首控集团
CHINA FIRST CAPITAL GROUP LIMITED

CHINA FIRST CAPITAL GROUP LIMITED
中國首控集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1269)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

RMB' million	**For the six months ended 30 June 2020** (unaudited)	**2019** (unaudited)	**Increase/ (Decrease)**
Revenue	603.4	647.2	(6.8%)
Loss for the period attributable to owners of the Company	(339.1)	(141.8)	139.1%
Basic loss per Share	RMB(0.067)	RMB(0.028)	139.3%

RMB' million	**As at 30 June 2020** (unaudited)	**As at 31 December 2019** (audited)	**Decrease**
Total assets	5,220.7	5,812.6	(10.2%)
Equity attributable to owners of the Company	368.4	662.7	(44.4%)
Net asset value per Share *(Note)*	RMB0.07	RMB0.13	(46.2%)

Note: Net asset value per Share is arrived at by dividing equity attributable to owners of the Company by the number of issued shares of the Company (the "**Share(s)**") as at the end of the period.

INTERIM RESULTS

The Board (the "**Board**") of directors (the "**Director(s)**") of China First Capital Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") hereby announces the unaudited condensed consolidated results of the Group presented in Renminbi ("**RMB**") for the six months ended 30 June 2020.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	NOTES	**Six months ended**	
		30.6.2020	30.6.2019
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Continuing operations			
Revenue, comprising	*3*		
– Sales of goods		**396,790**	406,032
– Provision of services		**203,751**	217,215
– Interest income		**2,865**	23,942
		603,406	647,189
Cost of sales/services		**(471,754)**	(482,258)
Gross profit		**131,652**	164,931
Other income and expenses		**24,985**	49,375
Other gains and losses		**(87,216)**	129,760
Expected credit losses, net of reversal		**(83,334)**	(31,400)
Impairment losses on goodwill, tangible and intangible assets		**(23,602)**	–
Fair value changes of financial assets measured at fair value through profit or loss ("**FVTPL**")		**(45,841)**	73,623
Fair value changes of contingent consideration payables		**(8,099)**	(52,758)
Fair value changes of embedded derivative components of convertible bond		**–**	10,620
Research and development ("**R&D**") expenditure		**(16,697)**	(26,802)
Selling and distribution expenses		**(39,977)**	(39,317)
Administrative expenses		**(119,769)**	(162,964)
Share of results of associates		**(2,374)**	396
Share of results of joint ventures		**30,880**	(174,900)
Finance costs		**(125,760)**	(137,960)
Loss before tax		**(365,152)**	(197,396)
Taxation	*4*	**(2,527)**	7,212
Loss for the period from continuing operations		**(367,679)**	(190,184)
Discontinued operation			
Loss for the period from discontinued operation		**–**	–

	NOTES	Six months ended 30.6.2020 RMB'000 (unaudited)	30.6.2019 RMB'000 (unaudited)
Loss for the period		**(367,679)**	(190,184)
Other comprehensive income for the period			
Item that will not be reclassified to profit or loss			
Exchange difference arising on translation to presentation currency		**26,022**	8,585
Item that may be reclassified subsequently to profit or loss			
Exchange difference arising on translation of foreign operations		**9,610**	340
Other comprehensive income for the period, net of income tax		**35,632**	8,925
Total comprehensive expense for the period		**(332,047)**	(181,259)
Loss for the period attributable to:			
Owners of the Company		**(339,100)**	(141,830)
Non-controlling interests		**(28,579)**	(48,354)
		(367,679)	(190,184)
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(298,697)**	(138,509)
Non-controlling interests		**(33,350)**	(42,750)
		(332,047)	(181,259)
Loss per Share			
From continuing and discontinued operations			
Basic (RMB)	*6*	**(0.067)**	(0.028)
Diluted (RMB)	*6*	**(0.067)**	(0.028)
From continuing operations			
Basic (RMB)	*6*	**(0.067)**	(0.028)
Diluted (RMB)	*6*	**(0.067)**	(0.028)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	NOTES	**30.6.2020**	31.12.2019
		RMB'000	*RMB'000*
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**979,597**	1,001,848
Right-of-use assets		**287,706**	300,322
Interests in associates		**11,232**	7,134
Interests in joint ventures		**603,601**	571,887
Intangible assets		**294,892**	341,359
Goodwill		**299,969**	323,571
Financial assets measured at FVTPL		**–**	90,046
Other receivables		**117,474**	114,216
Consideration receivable		**7,911**	–
Amounts due from joint ventures		**–**	36,376
Loan and interest receivables		**14,728**	–
		2,617,110	2,786,759
CURRENT ASSETS			
Inventories		**107,401**	205,115
Amounts due from joint ventures		**231,490**	220,151
Financial assets measured at FVTPL		**804,686**	870,656
Trade and other receivables	*7*	**945,232**	902,665
Loan and interest receivables		**122,598**	95,055
Security account balances		**1,044**	19,557
Restricted bank balances		**163,580**	481,029
Bank balances and cash		**227,532**	231,606
		2,603,563	3,025,834
TOTAL ASSETS		**5,220,673**	5,812,593
CURRENT LIABILITIES			
Trade and other payables	*8*	**1,094,499**	1,430,475
Amounts due to shareholders of the Company		**28,107**	–
Amounts due to joint ventures		**6,498**	–
Borrowings – due within one year		**1,352,479**	1,236,845
Convertible bonds		**768,050**	721,925
Income tax payable		**85,693**	89,603
Deferred income		**6,060**	5,745
Contract liabilities		**216,588**	221,039
Lease liabilities		**11,883**	13,686
Provisions		**22,808**	24,149
Contingent consideration payables		**30,280**	–
		3,622,945	3,743,467
NET CURRENT LIABILITIES		**(1,019,382)**	(717,633)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,597,728**	2,069,126

	NOTES	30.6.2020 RMB'000 (unaudited)	31.12.2019 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Other payables		**145**	142
Borrowings – due after one year		**543,618**	572,960
Deferred income		**51,775**	53,290
Contract liabilities		**133,186**	164,858
Lease liabilities		**14,820**	22,419
Long-term payables		**26,387**	31,728
Contingent consideration payables		**–**	61,647
Deferred tax liabilities		**95,433**	102,034
		865,364	1,009,078
NET ASSETS		**732,364**	1,060,048
OWNERS' EQUITY			
Share capital	*9*	**84,283**	84,283
Reserves		**284,090**	578,424
Equity attributable to:			
Owners of the Company		**368,373**	662,707
Non-controlling interests		**363,991**	397,341
		732,364	1,060,048

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The condensed consolidated financial statements are presented in RMB. Certain assets and liabilities of the Group are denominated in currencies other than RMB, such as Hong Kong dollars ("**HK$**") and United States dollar ("**US$**").

In preparing the condensed consolidated financial statements, the directors of the Company are given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a net loss of RMB367,679,000 for the period ended 30 June 2020 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB1,019,382,000 as at 30 June 2020.

The directors of the Company have performed an assessment of the Group's future liquidity and cash flows, taking into account the following relevant matters:

(i) The Group is discussing with the counterparty to restructure the existing convertible bonds through provision of additional collaterals and guarantees to the bondholder, and partial repayment of principal amount by instalments within the twelve months from the period end, during the six months ended 30 June 2020, the Group has repaid the principal of HK$30,000,000 (equivalent to approximately RMB27,404,000). Therefore, the directors of the Company do not expect to receive any request from the counterparty for demand for immediate repayment for the entire convertible bonds. Up to the date of approval of these condensed consolidated financial statements, the Group has received an offer letter from the counterparty and the Group is in the process in finalising the terms with the bondholder.

(ii) Dr. Wilson Sea, the chairman of the Company, has committed to provide financial support of no more than RMB180 million to the Company. In addition, the Group is actively identifying other alternative sources of funding.

The directors of the Company consider that after taking into account the aforementioned measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis. However, should the above refinancing measures not be able to implement successfully, the Group may not have sufficient funds to operate as a going concern, in which case adjustments might have to be made to the carrying values of the Group's assets to their recoverable amounts, to reclassify the non-current assets and non-current liabilities as current assets and current liabilities, respectively and to provide for any further liabilities which might arise.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") and Hong Kong Accounting Standards ("**HKASs**") and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKASs and HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKASs and HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

2.2 Impacts and accounting policies on application of Amendments to HKFRS 3 Definition of a Business

2.2.1 Accounting policies

Business combinations

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

2.2.2 Transition and summary of effects

The amendments had no impact on the condensed consolidated financial statements of the Group.

2.3 Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to other reserve. When the share options forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to accumulated losses.

3. REVENUE AND SEGMENT INFORMATION

(a) Products/services within each operating segment

The segment information reported was determined by the types of products/services and the types of customers to which the products are sold/services are provided, which is consistent with the internal information that are regularly reviewed by the executive directors of the Company, who are the chief operating decision makers (the "**CODM**") of the Group, for the purposes of resource allocation and assessment of performance.

No operating segment has been aggregated to form the following reportable segments:

- Automotive parts business – manufacturing and selling of automobile shock absorbers and suspension system products to the automobile market of original automobile manufacturers and the secondary market of the automobile industry.

- Education operation business – engage in the business of provision of schooling services, including kindergarten education, academic education and vocational education and business of provision of management and consultancy services to educational institutions.

- Financial services business – engage in the business of listing sponsorship, dealing in securities, underwriting and placing securities, financing consultancy, merger and acquisition agency, financial advisory, asset management, private equity fund management, credit financing, franchising and overseas education/migration financial services.

(b) Segment revenue and segment results

	Segment revenue Six months ended		Segment results Six months ended	
	30.06.2020	30.06.2019	**30.06.2020**	30.06.2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Automotive parts business	**396,790**	406,032	**27,705**	50,855
Education operation business	**190,142**	189,897	**89,500**	63,346
Financial services business	**16,474**	51,260	**14,447**	50,730
Total segment and consolidated	**603,406**	647,189	**131,652**	164,931
Other income and expenses			**24,985**	49,375
Other gains and losses			**(87,216)**	129,760
Expected credit losses, net of reversal			**(83,334)**	(31,400)
Impairment losses on goodwill, tangible and intangible assets			**(23,602)**	–
Fair value changes of financial assets measured at FVTPL			**(45,841)**	73,623
Fair value changes of contingent consideration payables			**(8,099)**	(52,758)
Fair value changes of embedded derivative components of convertible bond			**–**	10,620
R&D expenditure			**(16,697)**	(26,802)
Selling and distribution expenses			**(39,977)**	(39,317)
Administrative expenses			**(119,769)**	(162,964)
Share of results of associates			**(2,374)**	396
Share of results of joint ventures			**30,880**	(174,900)
Finance costs			**(125,760)**	(137,960)
Loss before tax			**(365,152)**	(197,396)

Revenue reported above represents revenue generated from sales of goods/provision of services to external customers.

Segment results represent the gross profit of each operating segment, conforming to the same measurement reported to the CODM for the purposes of resources allocation and performance assessment.

(c) Geographical information

The Group principally operates in the People's Republic of China ("**China**" or the "**PRC**", for the purpose of this announcement, shall exclude the Hong Kong Special Administrative Region of the PRC ("**Hong Kong**"), the Macau Special Administrative Region of the PRC and Taiwan).

During the six months ended 30 June 2020, over 97% (six months ended 30 June 2019: 93%) of the Group's revenue from external customers is derived from the PRC. As at 30 June 2020, 97% (31 December 2019: 97%) of total non-current assets are located in the PRC.

4. TAXATION

	Six months ended	
	30.6.2020	30.6.2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax expenses:		
– The PRC enterprise income tax ("**EIT**")	**3,222**	8,402
– Other than the PRC EIT	**–**	515
	3,222	8,917
(Over) under-provision in prior year:		
– Hong Kong	**(303)**	–
– PRC EIT	**1,794**	–
	1,491	–
Deferred tax credit	**(2,186)**	(16,129)
	2,527	(7,212)

5. DIVIDENDS

The directors of the Company have determined that no interim dividend will be declared in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: Nil). No dividends have been paid and declared by the Company during the six months ended 30 June 2020 (six months ended 30 June 2019: Nil), nor has any dividend been proposed since the end of the reporting period.

6. LOSS PER SHARE

For continuing operations

The calculation of basic and diluted loss per Share attributable to owners of the Company is based on the following data:

	Six months ended	
	30.6.2020	30.6.2019
	(unaudited)	(unaudited)
Loss (RMB'000)		
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per Share	**(339,100)**	(141,830)
Adjust for:		
Loss for the period from discontinued operation	**–**	–
Loss for the purpose of basic and diluted loss per Share from continuing operations	**(339,100)**	(141,830)
Number of shares		
Weighted average number of ordinary Shares for the purpose of basic and diluted loss per Share	**5,026,892,000**	5,026,892,000

For the six months ended 30 June 2020, the calculation of diluted loss per Share did not assume the exercise of the granted share options as it would result in a decrease in loss per Share.

For the six months ended 30 June 2019, the calculation of diluted loss per Share did not assume the conversion of the Company's outstanding convertible bond as it would result in a decrease in loss per Share.

For continuing and discontinued operations

The nominator and denominator used in calculation of basic and diluted loss per Share attributable to owners of the Company for continuing and discontinued operations are the same for the six months ended 30 June 2020 and 2019.

7. TRADE AND OTHER RECEIVABLES

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**542,966**	435,373
Less: allowance for trade debts	**(70,523)**	(50,054)
	472,443	385,319
Bills receivables	**263,804**	194,690
Other receivables	**321,457**	428,689
Less: allowance for other debts	**(85,913)**	(39,216)
	235,544	389,473
Value-added tax recoverable	**11,110**	12,667
Advance to suppliers	**79,805**	34,732
	1,062,706	1,016,881
Less: amounts shown under non-current assets	**(117,474)**	(114,216)
Total trade and other receivables shown under current assets	**945,232**	902,665

The aging of trade receivables presented based on invoice date (also approximate to the date of revenue recognition), net of allowance for trade receivables, is as follows:

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 90 days	**438,393**	347,234
91 to 180 days	**24,906**	24,214
181 to 365 days	**9,144**	13,871
	472,443	385,319

The ageing of bills receivables, presented based on receipt date, is as follows:

	30.6.2020 *RMB'000* (unaudited)	31.12.2019 *RMB'000* (audited)
Within 30 days	**36,334**	52,870
31 to 60 days	**42,785**	67,374
61 to 90 days	**42,416**	16,898
91 to 120 days	**38,132**	21,905
121 to 150 days	**64,209**	23,504
151 to 180 days	**31,568**	12,039
181 to 365 days	**8,360**	100
	263,804	194,690

8. TRADE AND OTHER PAYABLES

	30.6.2020 *RMB'000* (unaudited)	31.12.2019 *RMB'000* (audited)
Trade payables	**623,261**	627,912
Bills payables	**119,965**	142,830
	743,226	770,742
Other payables	**43,048**	322,276
Customer deposits for securities trading	**48,000**	104,134
Other payables to employees	**223**	223
Other tax payables	**46,285**	19,486
Other accruals	**91,285**	86,365
Payroll and welfare payables	**122,577**	127,391
	1,094,644	1,430,617
Less: Amount shown under non-current liabilities	**(145)**	(142)
Total trade and other payables shown under current liabilities	**1,094,499**	1,430,475

The following is an ageing analysis of trade payables presented based on invoice date at the end of each reporting period:

	30.6.2020 *RMB'000* (unaudited)	31.12.2019 *RMB'000* (audited)
Within 90 days	**519,203**	557,215
91 to 180 days	**28,648**	38,172
181 to 365 days	**48,322**	22,027
Over 365 days	**27,088**	10,498
	623,261	627,912

The following is an ageing analysis of bills payables presented based on issuance date at the end of each reporting period:

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 30 days	**–**	24,400
31 to 60 days	**52,155**	21,430
61 to 90 days	**–**	5,000
91 to 180 days	**47,600**	52,000
Over 180 days	**20,210**	40,000
	119,965	142,830

9. SHARE CAPITAL

	Number of Shares	**Share capital**
		HK$
Ordinary Shares of HK$0.02 each		
Authorised:		
At 31 December 2019 (audited) and 30 June 2020 (unaudited)	50,000,000,000	1,000,000,000
Issued and fully paid:		
At 31 December 2019 (audited) and 30 June 2020 (unaudited)	5,026,892,000	100,537,840

	30.6.2020	31.12.2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Share capital presented in the condensed consolidated statement of financial position	**84,283**	84,283

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The Company is an investment holding company. Before 2014, the Group mainly engaged in automotive parts business. Since the end of 2014, the Group has started to set foot in the financial services business, which can provide services such as listing sponsorship, underwriting and placing, dealing in securities, financing consultancy, merger and acquisition agency, financial advisory, asset management, private equity fund management, credit financing, and migration finance. Since 2016, the Group has continued to diversify its business, and established a trinitarians interactive business mode, which capitalises on educational investment and operations as bases and educational management service and educational financial service as cradles with the mission of "Finance Empowers Education, Education Lights Up Future". The Group aspires to become "a globally influential financial services group focusing on education".

The Company is now a constituent of Hang Seng Composite Index Series and was advanced into the list of eligible securities for "Southbound Trading" under "Shanghai-Hong Kong Stock Connect" and "Shenzhen-Hong Kong Stock Connect". The Group was awarded the Platinum Winner Worldwide at the 2019 Vision Awards hosted by the League of American Communications Professionals LLC (LACP) for its 2019 annual report, and was nominated in the Top 100 Reports Worldwide, and it received an award at the 34th International ARC Awards organised by MerComm, Inc.

BUSINESS REVIEW

Education Operation Business

Education serves as the foundation of national development in long run. Education is the fundamental means for mankind to inherit their cultural heritage and knowledge, cultivate the younger generation and work for a better living. Upon the march of time, while the importance of knowledge and talents are increasing, the role and function of education are protruding. With the increasing disposable income of citizens in China, the growing population of the middle class group and the implementation of the "Universal Two-child Policy" across the country, the huge population base and increasing competition among talents and employment have resulted in continuous rigid demand for quality education. As one of the largest education markets in the world, China has always emphasised on education development with the state financial spending on education consecutively accounted for more than 4% of the GDP since 2012. In order to develop fairer and higher quality education, the government has introduced multiple policies, accelerating the education modernisation, strengthening the education reform, improving education quality vigorously, encouraging social forces to invest in education and promoting the development of the private education sector in a steady and healthy manner, which bring long-term development opportunities to enterprises truly committed to education.

In view of this, the Group actively seized development opportunities in the education industry. Being in line with the trend of regulating development of the industry, the Group has adopted a model of endogenous growth which mainly focused on management improvement. The Group emphasised on quality literacy education, featured education from kindergarten through twelfth grade ("**K-12**") and international education. It also optimised its allocation of educational resources, promoted project synergy and integration in respect of curriculums, teachers, brands and operation, and explored the potentiality of education assets and enhanced their intrinsic value to establish the Group's core competitiveness.

In order to prevent the spread of COVID-19 epidemic in school campuses and ensure the life safety and health of teachers and students, in January 2020, the Ministry of Education issued a notice requiring a postponement of the spring semester in 2020. In February 2020, the General Office of the Ministry of Education and the General Office of the Ministry of Industry and Information Technology jointly issued the Notice on the Work Arrangement of "Suspending Classes without Stopping Learning" during the Period of Postponement of Spring Semester of Primary and Middle Schools (《關於中小學延期開學期間「停課不停學」有關工作安排的通知》), which integrates high quality educational resource, launches the national network cloud platform and online television classes for the primary and middle schools, and provides relevant learning resources at no extra cost to support and help students who study at home. Xishan Schools (collectively, Fuqing Xishan School* (福清西山學校) ("**Fuqing Xishan**"), Fuqing Xishan Vocational and Technical School* (福清西山職業技術學校), Jiangxi Xishan School* (江西省西山學校) ("**Jiangxi Xishan**") and Xishan Education Group* (西山教育集團)) and Jinan Shijiyinghua Experiment School* (濟南世紀英華實驗學校) did well in epidemic prevention and control in accordance with the Guidelines on COVID-19 Prevention and Control in Primary and Middle Schools (《中小學校新型冠狀病毒肺炎防控指南》) and prudently formulated education and teaching plan, so as to well coordinate these two aspects. The schools of the Group set up cloud classes by means of the "Internet + Education" model, and conducted live broadcast teaching through online teaching platform where students study online on their own, and teachers provide online coaching and tutoring and supervise and randomly check the results of their independent learning. Xishan Schools have proactively conducted online activities for family-school co-education in order to supervise and examine the online teaching. The schools specially invited mental health education experts to give online education lectures on life safety, propagated and popularised the knowledge of epidemic prevention and control, and facilitated the educational guidance and psychological counseling. The Group also proactively fulfilled its corporate social responsibility and co-organised with Tencent "Youth Travel (青年行)" to conduct live broadcast online charitable lectures for secondary students in the Guangdong-Hong Kong-Macao Greater Bay Area.

The Group put forth efforts to strengthen the operations and management of its invested educational projects. It guided teachers to build up the concept of lifelong learning, cultivated reading culture at school and invited experts to conduct training lectures to offer teachers scientific guidance on online teaching. Meanwhile, it proactively organised activities such as "Indigo Blue Project (青藍工程)", teaching competition for all (全員賽課), and "Class Observation and Evaluation", and paired up new and senior teachers to help each other, in order to exert the resource advantages of "Pass, Help and Lead" of pillar teachers and promote the general teaching and comprehensive abilities of teaching teams. The Group also vigorously developed its featured education such as football, martial arts, physical education and fine arts. The scale and quality of the Group's educational projects have improved steadily with impressive results gained from various competitions. All students graduated in 2020 under the PGA (Project of Global Access) high school international programme project operated by Edukeys Group (collectively, Xinjiang Edukeys International Education Services Co., Ltd.* (新疆中際育才教育諮詢有限公司) and its subsidiaries) were all admitted by first-class universities in the United States, the United Kingdom, Canada, Australia, etc. Jiangxi Xishan was elected the publicity list as one of the first 15 high schools with characteristic in Jiangxi Province and its primary school football team won the championship at the 2019-2020 National Youth Campus Football League (Nanchang area) (first season). Fuqing Xishan won the second prize of the team award at Fujian Youth Sports Science and Technology Innovation Competition (福建省青少年體育科技創新大賽).

Financial Services Business

The Group has obtained diversified financial service licences and has established a consummate financial services system by leveraging on First Capital Financial Group Limited ("**FC Financial**") as the base. Relying on its strategic composition of the education industry, the Group empowered education through financial services business and integratively used multiple financial instruments and strategies to provide various educational entities with featured, differentiated and professional financial services. Meanwhile, the Group proactively expanded its business in other areas.

First Capital Securities Limited ("**FC Securities**") was licensed to conduct type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (the "**SFO**") (Chapter 571 of the Laws of Hong Kong). In addition to dealing in securities and providing margin financing business to customers, it is also engaged in underwriting and placing of shares for listing applicants and listed companies. First Capital Asset Management Limited ("**FC Asset Management**") was licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, it can provide portfolio management services (such as stocks, bonds, discretionary managed accounts, and funds) and investment advisory services to its clients. First Capital (Shenzhen) Equity Investment Fund Management Company Limited* (首控(深圳)股權投資基金管理有限公司), a wholly-owned subsidiary of FC Asset Management, has registered as a private equity fund manager with the Asset Management Association of China, which permits it to initiate establishment of or be entrusted for the management of private equity investment funds and venture capital funds. First Capital International Finance Limited ("**FC International Finance**") was licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and was admitted by the Securities and Futures Commission (the "**SFC**") to be a sponsor under the SFO. As such, FC International Finance can act as a sponsor for listing applicants in initial public offering ("**IPO**"), advise on matters in relation to the "Codes on Takeovers and Mergers and Share Buy-backs" issued by the SFC, and advise listed companies in relation to the Listing Rules. Stirling Coleman Capital Limited was licensed by the Monetary Authority of Singapore to conduct regulated activities in relation to securities trading and advising on corporate finance in Singapore, as such it can provide diversified corporate financing services. First Capital Finance Limited holds a money lender's license, it can carry out money lenders business under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

During the first half of 2020, the COVID-19 epidemic has spread across the world and yet to be controlled effectively. Countries have successively implemented quarantine and lockdown measures to different degrees, and various economic data have experienced cliff-like declines. The global capital market is facing severe volatility, and the uncertainties are rising. During the period under review, the circuit breaker was triggered four times in the US stocks market that were very rare in history, causing a roller coaster ride in global stock markets, and the settlement price of WTI crude oil futures contract closed at negative value for the first time in history. However, in the meantime, the Chinese market maintained an outstanding performance. The ChiNext Index had a cumulative increase of approximately 35.6% in the first half of the year and ranked the first among the world's major indexes. The SSE SME Composite Index ranked the second with an increase of approximately 20.9%, while the SZSE Component Index ranked the third with an increase of approximately 15.0%. The successful secondary listings of JD.com and NetEase in Hong Kong had attracted various capital subscriptions, and the amount of funds raised accounted for approximately 62.1% of the total proceeds for new listings on the Stock Exchange in the first half of the year. Many well-known new economy companies and offshore-listed China concepts stocks have both opted Hong Kong for IPO and returning and secondary listing respectively, which highlighted the strength of Hong Kong capital market and further consolidated Hong Kong's status as an international financial center.

During the period under review, the Group's financial services business responded actively to the epidemic, formed an epidemic prevention and control team, and arranged and implemented various epidemic prevention measures in an orderly manner. It also implemented dynamic management towards its employees and adopted flexible working methods, with a combination of work from home and rotation to work, in order to fully guarantee both physical and mental health and safety of its employees, and ensure the stable and orderly operation of various businesses. FC Securities, FC Asset Management and FC International Finance have paid high attention to market dynamics and kept abreast of the market development trends. They strengthened communication with existing customers and assisted and guided customers to participate in new subscriptions of the IPO of new economy companies and secondary listing of offshore-listed China concept stocks, and actively expanded potential customer bases in order to obtain more business opportunities and promote stable and sustainable business development. During the period under review, the deemed new listing application project of United Strength Power Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 2337), to which FC International Finance acted as the joint sponsor, has been steadily processing. FC International Finance also acted as an independent financial advisor to the independent board committee and the independent shareholders of Time Interconnect Technology Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1729) for an extreme and connected transaction.

Automotive Parts Business

According to the statistics of the China Association of Automobile Manufacturers, as affected by the COVID-19 epidemic, both production and sales of automobiles declined sharply in January and February 2020, representing a year-on-year decrease of approximately 45.8% and approximately 42.0%, respectively. Since March 2020, prevention and control over the epidemic in China have experienced a continuous improvement, and production and operation among enterprises have gradually resumed. As driven by policies stimulating the consumption of automobiles across the country, consumers' confidence in consumption were enhanced, and the production and sales of automobiles maintained a recovery momentum robustly. In June 2020, the production and sales of automobiles amounted to approximately 2,325,000 and approximately 2,300,000, respectively, representing an increase of approximately 6.3% and approximately 4.8% month-on-month and approximately 22.5% and approximately 11.6% year-on-year, reaching a historical high as compared with the corresponding month.

Confronted with the impact of the epidemic, the Group's automotive parts business juggled the prevention and control of the epidemic as well as the resumption of production. The Group was being meticulously under the guidance about resuming work and production during the prevention and control of the epidemic period, and the production was resumed in an orderly manner. The Group continued to adhere to the principal thought of "Developing the Market, Focusing on Quality, Improving the R&D, and Strengthening the Management". Moreover, by deepening the promotion of Amoeba management model, the Group effectively controlled the cost of production and operation and exerted its existing advantages on brands and technologies to ramp up the level of product R&D and quality control and establish efficient and productive factories. In light of the trend of automobile industry and operating circumstances of automotive manufacturers, the Group continued to optimise and improve the structure of products and customers and deeply explore the potentiality of the market in order to develop new markets.

During the period under review, the Group's automotive parts business successfully developed new vehicle manufacturer markets such as Great Wall Motors, BYD Commercial Vehicles, Shaanxi Heavy Duty Automobile and CRRC Changchun Railway Vehicles and completed the R&D of new shock absorber products for respective vehicle models. The Group has become the global supplier for absorbers of Sweden Volvo Commercial Automobile Company and German Daimler Commercial Automobile Company as a result of passing their examination. The Group also set up a R&D center in Shanghai to enhance its technological innovation capabilities in automotive suspension and shock absorbers.

OUTLOOK

Education Operation Business

Knowledge changes fate, and education shapes the future. Education is of potential productivity that can improve population quality and turn potential productivity into actuality. Education is the driving force for social development. The key element of competition of economy is the competition of science and technology, which ultimately attribute to the competition of talents, whereas the foundation is on education. Today's scientific and technological achievements determine tomorrow's productivity, whereas today's education determines tomorrow's scientific and technological achievements and future productivity.

The "Book of Rites", said that "teachers impart knowledge in order to cultivate good morality of students (師也者，教之以事而喻諸德者也)". With the development of society, education needs and scenes are constantly evolving. No matter how times change, the essence of education remains "To develop morality and shape character (立德樹人)". The demand for better, fairer and more personalised education has shifted the orientation of education from knowledge to literacy and ability, with specific attention on holistic education, skill education and lifelong education and specific caring on the holistic development of educatees.

In January 2020, the national education work conference proposed to enhance the pertinence and effectiveness of the fundamental task of "To develop morality and shape character" and implement the strategy of giving priority to the development of education unswervingly, strengthen the construction of teaching team comprehensively, promote the reform and opening up of education to achieve new breakthroughs, and construct an education system serving lifelong learning for all. In March 2020, the Central Committee of the Communist Party of China, and the State Council issued the Opinions on Comprehensively Strengthening Labour Education in Universities, Middle Schools and Primary Schools in the New Era (《關於全面加強新時代大中小學勞動教育的意見》), which indicates that we should adhere to the principle of "To develop morality and shape character", incorporate labour education into the whole process of talent cultivation throughout all stages of education in universities, middle schools and primary schools as well as all aspects of family, school and society, and integrate labour education with moral, intellectual, physical and aesthetic education, in order to construct a comprehensive education system covering moral, intellectual, physical, aesthetic and labour education.

The Group commits to its original education thoughts of "Whoever you are, you have a right to learn (有教無類)" and "Everyone can become a successful man". With the mission of "Finance Empowers Education, Education Lights Up Future", the Group attaches importance to quality education and incorporates advanced educational concepts and methods through its international insight, allocates eastern and western quality educational resources, achieves capital empowerment and value creation of industries, and supports holistic education and quality education for the general public, in order to offer quality education to every family and child and light up the journey of success for every child.

During the school opening postponement period, learning of students is not disrupted while class is disrupted, and millions of teachers and students participated in online teaching. The construction of China's education informationisation got a "big drill", and online teaching gradually became a parallel teaching mode with offline teaching. Massive online education is not only an extraordinary means dealing with the education dilemma under the epidemic, but also an exploration and attempt of new forms of future education. Online education has changed the teaching mode of teachers, the learning mode of students, the management mode of schools, as well as the scenes and forms of education. It has promoted the transformation from teacher-oriented to student-oriented. Under the trend of "Internet +", the integration of traditional education mode and online education mode, and the seamless connection between in class and outside class will be the direction of future education development.

Looking ahead to the second half of this year, the Group will follow the education development pattern and seize the opportunities arising from the transformation in educational mode and industrial ecology in the post epidemic era. The Group will strengthen teachers training, establish an excellent teachers team, optimise students' learning mode, and promote the "interactive, heuristic, exploratory and experiential" teaching mode. The Group will start with the promotion of teaching and classroom reform, optimise curriculums structure, create a series of excellent curriculums, engage in quality literacy education focusing on STEAM (Science, Technology, Engineering, Arts and Mathematics) education, and adhere to featured education such as football and martial arts, integrate quality educational resources in domestic and overseas to establish featured and reputable schools. Leveraging on the brand and market influence in the PGA international programme system, the Group will introduce quality resources in the field of international education as supplement to establish an international education service platform. In the meantime, the Group will also push forward the exploration and implementation in areas such as media arts education, vocational education, and industry-education integration.

Financial Services Business

Owing to the operational innovation and institutional reform of the Stock Exchange, more Chinese-funded enterprises opted Hong Kong for primary or secondary listing and the trend is promising. For the first half of 2020, there were a total of 64 companies (including those companies that were transferred from GEM to the Main Board) newly listed on the Stock Exchange, which have raised a total amount of approximately HK$87.5 billion, representing a year-on-year increase of approximately 21.8%. The Hong Kong stock market is anticipated to retain its global IPO crown for the year 2020. In May 2020, MSCI reached an agreement with the Stock Exchange to jointly launch products pertaining to Asia and emerging market indices, which will sustain the thriving development of derivatives in Hong Kong stock market. In the meantime, market trading activity is expected for a further boost by the return of offshore-listed China concepts stocks leading by the TMT (Telecommunication, Media, Technology) industry.

Trading has been increasingly active, by the growing maturity of interconnection mechanisms such as Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, Bond Connect and Shanghai-London Stock Connect. Over the first half of 2020, Shanghai Stock Connect and Shenzhen Stock Connect recorded total trading volume of approximately RMB8.2 trillion, representing a year-on-year increase of approximately 67.6%; Hong Kong Stock Connect recorded a trading volume of approximately HK$2.2 trillion with a year-on-year increase of approximately 76.3%, as the capital transactions via Hong Kong Stock Connect continue to grow their share of the total trading amount and reached approximately 19.3% of the Hong Kong stock market. Bond Connect, which embraced its third anniversary, recorded daily average transactions worth approximately RMB19.3 billion in the first half of 2020, with a year-on-year surge of approximately 197.9%. Meanwhile, China A-shares have been included into the MSCI indices and the FTSE Russell indices consecutively. The registration-based system has been successfully implemented at the Science and Technology Innovation Board of Shanghai Stock Exchange ("**SSE**") and steadily carried out at the Growth Enterprise Market of Shenzhen Stock Exchange. This will further push forward the international advancement of China's capital market and attract international investors to engage in China's securities market.

Looking ahead to the second half of this year, with unprecedented challenges from the COVID-19 epidemic, the global economy is expected to experience contraction and global cooperation is critical to balance anti-epidemic efforts with economic recovery properly. The financial market in Hong Kong and the world at large will face a myriad of challenges and constant fluctuations among a growing number of uncertainties and risks, such as the US presidential election, the China-US frictions on economy, trade and politics, the social unstability in Hong Kong as well as the global geopolitics.

With its outstanding performance in the educational finance sector in the past, the Group's financial services business has framed a highly recognised brand and considerable market influence. The Group will follow the prevailing situation, seize the timing and actively explore business opportunities to promote the robust development of its financial services business. The Group will leverage its diversified financial service licences and consummate financial service system and regard FC Financial Group as the base. Business units including investment banking, securities, asset management and research will work closely together, and business entities in China, Hong Kong and Singapore will communicate and coordinate with one another. It will also adhere to the strategies of differentiation and characteristic development, and provide customised services according to the individual demand of customers, in order to unleash the synergy between its financial services and education operation businesses.

Automotive Parts Business

Looking ahead to the second half of the year, despite the overall positive control of the epidemic in Mainland China, regional rebound of the epidemic may last for a relatively long time. The recovery of macro economy still requires a process and there are uncertainties in international epidemic with overseas market demand yet to be recovered. Meanwhile, after the expiry of stimulating consumption policy across the country, market demand may be reduced due to the overdraft. As a result, the automobile and automotive parts industries will face greater challenges. The Group will implement effective development strategies to promote the development of its automotive parts business.

The Group's automotive parts business will continue to target for "Top Quality and Customer Satisfaction", establish an appraisal system of "Focuses on Process and Results", keep on strengthening the implementation of its quality system and improve the product quality and customer satisfaction. The Group will continue to exert its existing advantages on brands and technologies, keep on optimising and improving its product mix and customer structure, deeply explore the potentiality of the market and further develop emerging markets such as the after-sales market, the international market and the rail transit market.

The Group regards the development of R&D capability as its core work. The technology center of the Group has been certified as the "National Enterprise Technology Center" by five ministries including the National Development and Reform Commission, the Ministry of Science and Technology and the Ministry of Finance. The Group's materials laboratory has been successfully recognised by SAIC Volkswagen Automotive Co., Ltd. The Group strives to build first-class R&D centers in areas such as Italy, Shanghai and Nanyang by equipping them with advanced experimental and testing equipment and excellent design technologists. The Group implements the technical management concept of "Utilisation, R&D and Reserve" in order to boost its reserve, market promotion and application of new technologies and achieve the industrialised conversion of new technologies of shock absorbers.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, the Group's overall revenue decreased by approximately 6.8% to approximately RMB603.4 million from approximately RMB647.2 million in the corresponding period of 2019, of which revenue from automotive parts business decreased by approximately 2.3% to approximately RMB396.8 million from approximately RMB406.0 million in the corresponding period of 2019, revenue from financial services business decreased by approximately 67.8% to approximately RMB16.5 million from approximately RMB51.3 million in the corresponding period of 2019, and revenue from education operation business increased by approximately 0.1% to approximately RMB190.1 million from approximately RMB189.9 million in the corresponding period of 2019. The decrease in revenue was mainly due to the decrease in revenue from financial services business as affected by COVID-19 epidemic.

Cost of sales/services

For the six months ended 30 June 2020, the Group's overall cost of sales/services decreased by approximately 2.2% to approximately RMB471.7 million from approximately RMB482.3 million in the corresponding period of 2019, of which cost of sales from automotive parts business increased by approximately 3.9% to approximately RMB369.1 million from approximately RMB355.1 million in the corresponding period of 2019, cost of services from financial services business increased by approximately 233.3% to approximately RMB2.0 million from approximately RMB0.6 million in the corresponding period of 2019, and cost of services from education operation business decreased by approximately 20.5% to approximately RMB100.6 million from approximately RMB126.6 million in the corresponding period of 2019. The decrease in cost of sales/services was mainly due to the decrease in cost of services from education operation business.

Gross profit

For the six months ended 30 June 2020, the Group's overall gross profit decreased by approximately 20.1% to approximately RMB131.7 million from approximately RMB164.9 million in the corresponding period of 2019, of which gross profit from automotive parts business decreased by approximately 45.6% to approximately RMB27.7 million from approximately RMB50.9 million in the corresponding period of 2019, gross profit from financial services business decreased by approximately 71.4% to approximately RMB14.5 million from approximately RMB50.7 million in the corresponding period of 2019, and gross profit from education operation business increased by approximately 41.4% to approximately RMB89.5 million from approximately RMB63.3 million in the corresponding period of 2019. The decrease in gross profit was mainly due to the decrease in revenue from financial services business as affected by COVID-19 epidemic.

Gross profit margin

For the six months ended 30 June 2020, the Group's overall gross profit margin decreased by approximately 3.7 percentage points to approximately 21.8% from approximately 25.5% in the corresponding period of 2019, of which gross profit margin of automotive parts business decreased by approximately 5.5 percentage points to approximately 7.0% from approximately 12.5% in the corresponding period of 2019, gross profit margin of financial services business decreased by approximately 10.9 percentage points to approximately 87.9% from approximately 98.8% in the corresponding period of 2019, and gross profit margin of education operation business increased by approximately 13.8 percentage points to approximately 47.1% from approximately 33.3% in the corresponding period of 2019. The decrease in gross profit margin was mainly due to the decrease in revenue being larger than the decrease in cost of sales/services.

Other income and expenses

For the six months ended 30 June 2020, the Group recorded other income amounted to approximately RMB25.0 million, representing a decrease of approximately RMB24.4 million from approximately RMB49.4 million in the corresponding period of 2019. Such decrease was mainly due to the decrease in interest income.

Other gains and losses

For the six months ended 30 June 2020, the Group recorded other losses of approximately RMB87.2 million as compared with other gains of approximately RMB129.8 million in the corresponding period of 2019. Such change was mainly due to (i) the gain on disposal of a subsidiary by the Company during the first half of 2019; and (ii) the increase in exchange loss resulting from the depreciation of RMB in the first half of 2020.

Expected credit losses

For the six months ended 30 June 2020, the Group's provision on expected credit losses amounted to approximately RMB83.3 million, representing an increase of approximately RMB51.9 million from approximately RMB31.4 million in the corresponding period of 2019. The Group recognised the expected credit losses based on the internal credit rating and historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the end of the period as well as the forecast of future conditions.

Impairment losses on goodwill, tangible and intangible assets

For the six months ended 30 June 2020, the Group recorded impairment losses on goodwill, tangible and intangible assets of approximately RMB23.6 million (six months ended 30 June 2019: Nil). Such losses primarily represented the impairment of goodwill of Edukeys Group.

Selling and distribution expenses

For the six months ended 30 June 2020, the Group's selling and distribution expenses increased by approximately 1.8% to approximately RMB40.0 million from approximately RMB39.3 million in the corresponding period of 2019.

R&D expenditure

For the six months ended 30 June 2020, the Group's R&D expenditure decreased by approximately 37.7% to approximately RMB16.7 million from approximately RMB26.8 million in the corresponding period of 2019. Such decrease was mainly due to the decrease in the demand for R&D of new shock absorber products as affected by COVID-19 epidemic.

Administrative expenses

For the six months ended 30 June 2020, the Group's administrative expenses decreased by approximately 26.5% to approximately RMB119.8 million from approximately RMB163.0 million in the corresponding period of 2019. Such decrease was mainly due to the voluntary pay reduction of the management team of the Group and the optimisation of office premise and administrative personnel.

Finance costs

For the six months ended 30 June 2020, the Group's finance costs decreased by approximately 8.8% to approximately RMB125.8 million from approximately RMB138.0 million in the corresponding period of 2019.

Taxation

For the six months ended 30 June 2020, the Group's taxation was the income tax expense of approximately RMB2.5 million as compared with the income tax credit of approximately RMB7.2 million in the corresponding period of 2019. Such change was mainly due to the decrease in deferred tax credit.

Loss for the period

For the six months ended 30 June 2020, the Group recorded a loss of approximately RMB367.7 million, representing an increase of approximately 93.3% as compared with a loss of approximately RMB190.2 million in the corresponding period of 2019. Such loss was mainly due to (i) the unrealised (non-cash) loss arising from the unfavourable fair value changes of the financial assets measured at FVTPL; (ii) the expected credit losses and impairment losses on goodwill, tangible and intangible assets; and (iii) the exchange loss resulting from the depreciation of RMB during the period.

Loss per Share

For the six months ended 30 June 2020, the Group's basic and diluted loss per Share amounted to approximately RMB0.067, while the basic and diluted loss per Share amounted to approximately RMB0.028 in the corresponding period of 2019.

WORKING CAPITAL, FINANCIAL RESOURCES AND BORROWINGS

Net current liabilities

The Group adopts prudent financial policies, closely monitors its financial positions, and maintains adequate working capital and liquidity, in order to grasp any favourable business opportunities and look ahead to future challenges. As at 30 June 2020, the Group's net current liabilities amounted to approximately RMB1,019.4 million, representing an increase of approximately 42.1% as compared with that of approximately RMB717.6 million as at 31 December 2019. Such increase was mainly due to the increase in short-term borrowings and the decrease in inventories.

Financial position and borrowings

The Group's cash and bank balances are mostly denominated in RMB or HK$. As at 30 June 2020, the Group's cash and bank balances amounted to approximately RMB227.5 million, representing a decrease of approximately 1.8% as compared with that of approximately RMB231.6 million as at 31 December 2019.

The borrowings of the Group are denominated in RMB, HK$ or US$. The Group regularly reviews and monitors the borrowings level. As at 30 June 2020, the Group's total borrowings amounted to approximately RMB1,896.1 million, representing an increase of approximately 4.8% as compared with that of approximately RMB1,809.8 million as at 31 December 2019. Out of total borrowings, (i) borrowings due within one year amounted to approximately RMB1,352.5 million, representing an increase of approximately 9.3% as compared with that of approximately RMB1,236.9 million as at 31 December 2019; (ii) borrowings due over one year but within two years amounted to approximately RMB216.3 million, representing a decrease of approximately 14.4% as compared with that of approximately RMB252.6 million as at 31 December 2019; (iii) borrowings due over two years but within five years amounted to approximately RMB221.0 million, representing an increase of approximately 17.7% as compared with that of approximately RMB187.8 million as at 31 December 2019; and (iv) borrowings due over five years amounted to approximately RMB106.3 million, representing a decrease of approximately 19.8% as compared with that of approximately RMB132.5 million as at 31 December 2019.

As at 30 June 2020, the interests of approximately RMB1,451.8 million of the Group's total borrowings (31 December 2019: approximately RMB1,402.3 million) are calculated at fixed interest rates.

As at 30 June 2020, the Group's gearing ratio, calculated as the percentage of total borrowings and bills payable divided by total assets, was approximately 38.6% (31 December 2019: approximately 33.6%).

Working capital

The Group regularly reviews and monitors the inventory level. As at 30 June 2020, the Group's inventories amounted to approximately RMB107.4 million, representing a decrease of approximately 47.6% as compared with that of approximately RMB205.1 million as at 31 December 2019. Such decrease was mainly due to the decrease in finished goods of automotive parts business. For the six months ended 30 June 2020, the average turnover days of inventory were approximately 59.6 days (six months ended 30 June 2019: approximately 41.3 days). The average turnover days of inventory were calculated as the average of opening and closing balances of inventory for the period divided by cost of sales/services for the period and multiplied by 180 days.

The Group regularly reviews and monitors the level of trade receivables. As at 30 June 2020, the Group's trade receivables amounted to approximately RMB543.0 million, representing an increase of approximately 24.7% as compared with that of approximately RMB435.4 million as at 31 December 2019. Such increase was mainly due to the settlement delays from the customers of automotive parts business. For the six months ended 30 June 2020, the average turnover days of trade receivables were approximately 145.9 days (six months ended 30 June 2019: approximately 138.0 days). The average turnover days of trade receivables were calculated as the average of opening and closing balances of trade receivables for the period divided by revenue for the period and multiplied by 180 days.

The Group regularly reviews and monitors the level of trade payables. As at 30 June 2020, the Group's trade payables amounted to approximately RMB623.3 million, representing a decrease of approximately 0.7% as compared with that of approximately RMB627.9 million as at 31 December 2019. For the six months ended 30 June 2020, the average turnover days of trade payables were approximately 238.7 days (six months ended 30 June 2019: approximately 215.0 days). The average turnover days of trade payables were calculated as the average of the opening and closing balances of trade payables for the period divided by cost of sales/services for the period and multiplied by 180 days.

SIGNIFICANT INVESTMENT HELD

The financial assets measured at FVTPL of the Group were investments in securities listed on the Stock Exchange, Singapore Exchange, Australian Securities Exchange and SSE as well as investments in unlisted entities. As at 30 June 2020, the investment cost of such investments was approximately RMB1,310.2 million (31 December 2019: approximately RMB1,398.4 million), and the fair value was approximately RMB804.7 million (31 December 2019: approximately RMB960.7 million), which was equivalent to approximately 15.4% (31 December 2019: approximately 16.5%) of the total assets of the Group as at 30 June 2020. For the six months ended 30 June 2020, the fair value changes of financial assets measured at FVTPL of the Group was a loss of approximately RMB45.8 million (six months ended 30 June 2019: gain of approximately RMB73.6 million). Such loss was mainly due to the unrealised (non-cash) loss arising from the unfavourable fair value changes of the investments in unlisted entities held by the Group.

The Group's interests in joint ventures represent the investments in joint ventures. As at 30 June 2020, the investment cost of such investments was approximately RMB1,106.1 million (31 December 2019: approximately RMB1,105.2 million), and the carrying amount was approximately RMB603.6 million (31 December 2019: approximately RMB571.9 million), which was equivalent to approximately 11.6% (31 December 2019: approximately 9.8%) of the total assets of the Group as at 30 June 2020. For the six months ended 30 June 2020, share of results of joint ventures of the Group recorded a gain of approximately RMB30.9 million (six months ended 30 June 2019: a loss of approximately RMB174.9 million). Such gain is mainly due to the unrealised (non-cash) gain arising from the favourable fair value changes of financial assets measured at FVTPL held by the joint ventures.

The principal investment objective of the Group is to explore capital appreciation with a view to enhancing the application of the Group's financial resources and maximising returns for the shareholders of the Company (the "**Shareholders**"). Investments will be made by the Group in segments and industries that the Directors may determine from time to time having considered, among others, their prospect, returns to the Group and potential risks. Looking ahead, the global stock market will remain volatile due to the uncertainties as a result of trade friction, interest rate fluctuations, COVID-19 epidemic and geopolitical conditions. The performance of the Group's securities investments and other investments may be affected by such unstable market conditions. The Group will regularly review its investment strategies, and closely monitor the stock markets. In addition, the Group will seek potential investment opportunities to diversify its investment portfolio for the purpose of mitigating the related risks.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the six months ended 30 June 2020, the Group's capital expenditures were approximately RMB12.9 million (six months ended 30 June 2019: approximately RMB90.9 million), which were primarily the expenses of automotive parts business and education operation business in respect of additions to properties, plants and equipment.

The Group has financed its capital expenditures primarily through the cash generated from operations, equity fundraising and debt financing.

As at 30 June 2020, the Group's capital commitments to additional properties, plants and equipment amounted to approximately RMB20.4 million (31 December 2019: approximately RMB67.1 million).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2020, save as disclosed in this announcement, the Group did not have any other immediate plans for material investments and capital assets.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities (31 December 2019: Nil).

PLEDGE OF ASSETS

As at 30 June 2020, the Group's financial assets measured at FVTPL with a carrying amount of approximately RMB331.4 million (31 December 2019: approximately RMB371.6 million) and the Group's land, property and plant with a carrying amount of approximately RMB150.9 million (31 December 2019: approximately RMB150.9 million) have been pledged to acquire borrowings for the Group.

As at 30 June 2020, the Group's restricted bank balances with a carrying amount of approximately RMB163.6 million (31 December 2019: approximately RMB481.0 million) was used for customer deposits for trading securities and pledges for bills payables with a maturity of six months issued to suppliers.

HUMAN RESOURCES

As at 30 June 2020, the Group had 3,720 employees (31 December 2019: 3,896 employees). For the six months ended 30 June 2020, the Group's total remuneration and welfare benefits expenses amounted to approximately RMB163.2 million (six months ended 30 June 2019: approximately RMB197.2 million). Based on the Group's remuneration policy, the remuneration of employees is primarily determined based on the job responsibilities, work experience, performance and length of service of each employee and the prevailing market condition. The Group has also provided internal and external trainings and courses to its employees to encourage self-improvement and enhance their professional technical skills. The remuneration of the Directors is determined based on their job duties and responsibilities, experience and the prevailing market condition.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the restricted bank balances and bank balances, and variable rate of interest incurred on bank borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed-rate loan receivables and borrowings.

The Group currently has not used any financial instrument to hedge the interest rate risk that it is exposed to. However, the Group monitors interest rate risk exposures and will consider hedging significant interest rate risk should the need arise.

FOREIGN EXCHANGE RISK

The consolidated financial statements of the Group are presented in RMB. Certain assets and liabilities of the Group are denominated in currencies other than RMB, such as HK$ and US$. Any material volatility in the exchange rates of these currencies against RMB may affect the financial position of the Group.

The Group currently has not used any financial instrument to hedge the foreign exchange risk that it is exposed to. However, the Group monitors foreign exchange risk exposures and will consider hedging significant foreign exchange risk should the need arise.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Disposal of interest in GSV AcceleraTE Fund I, L.P.

As disclosed in the Company's announcement dated 5 February 2020, First Capital International Investment Holdings Limited ("**FC International Investment**"), an indirect wholly-owned subsidiary of the Company, and Industry Ventures Secondary VIII-A, L.P. ("**Industry Ventures**"), entered into a purchase and sale agreement, pursuant to which FC International Investment has conditionally agreed to sell and Industry Ventures has conditionally agreed to purchase the entire interest in GSV AcceleraTE Fund I, L.P. at a consideration of approximately US$18.3 million. For further information, please refer to the Company's announcement dated 5 February 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2020, the Company had complied with the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 14 to the Listing Rules so as to enhance the corporate governance standard of the Company. During the reporting period, there were no material changes of the corporate governance practices as compared with the information disclosed in the 2019 annual report of the Company.

None of the Directors is aware of any information which would reasonably indicate that the Company was not in compliance with the Corporate Governance Code for the six months ended 30 June 2020.

COMPLYING WITH THE STANDARD CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Directors. Having made specific enquiries to the Directors, to the best of their knowledge, all the Directors had complied with the required standards set out in the Model Code for the six months ended 30 June 2020.

COMPETITION AND CONFLICT OF INTERESTS

As at the date of this announcement, none of the Directors has, either directly or indirectly, any interest in any business which causes or may cause any significant competition with the business of the Group or has any other conflict of interests with the Group.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 19 October 2011, a share option scheme (the "**Share Option Scheme**") was approved and adopted by the Company. The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

For the six months ended 30 June 2020, 50,000,000 share options were granted under the Share Option Scheme by the Company. As at 30 June 2020, 50,000,000 share options under the Share Option Scheme were outstanding.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

SIGNIFICANT LEGAL PROCEEDINGS

For the six months ended 30 June 2020, save as disclosed below, the Group did not involve in any significant legal proceedings or arbitration. To the best of the knowledge and belief of the Directors, there are no significant legal proceedings or claims pending or threatened against the Group.

As disclosed in the Company's announcement dated 4 March 2020, the Company received a statutory demand (the "**Statutory Demand**") dated 21 February 2020 issued by the legal representative of Champion Sense Global Limited demanding the Company to pay the amount of HK$823,013,698.63, or secure or compound for it to the creditor's satisfaction. If the Company fails to deal with the Statutory Demand within 3 weeks from the date of the Statutory Demand, a winding-up order may be made in respect of the Company. As at the date of this announcement, the Company is in negotiation with the bondholder regarding the amendment of the terms and conditions of the bonds, including but not limited to an extension of the maturity date.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

AUDIT COMMITTEE

The Company has established an audit committee (the "**Audit Committee**") pursuant to Rules 3.21 and 3.22 of the Listing Rules, with written terms of reference in compliance with the requirements of the Corporate Governance Code in order to review and supervise the Group's financial reporting process and internal control. The Audit Committee is comprised of three independent non-executive Directors. The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements and the interim results for the six months ended 30 June 2020. They expressed no disagreement with the accounting policies and principles adopted by the Group.

AUDITOR

The Group's unaudited condensed consolidated financial statements and the interim results for the six months ended 30 June 2020 have been reviewed by Deloitte Touche Tohmatsu, the auditor of the Group. It has expressed a conclusion with a material uncertainty related to going concern paragraph on these condensed consolidated financial statements. An extract of the review report is set out in the section headed "EXTRACT OF THE REVIEW REPORT" below.

EXTRACT OF THE REVIEW REPORT

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the condensed consolidated financial statements which indicates that the Group incurred a net loss of RMB367,679,000 for the six months ended 30 June 2020 and, the Group's current liabilities exceeded its current assets by approximately RMB1,019,382,000 as at 30 June 2020. In order to improve the liquidity and financial position of the Group, the directors of the Company (i) are negotiating with the counterparty to restructure the existing convertible bonds; and (ii) are actively identifying alternative sources of funding. However, the ultimate success of the restructure of the existing convertible bonds or the likelihood of raising any new funds could not be determined as of the date of approval of these condensed consolidated financial statements. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.cfcg.com.hk. The interim report of the Company for the six months ended 30 June 2020, in both English and Chinese versions, will be dispatched to the Shareholders in accordance with their choice of means of receipt and language of corporate communication of the Company, and will also be available on the same websites as mentioned above in due course.

APPRECIATION

The Group would like to express its sincere appreciation for the unremitted effort and dedication made by the Board, the management of the Group and all of its staff, as well as the continuous support from the Shareholders, loyal customers, the government, business partners and professional advisors.

By Order of the Board
China First Capital Group Limited
Wilson Sea
Chairman and Executive Director

Hong Kong, 27 August 2020

As at the date of this announcement, the executive Directors are Dr. Wilson Sea, Mr. Zhao Zhijun and Dr. Zhu Huanqiang; and the independent non-executive Directors are Mr. Chu Kin Wang, Peleus, Dr. Du Xiaotang and Mr. Loo Cheng Guan.

* *For identification purpose only*