HC GROUP INC.

慧聰集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02280)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- **Revenue** was approximately **RMB5,062.6 million**, decreased by approximately RMB1,901.3 million, or **decreased 27.3%**, when compared to approximately RMB6,963.9 million recorded for the corresponding period in 2019.

- The Group's **EBITDA**(note) was approximately **RMB(91.9) million**, decreased by approximately RMB176.7 million from RMB84.8 million in the first half year of 2019.

- **Loss attributable to Equity Holders** of the Company was approximately **RMB248.6 million** during the first half of 2020, while a loss attributable to equity holders of the Company of approximately RMB164.0 million was recorded for the corresponding period in 2019.

- The **Diluted EPS** was **RMB(0.2132)**, when compared to RMB(0.1463) of last year, on a period-on-period basis.

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

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	**Unaudited six months ended 30 June 2020 RMB'000**	2019 RMB'000
Revenue	*4*	**4,994,332**	6,908,267
Interest income from financing services	*4*	**68,288**	55,633
		5,062,620	6,963,900
Cost of revenue		**(4,715,198)**	(6,456,938)
Other income		**15,154**	15,440
Other gains, net	*5*	**4,770**	30,180
Selling and marketing expenses		**(236,764)**	(340,253)
Administrative expenses		**(134,941)**	(191,892)
Impairment loss on goodwill and intangible assets	*11*	**(84,830)**	(76,202)
Net impairment losses of financial assets		**(78,237)**	(30,258)
Operating loss		**(167,426)**	(86,023)
Finance cost, net	*7*	**(82,180)**	(75,611)
Share of post-tax (losses)/profits of associates		**(30,758)**	1,533
Share of post-tax loss of a joint venture		**(967)**	–
Loss before income tax		**(281,331)**	(160,101)
Income tax credit/(expense)	*8*	**14,342**	(9,094)
Loss for the period		**(266,989)**	(169,195)
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Currency translation differences		**(3,854)**	(4,995)
Items that will not be reclassified to profit or loss			
Fair value gain on financial assets at fair value through other comprehensive income			
– Group		**6,096**	1,822
– Associate		**12,319**	–
Currency translation differences for financial assets at fair value through other comprehensive income		**1,129**	338
Total comprehensive loss for the period, net of tax		**(251,299)**	(172,030)

		Unaudited six months ended 30 June	
	Note	**2020**	2019
		RMB'000	*RMB'000*
Loss attributable to:			
Equity holders of the Company		**(248,564)**	(163,964)
Non-controlling interests		**(18,425)**	(5,231)
		(266,989)	(169,195)
Total comprehensive loss attributable to:			
Equity holders of the Company		**(232,874)**	(166,799)
Non-controlling interests		**(18,425)**	(5,231)
		(251,299)	(172,030)
Loss per share attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	*9*	**(0.2132)**	(0.1463)
Diluted loss per share	*9*	**(0.2132)**	(0.1463)

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 30 June 2020** *RMB'000*	Audited 31 December 2019 *RMB'000*
Assets			
Non-current assets			
Investment properties	*11*	**708,998**	770,831
Property, plant and equipment	*11*	**60,216**	64,139
Right-of-use assets	*11*	**192,718**	214,305
Intangible assets	*11*	**2,422,394**	2,552,626
Long-term deposits and prepayments		**23,216**	3,568
Loans and interest receivables	*13*	**47,525**	42,257
Deferred income tax assets		**52,485**	46,969
Investments accounted for using equity method		**936,960**	969,248
Finance lease receivables		**226,070**	176,266
Financial assets at fair value through other comprehensive income		**74,040**	65,387
Financial assets at fair value through profit or loss		**20,415**	20,592
Total non-current assets		**4,765,037**	4,926,188
Current assets			
Completed properties held for sale		**45,420**	47,324
Finance lease receivables		**151,649**	153,481
Loans and interest receivables	*13*	**1,553,015**	1,591,722
Deposits, prepayments and other receivables		**773,345**	487,412
Trade receivables	*12*	**320,167**	413,698
Contract related assets		**33,634**	22,390
Inventories		**129,653**	147,523
Financial assets at fair value through profit or loss		**14,549**	22,671
Restricted bank deposit		**407,833**	282,171
Bank deposits with maturity over three months		**69,000**	–
Cash and cash equivalents		**385,931**	331,893
Total current assets		**3,884,196**	3,500,285
Total assets		**8,649,233**	8,426,473
Equity			
Equity attributable to the Company's equity holders			
Share capital		**121,974**	103,638
Other reserves		**3,369,494**	3,152,947
Retained earnings		**518,022**	766,586
		4,009,490	4,023,171
Non-controlling interests		**683,127**	706,541
Total equity		**4,692,617**	4,729,712

	Note	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	*15*	**426,250**	480,000
Non-current portion of other borrowings	*15*	**24,090**	23,539
Lease liabilities		**5,082**	17,397
Deferred government grants		**151,033**	155,958
Deferred income tax liabilities		**212,604**	236,517
Total non-current liabilities		**819,059**	913,411
Current liabilities			
Trade payables	*14*	**238,686**	128,209
Accrued expenses and other payables		**154,842**	130,551
Contract liabilities		**658,497**	410,987
Current portion of bank borrowings	*15*	**1,070,766**	1,111,089
Current portion of other borrowings	*15*	**718,374**	689,773
Lease liabilities		**49,446**	74,598
Deferred government grants		**11,450**	11,450
Convertible bonds – liabilities portion		**94,963**	90,670
Other taxes payables		**95,869**	90,488
Income tax payables		**44,664**	45,535
Total current liabilities		**3,137,557**	2,783,350
Total liabilities		**3,956,616**	3,696,761
Total equity and liabilities		**8,649,233**	8,426,473

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

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

	Attributable to the Company's equity holders					
	Share Capital	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2019	103,625	3,092,149	1,141,955	4,337,729	883,895	5,221,624
Effect on adoption of HKFRS 16	–	–	(2,146)	(2,146)	(4,589)	(6,735)
Loss for the period	–	–	(163,964)	(163,964)	(5,231)	(169,195)
Other comprehensive loss:						
Fair value gain on financial assets at fair value through other comprehensive income, net of deferred tax	–	1,822	–	1,822	–	1,822
Currency translation differences	–	(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	–	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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

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

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the following activities in the PRC:

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

– selling of goods through its B2B trading platforms;

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

– providing cross-industrial integrated marketing and advertising services;

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

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

– selling properties and providing property rental and management services via its O2O business exhibition centre; and

– hosting exhibitions and seminars.

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

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

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2019 and any public announcements made by HC Group Inc. during the interim reporting period.

3 Accounting policies

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

(a) Amended standards and framework adopted by the Group

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

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

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

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

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

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

(1) Effective for the Group for annual period beginning on 1 January 2022
(2) Effective for the Group for annual period beginning on 1 January 2023
(3) Effective date to be determined

4 Segment information

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

The executive directors assess the performance of the operating segments based on a measure of profit/(loss) before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments.

The Group is organised into the following business segments:

(i) Technology-driven new retail segment, which mainly includes provision of online advertising services through "zol.com.cn" as well as B2B2C retail business of electronics products by leveraging big data and interest technology through the Group's websites and trading platform.

(ii) Smart industries segment, which mainly includes B2B trading platforms, provision of anti-counterfeiting products and services, and supply chain management service as well as sales and leases of construction equipment.

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

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

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

The table below shows the segment information of revenue and results, and there were no sales or other transactions between the business segments for the periods ended 30 June 2020 and 2019.

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

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

Note:

Disaggregation of revenue

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

5 Other gains, net

Other gains, net, mainly consist of the following:

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

Note:

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

* English name is for translation purpose only.

6 Loss before income tax

The loss before income tax is arrived at after charging:

	Unaudited six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Direct expenses of B2B trading platform	**4,660,751**	6,266,508
Cost of goods sold for anti-counterfeiting products and services	**29,357**	42,279
Cost of properties sold	**1,904**	–
Interest cost for financing services	**3,698**	7,564
Agency costs	**4,374**	18,988
Amortisation of investment properties *(note 11)*	**15,476**	9,129
Amortisation of intangible assets *(note 11)*	**46,008**	50,583
Depreciation of property, plant and equipment *(note 11)*	**6,794**	50,752
Depreciation of right-of-use assets *(note 11)*	**21,587**	22,252
Employee benefits expenses, including directors' emoluments	**164,028**	242,319
Impairment loss on goodwill and intangible assets *(note 11)*	**84,830**	76,202
Marketing and consultancy expenses	**40,157**	82,465
Provision for impairment of trade receivables	**33,971**	8,210
Provision for impairment of loans to customers of financing service business	**23,338**	21,085
Provision for impairment of other loans and interest receivables	**5,041**	13
Provision for impairment of other financial assets	**15,887**	950
Repair and maintenance expense for construction equipment	**–**	20,910
Staff commission	**15,410**	19,168
Subcontracting labour fee	**–**	78,316
Transportation expense	**5,810**	14,335
Expenses relating to short term leases		
– Short term leases	**2,795**	2,231
– Rental of construction equipment	**–**	3,714

7 Finance cost, net

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

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

8 Income tax credit/(expense)

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

9 Loss per share

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

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

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

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period excluding ordinary shares repurchased by the Company.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the period) for the same total proceeds is the number of shares issued for no consideration.

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

10 Dividends

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

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

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

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

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

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

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

Note (ii): Impairment test for remaining CGUs

As at 30 June 2020, the directors assessed and reviewed the business performance of the remaining CGUs and considered there were no impairment indicators in relation to their goodwill, intangible assets and other non-financial assets.

12 Trade receivables

	Unaudited 30 June 2020 *RMB'000*	Audited 31 December 2019 *RMB'000*
Trade receivables *(note a)*	**384,151**	477,227
Less: impairment allowance	**(63,984)**	(63,529)
Trade receivables, net	**320,167**	413,698

(a) Trade receivables

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

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

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.

13 Loans and interest receivables

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

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

Note:

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

(a) Analysed by nature

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

(b) Analysed by type of collateral

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

14 Trade payables

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

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

15 Borrowings

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

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

Other borrowings with a total principal amount of RMB27,816,000 (31 December 2019: RMB27,816,000) were provided by a non-controlling shareholder of a subsidiary, in which 25% of its equity interest is effectively held by Mr. Liu Jun, an executive director of the Company. These borrowings are unsecured, mature ranging from 2020 to 2023 and bear average interest rate of 6.34% per annum (31 December 2019: 6.34% per annum). During the period ended 30 June 2020, the corresponding interest expenses was approximately RMB882,000 (30 June 2019: RMB882,000).

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

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

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

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

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

FINANCIAL REVIEW

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

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

The above table shows the revenue breakdown of the Group.

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

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

BUSINESS REVIEW

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

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

Platform and corporate services segment

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

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

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

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

Technology-driven new retail segment

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

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

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

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

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

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

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

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

Smart industries segment

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

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

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

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

Positioned to provide a centralised purchasing and integrated e-business service for chemicals and plastics,"ibuychem.com"(買化塑) was internally incubated by the Group as a non-wholly-owned subsidiary in March 2015, and was originated from the chemical e-business platform established by the Group over 20 years ago. It has developed into a leading B2B platform in the domestic chemical industry. Its services cover chemical, rubber and plastics and new materials industry chain in China. Focusing on procurement and sales in the chemical industry, the platform provides digital services for marketing and trading to 100,000 suppliers and downstream buyer factories through industrial internet technology. In the first half of 2020, the ibuychem.com platform had about 6,500 trading customers, including well-known domestic and overseas enterprises such as PetroChina, Sinopec, DuPont, Akzo Nobel, 3trees and Zhanchen with a trading size of approximately RMB2 billion for the first half of the year. Based on the trading data of buyers and vendors, ibuychem.com has also actively carried out the businesses of supply chain financing and logistic distribution.

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

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

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

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

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

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

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

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

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

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

Prospect

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

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

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

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

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

Liquidity and financial resources

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

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

Other borrowings comprise interest-free loan of RMB230,000,000 (31 December 2019: RMB200,000,000) and interest bearing loan of which RMB27,816,000 (31 December 2019: RMB27,816,000) bear an average interest rate of 6.34% per annum (31 December 2019: 6.34% per annum) and the remaining other borrowings bear an interest rate ranging from 4.4% to 14.3% per annum (31 December 2019: 4.4% to 14.3% per annum). Details of the Group's borrowings including the maturity profile and interest rate are set out in note 15 to the condensed consolidated interim financial information in this announcement. As at 30 June 2020, the Group's gearing ratio is 25% (as at 31 December 2019: 28%), which is calculated as net debt divided by total capital.

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

Treasury Policy

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

Significant investments

Save as disclosed in this announcement, the Group had no significant investments during the Period.

Future plans for material investments

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

Staff

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

Remuneration of employees is generally in line with the market trend and commensurate with the rate in the industry. Share options and share awards are granted to employees based on individual performance. Other benefits to the Group's employees include medical insurance, retirement schemes, training programs and educational subsidies. Total staff costs including director's emoluments for the Period amounted to approximately RMB179,438,000 (for the six months ended 30 June 2019: RMB261,487,000).

Capital structure

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

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

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

Charges on Group assets

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

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

For details, please refer to note 15 to the condensed consolidated interim financial information in this announcement.

Exchange risk

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

Contingent liabilities

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

SIGNIFICANT EVENTS

Huijia Performance Target for the year 2019

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

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

Placing of new shares under general mandate

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

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

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

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

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

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

Adjustment to the Conversion Price of the Convertible Bonds

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

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

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

Change of Chief Financial Officer

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

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

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

IMPORTANT EVENT(S) AFTER THE PERIOD

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

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

Following his resignation, with effect from 1 July 2020,

(i) Mr. Lin Dewei was appointed as a non-executive Director; and

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted written guidelines regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standard of dealings and the said guidelines regarding Directors' securities transactions during the Period.

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, and the unaudited interim results of the Group for the Period.

AUDITORS

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

DIRECTORS' AND MANAGEMENT SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

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

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board had reviewed the Company's corporate governance practices and was satisfied that the Company had been in compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

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

Hong Kong, 25 August 2020

As at the date of this 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. Sun Yang *(Non-executive Director)*
Mr. Lin Dewei *(Non-executive Director)*
Mr. Zhang Ke *(Independent non-executive Director)*
Mr. Zhang Tim Tianwei *(Independent non-executive Director)*
Ms. Qi Yan *(Independent non-executive Director)*