

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



HC GROUP INC.

慧聪集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2280)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

FINANCIAL HIGHLIGHTS

- **Revenue** was approximately **RMB6,963.9 million**, increased by approximately RMB3,185.3 million, or **increased 84.3%**, when compared to approximately RMB3,778.6 million recorded for the corresponding period in 2018.
- The Group's **EBITDA**^(note) was approximately **RMB84.8 million**, decreased by approximately RMB279.4million from RMB364.2 million in the first half year of 2018.
- **Loss attributable to Equity Holders** of the Company was approximately **RMB164.0 million** during the first half of 2019, while a profit attributable to equity holders of the Company of approximately RMB191.0 million was recorded for the corresponding period in 2018.
- The **Diluted EPS** was **RMB(0.1463)**, when compared to RMB0.1705 of last year, on a period-on-period basis.

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

UNAUDITED INTERIM RESULTS

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Unaudited six months ended 30 June	
	<i>Note</i>	2019 RMB'000	2018 RMB'000
Revenue	5	6,908,267	3,700,334
Interest income from financing services	5	55,633	78,288
		6,963,900	3,778,622
Cost of revenue		(6,456,938)	(3,109,332)
Other income		15,440	16,773
Other gains, net		30,180	115,241
Selling and marketing expenses		(340,253)	(355,081)
Administrative expenses		(191,892)	(180,254)
Impairment loss on goodwill		(76,202)	–
(Provision for)/reversal of impairment of financial assets		(30,258)	1,248
Operating (loss)/profit		(86,023)	267,217
Finance cost, net	8	(75,611)	(35,025)
Share of post-tax profits of associates		1,533	1,108
(Loss)/profit before income tax		(160,101)	233,300
Income tax expense	9	(9,094)	(33,863)
(Loss)/profit for the period		(169,195)	199,437
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
Currency translation differences		(4,995)	2,248
Item that will not be reclassified to profit or loss			
Fair value gain/(loss) on financial assets at fair value through other comprehensive income		1,822	(11,131)
Currency translation differences for financial assets at fair value through other comprehensive income		338	–
Total comprehensive (loss)/income for the period, net of tax		(172,030)	190,554

		Unaudited six months ended 30 June	
	Note	2019 RMB'000	2018 RMB'000
(Loss)/profit attributable to:			
Equity holders of the Company		(163,964)	190,958
Non-controlling interests		(5,231)	8,479
		(169,195)	199,437
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(166,799)	182,075
Non-controlling interests		(5,231)	8,479
		(172,030)	190,554
(Loss)/earnings per share attributable to the equity holders of the Company during the period (expressed in RMB per share)			
Basic (loss)/earnings per share	10	(0.1463)	0.1708
Diluted (loss)/earnings per share	10	(0.1463)	0.1705

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Assets			
Non-current assets			
Land use rights	12	–	161,934
Investment properties	12	614,700	623,829
Property, plant and equipment	12	590,806	533,787
Right-of-use assets	4(c)	242,420	–
Intangible assets	12	2,865,991	2,992,052
Long-term deposits, prepayments and other receivables		3,514	5,604
Loans and interest receivables	14	65,136	103,160
Deferred income tax assets		45,789	31,292
Investments accounted for using equity method		657,526	677,808
Finance lease receivables		34,875	25,000
Financial assets at fair value through other comprehensive income		65,167	95,247
Financial assets at fair value through profit or loss		16,590	16,758
Total non-current assets		5,202,514	5,266,471
Current assets			
Completed properties held for sale		82,500	82,500
Finance lease receivables		51,276	63,855
Loans and interest receivables	14	1,645,375	1,419,592
Deposits, prepayments and other receivables		409,982	281,079
Trade receivables	13	493,732	512,094
Contract assets	13	125,098	38,965
Inventories		181,280	354,984
Financial assets at fair value through profit or loss		30,910	740
Restricted bank deposit		277,093	276,003
Cash and cash equivalents		430,423	471,672
Total current assets		3,727,669	3,501,484
Total assets		8,930,183	8,767,955
Equity			
Equity attributable to the Company's equity holders			
Share capital		103,664	103,625
Other reserves		3,130,454	3,092,149
Retained earnings		975,845	1,141,955
		4,209,963	4,337,729
Non-controlling interests		873,683	883,895
Total equity		5,083,646	5,221,624

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	16	562,000	368,000
Non-current portion of other borrowings	16	358,972	351,162
Lease liabilities	4(c)	57,438	–
Deferred government grants		160,883	165,808
Convertible bonds – liabilities portion		86,838	83,145
Deferred income tax liabilities		267,080	274,100
Contract liabilities		–	36,622
Total non-current liabilities		1,493,211	1,278,837
Current liabilities			
Trade payables	15	191,479	94,922
Accrued expenses and other payables		124,174	282,652
Contract liabilities		358,115	348,866
Current portion of bank borrowings	16	1,048,935	860,244
Current portion of other borrowings	16	426,078	547,932
Lease liabilities	4(c)	77,563	–
Deferred government grants		11,450	10,650
Convertible bonds – liabilities portion		45,127	44,417
Other taxes payables		15,658	25,882
Income tax payables		54,747	51,929
Total current liabilities		2,353,326	2,267,494
Total liabilities		3,846,537	3,546,331
Total equity and liabilities		8,930,183	8,767,955

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

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

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

- Providing industrial internet trading platform and advertising services through its B2B website “hc360.com” and offering comprehensive IT-related product information by “zol.com.cn”;
- Sales of goods through its B2B trading platforms;
- Providing SaaS (Software as a Service) services in 3C industrial internet and new technology retail solutions in PRC;
- Providing cross-industrial integrated marketing and advertising services;
- Providing anti-counterfeiting products and services and supply chain management to enterprises;
- Engaging in finance business; including micro-credit financing, lease financing and factoring services;
- Providing construction equipment rental services;
- Sales of properties and provision of property rental and management services via its O2O business exhibition centre;
- Hosting exhibitions and seminars.

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

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

Significant events

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

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

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this announcement is to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by HC Group Inc.

3 Accounting policies

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

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

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

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

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

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

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

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

⁽¹⁾ Effective for the Group for annual period beginning on 1 January 2020.

⁽²⁾ Effective for the Group for annual period beginning on 1 January 2021.

⁽³⁾ Effective date to be determined.

4 Changes in accounting policies

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

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

(a) *Adjustments recognised on adoption of HKFRS 16*

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

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

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

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

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

**Condensed consolidated statement
of financial position (extract)**

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

(i) *Impact on earnings per shares*

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

(ii) *Practical expedient applied*

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

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

As a lessee

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

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

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

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

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

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

- The amount of the initial measurement of lease liabilities;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration cost.

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

As a lessor

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

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

(c) Amounts recognised in the statement of financial position and comprehensive income
Right-of-use assets

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

Lease liabilities

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

5 Segment information

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

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

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

- (i) Technology-driven new retail segment, which mainly includes integrated offline and online retail of electronics products by leveraging big data and information technology, and provision of online services through “zol.com.cn”.
- (ii) Smart industries segment, which mainly includes B2B trading platform and the anti-counterfeiting products and services, and supply chain management.
- (iii) Platform and corporate services segment, which mainly includes the online services provided through “hc360.com”, advance marketing services utilising the digital big data and tools, and provision of financing and other services.
- (iv) O2O business exhibition centre segment, which mainly includes sales of properties and provision of properties rental and management services.

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

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

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

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

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

6 Other gains, net

Other gains include the following:

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

7 (Loss)/profit before income tax

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

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

8 Finance cost, net

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

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

9 Income tax expense

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

- (i) No Hong Kong Profits Tax has been provided as there is no assessable profits arising in Hong Kong for the period (2018: Nil).
- (ii) The PRC Corporate Income Tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

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

10 Earnings per share

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

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

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

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

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

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

11 Dividends

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

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

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

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

The investment properties are carried at cost.

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

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

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

At each financial period end, finance department

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

Impairment test for goodwill

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

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

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

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

Note:

(i) *Impairment test for goodwill related to “online services – garment industry”*

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

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

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

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

(ii) *Impairment test for goodwill related to integrated marketing and advertising services*

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

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

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

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

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

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

- (a) Average revenue growth rate used in the budget for the five financial years ending 31 December 2024.
- (b) The discount rate used is pre-tax and reflects specific risks relating to the relevant business.
- (c) Reasonably possible changes in key assumptions would not cause significant changes to the recoverable amount.

(iii) *Impairment test for remaining CGUs*

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

13 Trade receivables and contract assets

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade receivables (<i>note a</i>)	533,769	544,521
Less: provision for impairment of trade receivables	(40,037)	(32,427)
Trade receivables – net	493,732	512,094
Contract assets (<i>note b</i>)	125,098	38,965
	618,830	551,059

(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 recognition date are as follows:

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

Note:

The carrying amounts of trade receivables approximate their fair values.

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

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

(b) *Contract assets*

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

Analysed by nature

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

Notes:

- (i) These contract assets mainly represent unbilled revenue arising from online services recognised prior to the date on which it is invoiced to customers.
- (ii) These contract assets mainly represent unbilled revenue arising from construction and rental services recognised prior to the date on which it is invoiced to customers.
- (iii) These contract assets mainly represent sales commissions and agency fees paid in respect of subscription revenue received in advance, the Group has capitalised the amounts and amortised when the related revenue are recognised.

14 Loans and interest receivables

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

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

Note:

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

(a) Analysed by nature

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

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

(b) Analysed by type of collateral

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

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

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

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

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

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

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

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

(d) Movements of allowances for impairment losses

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

15 Trade payables

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

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

16 Borrowings

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

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

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

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

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

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

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

FINANCIAL REVIEW

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

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

The above table shows the revenue breakdown of the Group.

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

During the Period, the Group recorded an impairment loss on goodwill amounting to RMB76.2 million (2018:Nil) as the two operating segments, namely, online services – garment industry and integrated marketing and advertising, could not achieve the expected results. For details, please refer to note 12 to the condensed consolidated interim financial information in this announcement.

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

BUSINESS REVIEW

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

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

Business group for technology-driven new retail

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

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

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

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

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

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

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

Business group of smart industries

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

Positioned to provide centralized purchasing and integrated e-business service for chemicals and plastics, ibuychem.com was incubated by the Group as a non-wholly-owned subsidiary in March 2015, and originated from the chemical e-business platform established by the Group over 20 years ago. It has developed into a leading B2B platform in the domestic chemical industry. Its services cover nearly one million enterprises and eight million online members in the chemical rubber and plastics industry chain in China. The platform focuses on the spot trading of chemical rubber and plastic products. In the first half of 2019, the ibuychem.com platform had about 6,500 transaction customers, including well-known enterprises from home and abroad such as PetroChina, Sinopec, DuPont, Akzo Nobel and 3trees, with a transaction size exceeding RMB3.0 billion in the first half of 2019.

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

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

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

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

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

Business group of platform and corporate services

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

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

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

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

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

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

Prospect

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

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

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

Liquidity and financial resources

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

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

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

Significant investments

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

Future plans for material investments

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

Staff

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

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

Capital structure

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

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

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

Charges on Group assets

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

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

Exchange risk

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

Contingent liabilities

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

SIGNIFICANT EVENT(S)

Change of Directors

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

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

With effect from 4 January 2019:

- (i) Mr. Zhang Yonghong has been appointed as the executive Director and as the chief executive officer of the Company and has resigned as the co-president of the Company;
- (ii) Mr. Liu Xiaodong has been re-designated from the co-president of the Company to the president of the Company;
- (iii) Mr. Liu Jun has resigned as chief executive officer of the Company, but continues to serve as the chairman of the Board;
- (iv) Mr. Lee Wee Ong has resigned as an executive Director, but continues to serve as the chief financial officer of the Company; and
- (v) Mr. Lee Wee Ong has ceased to be the authorised representative of the Company for the purpose of the Listing Rules (the "Authorised Representative") and Mr. Zhang Yonghong has been appointed as the Authorised Representative.

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

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

With effect from 27 May 2019,

- (i) Mr. Sun Yang has been appointed as the non-executive Director and a member of the remuneration committee; and
- (ii) Mr. Wong Chi Keung resigned as the non-executive Director and ceased to be a member of the remuneration committee.

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

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

Zhongfu Performance Target

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

Huijia Performance Target

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

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

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

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

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

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

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

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

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

Grant of Options

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

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

SUBSEQUENT EVENT(S)

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

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

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

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

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

AUDITOR

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

DIRECTORS' AND MANAGEMENT SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

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

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

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

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

Hong Kong, 28 August 2019

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

Mr. Liu Jun (*Executive Director and Chairman*)
Mr. Zhang Yonghong (*Executive Director and Chief Executive Officer*)
Mr. Liu Xiaodong (*Executive Director and President*)
Mr. Guo Fansheng (*Non-executive Director*)
Mr. Li Jianguang (*Non-executive Director*)
Mr. Sun Yang (*Non-executive Director*)
Mr. Zhang Ke (*Independent non-executive Director*)
Mr. Zhang Tim Tianwei (*Independent non-executive Director*)
Ms. Qi Yan (*Independent non-executive Director*)