002
Gains on disposal of subsidiaries (note)	12,664	–

Note:

The amount mainly represents gain on disposal of a wholly-owned subsidiary, Shanghai HuiFa Information Technology Company Limited* (上海慧發信息技術有限公司) (“Huifa”), which is a properties holding company. On 12 May 2020, the Group entered into share purchase agreement with an independent third party, in respect of the disposal of entire interest in Huifa for a cash consideration of RMB50,000,000. The book value of the net assets of Huifa disposed amounted to RMB37,989,000 and resulted in a gain of disposal of a subsidiary amounted RMB12,011,000.

* English name is for translation purpose only.

8 Loss before income tax

The loss before income tax is arrived at after charging:

	Unaudited six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Direct expenses of B2B trading platform	4,660,751	6,266,508
Cost of goods sold for anti-counterfeiting products and services	29,357	42,279
Cost of properties sold	1,904	–
Interest cost for financing services	3,698	7,564
Agency costs	4,374	18,988
Amortisation of investment properties (note 13)	15,476	9,129
Amortisation of intangible assets (note 13)	46,008	50,583
Depreciation of property, plant and equipment (note 13)	6,794	50,752
Depreciation of right-of-use assets (note 13)	21,587	22,252
Employee benefits expenses, including directors' emoluments	164,028	242,319
Impairment loss on goodwill and intangible assets (note 13)	84,830	76,202
Marketing and consultancy expenses	40,157	82,465
Provision for impairment of trade receivables (note 14)	33,971	8,210
Provision for impairment of loans to customers of financing service business	23,338	21,085
Provision for impairment of other loans and interest receivables	5,041	13
Provision for impairment of other financial assets	15,887	950
Repair and maintenance expense for construction equipment	–	20,910
Staff commission	15,410	19,168
Subcontracting labour fee	–	78,316
Transportation expense	5,810	14,335
Expenses relating to short term leases		
– Short term leases	2,795	2,231
– Rental of construction equipment	–	3,714

9 Finance cost, net

	Unaudited six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest expense:		
– Bank borrowings	(49,422)	(44,157)
– Other borrowings	(35,304)	(26,275)
– Convertible bonds	(5,976)	(7,386)
– Lease liabilities	(2,430)	(4,746)
– Others	(260)	(2,101)
Finance cost	(93,392)	(84,665)
Amount capitalised on qualifying assets (note)	–	766
Finance income	11,212	8,288
Finance cost, net	(82,180)	(75,611)

Note: No borrowing costs were capitalised during the six months ended 30 June 2020 (30 June 2019: capitalisation rate used to determine the amount of borrowing costs to be capitalised was the weighted average interest rate applicable to the Group's general borrowings during the period was around 6.85%).

10 Income tax credit/(expense)

	Unaudited six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Current income tax expense		
– Hong Kong profits tax (<i>note i</i>)	–	–
– The PRC corporate income tax (“CIT”) (<i>note ii</i>)	(15,918)	(30,988)
– The PRC land appreciation tax (<i>note iii</i>)	(598)	–
Deferred income tax credit		
– The PRC corporate income tax	30,858	21,894
Income tax credit/(expense)	14,342	(9,094)

Income tax expense is recognised based on management’s best knowledge of the income tax rates expected for the reporting period.

Note:

- (i) No Hong Kong profits tax has been provided as there is no assessable profits arising in Hong Kong for the period ended 30 June 2020 (30 June 2019: Nil).
- (ii) The PRC CIT 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 that subject to a reduced preferential CIT rate of 15% for a 3-year period. Moreover, certain subsidiaries of the Group were subjected to a reduced Preferential CIT rate ranging from 5% to 10% for Small Low-profit Enterprises.

- (iii) The PRC land appreciation tax is levied at progressive rates of 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures, including land use right and all property development expenditures.

11 Loss per share

	Unaudited six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Loss attributable to equity holders of the Company	(248,564)	(163,964)

	Unaudited six months ended 30 June	
	2020 Number of shares '000	2019 Number of shares '000
Weighted average number of shares for the purpose of basic and diluted loss per share	1,165,745	1,120,562

	Unaudited six months ended 30 June	
	2020	2019
Basic loss per share (in RMB)	(0.2132)	(0.1463)
Diluted loss per share (in RMB)	(0.2132)	(0.1463)

Basic loss per share is calculated by dividing the loss attributable to equity holders 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 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 period) for the same total proceeds is the number of shares issued for no consideration.

During the period ended 30 June 2020, all of these convertible debt and the share options had anti-dilutive effect to the Company and therefore diluted loss per share is the same as basic loss per share (30 June 2019: same).

12 Dividends

No dividend was paid or declared by the Company during the period (30 June 2019: Nil).

13 Property, plant and equipment, investment properties, right-of-use assets and intangible assets

	Property, plant and equipment <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Right-of-use assets <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Goodwill <i>RMB'000</i>
Opening net book amount as at 1 January 2020	64,139	770,831	214,305	1,010,218	1,542,408
Additions	3,386	–	–	18	–
Disposals	(420)	(8,761)	–	–	–
Disposal of subsidiaries	(95)	(37,596)	–	–	–
Impairment (note i)	–	–	–	(84,830)	–
Depreciation and amortisation	(6,794)	(15,476)	(21,587)	(46,008)	–
Exchange difference	–	–	–	588	–
Closing net book amount as at 30 June 2020	60,216	708,998	192,718	879,986	1,542,408
Opening net book amount as at 1 January 2019	533,787	623,829	–	1,148,267	1,843,785
Effect on adoption of HKFRS16	–	–	259,118	–	–
Additions	108,221	–	5,554	291	–
Disposals	(450)	–	–	–	–
Impairment	–	–	–	–	(76,202)
Depreciation and amortisation	(50,752)	(9,129)	(22,252)	(50,583)	–
Exchange difference	–	–	–	112	321
Closing net book amount as at 30 June 2019	590,806	614,700	242,420	1,098,087	1,767,904

As at 30 June 2020, the Group held three properties as investment properties, which are measured at cost.

The fair value of the investment property of Shunde Household Electrical Appliances Centre was determined by an independent valuer, Vigers Appraisal and Consulting Limited at RMB727,000,000 as at 30 June 2020 (31 December 2019: RMB778,000,000). The fair value of the investment property is derived using the market comparison approach. This valuation method is essentially a mean of valuing the investment 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 of other investment properties were determined by another independent valuer, Shenzhen Guoce Real Estate Land Appraisal Co., Ltd., at RMB246,207,000 as at 30 June 2020 (31 December 2019: RMB297,394,000). The fair value of investment properties are derived using the income approach. This valuation method is essentially a mean of valuing the investment properties by discounting cash flow projections based on reliable estimates of future cash flows.

The fair value is valued by independent professionally qualified valuers who hold recognised relevant professional qualifications and have 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 valuers for financial reporting purpose. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC).

At the end of the reporting period, finance department:

- verifies all major inputs to the independent valuation reports;
- assesses property valuations movements when compared to the prior year valuation report; and
- holds discussion with the independent valuers.

The investment properties are leased to tenants under operating leases with rentals payable monthly with no variable lease payments.

Impairment test for goodwill and other intangible assets

Management monitors and reviews the business performance at the operating segment level. Goodwill are allocated to following cash-generating units (“CGUs”) identified.

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Technology-driven new retail segment		
Online services – B2B2C business	980,247	980,247
New technology retails solution	454,720	454,720
Smart industries segment		
Anti-counterfeiting products and services	50,314	50,314
Trading services – cotton industry	21,544	21,544
Platform and corporate services segment		
Financing services	19,626	19,626
Electronic appliance e-business	15,957	15,957
	1,542,408	1,542,408

The recoverable amounts of the CGUs are determined based on a value-in-use calculation. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering five or ten year periods depending on individual CGU circumstances. Cash flows beyond the five or ten year periods are extrapolated using the estimated terminal growth rate of the CGU. Management estimates the pre-tax discount rate that reflects market assessment of the time value of money and specific risk relating to the industry.

Note (i) Impairment of intangible assets related to “online services – garment industry” and “integrated marketing and advertising services” CGU.

Management has been reviewing the business development and operations of ZhongFu Holdings Limited (“Zhongfu”) and Huijia Yuantian Limited (“Huijia”) where the operating environment continued to be very challenging. Due to fierce competition in the e-commerce industry and the outbreak of Coronavirus disease (“COVID-19”), the business transformation plans in these two CGUs cannot be implemented successfully as expected. These factors lead to a substantial decline in revenue of Zhongfu and Huijia during the six months ended 30 June 2020 as compared to the prior financial budget.

As a result, the recoverable amount of these CGUs determined based on the value-in-use calculations was lower than the carrying amount of these CGUs, and resulting in a provision for impairment loss on intangible assets for the online services-garment industry CGU and integrated marketing and advertising services CGU amounting to RMB37,645,000 and RMB47,185,000, respectively.

Note (ii) Impairment test for remaining CGUs

As at 30 June 2020, 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 non-financial assets.

14 Trade receivables, contract related assets, deposits, prepayments and other receivables

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade receivables (note a)	384,151	477,227
Less: impairment allowance	(63,984)	(63,529)
Trade receivables, net	320,167	413,698
Deposits, prepayments and other receivables (note b)	796,561	490,980
Contract related assets, net (note c)	33,634	22,390
	1,150,362	927,068
Less: Non-current deposits and prepayments (note b)	(23,216)	(3,568)
Current portion	1,127,146	923,500

(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 is as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Current to 90 days	293,196	301,627
91 to 180 days	24,503	47,678
181 to 270 days	13,095	42,664
271 to 365 days	1,851	26,999
Over 1 year	51,506	58,259
	384,151	477,227

Note:

Movements in the provision for impairment of trade receivables are as follows:

	Unaudited six months ended 30 June 2020 RMB'000	2019 RMB'000
At 1 January	63,529	32,427
Provision for impairment of trade receivables	33,971	8,210
Write off for impaired trade receivables	(33,516)	(600)
At 30 June	63,984	40,037

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.

(b) Deposits, prepayments and other receivables

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Non-current portion:		
– Deposits	1,603	3,568
– Prepayment for acquiring intangible assets	16,113	–
– Prepayment for acquiring a financial asset	5,500	–
	23,216	3,568
Current portion:		
– Deposits	11,131	5,986
– Prepayments	698,380	343,315
– Amount due from an associate	–	67,120
– Refund receivables from a supplier	33,752	33,752
– Other receivables for disposal of a financial asset at fair value through other comprehensive income	12,600	17,600
– Other receivables	17,482	19,639
	773,345	487,412
	796,561	490,980
The fair values are as follows:		
Deposits	12,734	9,554
Prepayments	719,993	343,315
Other receivables	63,834	138,111
	796,561	490,980
Denominated in:		
Hong Kong dollars (“HK\$”)	1,219	1,862
RMB	795,342	489,118
	796,561	490,980

(c) Contract related assets

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Contract assets related to online services and advertisement Less: impairment allowance	21,259 (1,633)	7,428 (218)
Contract assets related to online services and advertisement, net	19,626	7,210
Contract assets recognised for costs incurred to obtain contract	14,008	15,180
Contract related assets, net	33,634	22,390

Note:

Contract related assets mainly represent revenue arising from online services and advertisement recognised prior to the agreed payment schedule date. Sales commissions and agency fees paid in respect of obtaining subscription revenue has also been capitalised and amortised when the related revenue is recognised.

15 Loans and interest receivables

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

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Loans to customers of financing services business (<i>note</i>)	1,668,685	1,684,983
Loans to employees	3,885	3,885
Loans to associates and a joint venture	69,831	60,867
Interest receivables	27,717	25,443
Loans and interest receivables, gross	1,770,118	1,775,178
Less: impairment allowance		
– loans to customers of financing service business (<i>note</i>)	(163,352)	(140,014)
– loans to employees	(99)	(31)
– loans to associates and a joint venture	(5,417)	(1,006)
– interest receivables	(710)	(148)
Loans and interest receivables, net	1,600,540	1,633,979
Less: Non-current portion	(47,525)	(42,257)
Current portion	1,553,015	1,591,722

Note:

The following analysis only comprises loans granted in financing services business:

(a) Analysed by nature

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Loans to customers of financing services business	1,668,685	1,684,983
Less: impairment allowance	(163,352)	(140,014)
	1,505,333	1,544,969

(b) Analysed by type of collateral

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Unsecured loans	1,159,130	1,169,729
Guaranteed loans	190,111	190,684
Collateralised loans	319,444	324,570
Loans to customers of financing service business	1,668,685	1,684,983
Less: impairment allowance	(163,352)	(140,014)
	1,505,333	1,544,969

16 Investments accounted for using equity method

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Associates	936,087	969,248
Joint venture	873	–
	936,960	969,248

Movements in the investments in associates are as follows:

	Unaudited six months ended 30 June 2020 RMB'000	2019 RMB'000
At 1 January	969,248	677,808
Addition	2,730	–
Dividends received from an associate	(17,452)	(21,815)
Share of post-tax (losses)/profits of associates	(30,758)	1,533
Share of other comprehensive income of an associate	12,319	–
At 30 June	936,087	657,526

Movements in the investment in a joint venture are as follows:

	Unaudited six months ended 30 June 2020 RMB'000	2019 RMB'000
At 1 January	–	–
Addition	1,840	–
Share of post-tax loss of a joint venture	(967)	–
At 30 June	873	–

Set out below are the summarised financial information of the associates and joint venture which, in the opinion of directors, are material to the Group and are accounted for using equity method. The associates and joint venture as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of establishment or registration are also their principal place of business.

Name of entity	Place of business/country of establishment	% of effective interest 30 June 2020 and 31 December 2019	Nature of the relationship	Measurement method	Carrying amount	
					Unaudited 30 June 2020	Audited 31 December 2019
Hui De Jia Mei Technology Co., Ltd.* ("慧德嘉美科技有限公司")	PRC	12.0	Associate (note i)	Equity method	16,227	18,122
Zhejiang Huicong Investment Co., Ltd.* ("浙江慧聰投資有限公司")	PRC	29.6	Associate (note ii)	Equity method	35,813	35,740
Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Limited* ("內蒙古呼和浩特金谷農村商業銀行有限公司")	PRC	9.8	Associate (note iii)	Equity method	553,076	573,908
Hunan Zhongmoyun Construction Science and Technology Co., Limited* ("湖南中模雲建築科技有限 公司")	PRC	36.1	Associate (note iv)	Equity method	284,143	296,371

* English names are translated for identification purpose only

Note i Hui De Jia Mei Technology Co., Ltd* ("Hui De") provides investment management and project investments in the PRC. The Group holds 60% equity interest of Huicong (Tianjin) E-commerce Investment Company Limited* ("慧聰(天津)電子商務產業投資有限公司"), a subsidiary of the Group, which in turn holds 20% equity interest in Hui De.

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

Note iii The Group directly holds 9.8% equity interest of Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Limited ("Jingu"), which provides products and services on bank deposits, loans and advances in PRC and other business approved by the China Banking Regulatory Commission. During the six months ended 30 June 2020, the Group received dividends from Jingu amounting to RMB17,452,000.

Note iv Zhongmo engages in sales and leases of construction equipment. On 26 December 2019, Zhongmo completed its share placement to an independent third party in which the Group's equity interest in Zhongmo was diluted from 36.8% to 36.1%, and no longer be able to control but continue to exercise significant influence over Zhongmo. Upon completion, Zhongmo Group has then been accounted for as investment in associates using the equity method of accounting.

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

	Fair value through profit or loss		Financial assets at fair value through other comprehensive income	
	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Contingent shares in relation to acquisition of Huijia	14,549	22,671	–	–
Trading securities – listed securities	–	–	74,040	65,387
Equity investment – unlisted securities	20,415	20,592	–	–
	34,964	43,263	74,040	65,387
Less: Non-current portion	(20,415)	(20,592)	(74,040)	(65,387)
Current portion	14,549	22,671	–	–

As at 30 June 2020, the fair value of the contingent consideration was RMB14,549,000 (31 December 2019: RMB22,671,000). The change in the fair value of RMB8,122,000 for the period was charged to “other gains, net” in the condensed consolidated statement of comprehensive income.

For the fair value estimation of the financial assets at fair value, please refer to note 5.3.

18 Contract liabilities

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Contract liabilities related to online services and advertisement	121,880	125,371
Contract liabilities related to sales of goods on B2B trading platform	451,807	215,993
Contract liabilities related to sales of properties and properties management services	84,810	69,623
	658,497	410,987

Note:

Contract liabilities mainly represent advance payments received from customers related to online services and advertisement, B2B trading platform, sales of properties and properties management services.

19 Trade payables, accrued expenses and other payables

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade payables (<i>note a</i>)	238,686	128,209
Accrued salaries and staff benefits	24,949	32,518
Accrued agency commission	12,361	15,432
Accrued expenses	61,020	38,101
Deposits from customers	34,503	37,485
Other payables	22,009	7,015
	393,528	258,760

(a) Trade payables

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

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Current to 90 days	230,269	115,752
91 to 180 days	4,120	9,984
181 to 365 days	2,011	2,473
Over 1 year	2,286	–
	238,686	128,209

20 Borrowings

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Non-current portion:		
Bank borrowings	426,250	480,000
Other borrowings	24,090	23,539
	450,340	503,539
Current portion:		
Bank borrowings	1,070,766	1,111,089
Other borrowings	718,374	689,773
	1,789,140	1,800,862
Total borrowings	2,239,480	2,304,401

Bank borrowings bear average interest rate of 6.26% per annum (31 December 2019: 6.69% per annum), mature ranging from 2020 to 2022 part of which amounting to RMB554,000,000 (31 December 2019: RMB730,000,000) are secured by properties, investment properties and right-of-use assets, with a total carrying value amounting to RMB779,087,000 (31 December 2019: RMB979,310,000). Other bank borrowings amounting to RMB358,500,000 (31 December 2019: RMB248,500,000) are secured by restricted bank deposits with carrying amount of RMB407,833,000 (31 December 2019: RMB282,171,000).

Other borrowings with a total principal amount of RMB27,816,000 (31 December 2019: 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. These borrowings are unsecured, mature ranging from 2020 to 2023 and bear average interest rate of 6.34% per annum (31 December 2019: 6.34% per annum). During the period ended 30 June 2020, the corresponding interest expenses was approximately RMB882,000 (30 June 2019: RMB882,000).

Other borrowings with a total principal amount of RMB230,000,000 (31 December 2019: RMB200,000,000) were provided by an independent third party with maturity dates on July 2020, November 2020 and May 2021. These borrowings are interest-free and secured by certain equity shares of a subsidiary.

The remaining other borrowings are provided by independent third parties and bear interest rate ranging from 4.4% to 14.3% per annum (31 December 2019: 4.4% to 14.3% per annum). Out of these other borrowings, RMB419,327,000 (31 December 2019: RMB442,218,000) are either guaranteed by the executive directors or non-executive director of the Group and secured by certain inventories, right-of-use assets, listed equity shares held by the Group and the equity shares of certain subsidiaries (31 December 2019: same).

The table below summarises 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 2020 RMB'000	Audited 31 December 2019 RMB'000	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Within 1 year	1,070,766	1,111,089	718,374	689,773
Between 1 and 2 years	392,500	400,000	–	–
Between 2 and 4 years	33,750	80,000	24,090	23,539
	1,497,016	1,591,089	742,464	713,312

As at 30 June 2020, the Group has no undrawn banking facilities (31 December 2019: Nil).

21 Convertible bond

The Company issued the convertible bond at a coupon rate of 2.85% plus HIBOR to Chance Talent Management Limited (the "bondholder"), an independent third party, on 3 December 2018.

On 31 December 2019, the Group had entered in an amendment agreement with the bondholder to adjust the conversion price from HK\$6.00 to HK\$4.50, subject to the completion of the conditions precedent under the amendment agreement, which had been completed on 23 April 2020, and hence effective.

On 20 May 2020, the Company issued new shares through share placement. Pursuant to the terms and conditions of the original agreement, as a result of the placement, the conversion price of the convertible bond was then adjusted from HK\$4.50 to approximately HK\$4.445 with effect on the same date.

22 Share capital

	Number of ordinary shares	Par value RMB'000
At 1 January 2020	1,120,552,210	103,638
Insurance of new shares in relation to the placement (<i>note i</i>)	200,000,000	18,310
Exercise of share options (<i>note ii</i>)	288,000	26
At 30 June 2020	1,320,840,210	121,974
At 1 January 2019	1,120,402,210	103,625
Exercise of share options	450,000	39
At 30 June 2019	1,120,852,210	103,664

The total authorised number of ordinary shares is 2,000,000,000 shares (31 December 2019: 2,000,000,000 shares) with a par value of HK\$0.1 per share (31 December 2019: HK\$0.1 per share). All issued shares are fully paid.

The total number of issued shares of the Company were 1,320,840,210 shares as at 30 June 2020 (31 December 2019: 1,120,552,210 shares).

Note i On 20 May 2020, the Company issued 200,000,000 shares by placing to two independent third parties, Ideal South Limited and Fortune Value Investment Holdings Limited, at a price of HK\$1.2 per share. The proceeds net of transaction costs, amounted to approximately HK\$238,500,000 (equivalent to RMB218,426,000). The placement resulted in an increase of share capital and share premium by approximately RMB18,310,000 and RMB200,116,000, respectively.

Note ii During the six months ended 30 June 2020, 288,000 shares of the Company were issued upon exercise of share options under the share option scheme of the Company at exercise price ranging from HK\$0.82 to HK\$1.108, and resulted in approximately RMB26,000 increase in share capital and RMB214,000 increase in share premium.

(a) Share options

During the period ended 30 June 2020, 288,000 share options were exercised (30 June 2019: 450,000 share options).

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

	2020		2019	
	Exercise price in HK\$ per share	Share options	Exercise price in HK\$ per share	Share options
At 1 January	0.82	188,000	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	40,150,000	4.6	36,000,000
Granted	0.82	–	0.82	–
	1.108	–	1.108	–
	4.402	–	4.402	–
	9.84	–	9.84	–
	6.476	–	6.476	–
	4.6	–	4.6	10,000,000
Lapsed, forfeited or exercised	0.82	(188,000)	0.82	(1,250,000)
	1.108	(100,000)	1.108	–
	4.402	–	4.402	–
	9.84	–	9.84	(6,592,000)
	6.476	–	6.476	–
	4.6	(1,666,500)	4.6	(5,850,000)
At 30 June 2020 and 31 December 2019	0.82	–	0.82	188,000
	1.108	100,000	1.108	200,000
	4.402	1,500,000	4.402	1,500,000
	9.84	3,380,000	9.84	3,380,000
	6.476	29,930,000	6.476	29,930,000
	4.6	38,483,500	4.6	40,150,000

Expiry date	Exercise price in HK\$ per share	Share options		
		Unaudited 30 June 2020	Exercise price in HK\$ per share	Audited 31 December 2019
7 April 2020	0.82	–	0.82	188,000
27 March 2021	1.108	100,000	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	3,380,000
13 October 2027	6.476	29,930,000	6.476	29,930,000
19 July 2028	4.6	28,650,000	4.6	30,150,000
20 June 2029	4.6	9,833,500	4.6	10,000,000

(b) Share Award Scheme

The following table represents the movements for number of unvested shares under the Share Award Scheme for the periods ended 30 June 2020 and 2019.

	Number of shares (in thousand unit)
At 1 January 2020	19,195
Shares purchased from the market	7,184
Share vested during the period	(7,526)
At 30 June 2020	18,853
At 1 January 2019	13,000
Share vested during the period	(1,920)
At 30 June 2019	11,080

23 Deferred income tax

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

	Unaudited six months ended 30 June	
	2020 RMB'000	2019 RMB'000
At 1 January	(189,549)	(242,808)
Credited to profit or loss	18,133	21,894
Reversal of temporary differences upon impairment	12,725	–
Charged to other comprehensive income	(1,428)	(377)
At 30 June	(160,119)	(221,291)

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
At 1 January 2020	2,663,038	12,359	192,832	109,817	260,598	1,689	21,672	(100,018)	(9,040)	3,152,947
Insurance of new shares in relation to the placement (note 22)	200,116	-	-	-	-	-	-	-	-	200,116
Exercise of share options (note 22)	214	-	-	-	-	-	-	-	-	214
Share-based compensation	-	-	-	-	17,339	-	-	-	-	17,339
Share purchased under share award scheme	-	-	-	-	-	-	-	(8,301)	-	(8,301)
Vesting of awarded share	(39,883)	-	-	-	(23,369)	-	-	63,252	-	-
Fair value gain on financial assets at fair value through other comprehensive income, net of deferred tax	-	-	-	-	-	-	-	-	18,415	18,415
Transaction with non-controlling interests	-	-	(8,511)	-	-	-	-	-	-	(8,511)
Currency translation differences	-	-	-	-	-	-	(2,725)	-	-	(2,725)
At 30 June 2020	2,823,485	12,359	184,321	109,817	254,568	1,689	18,947	(45,067)	9,375	3,369,494

	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
At 1 January 2019	2,668,590	15,723	197,362	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	-	-	-	-	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	-	-	7,350	-	-	-	-	-	-	7,350
Currency translation differences	-	-	-	-	-	-	(4,657)	-	-	(4,657)
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

25 Related party transactions

(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	
	2020 RMB'000	2019 RMB'000
Salaries and other short-term employee benefits	3,063	4,443
Share-based compensation	20,124	29,929
	23,187	34,372

(b) Related party transaction

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

Nature of transactions		Unaudited six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Associates (note i and ii)	Interest expense	20,705	19,145
	Interest income	9,873	1,802

Note:

- (i) Bank borrowings of RMB552,000,000 were provided by Jingu. These borrowings are charged at terms mutually agreed by the parties concerned or in accordance with the terms of the underlying agreements, where appropriate.
- (ii) The Group has granted loans and finance lease receivables to certain associates. These loans and finance lease receivables 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 interim financial statements, the Group has the following balances with related parties as at 30 June 2020 and 31 December 2019, respectively.

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Bank borrowings from an associate and its interest payable (<i>note i</i>)	553,045	564,250
Loans and interest receivables from associates and a joint venture (<i>note ii</i>)	81,508	75,275
Deposits received from:		
– Associates (<i>note iii</i>)	607	607
– Key management personnel (<i>note iii</i>)	2,440	2,440
Cash and cash equivalents from an associate (<i>note iv</i>)	2,036	496
Finance lease receivables from associates (<i>note v</i>)	258,383	182,600

Notes:

- (i) The balance represents bank borrowings from Jingu. Part of the borrowings with principal amounting to RMB222,000,000 (31 December 2019: RMB228,000,000) will mature on 20 October 2020, and is interest bearing at a rate of 7.1% per annum (31 December 2019: 7.1% per annum). Remaining borrowings with principal amounting to RMB330,000,000 (31 December 2019: RMB335,000,000) will mature on 15 October 2021, and is interest bearing at a rate of 7.4% per annum (31 December 2019: 7.4% per annum). These borrowings are guaranteed by another associate of the Group.
- (ii) The Group granted loans with principal 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 2022, 2020 and 2022 respectively, and are interest bearing at a rate of 7%, 7% and 6% per annum. In addition, the Group also granted loans with principal amounting RMB10,500,000 to Zhongmo Group. The loan will mature in the second half of 2020 and are interest bearing at rate of 10% per annum.
- (iii) The balance includes deposits received by a financing services company of the Group from certain associates and key management personnel of the Company as guarantee for the loan granted to their customers.
- (iv) The balance represents current bank deposits placed in Jingu.
- (v) The balance represents finance lease receivables of RMB187,000,000 (31 December 2019: RMB139,600,000) from Zhongmo Group, which will mature in 2021 and are interest bearing at rate of 10% per annum. Another finance lease receivable of RMB43,000,000 (31 December 2019: RMB43,000,000) from Zhejiang HC, which will mature in 2022 and are interest bearing at rate of 8% per annum.

26 Contingent liabilities

As at 30 June 2020, there were no material contingent liabilities to the Group (31 December 2019: Nil).

27 Commitments under operating lease

(a) As a lessor

At 30 June 2020, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of offices and buildings which expire as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Within one year	44,000	22,171
In the second to fifth year inclusive	174,294	142,843
Over the fifth year	306,853	348,000
	525,147	513,014

28 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 2020, the amounts of outstanding guarantees for mortgages were approximately RMB13,549,000 (31 December 2019: RMB16,828,000).

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 2020, the interests and short positions of the Directors and the chief executive 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 of the Company ("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 owners	80,150,000 (Note 1)	-	-	-	80,150,000 (Note 1)	6.07%
Zhang Yonghong	Ordinary	Beneficial owners	13,933,500 (Note 2)	-	-	-	13,933,500 (Note 2)	1.05%
Liu Xiaodong	Ordinary	Beneficial owners and Interest of controlled corporation	6,000,000 (Note 3)	-	62,273,794 (Note 3)	-	68,273,794 (Note 3)	5.17%
Guo Fansheng	Ordinary	Beneficial owners	57,749,015 (Note 4)	-	-	-	57,749,015 (Note 4)	4.37%
Li Jianguang	Ordinary	Interest of controlled corporation	-	-	32,000,384 (Note 5)	-	32,000,384 (Note 5)	2.42%

Notes:

- Such interests in the Company comprise: (i) 50,220,000 Shares, of which 44,870,000 Shares have been provided as security to Chance Talent Management Limited for the Notes and the 2018 Convertible Bonds and (ii) 29,930,000 underlying Shares derived from the options held by Mr. Liu Jun.
- Such interests in the Company comprise: (i) 100,000 Shares; (ii) 4,000,000 underlying Shares derived from the awarded shares granted to Mr. Zhang Yonghong under the employees' share awarded scheme adopted on 17 November 2011 and (iii) 9,833,500 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; (ii) 2,000,000 underlying Shares derived from the awarded shares granted to Mr. Liu Xiaodong under the employees' share awarded scheme adopted on 17 November 2011 and (iii) 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 2018 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 (now known as GEM) 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 was approved by the shareholders of the Company (the "2015 Share Option Scheme"). The principal terms of the 2015 Share Option Scheme were summarised in the Appendix of the circular of the Company dated 5 May 2015.

OUTSTANDING SHARE OPTIONS

Share Option Scheme

As at 30 June 2020, options to subscribe for an aggregate of 73,393,500 Shares granted pursuant to the Share Option Scheme and the 2015 Share Option Scheme were outstanding, details of which were as follows:

Name of grantee	Date of grant	Exercise price per share HK\$	Number of share options				As at 30 June 2020 (Note 1)
			As at 1 January 2020	Granted during the Period	Exercised during the Period	Lapsed during the Period	
Directors							
Liu Jun (Note 14)	13 October 2017	6.476	29,930,000				29,930,000
Zhang Yonghong (Note 14)	20 June 2019	4.6	10,000,000			(166,500)	9,833,500
Liu Xiaodong (Note 14)	19 July 2018	4.6	4,000,000				4,000,000
Senior management							
Wu Lei (Note 14)	19 July 2018	4.6	3,500,000				3,500,000
Song Bingchern (Note 14)	19th July 2018	4.6	3,000,000				3,000,000
Zhao Hong (Note 14)	19th July 2018	4.6	1,550,000				1,550,000
Other employees							
In aggregate (Note 13, 16)	7 April 2010	0.82	188,000		(188,000)		0
In aggregate (Note 2, 13, 17)	28 March 2011	1.108	200,000		(100,000)		100,000
In aggregate (Note 13)	3 April 2013	4.402	1,500,000				1,500,000
In aggregate (Note 3, 13)	18 November 2013	9.84	3,380,000				3,380,000
In aggregate (Note 4, 14)	19 July 2018	4.6	18,100,000			(1,500,000)	16,600,000
Total			75,348,000	0	(288,000)	(1,666,500)	73,393,500

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. 1 employee has been granted options under the Share Option Scheme to subscribe an aggregate of 100,000 Shares at HK\$1.108 per Share.
3. 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.
4. 11 employees have been granted options under the 2015 Share Option Scheme to subscribe an aggregate of 16,600,000 Shares at HK\$4.6 per Share.
5. 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.

6. 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.
7. 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.
8. 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.
9. The fair value of options granted under the 2015 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.
10. 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.
11. 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.
12. 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.
13. The options were granted under the Share Option Scheme.
14. The options were granted under the 2015 Share Option Scheme.
15. The weighted average closing price of the Shares immediately before the date on which these options were exercised was approximately HK\$1.61 per Share.
16. The closing price of the securities immediately before the date on which the options were granted as quoted on the Stock Exchange was HK\$0.82 per Share.
17. The closing price of the securities immediately before the date on which the options were granted as quoted on the Stock Exchange was HK\$1.10 per Share.

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

EMPLOYEES' SHARE AWARD SCHEME

On 17th November 2011, the Board adopted an employees' share award scheme (the "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 Employees' Share Award Scheme. For principal terms of the employees' Employees' Share Award Scheme, please refer to the announcement of the Company dated 17th 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 Shares, representing approximately 2.51% of the total issued share capital of the Company as at the date of the grant, to 26 selected employees, of which 4,000,000 Shares were granted to Mr. Zhang Yonghong, an executive Director and chief executive officer of the Company, and 2,000,000 Shares were 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 5.72% of the issued share capital of the Company as at the date of this report. The awarded Shares that remain outstanding as at 30 June 2020 are set out below:

Name of Grantee	Date of grant	As at 1 January 2020	Granted during the period	Vested during the period	As at 30 June 2020
Director					
Zhang Yonghong	8 July 2019	4,000,000			4,000,000
Liu Xiaodong	8 July 2019	2,000,000			2,000,000
Senior management					
Wu Lei	8 July 2019	1,800,000		(720,000)	1,080,000
Song Bingchen	8 July 2019	1,800,000			1,800,000
Zhao Hong	8 July 2019	1,500,000		(600,000)	900,000
Other employees					
In aggregate	23 November 2011	2,128,779		(1,343,335)	785,444
	20 August 2012	8,351,000			8,351,000
	8 July 2019	17,000,000		(4,862,320)	12,137,680
Total		38,579,779		(7,525,655)	31,054,124

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

As at 30 June 2020, 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 2020
Talent Gain Developments Limited	Ordinary	253,671,964 (note 1)		Beneficial owner and Interest in controlled corporation	19.21%
Digital China Holdings Limited	Ordinary	253,671,964 (note 1)		Interest in controlled corporation	19.21%
China Construction Bank Corporation	Ordinary	129,642,916 (note 2)		Interest in controlled corporation and person having a security interest in Shares	9.82%
Central Huijin Investment Ltd.	Ordinary	129,642,916 (note 2)		Interest in controlled corporation and person having a security interest in Shares	9.82%
Chance Talent Management Limited	Ordinary	129,642,916 (note 2)		Interest in controlled corporation and person having a security interest in Shares	9.82%
Ideal South Limited	Ordinary	80,000,000 (note 3)		Beneficial Owner	6.06%
Wong Luen Hei	Ordinary	129,705,000 (note 3)		Beneficial owner and Interest in controlled corporation	9.82%
Fortune Value Investment Holdings Limited		120,000,000 (note 4)		Beneficial Owner	9.09%
Zhu Lemin		120,000,000 (note 4)		Interest in controlled corporation	9.09%

Notes:

1. Such interests in the Company comprise: (1) 230,263,964 Shares held by Talent Gain Developments Limited; and (2) 23,408,000 Shares held by and Unique Golden Limited. 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. 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 22,499,122 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 2 and Central Huijin Investment Ltd. are deemed to be interested in the Shares held by Chance Talent Management Limited pursuant to the SFO.
3. Ideal South Limited is wholly and beneficially owned by Mr. Wong Luen Hei.
4. Fortune Value Investment Holdings Limited is wholly and beneficially owned by Mr. Zhu Lemin.

Save as disclosed above, as at 30 June 2020, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 Period.

AUDIT COMMITTEE

The Company established 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. Qiyang and a non-executive Director, Mr. Guo Fansheng. 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.

AUDITORS

PricewaterhouseCoopers, the auditor of the Company, has reviewed the unaudited condensed consolidated interim financial information of the Group for the Period in accordance with Hong Kong standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

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 Period.

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 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 Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save as disclosed in this report, during the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

By order of the board

HC Group Inc.

Liu Jun

Chairman

Hong Kong, 25 August 2020

As at the date of this report, the Board comprises:

Mr. Liu Jun (*Chairman and Executive Director*)

Mr. Zhang Yonghong (*Executive Director and Chief Financial Officer*)

Mr. Liu Xiaodong (*Executive Director and president*)

Mr. Guo Fansheng (*Non-executive Director*)

Mr. Sun Yang (*Non-executive Director*)

Mr. Lin Dewei (*Non-executive Director*)

Mr. Zhang Ke (*Independent non-executive Director*)

Mr. Zhang Tim Tianwei (*Independent non-executive Director*)

Ms. Qiyang (*Independent non-executive Director*)