



INTERIM REPORT 2021 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 2021 (the “Period”), together with the comparative figures for the corresponding periods ended 30 June 2020 to the shareholders of the Company (the “Shareholders”).

Financial Highlights

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000 (Restated) (note 1(a))
Revenue		
– continuing operations	7,066,412	5,045,891
– discontinued operations	8,032	16,729
Adjusted net loss	(84,604)	(136,442)
EBITDA/(LBITDA)*	13,943	(44,522)
Loss attributable to equity holders		
– continuing operations	(110,213)	(178,983)
– discontinued operations	6,745	(69,581)
Diluted EPS		
– continuing operations	(0.0841)	(0.1535)
– discontinued operations	0.0051	(0.0597)

Key Financial Figures for the six months ended 30 June 2021

- **Revenue** was approximately **RMB7,066.4 million**, increased by approximately **RMB2,020.5 million**, or **increased by approximately 40.0%**, when compared to approximately **RMB5,045.9 million** recorded for the corresponding period in 2020 from continuing operations.
- The Group’s **adjusted net loss**^(note) was approximately **RMB84.6 million**, decreased by approximately **RMB51.8 million** from approximately **RMB136.4 million** in the first half of 2020.
- The Group’s **EBITDA**^{(note)*} was approximately **RMB13.9 million**, increased by approximately **RMB58.4 million** from approximately **RMB(44.5) million** in the first half year of 2020.
- **Loss attributable to equity holders of the Company** was approximately **RMB110.2 million** during the first half of 2021, while a loss attributable to equity holders of the Company of approximately **RMB179.0 million** was recorded for the corresponding period in 2020 from continuing operations.
- The **Diluted EPS** was **RMB(0.0841)**, when compared to **RMB(0.1535)** of last year, on a period-on-period basis from continuing operations.

* Profit/(loss) before interest, income tax, depreciation and amortisations of intangible assets, right-of-use assets, investment properties and share based payment

FINANCIAL REVIEW

Revenue	Technology- Driven	Smart	Platform and Corporate	Discontinued		Total
	New Retail	Industries	Services	Subtotal	Operations	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
First half of 2021	505,510	6,438,625	122,277	7,066,412	8,032	7,074,444
First half of 2020	382,773	4,520,412	142,706	5,045,891	16,729	5,062,620
Variance	32.1%	42.4%	-14.3%	40.0%	-52.0%	39.7%

The Group had discontinued the operation of integrated marketing and advertising services operated by Huijia Yuantian Limited, a wholly-owned subsidiary of the Group, and the operation of the O2O business exhibition centre segment in 2020. In accordance with HKFRS 5, the financial results of Huijia Yuantian Limited, the segment of O2O business exhibition centre and the relevant impairment expenses for the half years ended 30 June 2021 and 2020 were classified as discontinued operations in the Group's financial statements.

During the six months ended 30 June 2021, the Group generated a total revenue of approximately RMB7,066,412,000 (2020: RMB5,045,891,000) from continuing operations. This represented an increase of approximately 40.0% as compared to that in the corresponding period in 2020. The increase of revenue was mainly due to the economy recovery from the COVID-19 pandemic. Many obstructions on factory productions and business operations have been removed or reduced, leading to the growth of our orders and revenue.

During the six months ended 30 June 2021, for the Group's financial performance in different segments of continuing operations, a total revenue of approximately RMB505,510,000 was achieved from the technology-driven new retail segment in the first half of 2021, and represented an increase of approximately 32.1% from approximately RMB382,773,000 in the corresponding period in 2020. Revenue from the smart industries segment increased from approximately RMB4,520,412,000 to approximately RMB6,438,625,000 which represented an increase of approximately 42.4%. Revenue derived from the platform and corporate services segment was approximately RMB122,277,000 in the first half of 2021, which represented a decrease of approximately 14.3% from approximately RMB142,706,000 in the same period of 2020.

During the six months ended 30 June 2021, operating expenses of continuing operations decreased from approximately RMB336,686,000 in 2020 to approximately RMB319,882,000 which was mainly due to the decreased amortization of intangible assets and share options.

The loss attributable to equity holders of the Company was approximately RMB103.5 million for this Period, as compared to a loss of approximately RMB248.6 million in the corresponding period in 2020. The decreased loss was mainly attributable to, among other things: (i) the Company has recognized impairment for the intangible assets of the business units that could not attain the expected results, which amounted to approximately RMB84.8 million in the first half of 2020, (ii) in light of the adverse impact of the COVID-19 pandemic and the economic environment, the Company has made enough provision for impairment of the financial assets, which amounted to approximately RMB53.4 million in the first half of 2020, while it was a reversal of approximately RMB13.1 million this Period.

BUSINESS REVIEW

In 2021, the Group continued to work on its vision of becoming a leading group for “Industrial Internet” in China by leveraging internet thinking, instruments and methods to ramp up industrial efficiency, empower supply chains and industrial chains, and establish a win-win ecosystem to serve customers. By focusing on and integrating advantageous resources, the Group’s businesses are divided into three segments: namely the platform and corporate services segment, the technology-driven new retail segment, and the smart industries segment. In the first half of 2021, approximately 7% of the Group’s revenue was generated from the technology-driven new retail segment, approximately 91% of the Group’s revenue was derived from the smart industries segment, and approximately 2% of the Group’s revenue was attributable to the platform and corporate services segment.

Platform and corporate services segment

Leveraging on hc360.com, the platform and corporate services segment is committed to developing industrial internet business platform instruments that enable 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 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. Last year, with means such as artificial intelligence, big data etc., products of hc360.com collected and sorted out numerous inquiries from buyers by means of manual labelling, machine identification, knowledge map, etc., which is known as “buyer service”, and matched high-quality suppliers of hc360.com catering for customer demand, which is known as “seller service”. During the service process, hc360.com quickly obtained industry information and constantly optimised and upgraded its underlying system. Our fundamental logic is to establish a knowledge map of enterprise information and business opportunities, which connects online merchants with internet traffic and excavate effective information for intelligent pairing-up, so as to improve the efficiency of marketing services.

In particular, b2b.so.com has become a highly attractive platform for B2B vertical procurement and marketing since its launch last year, by virtue of its traffic advantages, new forms of presentation, cost-effective payment methods and accurate user groups. In February 2021, hc360.com upgraded its services on top of version 1.0 of b2b.so.com, to help more merchants and products to gain more business opportunities through digital marketing. b2b.so.com 2.0 realised product sales by key words via the side column of 360 Browser and introduced scenarios for inquiries and contact with sellers, coupled with customised logos of quality products and fixed display gateways to greatly improve the connection efficiency between the buyer and the seller.

In March 2021, hc360.com developed SCRM System 1.0 based on the needs of business services. The system realises customer resource allocation, customer follow-up management, saleable resources inquiry, customer order management and system user management. It can simultaneously coordinate with related functions of payment, order, finance and invoice systems, and realise the entire SCRM social customer relations management from the introduction, allocation and interaction of customer resources to after-sales follow-up services.

In April 2021, hc360.com hosted “Lectures from Famous Procurement Experts” (採購名師大講堂), in which experts from procurement related industries were invited as guest speakers for live broadcasting, to answer questions on operation issues of SMEs such as enterprise procurement, supply chain, taxation, tendering and bidding which were closely related to customers. It has successfully hosted 5 sessions and attracted more than 20,000 viewers in total.

Technology-driven new retail segment

The technology-driven new retail segment is conducted principally via ZOL. Last year, the Group has adjusted and optimised the corporate structure of the technology-driven new retail segment, establishing four sectors, namely “smart marketing”, “smart retail”, “smart enterprise procurement sector” and “self-owned brand sector”.

“Smart marketing” business provides industry partners with integrated marketing services of whole network resources, covering mainstream platforms such as ZOL’s main site, Baidu, ByteDance, JD.com, Taobao and Bilibili. At the same time, we provide mature operation management agency services from user operation to opening stores for our partners, so as to gain trust in our professional competence.

In January 2021, ZOL APP won the first “Dandelion Best Information Application of the Year” (蒲公英年度最佳資訊應用) award. As the pioneer of mobile ZOL, the APP carries the professional evaluation content of ZOL, a rich 3C digital product library, interesting technology videos and gathering numerous fans in the technology community, making continuous efforts to build a private traffic platform for ZOL. In April 2021, ZOL won the 2020 Baidu Best Partner Award for Mobile Ecology (2020百度移動生態最佳合夥人獎). As technology vertical media, ZOL and Baidu worked together to explore cooperation in diversified content, to offer users better consumer decision-making services. In June 2021, ZOL, as the chief media partner and exclusive awarding agency of CTIS, leveraged on 20 years of professional experience and in-depth industry observation to assess and select 16 innovation awards from products by 800 exhibitors based on various dimensions (such as product design, technical innovation, functional innovation and product application potential), presenting an annual event that truly promoted the exchange and development of the consumer technology industry. In the first half of 2021, in terms of vertical technology media, ZOL was committed to “developing a platform for thoughts (APP), a win-win ecosystem (Baidu) and modular and scalable products (CTIS awards)”.

In the first half of 2021, ZOL launched the “Tech Shopping Festival” (科技嗨購節) with JD.com and 21 major manufacturers to select 27 fashionable technology products in a shopping bonanza to netizens. The festival influenced 73.50 million people in aggregate across the internet and accurately covered 22.90 million search users via 5 major search portals. In July 2021, ZOL and China Video Industry Association (視像協會) jointly released the Report on the Demand of Game TV Users (遊戲電視用戶需求研究報告). In the same month, ZOL joined hands with 26 brands to carefully plan a creative exhibition area named “Zin Planet” (Zin星球) in a space of 460 square metres, and customised 8 special-theme exhibition spaces with well-received products, presenting a feast of technology and trends for Generation Z. During the current ChinaJoy, ZOL produced over 200 original articles during the exhibition with a team of 100 interviewers, editors and reporters. ZOL alone attracted 68.90 million visits from digital product enthusiasts, including a total of 13.44 million video views. In addition, KOC as a partner also influenced 6.10 million users via its respective advantageous platforms.

In the first half of 2021, ZOL continued to enhance its brand influence in the industry as we saw its video capabilities gradually exceed the average industry level and explored the ways of cooperation with KOLs.

In the vertical technology media industry, ZOL has an authoritative technology product library, covering over 20,000 technology brands, 850 product lines and nearly 500,000 popular products for sale up to now. At the same time, ZOL is connected with the data of various mainstream search engines such as Baidu, 360 and Toutiao, and delivers our professional opinions to more than 70 million internet users focusing on technology every day. As a media brand with a history of 21 years, ZOL has always adhered to the professionalism and ethics of media professionals and is committed to becoming a leading vertical technology media platform company in the industry.

As the router of science and technology industry, we pay equal attention to distribution channels, i.e. the trading services with “jdhui.com” as the main operating entity. The smart retail business with brands ZOL Huimaimai and ZOL cloud store as the core helps merchants to easily purchase goods on one hand and sell goods on the other hand, providing comprehensive solutions for industrial partners to solve the problems of supply chain connection as well as opening stores and seeking customers on the network. ZOL Huimaimai integrates brand businesses, retailers, logistics, finance, SaaS, traffic, content and home appliance aftermarkets, enabling the upgrading and transformation of traditional home appliance retailers, helping brand manufacturers to localise digital channels and making the home appliance business easier. Through the industrial router model of “integrated supply chain + SaaS + localised services”, ZOL Huimaimai provides service solutions to localised channel digitisation for brand owners, new retail solutions for small- and medium-sized home appliance retailers, and diversified quality home appliance products for consumers in local markets. In the first half of 2020, Mr. Chen Chen, CEO of the smart retail sector, completed his first live show; Huimaimai hosted cloud investment promotion for Panasonic washing machines, and worked with Huizhou University to deepen school-enterprise integration. Its sales on 18 June 2021 alone increased by 207% year-on-year. As of June 2021, ZOL Huimaimai covered 2,163 districts and counties in 18 provinces, with over 500 offline service teams, more than 30,000 precision paid member-stores across the country, and over 100 home appliance brands and 2,000 SKU. In July 2021, the new official website of Huimaimai was launched at www.jdhui.com. ZOL cloud store is a joint-brand manufacturer based on the retail matrix created by SaaS cloud store tools – after the selection of products is completed by ZOL’s joint manufacturers, the central live broadcast rooms of the platform would gather tens of thousands of small b distributed 2C traffic in the private sector, forming a B2b2C industrial router.

For “brand sector”, RHT air purifier which was invented by JV parties “RHT” is a national brand independently developed and patented in Hong Kong, China. It has been designated as the supplier of air purifier system and fresh air system by certain Fortune Global 500 companies. 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 for nearly 100 hospitals in over 10 countries around the world. The killing rate of RHT air purification system for human coronavirus (HCoV-229E) achieved over 99.99% according to the authoritative test report of Guangdong Detection Center of Microbiology.

Smart industries segment

The smart industries segment mainly comprises of (i) PanPass, an IoT solutions provider for digital transformation, (ii) Union Cotton, a spot transaction platform for cotton, and (iii) ibuychem.com, which is positioned to provide centralised purchasing and integrated e-business service for chemicals and plastics. “Focus” and “significant verticality” are the Group’s important strategies for the smart industries segment.

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 IP right supply chain management system, as its core, and is based on 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 lifetime traceability and management service for brand customers.

In January 2021, PanPass fully upgraded its brand strategy. The upgraded logo has a more modern sense, implying empowering traditional industries and interconnection and integration of industries. The upgraded official website is concise and light, with a greater sense of science and technology. In addition, in terms of customer service, PanPass optimised the service process, simplified the access to its service hotline, and improved service efficiency and customer service satisfaction. In the same month, PanPass won the 2020 “Beijing Integrity Enterprise” (北京市誠信創建企業). In February 2021, the “PanPass One-Code SaaS” (兆信一碼通SaaS) product was upgraded to its version 6.0. The new version not only meets the needs of SMEs for rapid transformation of production lines and convenient deployment, but also supports the all-round customised development of functions such as production and warehouse management, channel control, anti-counterfeiting page configuration, logistics control, marketing activities, member management and data statistics. It is a digital enterprise service product platform that covers the entire industry chain developed by PanPass with its more than 20 years of serving major customers. In March 2021, PanPass launched its official English website. In the same month, PanPass won the title of “Beijing User Satisfaction Enterprise” (北京市用戶滿意企業). The award was granted by the Beijing Social Enterprise Quality Association (北京社會企業質量協會), and only three companies in each industry could be shortlisted according to evaluation requirements. In April 2021, PanPass became the first enterprise from its industry selected to join Beijing Chaoyang District Federation of Industry and Commerce (北京市朝陽區工商聯). In June 2021, PanPass won the “SaaS Product with the Highest Commercial Value” (最具商業價值SaaS產品) award. In the same month, PanPass and Shuifa-Uni Ziguang Big Data Company (水發紫光大數據公司) jointly developed a quality traceability platform. With “One Product, One Code for Traceability” (一物一碼·物碼同追) for LauteBach Beer (勞赫巴特啤酒), the platform manages the entire lifecycle of products from raw material procurement, production and processing, related packaging, warehousing and logistics, sales and marketing for enterprises, ensures the traceability of product source, direction and accountability, helps enterprises build a good production system, assists government departments in supervision and management, and protects the interests of consumers from the source. At present, the platform has been successfully put into operation.

Positioned as an excellent spot transaction platform for cotton, Union Cotton provides integrated B2B e-business service for spot cotton through online platforms, including self-operated online stores, supply-chain financial service and warehouse receipt pledge. Union Cotton, one of the B2B e-business pioneers in the cotton industry, has accumulated extensive industrial experience and significant market resources in the cotton industry. In March 2021, the cumulative trading revenue of Union Cotton exceeded RMB15 billion. In April 2021, Union Cotton won the title of 2020 “Shanghai Excellent Enterprise of Industrial Internet” (上海市產業互聯網優秀企業). On 11 April, “2021 Yuncheng Textile Industry Salon” (2021 鄆城紡織產業沙龍) was successfully held at the headquarters of HC Union Cotton Industrial Internet. Leaders of Yuncheng County and more than 50 textile enterprises nearby attended the industry salon. Afterwards, Union Cotton signed the “2021 Strategic Cooperation Agreement for the Supply Chain of the Textile Industry” (2021 紡織產業供應鏈戰略合作協議) with over 10 large – and medium-sized textile factories, garnering extensive market influence in Yuncheng, a hub of the textile industry. On 12 April 2021, the “2021 Work Seminar for the Industry Chain of Textile and Apparel of Marabishi County” (2021 巴楚縣紡織服裝全產業鏈工作研討會) was successfully held in Marabishi County, Kashgar, Xinjiang. The seminar was sponsored by the People’s Government of Marabishi County and co-organised by Union Cotton and China Cotton Industry Alliance (CCIA). The seminar aimed at helping cotton planting and processing in Xinjiang, and guiding industrial customers to produce high-quality textile and apparel products. In April 2021, Union Cotton officially launched its polyester staple and yarn categories, and became a multi-category digital service platform for the textile industry chain. In June 2021, Union Cotton won the title of “2021 Top 10 Most Popular Internet Platforms for the Chinese Textile Industry” (2021 年十佳中國最受歡迎的紡織工業互聯網平台) jointly granted by China National Textile and Apparel Council (中國紡織工業聯合會), the Department of Industry and Information Technology of Shandong Province (山東省工業和信息化廳), the Internet Industry Working Committee of AITRE (中信聯互聯網產業工作委員會) and China Wool Industry Association (中國羊毛商會). In July 2021, Union Cotton fully promoted its strategic transformation and upgrading. Its polyester and yarn segments have an operational scale of over RMB100 million, as Union Cotton emerged from the industry and yielded the initial effect from the strategic upgrading of its service model of developing cotton, polyester fibre and yarn varieties at the same time.

Positioned to provide centralised purchasing and integrated e-business service for chemicals and plastics, ibuychem.com was incubated by the Group as a non-wholly-owned subsidiary in March 2015, and originated from the chemical e-business platform established by the Group over 20 years ago. It has developed into a leading B2B platform in the domestic chemical industry. Its services cover nearly one million enterprises and eight million online members in the chemical rubber and plastics industry chain in China. The platform focuses on the spot trading of chemical rubber and plastic products.

In January 2021, ibuychem.com successfully launched the business card system for chemicals and plastics, developed a new model of social interaction for industry practitioners, and connected talents with businesses to meet the new demands for e-commerce development amongst companies. In April 2021, ibuychem.com successfully held the Second China Plastics Industry Summit (中國塑料產業峰會), which featured “Futures and Spot Training” (期現培訓), new product trends and interactive forums to help plastic enterprises understand risk factors and grasp the market development directions.

In the same month, the 2021 Application and Development Forum for Colour Board Industry Coating (2021彩板工業塗層應用發展論壇) was successfully held in Bo Xing County of Shandong Province, a colour board distribution centre, in a bid to enable its development and practice the policy of peak carbon emissions and carbon neutrality (雙碳). In May 2021, ibuychem.com launched its search system. The system successfully opened up the search channels of ibuychem.com, hzeyun.com and U-selector, and realised the integrated display of merchants, products, indices, information and experts, enabling users to select products, understand merchants and obtain industry information in a more comprehensive and objective way. In June 2021, the First Competition of Colourful Coating Samples cum Architectural Coating Application and Development Forum (多彩塗料樣板評比大賽暨建築塗料應用發展論壇) took place successfully. The competition was the effort of ibuychem.com to localise the colourful board engineer segment by working with the National Testing Center of Product Quality Supervision (Guangdong) (國家塗料產品質量監督檢驗中心(廣東)) and Shunde Polytechnic, with a view to improving professional skills and quality. In the same month, China Coatings and Waterproofing Summit Forum (中國塗料和防水高峰論壇) was successfully held at China World Summit Wing in Beijing. This forum was a grand activity for the coating and waterproofing industry amidst epidemic normalisation. It took full advantage of the internet and combined online and offline organically, where development directions and digitisation were discussed to enable the rapid development of enterprises in the coating and waterproofing industry.

PROSPECT

The overall trend of the internet has evolved from consumption internet to an era of industrial internet with a largely completed social ecosystem. In order to meet the challenges, the Group has been engaged in full strategic transformation since October 2017, and is committed to becoming a leading industrial internet company in China.

On 8 May 2021, the two core segments of the Group, ZOL and PanPass, were officially relocated to Yonghe Hangxing Science Park in Beijing (北京雍和航星科技園) where their relocation ceremony was held. In the next three years, the two technology companies will build a better customer service system and service process in addition to enhancing the professionalism and influence of their brands in respective vertical segments.

ZOL will continue to focus on content, influence users with professionalism, and cooperate with brand owners based on the concept of service first, so as to win the trust of over 3,000 brand customers and 165 million users of the ZOL. In the second half of 2021, ZOL Huimaimai will continue to build efficient, low-cost and strong experience solutions for traditional retailers. In the next three years, its development plan and policy will focus on “seizing opportunities, deepening operation, focusing on iteration and leading in segments”, continue to tap into customer needs and pain points, and empower the B-end member stores with more valuable and efficient services. The ZOL media platform will optimise user experience in multiple dimensions, transform user behaviour with useful, interesting and in-depth professional content, enhance user loyalty and enhance industry influence. ZOL will apply models, parameters and algorithms to user procurement decision-making and difficult scenarios for constant iteration, accumulate data assets and grow competitive barriers. Conversion to high quality and efficiency will serve as the core criterion for customers to judge products and services and develop its edge. ZOL will obtain customers and maximise corporate value by enhancing user value, based on its 21 years of professional engagement in technology vertical media.

In the first half of 2021, PanPass made great achievements and obtained dozens of software copyrights and patents, which reflected the continuous progress in technical strength. It also represented that the software research and development achievements of PanPass had been highly recognised by the industry. Embracing changes and continuous innovation remain the original intentions of PanPass. As a service enterprise empowered by industrial internet and a digital partner of Chinese industries, PanPass will remain convinced that “Science and technology are the first productive force”.

In the future, PanPass will accelerate the development of digital management ecology with proprietary technology as the core, continue to develop new driving forces for technological innovation, build a solid foundation for the digital management of enterprises, fully help enterprises in digital transformation and write a new chapter of development.

Industrial internet is the process of restoring users’ behaviour, understanding their pain points and reviewing industries across multiple industries. Based on such consideration, in the smart industries segment, we will operate the Company in a cooperative model of “joint investment + incubation” with industrial practitioners. In addition, the Group will assist vertical companies to strengthen technology, upgrade products, and connect investment financing and traffic resources. Industrial business logic will serve as the basis to observe the business behaviour of customers step by step, dissect the behaviours of customers in business, identify their pain points and turn them into solutions through the internet, before providing customers with one-stop solutions based on the entire industry chain. One of the commercial values of vertical companies is to enable internet and data capabilities in vertical segments and assist upstream and downstream customers to reduce costs and enhance efficiency.

At the end of 2020, we were pleased to see that Zhongmo, PanPass and nahuomall.com obtained financing from top institutions and started their capitalisation. In August 2021, Union Cotton obtained an investment of RMB150 million from the investment fund of Huizhou Daya Bay Government. It is expected that Union Cotton will receive continuous support in terms of petrochemical resources in Huizhou Daya Bay District and strive to achieve the established performance goals.

The Group will actively develop the 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 gained numerous buyers over the past 20 years, and 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 and doing business, being the primary-level clue. In addition, we will also develop 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 “TOB” field, while the Group has accumulated a large number of users, a huge sales system and the competency of reaching customers. The Group and its partners will develop products collectively, hoping to construct a top-level tool for managing and operating multiple stores. All such efforts have been made to enhance efficiency and effectiveness, as hc360.com hopes to utilise the products to bring actual business to SMEs and the value of synergy to the whole ecosystem.

Against the backdrop of global economic downturn and domestic economic slowdown in recent years, domestic enterprises have been under growing pressure in their operations. The COVID-19 pandemic causes implementation of local regulations restricting unnecessary gatherings, and management measures of “enclosure” for epidemic prevention and control due to confirmed cases and associated close contacts therewith. The difficulties faced by SMEs are also gradually escalating, rendering their already difficult operation even more challenging amidst international and domestic economic downturn. Some of the Group’s customers also face business suspension, layoffs and even bankruptcies.

In response to the challenges and opportunities of epidemic normalisation and rapid development of industrial internet, the Group will further strengthen the trinitarian market position of “hc360.com + zol.com.cn + PanPass”, continue to strive to be a leading industrial internet group in China and use the internet and data to empower traditional industries. HC puts interests first, honours its words, and creates value for customers.

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, 27 August 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

As at 30 June 2021, the Group had cash and bank balance of approximately RMB265.2 million (31 December 2020: RMB254.3 million), which were mainly denominated in Renminbi (“RMB”), and net current assets of approximately RMB1,167.0 million (31 December 2020: RMB649,878 million). The Group maintained a strong working capital position during the Period.

As at 30 June 2021, the Group had a total borrowings of approximately RMB1,002,125,000 (as at 31 December 2020: RMB1,236,267,000), of which approximately (i) RMB727,020,000 (31 December 2020: RMB895,308,000) were bank borrowings; and (ii) RMB275,105,000 (31 December 2020: RMB340,959,000) were other borrowings. The Group’s borrowings were mainly denominated in RMB. The bank borrowings bear an average interest rate of 6.46% per annum (31 December 2020: 7.00% per annum) and mature ranging from 2021 to 2023.

Other borrowings with a total principal amount of RMB230,000,000 (31 December 2020: RMB230,000,000) were provided by an independent third party with maturity dates in December 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, director of a subsidiary, a non-controlling shareholder of a subsidiary and bear interest rate ranging from 3.85% to 10% per annum (31 December 2020: 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 21 to the condensed consolidated interim financial information in this report. As at 30 June 2021, the Group’s gearing ratio is 17% (31 December 2020: 20%), which is calculated as net debt divided by total capital.

The capital and reserves attributable to equity holders of the Company decreased by approximately RMB88.5 million from approximately RMB3,518.8 million as at 31 December 2020 to approximately RMB3,430.3 million as at 30 June 2021.

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

As of 30 June 2021, the Group directly held 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. The Group held 145,431,000 ordinary shares issued by Jingu, which is accounted as investment in associate measured under equity method (31 December 2020: same).

As of 30 June 2021, the carrying amount of investment in Jingu amounted to RMB443,198,000 (31 December 2020: RMB495,970,000), representing approximately 6.8% (31 December 2020: 7.5%) to the Group’s total assets.

* English names are translated for identification purpose

For the six months ended 30 June 2021, the Group has shared a post-tax loss and other comprehensive loss amounted to RMB48,484,000 and RMB4,288,000 respectively (six months ended 30 June 2020: post-tax loss and other comprehensive income amounted to RMB15,699,000 and RMB12,319,000 respectively).

During the Period, the Group did not receive any dividends from Jingu (six months ended 30 June 2020: RMB17,452,000).

The Group considered the investment in Jingu as a long-term strategic investment. Please also refer to note 17 of the unaudited condensed consolidated financial statements in this report.

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

Saved as disclosed in this report, the Group had no future plans for material investments during the Period.

Staff

The continued success of the Group relies on the skills, motivation and commitment of its staff. As at 30 June 2021, the Group had 1,534 employees.

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

Capital structure

The total number of issued Shares was 1,309,931,119 as at 30 June 2021.

As of 30th June 2021, 63,253,294 options under the share option schemes (if exercised, 63,253,294 shares may be issued) remain outstanding. Please refer to the paragraph headed "Share Option Schemes" in this report below for further information.

Charges on Group assets

As at 30 June 2021, the Group's bank borrowings amounting to RMB110,000,000 (31 December 2020: RMB130,000,000) are secured by properties and investment properties with a total carrying value amounting to RMB52,120,000 (31 December 2020: secured by properties investment properties and right-of-use assets with carrying value amounting to RMB174,125,000), which are also guaranteed by the Executive Directors of the Group and subsidiaries.

Other borrowings with a total principal amount of RMB230,000,000 (31 December 2020: RMB230,000,000) are secured by certain equity shares of a subsidiary of the Group.

For details, please refer to note 21 to the condensed consolidated interim financial information in this report.

Exchange risk

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

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2021.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021.

SIGNIFICANT EVENTS

Disposal of entire equity interests in Tianjin Guokai

On 5 January 2021, Beijing Huicong Zaichuang Technology Co., Limited (北京慧聰再創科技有限公司) ("Beijing HC Technology", a subsidiary of the Group), Beijing Little Rhino Horn Technology Co., Ltd. (北京小犀角科技有限公司) ("Beijing LRH"), Tianjin Guokai Ruitou Education Technology Co., Ltd. (天津國開瑞投教育科技有限公司) ("Tianjin Guokai"), and Hong Kong Huicong International Group Limited (香港慧聰國際集團有限公司, a subsidiary of the Group) entered into an equity transfer agreement, pursuant to which, Beijing HC Technology agreed to transfer the entire equity interest in Tianjin Guokai to Beijing LRH at the consideration of RMB300,500,000. As at 30 June 2021, the disposal has not yet been completed and parties to the agreement are working on the transitional arrangements. Upon completion, Beijing Huicong Technology will no longer hold any equity interest in Tianjin Guokai and Tianjin Guokai will cease to be a subsidiary of the Company.

The equity investment agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company. Please refer to the Company's announcement dated 5 January 2021 for further details.

Change of addresses

During the Period, the Company's principal place of business in Hong Kong has been changed to 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong, and the address of the Company's Cayman Islands Share Registrar has been changed to Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1100, Cayman Islands.

Please refer to the Company's announcements dated 1 March 2021 and 8 March 2021 for further details.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

Introduction of investor in Huizhou Union Cotton and Shanghai Union Cotton

On 9 August 2021, the Company, Beijing HC Technology, Tianjin Huicong Technology Co., Limited (天津慧聰科技有限公司) (“Tianjin HC”), Huizhou Union Cotton Cloud Technology Co., Limited (惠州市棉聯雲科技有限公司) (“Huizhou Union Cotton”) and Shanghai Mianlian E-Commerce Co., Limited (上海棉聯電子商務有限公司) (“Shanghai Union Cotton”) (Beijing HC Technology, Tianjin HC, Huizhou Union Cotton and Shanghai Union Cotton are subsidiaries of the Group) entered into an investment agreement with Huizhou Daya Bay Sci-Tech No. 2 Investment Partnership Enterprise (Limited Partnership) (惠州大亞灣區科創二號投資合夥企業(有限合夥)) (“HDB Sci-Tech”) (as the investor), Juekun (Shanghai) Technology Development Co., Limited (覺鵬(上海)科技發展有限公司) and Shanghai Mianlian E-Commerce Co., Limited (上海棉聯電子商務有限公司). Pursuant to the agreement, among other things, HDB Sci-Tech conditionally agreed to make an investment of RMB150,000,000 in cash to Huizhou Union Cotton. HDB Sci-Tech has already contributed the first instalment of RMB100 million of the investment amount as of the date of this report. Upon completion of the transaction, Huizhou Union Cotton will be owned as to 5.01298% by Beijing HC Technology, 30.688% by Tianjin HC, and 30% by HDB Sci-Tech, respectively. Huizhou Union Cotton and Shanghai Union Cotton will remain as subsidiaries of the Company following completion, and their financial results will continue to be accounted for and consolidated into the financial results of the Group.

The investment agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company, and transaction with connected persons at subsidiary level of the Company. Please refer to the Company’s announcement dated 9 August 2021 for further details.

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

(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 18 to 62, 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 2021 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information 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, 27 August 2021

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Unaudited six months ended 30 June	
	Note	2021 RMB'000	2020 RMB'000 (Restated) (Note 1(a))
Continuing operations			
Revenue	6	7,001,702	4,977,603
Interest income from financing services	6	64,710	68,288
		7,066,412	5,045,891
Cost of revenue	8	(6,771,279)	(4,711,330)
Other income		4,386	1,813
Other gains, net	7	15,738	4,770
Selling and marketing expenses	8	(166,638)	(220,249)
Administrative expenses	8	(153,244)	(116,437)
Impairment loss on intangible assets	14	-	(37,645)
Reversal of/(provision for) impairment losses of financial assets, net	8	13,074	(53,372)
		8,449	(86,559)
Operating profit/(loss)		8,449	(86,559)
Finance cost, net	9	(35,012)	(68,777)
Share of post-tax losses of associates	17	(52,376)	(30,758)
Share of post-tax loss of a joint venture	17	(45)	(967)
		(78,984)	(187,061)
Loss before income tax	8	(78,984)	(187,061)
Income tax (expense)/credit	10	(21,499)	6,544
		(100,483)	(180,517)
Loss from continuing operations		(100,483)	(180,517)
Discontinued operations			
Profit/(loss) from discontinued operations	11	6,745	(86,472)
		(93,738)	(266,989)
Loss for the period		(93,738)	(266,989)
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
Currency translation differences	24	(5,945)	(3,854)
Items that will not be reclassified to profit or loss			
Fair value (loss)/gain on financial assets at fair value through other comprehensive income	24		
– Group		(3,311)	6,096
– Associate	17	(4,288)	12,319
Currency translation differences for financial assets at fair value through other comprehensive income	24	(840)	1,129
		(108,122)	(251,299)
Total comprehensive loss for the period, net of tax		(108,122)	(251,299)

	Note	Unaudited six months ended 30 June	
		2021 RMB'000	2020 RMB'000 (Restated) (Note 1(a))
(Loss)/profit for the period attributable to:			
Equity holders of the Company		(103,468)	(248,564)
Non-controlling interests		9,730	(18,425)
		(93,738)	(266,989)
(Loss)/profit for the period attributable to the equity holders of the Company arises from:			
Continuing operations		(110,213)	(178,983)
Discontinued operations		6,745	(69,581)
		(103,468)	(248,564)
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(117,852)	(232,874)
Non-controlling interests		9,730	(18,425)
		(108,122)	(251,299)
Total comprehensive (loss)/income attributable to equity holders of the Company arises from:			
Continuing operations		(124,597)	(163,293)
Discontinued operations		6,745	(69,581)
		(117,852)	(232,874)
Loss per share for loss from continuing operations attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	12	(0.0841)	(0.1535)
Diluted loss per share	12	(0.0841)	(0.1535)
Loss per share from loss attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	12	(0.0790)	(0.2132)
Diluted loss per share	12	(0.0790)	(0.2132)

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

The notes on pages 25 to 62 form an integral part of this unaudited condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Assets			
Non-current assets			
Investment properties	14	26,590	134,348
Property, plant and equipment	14	38,268	40,808
Right-of-use assets	14	43,500	44,630
Intangible assets	14	1,812,495	1,827,175
Long term deposits and prepayments	15	3,449	884
Loans and interest receivables	16	524,242	571,438
Deferred income tax assets		39,686	50,692
Investments accounted for using equity method	17	771,820	896,390
Finance lease receivables		111,324	79,994
Financial assets at fair value through other comprehensive income	18	64,489	80,716
Financial assets at fair value through profit or loss	18	16,138	20,234
Total non-current assets		3,452,001	3,747,309
Current assets			
Finance lease receivables		214,098	297,641
Loans and interest receivables	16	1,026,321	945,377
Deposits, prepayments and other receivables	15	989,836	731,720
Trade receivables	15	279,403	478,284
Contract related assets	15	24,147	2,802
Other tax receivable, net		3,421	–
Inventories		156,607	153,455
Restricted bank deposit		–	25,848
Cash and cash equivalents		265,221	254,301
Assets classified as held for sale	11(a)	2,959,054 132,148	2,889,428 –
Total current assets		3,091,202	2,889,428
Total assets		6,543,203	6,636,737
Equity			
Equity attributable to equity holders of the Company			
Share capital	22	120,977	120,977
Other reserves	24	3,379,025	3,366,441
(Accumulated losses)/retained earnings		(69,646)	31,404
Non-controlling interests		3,430,356 580,879	3,518,822 506,957
Total equity		4,011,235	4,025,779

	Note	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	21	518,000	280,228
Lease liabilities		25,628	17,599
Deferred income tax liabilities		64,135	73,581
Total non-current liabilities		607,763	371,408
Current liabilities			
Trade payables	20	261,725	478,940
Accrued expenses and other payables	20	300,973	166,059
Contract liabilities	19	787,864	552,039
Current portion of bank borrowings	21	209,020	615,080
Current portion of other borrowings	21	275,105	340,959
Lease liabilities		21,213	15,050
Deferred government grants		–	1,600
Other taxes payables, net		–	2,980
Income tax payables		51,610	66,843
		1,907,510	2,239,550
Liabilities directly associated with assets classified as held for sale	11(a)	16,695	–
Total current liabilities		1,924,205	2,239,550
Total liabilities		2,531,968	2,610,958
Total equity and liabilities		6,543,203	6,636,737

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

The notes on pages 25 to 62 form an integral part of this unaudited condensed consolidated interim financial information.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

Note	Attributable to equity holders of the Company					
	Share Capital RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2021	120,977	3,366,441	31,404	3,518,822	506,957	4,025,779
(Loss)/profit for the period	-	-	(103,468)	(103,468)	9,730	(93,738)
Other comprehensive loss:						
Fair value loss on financial assets at fair value through other comprehensive income, net of deferred tax	-	(7,599)	-	(7,599)	-	(7,599)
Currency translation differences	24	(6,785)	-	(6,785)	-	(6,785)
Total comprehensive loss for the period ended 30 June 2021	-	(14,384)	(103,468)	(117,852)	9,730	(108,122)
Transactions with owners						
Share-based compensation expense	24	-	10,274	-	10,274	-
Transactions with non-controlling interests	-	-	19,112	-	19,112	68,093
Addition of non-controlling interests	-	-	-	-	1,163	1,163
Dividend paid to non-controlling interests of a subsidiary	-	-	-	-	(5,064)	(5,064)
Disposal of financial assets at fair value through other comprehensive income	-	(2,418)	2,418	-	-	-
Balance at 30 June 2021	120,977	3,379,025	(69,646)	3,430,356	580,879	4,011,235

	Attributable to equity holders of the Company						
	Note	Share Capital RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity 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 income/(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		18,310	200,116	-	218,426	-	218,426
Exercise of share options		26	214	-	240	-	240
Share-based compensation expense	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

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 2021, retained earnings amounting to RMB22,523,000 (30 June 2020: RMB4,361,000) had been transferred to the statutory reserves. As at 30 June 2021, retained earnings comprise statutory reserves amounting to RMB116,839,000 (31 December 2020: RMB94,316,000).

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

The notes on pages 25 to 62 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 2021

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Cash flows from operating activities		
Cash (used in)/generated from operations	(63,591)	223,584
Interest received	3,852	8,890
Interest paid	(31,652)	(71,003)
The People's Republic of China income tax paid	(32,495)	(16,789)
Net cash (used in)/generated from operating activities	(123,886)	144,682
Cash flows from investing activities		
Disposal of subsidiaries, net of cash disposed	-	43,501
Disposal of associates	64,850	-
Additions of property, plant and equipment	(3,782)	(3,386)
Additions of intangible assets	-	(18)
Additions of investment in a joint venture	-	(1,840)
Proceeds from disposal of property, plant and equipment	91	325
Proceeds from disposals of financial assets at fair value through profit and loss	4,851	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	6,223	5,000
Loans to associates	4,988	(8,964)
Advance receipt for disposing assets classified as held for sale	201,500	-
Advance payment for acquiring intangible assets	-	(16,113)
Advance payment for acquiring a financial asset	-	(5,500)
Dividend received	1,390	18,440
Net cash generated from investing activities	280,111	31,445
Cash flows from financing activities		
Issuance of new shares in relation to the placement	-	218,426
Proceeds from bank borrowings	821,380	420,000
Proceeds from other borrowings	76,856	74,748
Purchase of shares under share reward scheme	-	(8,301)
Repayment of bank borrowings	(989,380)	(514,000)
Repayment of other borrowings	(151,993)	(74,888)
Repayment of lease liabilities	(10,341)	(37,322)
Transactions with non-controlling interests	87,205	(12,867)
Dividend paid to non-controlling interests of subsidiaries	(5,064)	-
Capital contribution from non-controlling interests	1,163	-
Decrease/(increase) in restricted bank deposit	25,848	(119,165)
Increase in bank deposits with maturity over three months	-	(69,000)
Exercise of share options	-	240
Net cash used in financing activities	(144,326)	(122,129)
Net increase in cash and cash equivalents	11,899	53,998
Cash and cash equivalents at beginning of the period	254,301	331,893
Exchange (loss)/gain on cash and cash equivalents	(979)	40
Cash and cash equivalents at end of the period	265,221	385,931

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

The notes on pages 25 to 62 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. 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 anti-counterfeiting products and services and supply chain management to enterprises;
- engaging in finance business, including micro-credit financing, lease financing and factoring services; and
- hosting exhibitions and seminars.

Note a:

During the year ended 31 December 2020, the Group decided to discontinue the operation of integrated marketing and advertising services operated by Huijia Yuantian Limited, a wholly-owned subsidiary of the Group and the operation of O2O business exhibition centre segment, therefore the comparative amounts related to these two discontinued operations had been reclassified as discontinued operations.

During the six months ended 30 June 2021, the Group decided to discontinue the operation of rental service provision operated by Tianjin Guokai Ruitou Education Technology Co., Ltd.

In accordance with Hong Kong Financial Reporting Standard (“HKFRS”) 5, the financial results of Tianjin Guokai Ruitou Education Technology Co., Ltd. for the six months ended 30 June 2021 and 2020 were classified as discontinued operations in the Group’s financial statements.

Certain comparative amounts have been reclassified to conform with current year presentation.

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.

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 2021 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 2020 and any public announcements made by the Group 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.

Income tax expense for interim period is recognised based on management’s estimate of the weighted average effective annual income tax rates expected for the full financial year.

(a) Amended standards adopted by the Group

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

Amendments to HKAS 39, HKFRS 4, Interest Rate Benchmark Reform – Phase 2
HKFRS 7, HKFRS 9 and HKFRS 16

The amended standards 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) Amended standards, interpretation and guideline issued by not yet effective

Certain amended standards, interpretation and guideline have been published that are not mandatory for the financial year beginning on 1 January 2021 and have not been early adopted by the Group:

Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments ⁽¹⁾
Annual improvements 2018–2020 cycle	Improvements to HKFRSs ⁽¹⁾
Revised Accounting Guideline 5	Merger Accounting for Common Control Combinations ⁽¹⁾
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁽²⁾
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ⁽²⁾
Amendments to HKAS 8	Definition of Accounting Estimates ⁽²⁾
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ⁽²⁾
HKFRS 17	Insurance Contracts and related Amendments ⁽²⁾
Revised Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁽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

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 2020.

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, 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 2020.

There are no changes in the financial risk management policies since year end 31 December 2020.

5.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There was no changes in the capital risk management policies since year ended 31 December 2020.

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2021 and 31 December 2020 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 2021 and 31 December 2020:

At 30 June 2021 (Unaudited)

	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	64,489	–	–	64,489
Financial assets at fair value through profit or loss	–	–	16,138	16,138
	64,489	–	16,138	80,627

At 31 December 2020 (Audited)

	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	80,716	–	–	80,716
Financial assets at fair value through profit or loss	–	–	20,234	20,234
	80,716	–	20,234	100,950

There were no transfers between Level 1, 2 and 3 for recurring fair value measurement 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.

(i) 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 six months ended 30 June 2021 and 2020:

	Financial assets at fair value through profit or loss	
	2021 RMB'000	2020 RMB'000
At 1 January	20,234	43,263
Disposal	(4,851)	–
Fair value changes credited/(charged) to profit or loss	755	(8,299)
At 30 June	16,138	34,964

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 (including the discontinued operations) 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 anticounterfeiting products and services, and supply chain management service.
- (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.

During the year ended 31 December 2020, the Group decided to discontinue the operation of integrated marketing and advertising services operated by Huijia Yuantian Limited, a wholly-owned subsidiary of the Group and the operation of O2O business exhibition centre segment.

On 5 January 2021, the Group entered into the equity transfer agreement to dispose 100% of the equity interest in Tianjin Guokai Ruitou Education Technology Co., Ltd. As at 30 June 2021, the disposal has not yet been completed and parties to the agreement are working on the transitional arrangements.

Therefore, the financial results of Huijia Yuantian Limited, the segment of O2O business exhibition centre and Tianjin Guokai Ruitou Education Technology Co., Limited for the six months ended 30 June 2021 and 2020 were classified as discontinued operations in the Group’s condensed consolidated interim financial information.

For details of the discontinued operations, please refer to note 11.

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 six months ended 30 June 2021 and 2020.

	Unaudited six months ended 30 June 2021					
	Technology-driven New Retail Segment RMB'000	Smart industries Segment RMB'000	Platform and Corporate services Segment RMB'000	Subtotal RMB'000	Discontinued operation (Note 1(a)) Platform and Corporate services Segment RMB'000	Total RMB'000
Revenue	505,510	6,438,625	57,567	7,001,702	8,032	7,009,734
Interest income from financing services	–	–	64,710	64,710	–	64,710
Total revenue and income (note)	505,510	6,438,625	122,277	7,066,412	8,032	7,074,444
Segment results	(10,583)	(53,796)	52,704	(11,675)	6,745	(4,930)
Other income				4,386	–	4,386
Other gains, net				15,738	–	15,738
Share of post-tax losses of associates				(52,376)	–	(52,376)
Share of post-tax loss of a joint venture				(45)	–	(45)
Finance income				3,852	–	3,852
Finance cost				(38,864)	–	(38,864)
Loss before income tax				(78,984)	6,745	(72,239)
Other information: Depreciation and amortisation				47,641	–	47,641
Share-based compensation expense				10,274	–	10,274

	Unaudited six months ended 30 June 2020							
	Continuing operations				Discontinued operations (note 1(a))			
	Technology-driven New Retail Segment RMB'000	Smart industries Segment RMB'000	Platform and Corporate services Segment RMB'000 (Restated) (Note 1(a))	Subtotal RMB'000	O2O Business Exhibition Centre Segment RMB'000	Platform and Corporate services Segment RMB'000 (Restated) (Note 1(a))	Subtotal RMB'000	Total RMB'000
Revenue	382,773	4,520,412	74,418	4,977,603	7,152	9,577	16,729	4,994,332
Interest income from financing services	-	-	68,288	68,288	-	-	-	68,288
Total revenue and income (note)	382,773	4,520,412	142,706	5,045,891	7,152	9,577	16,729	5,062,620
Impairment loss on intangible assets	-	(37,645)	-	(37,645)	-	(47,185)	(47,185)	(84,830)
Segment results	(16,447)	(59,086)	(17,609)	(93,142)	(29,720)	(64,488)	(94,208)	(187,350)
Other income				1,813			13,341	15,154
Other gains, net				4,770			-	4,770
Share of post-tax losses of associates				(30,758)			-	(30,758)
Share of post-tax loss of a joint venture				(967)			-	(967)
Finance income				8,395			2,817	11,212
Finance cost				(77,172)			(16,220)	(93,392)
Loss before income tax				(187,061)			(94,270)	(281,331)
Other information: Depreciation and amortisation				56,423			33,442	89,865
Share-based compensation expense				17,339			-	17,339

Note:

The Group is domiciled in the PRC. For the six months ended 30 June 2021, 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 2020: same).

Note:

Disaggregation of revenue

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000 (Restated) (Note 1(a))
Timing of revenue recognition		
– At a point in time	6,838,515	4,785,107
– Overtime	162,375	190,907
	7,000,890	4,976,014
	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000 (Restated) (Note 1(a))
Revenue from contract with customers:		
Sales of goods through B2B trading platform	6,756,950	4,697,627
Online services and advertisement	113,876	169,462
Anti-counterfeiting products and services	75,645	57,946
Marketing events, exhibition, seminars and other services	52,865	50,642
Others	1,554	337
	7,000,890	4,976,014
Income from other sources:		
Interest income from financing services	64,710	68,288
Rental income from investment properties	812	1,589
Total revenue and income	7,066,412	5,045,891

7 Other gains, net

Other gains, net, mainly consist of the following:

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000 (Restated) (Note 1(a))
Change in fair value on financial assets at fair value through profit or loss	755	(8,299)
Loss on disposal of Hunan Zhongmoyun Construction Science and Technology Co., Limited* (note i)	(13,743)	–
Loss on deemed disposal of Hunan Zhongmoyun Construction Science and Technology Co., Limited* (note ii)	(1,389)	–
Gain on disposal of Beijing Huiyase Technology Co., Limited* (note iii)	30,270	–
Gain on disposal of subsidiaries (note iv)	–	12,664

Note:

- (i) The amount represents loss on disposal of an associate, Hunan Zhongmoyun Construction Science and Technology Co., Limited* (湖南中模雲建築科技有限公司) (“Zhongmo”). In March 2021, the Group entered into share purchase agreement with two independent third parties, in respect of the disposal of 7.8125% interest in Zhongmo for a cash consideration of RMB50,000,000 and resulted in a loss on disposal of an associate amounted to RMB13,743,000.
- (ii) The amount represents loss on deemed disposal of an associate, Hunan Zhongmoyun Construction Science and Technology Co., Limited* (湖南中模雲建築科技有限公司) (“Zhongmo”). In May 2021, Zhongmo issued 30,000,000 new shares to new investors which dilute the equity interest of the Group and resulted in a loss on deemed disposal of an associate amounted to RMB1,389,000.
- (iii) The amount represents gain on disposal of an associate, Beijing Huiyase Technology Co., Limited* (北京慧亞瑟科技有限公司) (“Huiyase”). In March 2021, the Group completed the disposal of entire interest in Huiyase for a cash consideration of RMB33,000,000 and resulted in a gain of disposal of an associate amounted to RMB30,270,000.
- (iv) 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. In 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 from continuing operations

The loss before income tax from continuing operations is arrived at after charging/(crediting):

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000 (Restated) (Note 1(a))
Direct expenses of B2B trading platform	6,703,960	4,660,751
Cost of goods sold for anti-counterfeiting products and services	47,995	29,357
Interest cost for financing services	70	3,698
Agency costs	3,081	4,374
Amortisation of investment properties (note 14)	581	808
Amortisation of intangible assets (note 14)	29,595	39,424
Depreciation of property, plant and equipment (note 14)	5,680	6,496
Depreciation of right-of-use assets (note 14)	11,785	9,695
Employee benefits expenses, including directors' emoluments	153,563	160,703
Impairment loss on intangible assets (note 14)	–	37,645
Marketing and consultancy expenses	23,438	39,911
(Reversal of)/provision for impairment of trade receivables (note 15)	(1,802)	13,971
(Reversal of)/provision for impairment of loans to customers of financing service business	(9,927)	23,338
(Reversal of)/provision for impairment of other loans and interest receivables	(243)	3,532
(Reversal of)/provision for impairment of other financial assets	(1,102)	12,531
Staff commission	22,338	15,410
Transportation expense	3,805	5,771
Expenses relating to short term leases	1,507	2,188

9 Finance cost, net

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000 (Restated) (Note 1(a))
Interest expense:		
– Bank borrowings	(27,378)	(35,837)
– Other borrowings	(9,532)	(33,997)
– Convertible bonds	–	(5,976)
– Lease liabilities	(1,183)	(1,102)
– Others	(771)	(260)
Finance cost	(38,864)	(77,172)
Finance income	3,852	8,395
Finance cost, net	(35,012)	(68,777)

10 Income tax (expense)/credit

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000 (Restated) (Note 1(a))
Current income tax expense		
– Hong Kong profits tax (note i)	–	–
– The PRC corporate income tax (“CIT”) (note ii)	(17,262)	(15,918)
– The PRC land appreciation tax (note iii)	–	(598)
Deferred income tax (expense)/credit		
– The PRC corporate income tax	(4,237)	30,858
Income tax (expense)/credit	(21,499)	14,342
Income tax (expense)/credit is attributable to:		
– Loss from continuing operations	(21,499)	6,544
– Profit/(loss) from discontinued operations	–	7,798
	(21,499)	14,342

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 2021 (30 June 2020: 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 sale of properties less deductible expenditures excluding land use right and all property development expenditures.

11 Profit/(loss) from discontinued operations

	2021 RMB'000	2020 RMB'000 (Restated) (Note 1(a))
Tianjin Guokai Ruitou Education Technology Co., Ltd (note a)	6,745	1,619
Huicong (Tianjin) E-commerce Investment Co., Ltd (note b)	–	(25,368)
Huijia Yuanian Limited (note c)	–	(62,723)
	6,745	(86,472)

(a) Discontinued operation of Tianjin Guokai Ruitou Education Technology Co., Ltd

On 5 January 2021, the Group entered into the equity transfer agreement (the “agreement”) with 北京小犀角科技有限公司 (“Beijing Little Rhino Horn Technology”) and Tianjin Guokai Ruitou Education Technology Co., Ltd (“Tianjin Guokai”). Tianjin Guokai and its subsidiaries (together, the “Tianjin Guokai Group”) is principally engaged in the provision of property leasing in PRC, and advertisement design, production, publication and agency. The Group agreed to transfer 100% of the equity interest in Tianjin Guokai to Beijing Little Rhino Horn Technology at a consideration of RMB300,500,000. Upon completion of the transaction, Tianjin Guokai Group will cease to be a subsidiary of the Group, and the financial results of Tianjin Guokai will no longer be consolidated into the accounts of the Group.

As at 30 June 2021, the disposal has not yet been completed and parties to the agreement are working on the transitional arrangements. The Group decided to discontinue the operation of Tianjin Guokai from date of agreement, while the respective assets and liabilities of Tianjin Guokai were classified as held for sale as at 30 June 2021.

(i) *Financial performance of Tianjin Guokai Group classified as held for sale*

The financial performance of Tianjin Guokai Group classified as held for sale presented are for the six months ended 30 June 2021 and 30 June 2020.

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Revenue	8,032	8,810
Expenses	(1,287)	(7,191)
Profit before income tax	6,745	1,619
Income tax expense	–	–
Profit from discontinued operation	6,745	1,619

(ii) *Assets and liabilities of Tianjin Guokai Group classified as held for sale*

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 June 2021:

	Unaudited 30 June 2021 RMB'000
Assets classified as held for sale	
Investment properties	107,177
Right-of-use assets	13,871
Other receivable	11,100
	132,148
Liabilities directly associated with assets classified as held for sale	
Accrued expenses and other payables	10,000
Contract liabilities	6,167
Other taxes payable	528
	16,695
Net assets classified as held for sale	115,453

(b) Disposal of entire interest of Huicong (Tianjin) E-commerce Investment Co., Ltd

On 23 November 2020, the Group entered into a sale and purchase agreement with an independent third party to dispose of its 60% equity interest of Huicong (Tianjin) E-commerce Investment Co., Ltd (“Huicong (Tianjin)”) at a consideration of RMB16,000,000. Huicong (Tianjin) and its subsidiaries (together, the “Huicong Tianjin Group”) was included in O2O business exhibition business centre segment. The disposal was completed on 30 November 2020. The financial results of Huicong Tianjin Group was classified as discontinued operations for six months ended 30 June 2021 and 2020.

(i) Financial performance and cash flow information of Huicong (Tianjin) E-commerce Investment Co., Ltd

The financial performance and cash flow information presented are for the six months ended 30 June 2021 and 2020.

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Revenue	–	7,152
Expenses	–	(31,904)
Loss before income tax	–	(24,752)
Income tax expense	–	(616)
Loss from discontinued operation	–	(25,368)
Net cash generated from operating activities	–	45,544
Net cash generated from investing activities	–	15,530
Net cash used in financing activities	–	(53,770)
Total cash inflow from discontinued operation	–	7,304

(c) Discontinued operation of Huijia Yuantian Limited

During the year ended 31 December 2020, the Group decided to discontinue the operation of Huijia Yuantian Limited and its subsidiaries (together, the “Huijia Group”), which is principally engaged in the integrated marketing and advertising services in the PRC. The financial results of Huijia Group was classified as discontinued operations for six months ended 30 June 2021 and 2020.

(i) Financial performance and cash flow information of Huijia Yuantian Limited

The financial performance and cash flow information presented are for six months ended 30 June 2021 and 2020.

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Revenue	-	767
Expenses	-	(24,719)
Impairment losses of intangible assets	-	(47,185)
Loss before income tax	-	(71,137)
Income tax credit	-	8,414
Loss from discontinued operation	-	(62,723)
Net cash used in operating activities	-	(2,079)
Net cash used in investing activities	-	-
Net cash used in financing activities	-	-
Total cash outflow	-	(2,079)

12 Loss per share

(a) Basic loss per share

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.

	Unaudited six months ended 30 June	
	2021	2020 (Restated) (Note 1(a))
(Loss)/profit attributable to equity holders of the Company (in RMB'000)		
– From continuing operations	(110,213)	(178,983)
– From discontinued operations	6,745	(69,581)
	(103,468)	(248,564)
Weighted average number of shares outstanding ('000)	1,309,931	1,165,745
Basic (loss)/profit per share		
– From continuing operations (in RMB)	(0.0841)	(0.1535)
– From discontinued operations (in RMB)	0.0051	(0.0597)
Total basic loss per share (in RMB)	(0.0790)	(0.2132)

(b) Diluted loss per share

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 had one category of dilutive potential ordinary shares that is share options.

During the period ended 30 June 2021, diluted loss per share presented is the same as the basic loss per share as the inclusion of the potential ordinary shares in the calculation of dilutive loss per share would be anti-dilutive (30 June 2020: same).

13 Dividends

No dividend was paid or declared by the Company during the period (30 June 2020: Nil).

14 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 2021	40,808	134,348	44,630	320,350	1,506,825
Additions	3,782	–	20,447	14,915	–
Lease modification	–	–	4,079	–	–
Disposals	(642)	–	–	–	–
Transfer to assets classified as held for sale (note 11(a))	–	(107,177)	(13,871)	–	–
Depreciation and amortisation					
– From continuing operations	(5,680)	(581)	(11,785)	(29,595)	–
Closing net book amount					
as at 30 June 2021	38,268	26,590	43,500	305,670	1,506,825
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					
– From continuing operations	–	–	–	(37,645)	–
– From discontinued operations	–	–	–	(47,185)	–
Depreciation and amortisation					
– From continuing operations	(6,496)	(808)	(9,695)	(39,424)	–
– From discontinued operations	(298)	(14,668)	(11,892)	(6,584)	–
Exchange difference					
– From discontinued operations	–	–	–	588	–
Closing net book amount					
as at 30 June 2020	60,216	708,998	192,718	879,986	1,542,408

As at 30 June 2021, the Group held one property (31 December 2020: two) as investment properties and measured at cost.

As at 30 June 2021, the fair value of the investment properties held by the Group was determined by independent valuers at RMB31,563,000 (31 December 2020: RMB425,698,000).

The fair value of investment properties as at 30 June 2021 is derived using the income approach (31 December 2020: income approach). The income 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 a recognised relevant professional qualification and has recent experience in the location of the investment property valued.

The Group's finance department includes a team that reviews the valuation performed by the independent 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

Managements monitors and reviews the business performance at the operating segment level. Goodwill and other intangible assets are allocated to the following cash generating units (“CGUs”).

	Unaudited 30 June 2021		Audited 31 December 2020	
	Goodwill RMB'000	Other intangible assets RMB'000	Goodwill RMB'000	Other intangible assets RMB'000
Technology-driven new retail segment				
Online-services – B2B2C business	980,247	190,509	980,247	207,134
New technology retails solutions	454,720	72,000	454,720	80,000
Smart Industries segment				
Anti-counterfeiting products and services	50,314	17,952	50,314	20,770
Trading services – cotton industry	21,544	9,007	21,544	10,218
Platform and corporate services segment				
Other intangible assets	–	16,202	–	2,228
	1,506,825	305,670	1,506,825	320,350

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

Impairment assessment

As at 30 June 2021, the directors assessed and reviewed the business performance of all CGUs and considered there were no impairment indicators in relation to their goodwill, intangible assets and other non-financial assets.

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Trade receivables (<i>note a</i>)	327,207	530,570
Less: provision for impairment of trade receivables	(47,804)	(52,286)
Trade receivables, net	279,403	478,284
Deposits, prepayments and other receivables (<i>note b</i>)	993,285	732,604
Contract related assets, net (<i>note c</i>)	24,147	2,802
	1,296,835	1,213,690
Less: Non-current deposits and prepayments (<i>note b</i>)	(3,449)	(884)
Current portion	1,293,386	1,212,806

(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 2021 RMB'000	Audited 31 December 2020 RMB'000
Current to 90 days	241,229	454,297
91 to 180 days	31,084	31,417
181 to 270 days	14,313	6,710
271 to 365 days	9,417	5,364
Over 1 year	31,164	32,782
	327,207	530,570

Note:

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

	Unaudited six months ended 30 June 2021 RMB'000	2020 RMB'000
At 1 January	52,286	63,529
(Reversal of)/provision for impairment of trade receivables		
– From continuing operations	(1,802)	13,971
– From discontinued operations	–	20,000
Write off for impaired trade receivables	(2,680)	(33,516)
At 30 June	47,804	63,984

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 2021 RMB'000	Audited 31 December 2020 RMB'000
Non-current portion:		
– Deposits	1,097	884
– Prepayment for development of intangible asset	2,352	–
	3,449	884
Current portion:		
– Deposits	13,510	8,659
– Prepayments (note i)	961,936	712,993
– Other receivables	14,390	10,068
	989,836	731,720
	993,285	732,604
Denominated in:		
Hong Kong dollars (“HK\$”)	1,023	563
RMB	992,262	732,041
	993,285	732,604

The carrying amounts of deposits, prepayments and other receivables approximate their fair values.

Note:

- (i) At 30 June 2021 and 31 December 2020, the amount mainly represented prepayment to suppliers for B2B trading platform business.

(c) Contract related assets

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Contract assets related to online services and advertisement	24,495	2,994
Less: provision for impairment	(348)	(192)
Contract related assets, net	24,147	2,802

Note:

Contract related assets mainly represent revenue arising from online services and advertisement recognised prior to the agreed payment schedule date.

16 Loans and interest receivables

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Loans to customers of financing services business (<i>note</i>)	1,595,833	1,601,442
Loans to employees	3,885	3,885
Loans to associates and a joint venture	85,733	90,721
Interest receivables	10,941	10,762
Loans and interest receivables, gross	1,696,392	1,706,810
Less: impairment allowance		
– loans to customers of financing service business (<i>note</i>)	(140,998)	(184,149)
– loans to employees	(34)	(34)
– loans to associates and a joint venture	(4,742)	(5,523)
– interest receivables	(55)	(289)
Loans and interest receivables, net	1,550,563	1,516,815
Less: Non-current portion	(524,242)	(571,438)
Current portion	1,026,321	945,377

Note:

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

(a) *Analysed by nature*

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Loans to customers of financing services business	1,595,833	1,601,442
Less: impairment allowance	(140,998)	(184,149)
	1,454,835	1,417,293

(b) *Analysed by type of collateral*

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Unsecured loans	1,269,319	1,159,965
Guaranteed loans	134,001	182,832
Collateralised loans	192,513	258,645
Loans to customers of financing service business	1,595,833	1,601,442
Less: impairment allowance	(140,998)	(184,149)
	1,454,835	1,417,293

17 Investments accounted for using equity method

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Associates	771,562	896,087
Joint venture	258	303
	771,820	896,390

Movements in the investments in associates are as follows:

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000
At 1 January	896,087	969,248
Addition	–	2,730
Disposal	(67,861)	–
Dividends received from an associate	–	(17,452)
Share of post-tax losses of associates	(52,376)	(30,758)
Share of other comprehensive (loss)/income of an associate	(4,288)	12,319
At 30 June	771,562	936,087

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

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000
At 1 January	303	–
Addition	–	1,840
Share of post-tax loss of a joint venture	(45)	(967)
At 30 June	258	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		Nature of the relationship	Measurement method	Carrying amount	
		30 June 2021	as at 31 December 2020			Unaudited 30 June 2021	Audited 31 December 2020
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	9.8	Associate (note i)	Equity method	443,198	495,970
Hunan Zhongmoyun Construction Science and Technology Co., Limited* ("Zhongmo") ("湖南中模雲建築科技有限公司")	PRC	23.7	35.4	Associate (note ii)	Equity method	219,332	285,807
Guangdong Home Electronic Appliances World E-Commerce Co., Ltd.* ("JDSJ Group") ("廣東家電世界電子商務有限公司")	PRC	20.0	20.0	Associate (note iii)	Equity method	29,289	30,189
Other immaterial associates and joint venture						80,001	84,424
						771,820	896,390

Note i 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 2021, the Group did not receive any dividends from Jingu (six months ended 30 June 2020: RMB17,452,000).

Note ii As at 30 June 2021, the Group director holds 23.7% equity interests in Zhongmo, which is engaged in construction and formwork industry in the PRC. The Group directly holds 23.7% equity shares of 湖南中模雲建築科技有限公司. In March 2021, the Group entered into share purchase agreement with two independent third parties, in respect of the disposal of 7.8125% interest in Zhongmo for a cash consideration of RMB50,000,000. Besides, Zhongmo issued 30,000,000 new shares to new investors which dilute the equity interest of the Group. The Group resulted in a loss of disposal amounted to RMB15,132,000.

Note iii JDSJ Group is engaged in the e-commerce for home appliances in the PRC through its websites and mobile applications. On 27 August 2019, the Group agreed to transfer 55.0% of equity interest in JDSJ Group to two independent third parties in which the Group owns 20.0% of the equity interest in JDSJ Group upon completion of transaction, and JDSJ Group has then been accounted for as investment in associates using the equity method of accounting. As at 30 June 2021, the Group holds 20.0% equity interest of JDSJ Group.

* English names are translated for identification purpose only

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

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	
	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Trading securities – listed securities	–	–	64,489	80,716
Equity investment – unlisted securities	16,138	20,234	–	–
Financial assets	16,138	20,234	64,489	80,716

All financial assets measured at fair value through profit or loss and other comprehensive income are classified as non-current assets.

The change in the fair value of RMB755,000 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.

19 Contract liabilities

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Contract liabilities related to online services and advertisement	93,972	64,305
Contract liabilities related to sales of goods on B2B trading platform	693,892	487,734
	787,864	552,039

Note:

Contract liabilities mainly represent advance payments received from customers related to online services and advertisement and B2B trading platform.

20 Trade payables, accrued expenses and other payables

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Trade payables (<i>note a</i>)	261,725	478,940
Accrued salaries and staff benefits	21,627	27,326
Accrued agency commission	7,392	7,914
Accrued expenses	38,586	43,161
Deposits from customers	8,852	19,279
Other deposits (<i>note b</i>)	201,500	40,000
Other payables	23,016	28,379
	562,698	644,999

Note:

(a) Trade payables

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Current to 90 days	86,169	370,081
91 to 180 days	170,704	106,296
181 to 365 days	3,170	747
Over 1 year	1,682	1,816
	261,725	478,940

(b) Other deposits

The amount represents the intention deposit received from 北京小犀角科技有限公司 ("Beijing Little Rhino Horn Technology") relate to the equity transfer agreement signed on 5 January 2021. Please refer to note 11(a) for more details.

21 Borrowings

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Non-current portion:		
Bank borrowings	518,000	280,228
	518,000	280,228
Current portion:		
Bank borrowings	209,020	615,080
Other borrowings	275,105	340,959
	484,125	956,039
Total borrowings	1,002,125	1,236,267

Bank borrowings bear average interest rate of 6.46% per annum (31 December 2020: 7.00% per annum), mature ranging from 2021 to 2023 (31 December 2020: same), part of which amounting to RMB110,000,000 (31 December 2020: RMB130,000,000) are secured by properties and investment properties, with a total carrying value amounting to RMB52,120,000 (31 December 2020: secured by properties, investment properties and right-of-use assets with carrying value amounting to RMB174,125,000), which are also guaranteed by the Executive Directors of the Group and subsidiaries (31 December 2020: same). The remaining bank borrowings included borrowings of RMB530,000,000 (31 December 2020: RMB548,000,000) provided by Jingu and guaranteed by subsidiaries and associates of the Group (31 December 2020: guaranteed by an associate of the Group).

As at 30 June 2021, other borrowings with a total principal amount of RMB230,000,000 (31 December 2020: same) were provided by an independent third party and is payable in December 2021 (31 December 2020: RMB200,000,000 is repayable on demand while the remaining RMB30,000,000 is payable in May 2021). This other borrowing is interest-free and secured by certain equity shares of a subsidiary (31 December 2020: same).

The remaining other borrowings are provided by independent third parties, director of a subsidiary, a non-controlling shareholder of a subsidiary (31 December 2020: independent third parties, director of a subsidiary, a non-controlling shareholder of a subsidiary and associate companies) and bear interest rate ranging from 3.85% to 10% per annum (31 December 2020: 4.4% to 14.3% per annum). Out of these borrowings RMB18,105,000 (31 December 2020: RMB88,001,000) are secured by inventories (31 December 2020: 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 2021 RMB'000	Audited 31 December 2020 RMB'000	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Within 1 year	209,020	615,080	275,105	340,959
Between 1 and 2 years	518,000	246,857	–	–
Between 2 and 4 years	–	33,371	–	–
	727,020	895,308	275,105	340,959

As at 30 June 2021, the Group has no undrawn banking facilities (31 December 2020: Nil).

22 Share capital

	Number of ordinary shares	Par value RMB'000
At 1 January 2021 and 30 June 2021	1,309,931,119	120,977
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

The total authorised number of ordinary shares is 2,000,000,000 shares (31 December 2020: 2,000,000,000 shares) with a par value of HK\$0.1 per share (31 December 2020: HK\$0.1 per share). All issued shares are fully paid.

The total number of issued shares of the Company were 1,309,931,119 shares as at 30 June 2021 (31 December 2020: same).

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 2021, no share options were exercised (30 June 2020: 288,000 share options).

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

	2021		2020	
	Exercise price in HK\$ per share	Share options	Exercise price in HK\$ per share	Share options
At 1 January	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	2,880,000	9.84	3,380,000
	6.476	29,630,700	6.476	29,930,000
	4.6	29,409,094	4.6	40,150,000
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	–
Lapsed, forfeited or exercised	0.82	–	0.82	(188,000)
	1.108	(100,000)	1.108	(100,000)
	4.402	–	4.402	–
	9.84	–	9.84	(500,000)
	6.476	–	6.476	(299,300)
	4.6	(166,500)	4.6	(10,740,906)
At 30 June 2021 and 31 December 2020	0.82	–	0.82	–
	1.108	–	1.108	100,000
	4.402	1,500,000	4.402	1,500,000
	9.84	2,880,000	9.84	2,880,000
	6.476	29,630,700	6.476	29,630,700
	4.6	29,242,594	4.6	29,409,094

Expiry date	Exercise price in HK\$ per share	Share options		
		Unaudited 30 June 2021	Exercise price in HK\$ per share	Audited 31 December 2020
27 March 2021	1.108	–	1.108	100,000
3 April 2023	4.402	1,500,000	4.402	1,500,000
18 November 2023	9.84	2,880,000	9.84	2,880,000
13 October 2027	6.476	29,630,700	6.476	29,630,700
19 July 2028	4.6	19,575,594	4.6	19,575,594
20 June 2029	4.6	9,667,000	4.6	9,833,500

(b) Share Award Scheme

The following table represents the movements for number of shares under the Share Award Scheme for the periods ended 30 June 2021 and 2020.

	Number of shares (in thousand unit)
At 1 January 2021	28,234
Shares purchased from the market	–
Share transferred during the period	(3,366)
At 30 June 2021	24,868
At 1 January 2020	19,195
Shares purchased from the market	7,184
Share transferred during the period	(7,526)
At 30 June 2020	18,853

23 Deferred income tax

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

	Unaudited six months ended 30 June	
	2021 RMB'000	2020 RMB'000
At 1 January		
(Charged)/credited to profit or loss	(22,889)	(189,549)
Reversal of temporary differences upon impairment	(4,237)	18,133
Reversal of temporary differences upon impairment	–	12,725
Charged to other comprehensive income	2,677	(1,428)
At 30 June	(24,449)	(160,119)

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 2021	2,810,128	-	185,595	109,817	297,725	2,686	16,819	(54,343)	(1,986)	3,366,441
Share-based compensation	-	-	-	-	10,274	-	-	-	-	10,274
Disposal of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	(2,418)	(2,418)
Fair value loss on financial assets at fair value through other comprehensive income, net of deferred tax	-	-	-	-	-	-	-	-	(7,599)	(7,599)
Transaction with non-controlling interests	-	-	19,112	-	-	-	-	-	-	19,112
Currency translation differences	-	-	-	-	-	-	(6,785)	-	-	(6,785)
At 30 June 2021	2,810,128	-	204,707	109,817	307,999	2,686	10,034	(54,343)	(12,003)	3,379,025

	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

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	
	2021 RMB'000	2020 RMB'000
Salaries and other short-term employee benefits	2,968	3,063
Share-based payments	10,201	20,124
	13,169	23,187

(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	
		2021 RMB'000	2020 RMB'000
Associates (note i and ii)	Interest expense	19,662	20,705
	Interest income	9,066	9,873

Note:

- (i) As at 30 June 2021, bank borrowings of RMB530,000,000 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) As at 30 June 2021, 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 2021 and 31 December 2020, respectively.

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Bank borrowing and interest payable from an associate (<i>note i</i>)	531,020	549,045
Loans and interest receivables from associates and a joint venture	80,991	84,126
Deposits received from: – Associates (<i>note ii</i>)	1,175	1,175
Cash and cash equivalents from an associate (<i>note iii</i>)	33	340
Finance lease receivables from associates (<i>note iv</i>)	186,000	236,000

Note

- (i) As at 30 June 2021, the balance represents bank borrowings from Jingu. The borrowings amounting to RMB530,000,000 (31 December 2020: RMB548,000,000) will mature on 10 May 2023 (31 December 2020: RMB328,000,000 will mature on 15 October 2021, RMB220,000,000 will mature on 15 September 2022), and is interest bearing at a rate of 6.925% per annum (31 December 2020: RMB328,000,000 at a rate of 7.4% per annum, RMB220,000,000 at a rate of 6.9% per annum). These borrowings are guaranteed by subsidiaries and associates of the Group (31 December 2020: guaranteed by an associate of the Group).
- (ii) The balance includes deposits received by a financing services company of the Group from certain associates of the Company as guarantee for the loan granted to their customers.
- (iii) The balance represents current deposits placed in Jingu.
- (iv) As at 30 June 2021, the balance represents finance lease receivables of RMB143,000,000 (31 December 2020: RMB193,000,000) from Zhongmo, which will mature from 2021 to 2022 and are interest bearing at rate of 10% per annum. Another finance lease receivable of RMB43,000,000 (31 December 2020: RMB43,000,000) from Zhejiang Huicong Investment Co., Ltd* (“浙江慧聰投資有限公司”), which will mature on 2022 and are interest bearing at rate of 8% per annum.
- * English names are translated for identification purpose only

26 Contingent liabilities

As at 30 June 2021, there were no material contingent liabilities to the Group (31 December 2020: Nil).

27 Commitments under operating lease – As a lessor

At 30 June 2021, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of buildings which expire as follows:

(i) From continuing operations

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Within one year	1,705	1,705
In the second to fifth year inclusive	3,410	4,263
	5,115	5,968

(ii) From discontinued operations

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Within one year	39,117	37,000
In the second to fifth year inclusive	157,669	132,500
Over the fifth year	236,503	308,000
	433,289	477,500

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 2021, 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	79,850,700 (note 1)	-	-	-	79,850,700 (note 1)	6.10%
Zhang Yonghong	Ordinary	Beneficial owners	13,767,000 (note 2)	-	-	-	13,767,000 (note 2)	1.05%
Liu Xiaodong	Ordinary	Beneficial owners and Interest of controlled corporation	5,702,485 (note 3)	-	62,273,794 (note 3)	-	67,976,279 (note 3)	5.19%
Guo Fansheng	Ordinary	Beneficial owner and Founder of a discretionary trust who can influence how the trustee exercises his discretion	2,088,000 (note 4)	-	-	55,661,015 (note 4)	57,749,015 (note 4)	4.41%

Notes:

- Such interests in the Company comprise: (i) 50,220,000 Shares and (ii) 29,630,700 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) 9,667,000 underlying Shares derived from the Options held by Mr. Zhang Yonghong.

3. Such interests in the Company comprise: (i) 3,702,485 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). 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) 2,088,000 Shares (long position) held by Mr. Guo Fansheng; and
 - (b) 55,661,015 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.

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

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

OUTSTANDING SHARE OPTIONS

Share Option Scheme

As at 30 June 2021, 63,253,294 options to subscribe for an aggregate of 63,253,294 Shares were outstanding granted, which comprise 4,380,000 options granted under the 2003 Share Option Scheme and 58,873,294 options granted under the 2015 Share Option Scheme, 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 2021 (Note 1)
			As at 1 January 2021	Granted during the Period	Exercised during the Period	Lapsed during the Period	
Directors							
Liu Jun (Note 12)	13 October 2017	6.476	29,630,700	-	-	-	29,630,700
Zhang Yonghong (Note 12)	20 June 2019	4.6	9,833,500	-	-	(166,500)	9,667,000
Liu Xiaodong (Note 12)	19 July 2018	4.6	3,702,485	-	-	-	3,702,485
Senior management							
Wu Lei (Note 12)	19 July 2018	4.6	3,379,413	-	-	-	3,379,413
Song Bingchern (Note 12)	19 July 2018	4.6	2,896,640	-	-	-	2,896,640
Zhao Hong (Note 12)	19 July 2018	4.6	1,496,597	-	-	-	1,496,597
Other employees							
In aggregate (Note 4, 11)	28 March 2011	1.108	100,000	-	-	(100,000)	-
In aggregate (Note 5, 11)	3 April 2013	4.402	1,500,000	-	-	-	1,500,000
In aggregate (Note 6, 11)	18 November 2013	9.84	2,880,000	-	-	-	2,880,000
In aggregate (Note 8, 12)	19 July 2018	4.6	8,100,459	-	-	-	8,100,459
Total			63,519,794	-	-	(266,500)	63,253,294

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\$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. 13 employees have been granted Options under the Share Option Scheme to subscribe an aggregate of 2,880,000 Shares at HK\$9.84 per Share.
3. 8 employees have been granted Options under the Share Option Scheme to subscribe an aggregate of 8,100,459 Shares at HK\$4.6 per Share.
4. 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.
5. 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.

6. 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.
7. The fair value of Options granted under the Share Option Scheme on 13 October 2017, determined using the Binomial Model valuation model, was approximately RMB100,356,000. The significant inputs into the model were exercise price of HK\$6.476 standard deviation of expected share price returns of 62%, expected life of Options 4.9 years expected dividend paid out rate of 0.9% and annual risk-free interest rate 1.745%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
8. 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.
9. 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.
10. 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.
11. The Options were granted under the 2003 Share Option Scheme.
12. The Options were granted under the 2015 Share Option Scheme.

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 pursuant to which existing shares of the Company will be acquired by the trustee from the market at the cost of the Company and be held in trust for the selected employees until such shares are vested with the relevant selected employees in accordance with the provision of the share award scheme. For principal terms of the employees' share award scheme, please refer to the announcement of the Company dated 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 awarded Shares, representing approximately 2.51% of the then total issued share capital of the Company, to 26 selected employees, of which 4,000,000 awarded Shares is granted to Mr. Zhang Yonghong, an executive Director and chief executive officer of the Company, and 2,000,000 awarded Shares is granted to Mr. Liu Xiaodong, an executive Director and president of the Company, subject to the vesting periods and conditions of the grant of the awarded Shares.

Since the adoption date, a total of 74,981,000 shares has been granted up to the date of this report, representing approximately 5.72% of the issued share capital of the Company as at the date of this report. The awarded Shares remain outstanding as at 30 June 2021 are set out below:

Name of Grantee	Date of grant	As at 1 January 2021	Granted during the Period	Transferred during the Period	As at 30 June 2021
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	1,080,000	–	–	1,080,000
Song Bingchen	8 July 2019	1,800,000	–	–	1,800,000
Zhao Hong	8 July 2019	900,000	–	–	900,000
Other employees					
In aggregate	23 November 2011	785,444	–	–	785,444
	20 August 2012	8,351,000	–	–	8,351,000
	8 July 2019	12,137,680	–	(3,365,750)	8,771,930
Total		31,054,124	–	(3,365,750)	27,688,374

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

As at 30 June 2021, so far as the Directors are aware of, 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 2021
Talent Gain Developments Limited	Ordinary	253,671,964 (note 1)		Beneficial owner and Interest in controlled corporation	19.37%
Digital China (BVI) Limited	Ordinary	253,671,964 (note 1)		Interest in controlled corporation	19.37%
Digital China Holdings Limited	Ordinary	253,671,964 (note 1)		Interest in controlled corporation	19.37%
Ideal South Limited	Ordinary	80,000,000 (note 2)		Beneficial owner	6.11%
Wong Luen Hei	Ordinary	129,705,000 (note 2)		Interest in controlled corporation and Founder of a discretionary trust who can influence how the trustee exercise his discretion	9.90%
Fortune Value Investment Holdings Limited		104,562,000 (note 3)		Beneficial owner	7.98%
Zhu Lemin		104,562,000 (note 3)		Interest in controlled corporation	7.98%

Notes:

- 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 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. Ideal South Limited is wholly and beneficially owned by Mr. Wong Luen Hei
3. Fortune Value Investment Holdings Limited is wholly and beneficially owned by Mr. Zhu Lemin.

Save as disclosed above, so far as the Directors are aware of, as at 30 June 2021, 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 entered in the register kept under Section 336 of the SFO.

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDITOR

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.

RECONCILIATION OF NON-HKFRS MEASURES TO THE NEAREST HKFRS MEASURES

To supplement our consolidated results which are prepared and presented in accordance with HKFRS, we also used adjusted EBITDA and adjusted net profit/(loss) as additional financial measures, which are not required by, or presented in accordance with HKFRS. The Company's management believes that the non-HKFRS financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items and certain impact of certain disposal and acquisition transactions. The use of these non-HKFRS measures have limitations as an analytical tool, and one should not consider them in isolation form, or as a substitute for analysis of our results of operations or financial conditions as reported under HKFRS. In addition, these non-HKFRS financial measures may be defined differently from similar terms used by other companies.

The following tables set forth the reconciliations of our non-HKFRS financial measures for the six months ended 30 June 2021 and 2020, to the nearest measures prepared in accordance with HKFRS.

	Unaudited	
	six months ended 30 June	
	2021	2020
	RMB'000	<i>RMB'000</i>
		(Restated)
Loss before income tax	(78,984)	(187,061)
Share based payment expense	10,273	17,339
Fair value (gains)/losses on financial assets		
at fair value through profit or loss	(755)	8,299
Impairment loss on goodwill and intangible assets	–	37,645
Other one-off (gains)/losses on disposal of:		
– Losses on disposal of Hunan Zhongmoyun Construction Science and Technology Co., Limited*	13,743	–
– Losses on deemed disposal of Hunan Zhongmoyun Construction Science and Technology Co., Limited*	1,389	–
– Gains on disposal of Beijing Huiyase Technology Co., Limited	(30,270)	–
– Gains on disposal of subsidiaries	–	(12,664)
Adjusted net loss	(84,604)	(136,442)
Adjusted for:		
Share based payment expense	(10,274)	(17,339)
Finance cost, net	(35,012)	(68,777)
Depreciation and amortisation	(47,641)	(56,423)
Adjusted EBITDA/(LBITDA)	13,943	(44,522)

* English name is for translation purpose only

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 CORPORATE GOVERNANCE CODE

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 Corporate Governance Code contained in Appendix 14 to the Listing Rules during the Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed shares during the Period.

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

Hong Kong, 27 August 2021

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. Qi Yan (*Independent non-executive Director*)