慧聪集团
HC GROUP

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 2023

HIGHLIGHTS

Total revenue and income from continuing operations was approximately **RMB8,906.3 million**, increased by approximately RMB2,789.4 million, or approximately 45.6%, when compared to approximately RMB6,116.9 million recorded for the corresponding period in 2022.

Adjusted net profit* was approximately **RMB13.4 million**, compared to an adjusted net loss of approximately RMB48.1 million in the first half of 2022.

Adjusted EBITDA* was approximately **RMB69.4 million**, compared to approximately RMB9.9 million in the first half year of 2022.

Loss attributable to equity holders of the Company from continuing operations was approximately **RMB809.7 million**, compared to approximately RMB74.7 million for the corresponding period in 2022.

Diluted loss per share from continuing operations was **RMB0.6181**, when compared to RMB0.0571 for the corresponding period in 2022, on a period-on-period basis.

*: The adjusted net profit and EBITDA are non-HKFRS financial measure. For details, please refer to page 36 in this announcement.

UNAUDITED INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of HC Group Inc. (the "Company") announces the unaudited financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2023 (the "Period"), together with the comparative figures for the corresponding period ended 30 June 2022.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Unaudited	
		Six months ended 30 June	
	Note	**2023**	2022
		RMB'000	*RMB'000*
Continuing operations			
Revenue	*4*	**8,858,528**	6,064,214
Interest income from financing services	*4*	**47,792**	52,733
		8,906,320	6,116,947
Cost of revenue		**(8,647,733)**	(5,852,265)
Other income		**7,243**	3,084
Other gains, net	*5*	**40,282**	16,356
Selling and marketing expenses		**(138,090)**	(135,319)
Administrative expenses		**(101,312)**	(117,227)
Impairment losses on goodwill	*10*	**(719,426)**	–
Provision for impairment losses of financial assets		**(177,253)**	(42,433)
Operating loss		**(829,969)**	(10,857)
Finance cost, net		**(16,731)**	(26,950)
Share of post-tax losses of associates		**(524)**	(44,145)
Loss before income tax		**(847,224)**	(81,952)
Income tax credit	*6*	**4,276**	7,309
Loss from continuing operations		**(842,948)**	(74,643)
Loss from discontinued operation	*7*	**(643)**	–

	Note	Unaudited Six months ended 30 June **2023** ***RMB'000***	 2022 *RMB'000*
Loss for the period		**(843,591)**	(74,643)
Other comprehensive (loss)/income:			
Item that may be reclassified to profit or loss			
Currency translation differences		**(129)**	70
Items that will not be reclassified to profit or loss			
Fair value (loss)/gain on financial assets at fair value through other comprehensive income, net of tax – Group		**(68,886)**	23,059
Currency translation differences for financial assets at fair value through other comprehensive income		**889**	1,701
Total comprehensive loss for the period, net of tax		**(911,717)**	(49,813)
Loss attributable to:			
Equity holders of the Company		**(810,300)**	(74,735)
Non-controlling interests		**(33,291)**	92
		(843,591)	(74,643)
Loss attributable to the equity holders of the Company arises from:			
Continuing operations		**(809,657)**	(74,735)
Discontinued operation		**(643)**	–
		(810,300)	(74,735)
Total comprehensive loss attributable to:			
Equity holders of the Company		**(878,426)**	(49,905)
Non-controlling interests		**(33,291)**	92
		(911,717)	(49,813)

		Unaudited	
		Six months ended 30 June	
	Note	**2023**	2022
		RMB'000	*RMB'000*
Total comprehensive loss attributable to equity holders of the Company arises from:			
Continuing operations		**(877,783)**	(49,905)
Discontinued operation		**(643)**	–
		(878,426)	(49,905)
Loss per share for loss from continuing operations attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	*8*	**(0.6181)**	(0.0571)
Diluted loss per share	*8*	**(0.6181)**	(0.0571)
Loss per share for loss attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	*8*	**(0.6186)**	(0.0571)
Diluted loss per share	*8*	**(0.6186)**	(0.0571)

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	Note	**Unaudited 30 June 2023 *RMB'000***	Audited 31 December 2022 *RMB'000*
Assets			
Non-current assets			
Property, plant and equipment	*10*	**29,088**	30,767
Right-of-use assets		**7,982**	16,923
Investment property	*10*	**24,266**	24,847
Intangible assets	*10*	**398,328**	1,153,426
Deferred income tax assets		**67,437**	67,424
Investments accounted for using equity method		**287,934**	288,458
Financial assets at fair value through other comprehensive income		**321,928**	402,385
Financial asset at fair value through profit or loss		**7,173**	11,283
Finance lease receivables		**56,720**	67,658
Loans and interest receivables	*12*	**28,736**	29,273
Long term deposits and prepayments		**9,064**	5,490
Total non-current assets		**1,238,656**	2,097,934
Current assets			
Inventories		**244,549**	147,058
Contract assets		**18,158**	4,068
Trade receivables	*11*	**86,900**	119,507
Deposits, prepayments and other receivables		**680,464**	2,040,644
Finance lease receivables		**182,162**	217,873
Loans and interest receivables	*12*	**1,247,185**	1,464,169
Restricted bank deposit		**265,285**	122,660
Cash and cash equivalents		**273,892**	312,023
		2,998,595	4,428,002
Assets classified as held for sale	*7*	**131,922**	131,922
Total current assets		**3,130,517**	4,559,924
Total assets		**4,369,173**	6,657,858

	Note	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Equity			
Equity attributable to equity holders of the Company			
Share capital		**120,977**	120,977
Other reserves		**3,279,903**	3,345,393
Accumulated losses		**(1,670,188)**	(857,252)
		1,730,692	2,609,118
Non-controlling interests		**627,296**	669,511
Total equity		**2,357,988**	3,278,629
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	*14*	**489,000**	5,000
Lease liabilities		**1,051**	5,424
Deferred income tax liabilities		**6,884**	15,535
Financial liabilities at fair value through profit or loss		**5,932**	6,834
Total non-current liabilities		**502,867**	32,793
Current liabilities			
Trade and bill payables	*13*	**294,383**	182,350
Accrued expenses and other payables		**375,531**	369,772
Contract liabilities		**384,193**	1,629,120
Current portion of bank borrowings	*14*	**124,365**	648,661
Other borrowings	*14*	**244,537**	416,616
Lease liabilities		**7,762**	12,489
Income tax payables		**57,237**	54,861
Financial liabilities at fair value through profit or loss		**7,499**	20,399
		1,495,507	3,334,268
Liabilities directly associated with assets classified as held for sale	*7*	**12,811**	12,168
Total current liabilities		**1,508,318**	3,346,436
Total liabilities		**2,011,185**	3,379,229
Total equity and liabilities		**4,369,173**	6,657,858

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

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

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

– Selling of goods through its B2B trading platforms, including "www.unioncotton.com" and "www.ibuychem.com";

– Provision of advertising and online services and offering comprehensive IT-related products information through its website "www.zol.com.cn";

– Sales and provision of anti-counterfeiting products and services and supply chain management to enterprises;

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

– Hosting marketing events, exhibitions and seminars.

Note:

During the year ended 31 December 2021, the Group decided to discontinue the operation of provision of properties leasing in the PRC operated by Tianjin Guokai Ruitou Education Technology Co., Ltd. ("Tianjin Guokai").

In accordance with Hong Kong Financial Reporting Standard ("HKFRS") 5, "Non-current assets held for sale and discontinued operations", the financial results of Tianjin Guokai and the related impairment expenses for the six months ended 30 June 2023 and 2022 were classified as discontinued operation in the Group's condensed consolidated interim financial information.

The condensed consolidated interim financial information is presented in thousands of units of Renminbi (RMB'000), unless otherwise stated.

This condensed consolidated interim financial information has not been audited, but has been reviewed by the external auditor of the Group. This condensed consolidated interim financial information was approved for issue by the board of directors of the Company on 25 August 2023.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2023 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.

This condensed consolidated interim financial information does not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, this condensed consolidated interim financial information is to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2022 and any public announcements made by the Group during the interim reporting period.

3 Accounting policies

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

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

(a) New and Amended standards adopted by the Group

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

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules
Amendments to HKFRS 17	Insurance Contracts
Amendments to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information
Revised Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

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

(b) Amended standards, interpretation and guideline issued by not yet effective

Certain amended standards, interpretation and guideline have been published that are not mandatory for the financial year beginning on 1 January 2023 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 1	Non-current liabilities with covenants(1)
Amendments to HKFRS 16	Lease liability in sale and leaseback(1)
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements(1)
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture(2)

(1) Effective for the Group for annual period beginning on 1 January 2024

(2) 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 (including the discontinued operation) based on a measure of loss before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments.

As at 30 June 2023, the Group is organised into the following business segments:

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

(ii) Smart industries segment, which mainly includes B2B trading platforms, provision of anti-counterfeiting products and services, and supply chain management services.

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

On 5 January 2021, the Group entered into an equity transfer agreement to dispose its entire equity interest in Tianjin Guokai which operated properties leasing business. As at 30 June 2023, the disposal has not yet been completed.

Therefore, the financial result of Tianjin Guokai for the six months ended 30 June 2023 and 2022 was classified as discontinued operation in the Group's condensed consolidated interim financial information.

For details of the discontinued operation, please refer to note 7.

The table below shows the segment information for the six months ended 30 June 2023 and 2022.

	Unaudited Six months ended 30 June 2023					
	Continuing operations				Discontinued operation	
	Technology-driven new retail segment	Smart industries segment	Platform and corporate services segment	Subtotal	Smart industries segment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,037,377**	**7,808,461**	**12,690**	**8,858,528**	**–**	**8,858,528**
Interest income from financing services	**–**	**–**	**47,792**	**47,792**	**–**	**47,792**
Total revenue and income	**1,037,377**	**7,808,461**	**60,482**	**8,906,320**	**–**	**8,906,320**
Impairment loss on goodwill	**(719,426)**	**–**	**–**	**(719,426)**	**–**	**(719,426)**
Segment results	**(747,556)**	**10,555**	**(140,493)**	**(877,494)**	**(643)**	**(878,137)**
Other income				**7,243**	**–**	**7,243**
Other gains, net				**40,282**	**–**	**40,282**
Share of post-tax losses of associates				**(524)**	**–**	**(524)**
Finance income				**5,161**	**–**	**5,161**
Finance cost				**(21,892)**	**–**	**(21,892)**
Loss before income tax				**(847,224)**	**(643)**	**(847,867)**
Other information:						
Depreciation and amortisation	**35,816**	**4,875**	**2,852**	**43,543**	**–**	**43,543**
Provision for impairment on financial assets	**–**	**4,913**	**172,340**	**177,253**	**–**	**177,253**

	Unaudited Six months ended 30 June 2022					
	Continuing operations				Discontinued operation	
	Technology-driven new retail segment *RMB'000*	Smart industries segment *RMB'000*	Platform and corporate services segment *RMB'000*	Subtotal *RMB'000*	Smart industries segment *RMB'000*	Total *RMB'000*
Revenue	732,548	5,282,694	48,972	6,064,214	–	6,064,214
Interest income from financing services	–	–	52,733	52,733	–	52,733
Total revenue and income	732,548	5,282,694	101,705	6,116,947	–	6,116,947
Segment results	2,218	(19,690)	(12,825)	(30,297)	–	(30,297)
Other income				3,084	–	3,084
Other gains, net				16,356	–	16,356
Share of post-tax losses of associates				(44,145)	–	(44,145)
Finance income				4,911	–	4,911
Finance cost				(31,861)	–	(31,861)
Loss before income tax				(81,952)	–	(81,952)
Other information:						
Depreciation and amortisation	24,356	6,874	7,153	38,383	–	38,383
Share-based compensation expense	–	–	417	417	–	417
Provision for impairment on financial assets	(3,099)	5,824	39,708	42,433	–	42,433

5 Other gains, net

Other gains, net, mainly consist of the followings:

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Change in fair value on financial asset at fair value through profit or loss	**890**	(140)
Change in fair value on financial liabilities at fair value through profit or loss	**13,802**	2,486
Gain on deemed disposal of partial interest in an associate *(note i)*	**–**	13,604
Gain/(loss) on disposal of subsidiaries		
– Guangzhou Huicong 360 Network Technology Co., Ltd *(note ii)*	**8,041**	–
– Shanghai Xingou Chemical Co., Limited *(note iii)*	**17,310**	–
– Other	**(26)**	–
Others	**265**	406
	40,282	16,356

Note:

(i) The amount represents gain on deemed disposal of partial interest in an associate, Guangdong Zhongmo Cloud Digital Technology Co., Limited* (廣東中模雲數字科技股份有限公司) ("Zhongmo"). In April 2022, Zhongmo issued 70,000,000 new shares to certain independent new investors resulting in dilution of equity interest held by the Group and a gain on deemed disposal of partial interest in an associate amounting to RMB13,604,000 was recognised.

(ii) The amount represents gain on disposal of a wholly-owned subsidiary, Guangzhou Huicong 360 Network Technology Co., Ltd (廣州慧聰叁陸零網絡科技有限公司) ("Guangzhou Huicong 360"), which involved in online search engine business. On 17 April 2023, the Group entered into an agreement with four independent third parties and disposed its entire interest in Guangzhou Huicong 360 for a cash consideration of RMB4. Net liabilities of Guangzhou Huicong 360 as at the disposal date amounted to approximately RMB8,041,000. This resulted in a gain on disposal of a subsidiary amounting to approximately RMB8,041,000.

(iii) The amount represents gain on disposal of a wholly-owned subsidiary, Shanghai Xingou Chemical Co., Limited (上海行歐化工有限公司) ("Shanghai Xingou"), which involved in chemical trading business. On 25 May 2023, the Group entered into an agreement with an associate of the Company, in respect of the disposal of its entire interest in Shanghai Xingou for a cash consideration of RMB5,000,000. Net liabilities of Shanghai Xingou as at the disposal date amounted to approximately RMB12,310,000. This resulted in a gain of disposal of a subsidiary amounting to approximately RMB17,310,000.

* *English name is for translation purpose only.*

6 Income tax credit

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Current income tax expense		
– The PRC	**(4,080)**	(7,827)
Deferred income tax credit		
– The PRC	**8,356**	15,136
Income tax credit	**4,276**	7,309
Income tax credit is attributable to:		
– Loss from continuing operations	**4,276**	7,309

7 Loss from discontinued operation

	Unaudited Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Tianjin Guokai *(note)*	**(643)**	–

Note:

On 5 January 2021, the Group entered into an equity transfer agreement (the "agreement") to transfer its entire equity interest in Tianjin Guokai and its subsidiaries (together, the "Tianjin Guokai Group") to an independent third party and RMB225,000,000 was received by the Group as upfront deposit of transaction. Tianjin Guokai and its subsidiaries (together, the "Tianjin Guokai Group") is principally engaged in the provision of properties leasing in PRC. Upon completion of the transaction, Tianjin Guokai Group will cease to be a subsidiary of the Group. The financial results of Tianjin Guokai were classified as discontinued operation for six months end 30 June 2023 and 2022.

As at 30 June 2023, the disposal has not yet been completed. For more details for status regarding the disposal, please refer to note 15. The respective assets and liabilities of Tianjin Guokai were classified as held for sale as at 30 June 2023 and 31 December 2022.

Assets and liabilities of Tianjin Guokai Group classified as held for sale

The following assets and liabilities were classified as held for sale in relation to the discontinued operation as at 30 June 2023 and 31 December 2022:

	Unaudited 30 June 2023 ***RMB'000***	Audited 31 December 2022 *RMB'000*
Assets classified as held for sale		
Investment properties	**107,177**	107,177
Right-of-use assets	**13,871**	13,871
Trade receivables	**10,874**	10,874
	131,922	131,922
Liabilities directly associated with assets classified as held for sale		
Accrued expenses and other payables	**10,643**	10,000
Other taxes payable	**2,168**	2,168
	12,811	12,168
Net assets classified as held for sale	**119,111**	119,754

8 Loss per share

(a) Basic loss per share

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

	Unaudited Six months ended 30 June	
	2023	2022
Loss attributable to equity holders of the Company (in RMB'000)		
– From continuing operations	**(809,657)**	(74,735)
– From discontinued operation	**(643)**	–
	(810,300)	(74,735)
Weighted average number of shares outstanding (in thousands)	**1,309,931**	1,309,931
Basic loss per share		
– From continuing operations (in RMB)	**(0.6181)**	(0.0571)
– From discontinued operation (in RMB)	**(0.0005)**	–
Total basic loss per share (in RMB)	**(0.6186)**	(0.0571)

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

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

During the six months ended 30 June 2023, all of these share options had no dilutive effect to the Company and therefore, diluted loss per share equaled basic loss per share (30 June 2022: same).

9 Dividends

No dividend was paid or declared by the Company during the six months ended 30 June 2023 (30 June 2022: Nil).

10 Property, plant and equipment, investment property, intangible assets and goodwill

(Unaudited)	**Property, plant and equipment** *RMB'000*	**Investment property** *RMB'000*	**Intangible assets** *RMB'000*	**Goodwill** *RMB'000*
Opening net book amount as at 1 January 2023	**30,767**	**24,847**	**101,321**	**1,052,105**
Additions	**420**	**–**	**–**	**–**
Disposals	**(608)**	**–**	**–**	**–**
Impairment				
– From continuing operations *(note)*	**–**	**–**	**–**	**(719,426)**
Depreciation and amortisation				
– From continuing operations	**(1,491)**	**(581)**	**(35,672)**	**–**
Closing net book amount as at 30 June 2023	**29,088**	**24,266**	**65,649**	**332,679**
At 30 June 2023				
Cost	**76,087**	**35,113**	**690,311**	**1,526,451**
Accumulated depreciation and impairment	**(46,999)**	**(10,847)**	**(624,662)**	**(1,193,772)**
Net book amount	**29,088**	**24,266**	**65,649**	**332,679**
Opening net book amount as at 1 January 2022	33,554	26,009	244,330	1,052,105
Additions	763	–	–	–
Disposals	(46)	–	–	–
Depreciation and amortisation				
– From continuing operations	(1,956)	(581)	(26,281)	–
Closing net book amount as at 30 June 2022	32,315	25,428	218,049	1,052,105
At 30 June 2022				
Cost	82,855	35,113	690,311	1,526,451
Accumulated depreciation and impairment	(50,540)	(9,685)	(472,262)	(474,346)
Net book amount	32,315	25,428	218,049	1,052,105

Impairment test for goodwill and other intangible assets

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

	Unaudited 30 June 2023		Audited 31 December 2022	
	Goodwill *RMB'000*	**Other intangible assets** *RMB'000*	Goodwill *RMB'000*	Other intangible assets *RMB'000*
Technology-driven new retail segment				
Online-services – B2B2C business *(note)*	**260,821**	**42,466**	980,247	75,133
Smart Industries segment				
Anti-counterfeiting products and services	**50,314**	**9,997**	50,314	10,603
Trading services – cotton industry	**21,544**	**11,257**	21,544	13,399
Other intangible assets	**–**	**1,929**	–	2,186
	332,679	**65,649**	1,052,105	101,321

The recoverable amounts of the CGUs are determined at higher of the CGU's fair value less cost of disposal and value-in-use. These calculations are performed using cash flow projections based on financial budgets approved by management covering a five-year period. Thereafter, the cash flows are extrapolated using the estimated terminal growth rates. Management estimates the pre-tax discount rate that reflects market assessment of the time value of money and specific risk relating to the industry.

Note:

During the six months ended 30 June 2023, the business performance of the ZOL did not meet the growth in revenue and earnings originally anticipated. Although both the Group and the market showed optimism towards the post-pandemic economic recovery in 2023, the overall economic rebound fell short of expectations, especially the online advertising industry in the PRC, in the first half of 2023. ZOL's plan in expanding user base and capitalising post-pandemic economic recovery was impeded by its customers' cautious budgeting in advertising activities.

In response to the latest market situation, the Group revised the forecast to reflect the uncertainties in the online advertising market and engaged an independent external valuer, Ravia Global Appraisal Advisory limited (the "Valuer"), to assist the determination of the recoverable amount of this CGU as at 30 June 2023.

As a result of the impairment assessment, the Group recognised impairment for goodwill for this CGU amounting to RMB719,426,000.

Valuation methodology, value of inputs and basis and assumptions

The valuation methodology, value of inputs in the current period and last year used in the valuation together with the basis and assumptions are as follows:

	Valuation as at	
	30 June 2023	31 December 2022
Valuation methodology	**Income Approach**	Income Approach
Basis of valuation	**Value in use Calculation**	Value in use calculation
Pre-tax discount rate	**17%**	17%
Compound Annual Growth Rate	**21%**	24%
Terminal growth rate	**3%**	3%

11 Trade receivables

	Unaudited 30 June 2023 ***RMB'000***	Audited 31 December 2022 *RMB'000*
Trade receivables *(note a)*	**106,949**	156,694
Less: provision for impairment of trade receivables	**(20,049)**	(37,187)
Trade receivables, net	**86,900**	119,507

(a) Trade receivables

The Group generally grants a credit period ranging from 90 days to 180 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 2023 ***RMB'000***	Audited 31 December 2022 *RMB'000*
0 to 90 days	**57,892**	83,232
91 to 180 days	**15,561**	23,528
181 to 270 days	**13,099**	9,431
271 to 365 days	**2,761**	19,671
Over 1 year	**17,636**	20,832
	106,949	156,694

12 Loans and interest receivables

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

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Loans to customers of financing services business *(note (a), (b), (c))*	**1,617,763**	1,636,035
Loans to employees	**3,400**	3,600
Loans to associates and a joint venture	**40,803**	66,533
Interest receivables	**9,660**	9,876
Loans and interest receivables, gross	**1,671,626**	1,716,044
Less: impairment allowance		
– loans to customers of financing service business *(note (a), (b), (c))*	**(384,169)**	(216,583)
– loans to employees	**(70)**	(36)
– loans to associates and a joint venture	**(11,284)**	(5,880)
– interest receivables	**(182)**	(103)
Loans and interest receivables, net	**1,275,921**	1,493,442
Less: Non-current portion	**(28,736)**	(29,273)
Current portion	**1,247,185**	1,464,169

Note:

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

(a) *Analysed by nature*

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Loans to customers of financing services business	**1,617,763**	1,636,035
Less: impairment allowance	**(384,169)**	(216,583)
	1,233,594	1,419,452

(b) *Analysed by type of collateral*

	Unaudited 30 June 2023 ***RMB'000***	Audited 31 December 2022 *RMB'000*
Unsecured loans	**1,397,910**	1,306,791
Guaranteed loans	**116,279**	119,124
Collateralised loans	**103,574**	210,120
Loans to customers of financing service business, gross	**1,617,763**	1,636,035
Less: impairment allowance	**(384,169)**	(216,583)
Loan receivables, net	**1,233,594**	1,419,452

(c) *Analysed by credit risk*

The Group applies general approach under HKFRS 9 "Financial Instruments" to measure expected credit losses for all loans and interest receivables accounted for at amortised cost.

Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit-impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised.

	Stage 1 *RMB'000*	**Stage 2** *RMB'000*	**Stage 3** *RMB'000*	**Total** *RMB'000*
At 30 June 2023 (unaudited)				
Gross carrying amount	**936,380**	**413,325**	**268,058**	**1,617,763**
Loss allowance	**(46,001)**	**(78,460)**	**(259,708)**	**(384,169)**
Loan receivables, net	**890,379**	**334,865**	**8,350**	**1,233,594**
Expected loss rate	**4.91%**	**18.98%**	**96.89%**	**23.75%**

	Stage 1 *RMB'000*	Stage 2 *RMB'000*	Stage 3 *RMB'000*	Total *RMB'000*
At 31 December 2022 (audited)				
Gross carrying amount	1,075,460	318,725	241,850	1,636,035
Loss allowance	(9,869)	(8,883)	(197,831)	(216,583)
Loan receivables, net	1,065,591	309,842	44,019	1,419,452
Expected loss rate	0.92%	2.79%	81.80%	13.24%

13 Trade and bill payables

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

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
0 to 90 days	**258,536**	152,908
91 to 180 days	**20,806**	16,266
181 to 365 days	**11,111**	3,708
Over 1 year	**3,930**	9,468
	294,383	182,350

14 Borrowings

	Unaudited 30 June 2023 ***RMB'000***	Audited 31 December 2022 *RMB'000*
Non-current portion:		
Bank borrowings *(note i)*	**489,000**	5,000
Current portion:		
Bank borrowings *(note i)*	**124,365**	648,661
Other borrowings (*note ii)*	**244,537**	416,616
	368,902	1,065,277
Total borrowings	**857,902**	1,070,277

The above balance includes both principal and interest portion of the borrowings, and are all denominated in RMB (31 December 2022: same).

Note:

(i) Bank borrowings bear average interest rate of 5.57% per annum (31 December 2022: 6.43% per annum), and are payable from 2023 to 2026 (31 December 2022: from 2023 to 2025). Out of the total balances, the followings bank borrowings are secured by certain properties of the Group:

(a) bank borrowing of RMB10,000,000 guaranteed by a subsidiary, bearing interest rate of 4.35% per annum (31 December 2022: RMB50,000,000 was guaranteed by an Executive Director of the Company and his spouse, bearing interest rate of 4.90% per annum, and was fully repaid upon maturity in February 2023).

(b) bank borrowing of RMB495,000,000 (31 December 2022: RMB512,000,000) provided by Jingu Bank and guaranteed by subsidiaries and associates of the Group (31 December 2022: same), bearing interest rate of 5.93% per annum (31 December 2022: 6.93% per annum);

The remaining bank borrowings are unsecured and mainly included:

(a) bank borrowings of RMB35,000,000 (31 December 2022: RMB54,400,000) guaranteed by subsidiaries of the Group (31 December 2022: same), bearing interest rate ranging from 3.72% to 7.00% per annum (31 December 2022: 3.73% to 7.90% per annum);

(b) bank borrowings of RMB6,000,000 (31 December 2022: RMB23,000,000) guaranteed by certain independent third parties and subsidiary of the Group (31 December 2022: same), bearing interest rates ranging from 3.65% to 3.85% per annum (31 December 2022: 3.65% to 4.90% per annum);

(c) unguaranteed bank borrowings of RMB37,000,000 (31 December 2022: unguaranteed bank borrowings of RMB8,000,000), bearing interest rates ranging from 3.70% to 5.00% per annum (31 December 2022: 3.70% to 5.00% per annum); and

(d) the remaining bank borrowings with principal amount of RMB29,400,000 (31 December 2022: RMB5,000,000) are guaranteed by certain key management personnel of subsidiaries (31 December 2022: same), bearing interest rates ranging from 3.61% to 4.35% per annum (31 December 2022: 3.70% per annum).

(ii) Out of the total balances, the following other borrowing is unguaranteed and secured by certain equity interest of a subsidiary of the Group:

(a) other borrowing of RMB230,000,000 is provided by an independent third party with maturity on 31 December 2023. This other borrowing is interest-free (31 December 2022: same).

The remaining other borrowings are unguaranteed and unsecured, which mainly included:

(a) other borrowings of RMB13,220,000 (31 December 2022: RMB173,020,000 secured by prepayment of cotton) are provided by independent third parties (31 December 2022: same) and bear interest rate ranging 7.50% per annum (31 December 2022: 3.85% per annum); and

(b) other borrowings of RMB1,200,000 provided by a non-controlling shareholder and a key management personnel of a subsidiary (31 December 2022: RMB10,600,000 provided by a non-controlling shareholder of a subsidiary and certain key management personnel of subsidiaries), and bear interest rates of 8% per annum (31 December 2022: same).

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

	Bank borrowings		**Other borrowings**	
	Unaudited 30 June 2023 ***RMB'000***	Audited 31 December 2022 *RMB'000*	**Unaudited 30 June 2023** ***RMB'000***	Audited 31 December 2022 *RMB'000*
Within 1 year	**124,365**	648,661	**244,537**	416,616
Between 1 and 2 years	**489,000**	–	**–**	–
Between 2 and 5 years	**–**	5,000	**–**	–
	613,365	653,661	**244,537**	416,616

15 Contingent liabilities

(i) Lease agreement with an independent third party

On 4 March 2022, a subsidiary of the Group received a claim of civil proceeding amounting to RMB35,119,000 against the Group (the "Proceeding"), being alleged to breach the contract terms under a leasing agreement it entered into with an independent third party.

As of the date of this announcement, the Proceeding is still in progress and has yet to be completed.

The directors of the Company, after taking updated advice from its legal advisor which have considered the information so far available, consider that there would be no material liabilities arising from this Proceeding up to the date of this announcement, and there would be no material impact to the condensed consolidated interim financial information of the Group for the six months ended 30 June 2023 (31 December 2022: same).

(ii) Disposal of Tianjin Guokai

On 5 January 2021, the Group entered into the equity transfer agreement to transfer the entire equity interest in Tianjin Guokai to an independent third party ("Buyer"). Tianjin Guokai Group is principally engaged in the provision of properties leasing in PRC. On 21 March 2022, the Group received a written notice of arbitration ("Arbitration") from the Buyer, claiming for damages in the sum of RMB100,655,000 to compensate the costs associated with demolition of properties previously owned by Tianjin Guokai's subsidiaries.

On 7 June 2023, the Arbitration process was concluded with a ruling that the Group is obliged to pay RMB12,569,000 for compensation and arbitral expenses to the Buyer. As at 30 June 2023, these amounts were recognised as "other payables" in the condensed consolidated interim financial information.

Save as disclosed above, the directors of the Company consider that there would be no other material liabilities arising from this Arbitration up to the date of this announcement, and there would be no other material impact to the condensed consolidated interim financial information of the Group for the six months ended 30 June 2023 (31 December 2022: same).

FINANCIAL REVIEW

Revenue and income	Technology-driven new retail *RMB'000*	Smart industries *RMB'000*	Platform and corporate services *RMB'000*	Total *RMB'000*
First half of 2023	1,037,377	7,808,461	60,482	8,906,320
First half of 2022	732,548	5,282,694	101,705	6,116,947
Variance	41.6%	47.8%	–40.5%	45.6%

During the Period, the Group generated a total revenue and income of approximately RMB8,906.3 million (first half of 2022: RMB6,116.9 million), an increase of approximately 45.6% as compared to that in the corresponding period in 2022. The increase was mainly driven by the increase in revenue to approximately RMB7,068 million (first half of 2022: RMB2,591 million) generated by Union Cotton of the smart industries segment, attributable to the post-pandemic resumption of production and transportation of cotton product and increase in demand from downstream textile enterprises.

During the first half of 2023, operating expenses decreased from approximately RMB252.5 million in the first half of 2022 to approximately RMB239.4 million which was mainly due to the decreased staff cost and commission.

Loss attributable to the equity holders of the Company was approximately RMB810.3 million for the Period as compared to a loss of approximately RMB74.7 million in the first half of 2022. The loss was mainly attributable to, among other things: (i) approximately RMB719.4 million goodwill impairment was recorded with respect to ZOL in the technology-driven new retail segment, which did not achieve the expected results; and (ii) approximately RMB167.6 million impairment provision was made for certain significant overdue loans in the Group's micro-credit loan business under its platform and corporate services segment. See also the paragraphs headed "Technology-driven new retail segment" and "Platform and corporate services segment" in the section "Business review" below for further information.

BUSINESS REVIEW

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

In the Period, the Group's revenue was generated from its three business segments, namely, the technology-driven new retail segment (approximately 11.6%), the smart industries segment (approximately 87.7%), and the platform and corporate services segment (approximately 0.7%).

Technology-Driven New Retail Segment

The technology-driven new retail segment mainly generates its revenue through the operation of the ZOL website (zol.com.cn, "ZOL"), which provides online advertising and marketing services for 3C and living technology products in mainland China.

The segment did not achieve the expected results during the Period, with a segment revenue of approximately RMB1,037.4 million, and segment loss of approximately RMB747.6 million (first half of 2022: RMB732.5 million and segment gain on approximately RMB2.2 million, respectively). Online users have changed their habits in recent years in selecting 3C and living technology products, with a strong preference over short-video and self-media instead of traditional media content. During the Period, ZOL struggled in upgrading its services and product, and in exploring new stream of users-based for the website. Profit margin was lowered with inflated costs in operating video accounts and agency to meet the users' appetite. Although the market and the Group previously showed optimism towards the post-pandemic economic recovery, the rebound of the overall economy (including the online advertising industry) fell short of expectation. ZOL's plan in expanding user base and capitalising post-pandemic economic recovery was also impeded by its customers' cautious budging in advertising activities. In light of the latest business performance and outlook of ZOL, and a lack of certainty for turning around ZOL's business in the foreseeable future, the Group revised its forecast and projection related to the business. Accordingly, an impairment for goodwill relating to this segment – an impairment for goodwill for the "Online services – B2B2C business" CGU (cash generating unit) of an aggregate of approximately RMB719.4 million was recognised for the Period to reflect a lower valuation of the equity interests of ZOL. Please also see note 10 to the notes to the condensed consolidated interim financial information of the Period included in this announcement for more information about the impairment.

To seek better survival and development opportunities, ZOL will continue to focus on the following areas for improvement:

– Enhance core capabilities: a more comprehensive content pool that exponentially expands the decision-making information pool related to purchases via consumer electronic products by writing, capturing, deconstructing and compiling; more intelligent algorithms that continuously enhance the intelligence and accuracy of semantic recognition, demand allocation and content composition through integration of self-developed and third-party tools; and a more user-friendly interactive experience that improves user experience based on user feedback, ensuring users can perceive the improvements. Works will be done from the details to penetrate through every aspect and lower the usage threshold.

– Enhance marketing capabilities: enhance professional content output and strengthen the image of authoritative endorsements to effectively support clients' product promotion; collaborate with key opinion leaders to precisely approach users, rapidly assisting brands in achieving promotion in all dimensions; create viral topics to ignite product popularity and seek crossover of industry resources to reach a broader range of consumer groups.

– Enhance content ecosystem: cultivate exclusive flagship IP and establish a content layout with a multidimensional and diversified IP matrix, so as to rapidly amplify brand product visibility; implement circle operation as well as decision-impact and precise-user operation to absorb targeted population while gradually expanding influence beyond the circles; organize interesting columns to keep abreast with marketing trends and promote customised sales all year round to create comprehensive business scenarios across the entire value chain for the brand.

Smart Industries Segment

With "Focus" and "Significant verticality" as its operating strategies, the smart industries segment mainly comprises: (i) "Shanghai Huijing", a cross-sector supply chain integrated service platform; (ii) PanPass, an Internet of Things ("IoT") solutions provider for digital transformation; (iii) Union Cotton, a spot trading platform for cotton; and (iv) ibuychem.com, centralised purchasing and integrated e-business service provider for chemicals and plastics.

Shanghai Huijing E-business Co., Limited (上海慧旌電子商務有限公司) ("Shanghai Huijing") is the Group's wholly-owned cross-sector supply chain integrated services platform, which provides comprehensive supply chain integrated services by leveraging on the Group's years of experience in various industry segments and penetrating into various segments of the supply chain.

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 unique identification digitalisation provider.

Based on the "product digital identity management technology" in which Panpass has intellectual property right, PanPass continues to integrate technologies (such as cloud computing, IoT, micro-services, big data and AI) into its comprehensive digital solutions that are closed-loop and converging whole cycle, chains and scenarios from M (materials), F (manufacturing), W (warehouse), B (distributor), b (store) to C (consumer). This has facilitated brand enterprises in achieving digital management services featuring full industry chain traceability, agile supply chain, precise channel control, digital marketing, big data anti-counterfeiting, data insights and decision making. Products of the company include IoT identification, digital solutions, SaaS services and ancillary products.

During the Period, PanPass showed significant development in its key performance indicators in terms of revenue and net profit. In terms of product and market influence, PanPass has launched the SaaS version 6.0 and professional version 3.0 of All-In-One Code, and upgraded its nationwide regional operation centers in Wuhan, Chengdu and Shanghai. In recognition of its outstanding contributions in food safety traceability, PanPass was awarded four honors at the China Food Safety Conference, including the "Top 50 Food Traceability Service Providers for 2022", "Excellent Food Traceability Supplier for 2022-2023", "Member Enterprise of China Food Circulation Association", and "Participating Unit in the Drafting of Evaluation Method Standards for Food Traceability Information Systems".

"Union Cotton" is striving to materialize its development vision of constructing a leading global digital supply chain services platform for the textile industry, which, harnessing internet technology and big data, can improve the synergy of the supply chain of the cotton textile industry and create an open, intelligent, efficient and convenient digital industrial internet platform for textile manufacturing. The cotton textile industry was relatively stable in the first half of 2023, with moderate rise in prices of textile raw materials, and a recovery of demand. In this background, "Union Cotton" continues to focus on its customer-focused approached in line with its "Platform service, technology-driven and data-supported" principle. During the Period, various operational strategies were implemented (for example, an increased comprehensive platform promotion efforts, adjustment in its business selection policies) to improve its market share among end customers and expanding supplier resource channels. Union Cotton scale of operations has expanded with a rise of approximately 173% in its revenue to approximately RMB7,068 million during the Period (first half of 2022: RMB2,591 million), attributable to the post-pandemic resumption of production and transportation of cotton products post-epidemic, and increase in demand from downstream textile enterprises.

"ibuychem.com" is the Group's platform in provision of centralised purchasing and integrated e-business service for upstream and downstream of chemicals materials (such as chemical, plastics and coating), by providing trading service in the industry chain through PC, App and WeChat mini-programme. Due to the high volatility of prices for products such as chemicals and plastics during the Period, ibuychem.com proactively reduced the frequency and volume of transactions to reduce risks and loss exposure, resulting in a significant decline in trading revenue for the Period compared to the same period in 2022.

Platform and Corporate Services Segment

Historically, the Group operated its e-business platform, hc360.com ("360 Platform"), in the segment. To allow the Group to focus on its other business with sustainable prospects, the Group has suspended the operation of the operating entity of the 360 Platform, which is not expected to have any material adverse impact of the Group, as elaborated in the 2022 Annual Report. Closing down process is expected to be completed in the first half of 2024.

As part of its ordinary and usual course of business under this segment, the Group provides micro-credit loans and finance lease, principally targeting SMEs (small and medium-size enterprises) and business owners ("financing services business"). Such business is conducted through two of the subsidiaries of the Group (the "Licensed Members") which hold the respective licenses conducting finance lease business and micro-credit financing business in mainland China. During the Period, the Group recorded interest income of approximately RMB47,792,000 from its financing services business (first half of 2022: RMB52,733,000). As of 30 June 2023, the Group's net balance of outstanding loans and interest receivables from financing services business and finance lease receivables amounted to approximately RMB1,233,594,000 and RMB238,882,000, respectively (31 December 2022: RMB1,419,452,000 and RMB285,531,000, respectively).

For the Period, substantial impairment losses on financial assets of approximately RMB167.6 million was made with respect to the Group's micro-credit financing business (first half of 2022: RMB37.5 million). Such impairment provision was primarily attributable to certain loans granted in prior years in the ordinary and usual course of the Group's micro-credit financing business according to its credit approval mechanism to certain customers who are independent third parties. Among the loans granted to these customers, approximately RMB163.0 million was overdue, and approximately RMB60.2 million was not overdue as of 30 June 2023. The Group has demanded repayment, and has taken steps to collect these loans according to its post-loan management procedures, including negotiation with these customers. Having considered factors such as the overdue period, these loan's current classification under the Group's mechanism and policies, these customers' operating status and repayment ability and the Group's impairment policy, impairment provision of approximately RMB136.98 million was made for the Period with respect to loans granted to these customers.

As of 30 June 2023, approximately 25.49% of the total outstanding loan principal amount of the Group's financing services business was attributable to the five largest customers in the financing services business (31 December 2022: 25.66%).

The Group applies general approach under HKFRS 9 Financial Instruments to measure expected credit losses for all loans and interest receivables and finance lease receivables. Approximately RMB243.1 million of outstanding balance of the relevant loans are subject to legal proceedings as of the end of the Period. See also pages 15 to 20 of the Company's 2022 annual report for information about the Group's conduct of its micro-credit loan and finance lease business (including the key content of business contract, mechanism and procedures in covering credit risks and due diligence, post-loan management procedures to monitor, inspect, collect, recall and enforce loans granted). More information about the Group's financing services business (such as outstanding loans under the classified by its five-tier principle, or by type of security) for the Period will also be included in the forthcoming 2023 interim report.

Prospects

The global economy has experienced challenging years, with the unprecedented disruption due to the COVID-19 pandemic. As the COVID-19 situation improved, the stringent prevention measures and restrictions were progressively adjusted. The general momentum of the global economy is yet to be fully recovered. Nevertheless, China's economy is gradually recovering notwithstanding challenges ahead.

We are actively reviewing its portfolios and development strategy. Our strategic objective is to create sustainable business and growth in shareholder value in the long term. In face of the recent challenging years, we are keen to progressively enhance our operation and corporate structure, and shift to a more focused approach in terms of use of resources. As part of these steps, we strive to prioritize our core business components, focus principally on businesses with better prospects and return rate with a balance over costs and risks associated with its operations, and to reduce our indebtedness level, in the short to medium term.

One of our key goals this year is PanPass' listing on the Beijing Stock Exchange, which has been kick-started in the first half of this year. We believe that a successful BSE listing will strengthen PanPass' competitiveness and market position in the innovation industry, and contribute to its long-term development. We will also focus on enhancing the core capabilities of ZOL in face of challenges in the ever-changing industry.

Liquidity and financial resources

As at 30 June 2023, the Group had cash and bank balance of approximately RMB273.9 million (31 December 2022: RMB312.0 million), which were mainly denominated in Renminbi, and net current assets of approximately RMB1,622.2 million (31 December 2022: RMB1,213.5 million). The Group maintained a stable working capital position during the Period.

As at 30 June 2023, the Group had a total borrowings of approximately RMB857,902,000 (as at 31 December 2022: RMB1,070,277,000), of which approximately (i) RMB613,365,000 (31 December 2022: RMB653,661,000) were bank borrowings; and (ii) RMB244,537,000 (31 December 2022: RMB416,616,000) were other borrowings. The Group's borrowings were mainly denominated in RMB. The bank borrowings bear an average interest rate of 5.57% per annum (31 December 2022: 6.43% per annum), mature ranging from 2023 to 2026 (31 December 2022: 2023 to 2025).

Out of the Group's other borrowings, principal amount of RMB230,000,000 (31 December 2022: RMB230,000,000) were provided by an independent third party with maturity dates in December 2023. These borrowings are interest-free and secured by certain equity shares of a subsidiary. The remaining other borrowings are provided by independent third parties, key management personnel of a subsidiary, a non-controlling shareholder of a subsidiary and bear interest rate ranging from 7.5% to 8% per annum (31 December 2022: 3.85% to 8% per annum). As at 30 June 2023, the Group's gearing ratio was 20% (31 December 2022: 19%), which is calculated as net debt divided by total capital.

The capital and reserves attributable to equity holders of the Company decreased by approximately RMB878.4 million from approximately RMB2,609.1 million as at 31 December 2022 to approximately RMB1,730.7 million as at 30 June 2023.

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 and future plans for material investments

As at 30 June 2023, the Group held 9.8% equity interest of Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Ltd ("Jingu") with an aggregate investment costs of approximately RMB383,885 thousand. The investment was made and held as a strategic investment of the Group. As at 30 June 2023, the Group's interests in Jingu was classified as a financial asset at fair value through other comprehensive income in the Company's accounts, accounted for with a fair value of RMB293,178,000 (representing approximately 6.7% of the Group's total assets). Jingu's principal business includes, among other things, provision of products and services on bank deposits, loans and advances in PRC and other business approved by the China Banking Regulatory Commission. During the Period, Jingu's financial performance maintained stable and in line with management's expectations. During the Period, the Group did not receive any dividends from Jingu (six months ended 30 June 2022: Nil). The Group engaged external valuer to measure and reflect its market fair value and reflected it in the consolidated financial statements.

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

Save as disclosed in this announcement, the Group had no future plans for material investments authorised by the Board as of the end of the Period and the date of this announcement.

Staff

The Group relies on the skills, motivation and commitment of its staff. As at 30 June 2023, the Group had 841 employees.

Remuneration of employees is generally in line with the market trend and commensurate with the rate in the industry. The Group operates its share schemes (including its share option scheme and share award scheme), which allows the Group to provide share incentives to employees based on individual performance. Other benefits to the Group's employees include medical insurance, retirement schemes, training programs and educational subsidies.

Capital structure

The total number of issued shares of the Company was 1,309,931,119 as at 30 June 2023.

As of 30 June 2023, 56,165,706 options under the share option schemes (if exercised, 56,165,706 shares may be issued) remained outstanding. See also the Company's 2022 annual report and the forthcoming 2023 interim report for more information about the share schemes.

Charges on Group assets

As at 30 June 2023, the Group's bank borrowings amounting to approximately RMB10,000,000 (31 December 2022: RMB50,000,000) was secured by properties and guaranteed by a subsidiary, with carrying values amounting to approximately RMB18,570,000 (31 December 2022: secured by properties and an investment property, with carrying values amounting to RMB18,819,000 and RMB24,847,000 respectively and are also guaranteed by an Executive Director of the Company and his spouse).

Other bank borrowings amounting to approximately RMB495,000,000 (31 December 2022: RMB512,000,000) was guaranteed by subsidiaries and associates of the Group and secured by properties (31 December 2022: same) as of 30 June 2023.

As at 30 June 2023 and 31 December 2022, the other borrowing with a total principal amount of RMB230,000,000 were provided by an independent third party with maturity on 31 December 2023. This other borrowing is interest-free and secured by certain equity shares of a subsidiary of the Group.

The other borrowings with a principal amount of approximately RMB13,220,000 (31 December 2022: RMB173,020,000) are provided by independent third parties as of end of the Period. These other borrowings are unsecured and unguaranteed (31 December 2022: RMB173,020,000 are secured by prepayment of cotton).

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 RMB, the Directors believe that the operations of the Group are not subject to significant exchange risk.

Contingent liabilities

Save as the financial liabilities at fair value through profit or loss and disclosed in Note 15 to the condensed consolidated interim financial information, the Group had no other material contingent liabilities as at 30 June 2023.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

KEY EVENTS DURING AND AFTER THE INTERIM PERIOD

Proposed Listing of Panpass on Beijing Stock Exchange

On 24 February 2023, the Company announced the proposed listing of PanPass on the Beijing Stock Exchange. It is proposed that PanPass will issue new shares by way of an initial public offering to unspecified qualified investors (or other methods requested or agreed by the relevant PRC authorities), subject to approvals by relevant PRC regulators. The share allotment by PanPass, if materialises, will constitute a major transaction of the Company. The proposal has been approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 15 May 2023.

As of the date of this announcement, PanPass' application for the public offering and listing has been formally accepted by the Beijing Stock Exchange. The Proposal is subject to, among other things, approvals from relevant authorities and market conditions, and its terms have not been fixed. The Company will publish further announcement(s) on the proposal as and when appropriate. See also the Company's circular dated 28 April 2023, and its announcements dated 17, 18, 22 and 30 May 2023, respectively, for more information.

Change of Chief Executive Officer

Mr. Zhang Yonghong has resigned as the chief executive officer ("CEO") of the Company (and remains as an executive Director) with effect from 3 February 2023 to focus on PanPass' business affairs and development. Mr. Liu Jun has been appointed as the CEO with effect from the same date. See also the Company's announcement dated 3 February 2023 for more information.

Amendments of M&A

To conform with the latest Shareholder Protection Standards under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the applicable laws of the Cayman Islands, a special resolution to amend the Company's memorandum and articles of association was proposed at the annual general meeting held on 2 June 2023, and was approved. The amendments have taken effect on 2 June 2023. See also the Company's circular dated 28 April 2023 for more information.

Disposal of Tianjin Guokai

On 5 January 2021, Beijing Huicong Technology Group Co., Ltd. ("Beijing HC Technology", a subsidiary of the Group), Beijing Little Rhino Horn Technology Co., Ltd. ("Beijing LRH"), Tianjin Guokai Ruitou Education Technology Co., Ltd. ("Tianjin Guokai") and Hong Kong Huicong International Group Limited (a subsidiary of the Group) entered into an equity transfer agreement, pursuant to which Beijing HC Technology agreed to transfer the entire equity interest in Tianjin Guokai to Beijing LRH at a transfer price of RMB300,500,000, payable in five instalments. Further details were set out in the Company's announcement dated 5 January 2021. As disclosed in the previous annual report, Beijing LRH and the Group was in an arbitration proceeding with respect to disputes over the costs associated with the demolition of the properties of Tianjin Guokai's subsidiaries. A ruling was made during the Period, pursuant to which the Group shall pay compensation and arbitral expenses of approximately RMB12.6 million. For the next step, it is expected that the parties will proceed with the registration of the transfer of the equity interests via court enforcement procedure. The Group will collect the final instalment of the purchase price according to the equity transfer agreement.

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Audit Committee currently comprises Mr. Zhang Ke (Chairman of the Audit Committee), Ms. Qiyan (both of them being independent non-executive Directors) and Mr. Guo Fansheng (a non-executive Director). 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 has reviewed with management of the Company the accounting principles and practices adopted by the Group, and the interim results of the Group for the Period and this announcement.

AUDITOR

PricewaterhouseCoopers, the auditor of the Company, has reviewed the 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' INTERESTS IN COMPETING BUSINESS

Each of the Directors has confirmed that none of them and to the best of their information, their respective close associates (as defined in the Listing Rules), had any business or interest in any company that materially 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.

RECONCILIATION OF NON-HKFRS MEASURES TO THE NEAREST HKFRS MEASURES

To supplement the Group consolidated results which are prepared and presented in accordance with HKFRS, the Group also used adjusted EBITDA and adjusted net loss as additional financial measures, which are not required by, or presented in accordance with HKFRS. The Company believes that these non-HKFRS measures facilitate comparisons of operating performance from year to year and company to company by eliminating potential impacts of items that management does not consider to be indicative of the Group's operating performance, such as certain non-cash items and certain impact of investment transactions. The use of these non-HKFRS measures have limitations as an analytical tool, and one should not consider them in isolation from, or as a substitute for analysis of, the results of operations or financial conditions as reported under HKFRS. In addition, these non-HKFRS financial measures may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other issuers.

The following table sets forth the reconciliations of our non-HKFRS financial measures for the period ended 30 June 2023 and 2022, to the nearest measures prepared in accordance with HKFRS.

	Unaudited Six months ended 30 June **2023** ***RMB'000***	 2022 *RMB'000*
Loss from continuing operations	**(842,948)**	(74,643)
Share based payment expenses	**–**	417
Other gains, net	**(40,282)**	(16,356)
Impairment losses on goodwill	**719,426**	–
Provision for impairment losses on financial assets	**177,253**	42,433
Adjusted net profit/(loss)	**13,449**	(48,149)
Adjusted for		
Finance cost, net	**16,731**	26,950
Income tax credit	**(4,276)**	(7,309)
Depreciation and amortization	**43,543**	38,383
Adjusted EBITDA*	**69,447**	9,875

* Earning before interest, taxes, depreciation and amortisation.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

With effect from 3 February 2023, Mr. Liu Jun (the chairman and an executive Director) has been appointed and acting as the CEO of the Company. Code Provision C.2.1 in Part 2 of Appendix 14 to the Listing Rules stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Mr. Liu has been overseeing the Group's strategic development, he has extensive experience in the industry and the experience of acting as the CEO. The Company believes that with Mr. Liu acting as the CEO could allow the Group to maintain its efficient planning and implementation of business decisions and strategies under consistent leadership of the current management team without compromising the balance of power and authority. The arrangement could also facilitate a division of work among key management members of the Company by allowing other members to devote on key development directions of the Group, and is beneficial to the Group as a whole.

Save as the above, the Board had reviewed the Company's corporate governance practices and was satisfied that the Company had been in compliance with the code provisions set out in the Corporate Governance Code contained in Part 2 of Appendix 14 to the Listing Rules during the Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

By order of the board
HC Group Inc.
Liu Jun
Chairman and Chief Executive Officer

Hong Kong, 25 August 2023

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

Mr. Liu Jun *(Chairman, Executive Director and Chief Executive Officer)*
Mr. Zhang Yonghong *(Executive Director)*
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)*

Certain figures in this announcement have been subject to rounding adjustments.

This announcement contains certain forward-looking statements that reflect the Company's beliefs, plans or expectations about the future or future events. These forward-looking statements are based on a number of assumptions, current estimates and projections, and are therefore subject to inherent risks, uncertainties and other factors which may or may not be beyond the Company's control. The actual results or outcomes of events may differ materially and/or adversely. Nothing contained in these forward-looking statements is, or shall be, relied upon as any assurance or representation as to the future or as a representation or warranty otherwise. Neither the Company nor its directors, officers, employees, agents, affiliates, advisers or representatives assume any responsibility to update these forward-looking statements or to adapt them to future events or developments or to provide supplemental information in relation thereto or to correct any inaccuracies.