

2023

INTERIM REPORT

| 中期報告



MESSAGE FROM THE CHAIRMAN

The board (the “Board”) of directors (the “Directors”) of HC Group Inc. (the “Company”) hereby announces the unaudited financial results of the Company and 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 to the shareholders of the Company (the “Shareholders”).

Financial Highlights

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Revenue		
– continuing operations	8,906,320	6,116,947
– discontinued operation	–	–
Adjusted net profit/(loss)*	13,449	(48,149)
Adjusted EBITDA*	69,447	9,875
Loss attributable to equity holders		
– continuing operations	(809,657)	(74,735)
– discontinued operation	(643)	–
Diluted loss per share (RMB)		
– continuing operations	(0.6181)	(0.0571)
– discontinued operation	(0.0005)	–

Key financial figures for the Period

- **Total revenue 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 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/loss and EBITDA are non-HKFRS financial measures, for details, please refer to page 76 in this report.

FINANCIAL REVIEW

Revenue	Technology- driven new retail <i>RMB'000</i>	Smart industries <i>RMB'000</i>	Platform and corporate services <i>RMB'000</i>	Total <i>RMB'000</i>
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 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 products 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 equity holders of the Company was approximately RMB810.3 million for the Period as compared to approximately RMB74.7 million for 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 generated its revenue from 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: segment revenue of RMB732.5 million and segment gain of 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 products, 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 its users-base and capitalising the post-pandemic economic recovery was also impeded by its customers' cautious budgeting 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. See note 14 to the condensed consolidated interim financial information included in this report for more information.

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

- 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, a 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 approach 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’s 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, 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). It provides 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 corresponding 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 businesses with sustainable prospects, the Group has suspended the operation of the operating entity of the 360 Platform. This is not expected to have any material adverse impact of the Group, as elaborated in the Company’s 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 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). Analysis of the loan receivables by the type of collateral is set out in note 16 to the condensed consolidated interim financial information included in this report.

The following table sets out the outstanding loans to customers of financing services business for the periods indicated by the “Five-Tier Principles” category:

	As of 30 June 2023		As of 31 December 2022	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Normal	1,152,871	71.27%	1,390,185	84.97%
Special-mention	70,000	4.33%	5,860	0.36%
Substandard	155,060	9.58%	51,901	3.17%
Doubtful	–	–	11,200	0.69%
Loss	239,832	14.82%	176,889	10.81%
Total	1,617,763	100.00%	1,636,035	100%

More details about the classifications under the “Five-Tier Principles” are set out in the Company’s 2022 annual report.

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 such certain loans granted to certain independent third parties customers in prior years in the ordinary and usual course of business according to its credit approval mechanism. 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 financing services 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).

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 our 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 ("BSE"), 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.

On behalf of the Board, I would like to thank our management and staff for their dedication and hard work.

Liu Jun

Chairman and Chief Executive Officer

Hong Kong, 25 August 2023

MANAGEMENT DISCUSSION AND ANALYSIS

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), with maturity 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 12% (31 December 2022: 17%), 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. During the Period, the Group had conservative treasury policies in terms of cash and financial management. The Group does not use any financial instruments for hedging purposes.

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 RMB383.9 million. 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 RMB293.2 million (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 report, 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 report, 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 report.

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 also provides incentives through bonuses and share incentives through grants under the Company’s share schemes 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 from continuing operations for the Period amounted to approximately RMB101,525,000.

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.

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 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 27 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 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 report, 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 and 5 September 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 were 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.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of HC Group Inc.

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 14 to 60, which comprises the condensed consolidated interim statement of financial position of HC Group Inc. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2023 and the condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in equity and the condensed consolidated interim statement of cash flows for the six-month period then ended, and selected explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on these interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 August 2023

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Note	Unaudited Six months ended 30 June	
		2023 RMB'000	2022 RMB'000
Continuing operations			
Revenue	6	8,858,528	6,064,214
Interest income from financing services	6	47,792	52,733
		8,906,320	6,116,947
Cost of revenue	8	(8,647,733)	(5,852,265)
Other income		7,243	3,084
Other gains, net	7	40,282	16,356
Selling and marketing expenses	8	(138,090)	(135,319)
Administrative expenses	8	(101,312)	(117,227)
Impairment losses on goodwill	14	(719,426)	–
Provision for impairment losses of financial assets	8	(177,253)	(42,433)
		(829,969)	(10,857)
Operating loss			
Finance cost, net	9	(16,731)	(26,950)
Share of post-tax losses of associates	18	(524)	(44,145)
		(847,224)	(81,952)
Loss before income tax	8		
Income tax credit	10	4,276	7,309
		(842,948)	(74,643)
Loss from continuing operations			
Loss from discontinued operation	11	(643)	–
		(843,591)	(74,643)
Loss for the period			
Other comprehensive (loss)/income:			
Item that may be reclassified to profit or loss			
Currency translation differences	25	(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	25	(68,886)	23,059
Currency translation differences for financial assets at fair value through other comprehensive income	25	889	1,701
		(911,717)	(49,813)
Total comprehensive loss for the period, net of tax			

	Note	Unaudited Six months ended 30 June	
		2023 RMB'000	2022 RMB'000
Loss for the period attributable to:			
Equity holders of the Company		(810,300)	(74,735)
Non-controlling interests		(33,291)	92
		(843,591)	(74,643)
Loss for the period 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)
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	12	(0.6181)	(0.0571)
Diluted loss per share	12	(0.6181)	(0.0571)
Loss per share from loss attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	12	(0.6186)	(0.0571)
Diluted loss per share	12	(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	14	29,088	30,767
Right-of-use assets		7,982	16,923
Investment property	14	24,266	24,847
Intangible assets	14	398,328	1,153,426
Deferred income tax assets	24	67,437	67,424
Investments accounted for using equity method	18	287,934	288,458
Financial assets at fair value through other comprehensive income	19	321,928	402,385
Financial asset at fair value through profit or loss	19	7,173	11,283
Finance lease receivables		56,720	67,658
Loans and interest receivables	16	28,736	29,273
Long term deposits and prepayments	15	9,064	5,490
Total non-current assets		1,238,656	2,097,934
Current assets			
Inventories		244,549	147,058
Contract assets	15	18,158	4,068
Trade receivables	15	86,900	119,507
Deposits, prepayments and other receivables	15	680,464	2,040,644
Finance lease receivables		182,162	217,873
Loans and interest receivables	16	1,247,185	1,464,169
Restricted bank deposit	17	265,285	122,660
Cash and cash equivalents		273,892	312,023
Assets classified as held for sale	11	2,998,595 131,922	4,428,002 131,922
Total current assets		3,130,517	4,559,924
Total assets		4,369,173	6,657,858
Equity			
Equity attributable to equity holders of the Company			
Share capital	23	120,977	120,977
Other reserves	25	3,279,903	3,345,393
Accumulated losses		(1,670,188)	(857,252)
Non-controlling interests		1,730,692 627,296	2,609,118 669,511
Total equity		2,357,988	3,278,629

	Note	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	22	489,000	5,000
Lease liabilities		1,051	5,424
Deferred income tax liabilities	24	6,884	15,535
Financial liabilities at fair value through profit or loss	19	5,932	6,834
Total non-current liabilities		502,867	32,793
Current liabilities			
Trade and bill payables	21	294,383	182,350
Accrued expenses and other payables	21	375,531	369,772
Contract liabilities	20	384,193	1,629,120
Current portion of bank borrowings	22	124,365	648,661
Other borrowings	22	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	19	7,499	20,399
		1,495,507	3,334,268
Liabilities directly associated with assets classified as held for sale	11	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.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Attributable to equity holders of the Company					Non- controlling interests	Total equity
	Note	Share	Other	Accumulated	Total		
		capital	reserves	losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2023		120,977	3,345,393	(857,252)	2,609,118	669,511	3,278,629
Loss for the period		-	-	(810,300)	(810,300)	(33,291)	(843,591)
Other comprehensive (losses)/income:							
Fair value loss on financial assets at fair value through other comprehensive income, net of tax		-	(68,886)	-	(68,886)	-	(68,886)
Currency translation differences	25	-	760	-	760	-	760
Total comprehensive loss		-	(68,126)	(810,300)	(878,426)	(33,291)	(911,717)
Derecognition of financial assets at fair value through other comprehensive income		-	2,636	(2,636)	-	-	-
Transactions with owners							
Non-controlling interest on disposal of subsidiary		-	-	-	-	(1,329)	(1,329)
Dividend paid to non-controlling interests of a subsidiary		-	-	-	-	(7,595)	(7,595)
Balance at 30 June 2023		120,977	3,279,903	(1,670,188)	1,730,692	627,296	2,357,988

Attributable to equity holders of the Company						
Note	Share Capital RMB'000	Other reserves RMB'000	Accumulated Losses RMB'000	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2022	120,977	3,374,629	(629,622)	2,865,984	682,411	3,548,395
(Loss)/profit for the period	-	-	(74,735)	(74,735)	92	(74,643)
Other comprehensive income:						
Fair value gain on financial assets at fair value through other comprehensive income, net of deferred tax	-	23,059	-	23,059	-	23,059
Currency translation differences	25	-	1,771	-	1,771	-
Total comprehensive loss	-	24,830	(74,735)	(49,905)	92	(49,813)
Derecognition of financial assets at fair value through other comprehensive income	-	1,814	(1,814)	-	-	-
Transactions with owners						
Share-based compensation expense	25	-	418	-	418	-
Transactions with non-controlling interests	-	3,829	-	3,829	(3,829)	-
Dividend paid to non-controlling interests of a subsidiary	-	-	-	-	(7,089)	(7,089)
Balance at 30 June 2022	120,977	3,405,520	(706,171)	2,820,326	671,585	3,491,911

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	162,058	44,090
Interest received	5,070	6,611
Interest paid	(24,771)	(24,521)
The People's Republic of China income tax paid	(1,702)	(18,231)
Net cash generated from operating activities	140,655	7,949
Cash flows from investing activities		
Cash inflow arising from disposal of subsidiaries, net	5,276	–
Additions of property, plant and equipment	(420)	(763)
Additions of intangible assets	–	(259)
Change in long-term deposit	–	28,622
Proceeds from disposal of property, plant and equipment	385	–
Proceeds from disposals of financial asset at fair value through profit and loss	5,000	–
Proceeds from disposal of financial assets at fair value through other comprehensive income	17,927	5,480
Loans repayment received from employees (note 26)	200	90
Loans repayment received from a former associate (2022: associates)	45,729	1,180
Advance receipt for disposing assets classified as held for sale	–	3,500
Dividends received	670	–
Net cash generated from investing activities	74,767	37,850
Cash flows from financing activities		
Proceeds from bank borrowings	627,809	147,400
Proceeds from other borrowings	104,803	177,663
Repayment of bank borrowings	(666,809)	(143,000)
Repayment of other borrowings	(274,003)	(164,295)
Principal elements of lease payments	(5,990)	(10,755)
Dividend paid to non-controlling interests of subsidiaries	(7,595)	(7,089)
Change in restricted bank deposit	(142,625)	(74,763)
Change in bill payable	110,640	–
Net cash used in financing activities	(253,770)	(74,839)
Net decrease in cash and cash equivalents	(38,348)	(29,040)
Cash and cash equivalents at beginning of the period	312,023	333,812
Exchange gain on cash and cash equivalents	217	49
Cash and cash equivalents at end of the period	273,892	304,821

The above condensed consolidated interim statement of cash flows 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 limited liability company incorporated in the Cayman Islands. The address of its registered office is 4th Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands. The Company has its primary listing on the Main Board of the Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the following activities in the 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 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 (“HKICPA”).

This condensed consolidated interim financial information does not include all the notes of the type normally included in an annual consolidated financial statements. Accordingly, this condensed consolidated interim financial statement 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 Estimates and judgement

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2022.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2022.

There are no changes in the financial risk management policies since 31 December 2022.

5.2 Capital risk management

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

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

There are no changes in the capital risk management policies since 31 December 2022.

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2023 and 31 December 2022 by level of inputs to valuation techniques used to measure the fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities carried at fair value as at 30 June 2023 and 31 December 2022:

At 30 June 2023 (Unaudited)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through other comprehensive income	28,750	–	293,178	321,928
Financial asset at fair value through profit or loss	–	–	7,173	7,173
	28,750	–	300,351	329,101
Liabilities				
Financial liabilities at fair value through profit or loss	–	–	13,431	13,431

At 31 December 2022 (Audited)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through other comprehensive income	45,059	–	357,326	402,385
Financial asset at fair value through profit or loss	–	–	11,283	11,283
	45,059	–	368,609	413,668
Liabilities				
Financial liabilities at fair value through profit or loss	–	–	27,233	27,233

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

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices as at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, price services or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) *Financial instruments in level 3*

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

- (i) Valuation techniques and relationships used to determine fair values
 specific valuation techniques used to value financial instruments include the use of quoted market prices and adjusted price-to-book ratio of similar instruments.

The following table presents the changes in level 3 instruments for the six months ended 30 June 2023 and 2022:

	Financial asset at fair value through profit or loss RMB'000 (Unaudited)	Financial assets at fair value through other comprehensive income RMB'000 (Unaudited)	Financial liabilities at fair value through profit or loss RMB'000 (Unaudited)
At 1 January 2023	11,283	357,326	(27,233)
Disposal	(5,000)	–	–
Fair value loss on revaluation recognised in profit or loss (note 19)	890	–	13,802
Fair value loss on revaluation recognised in other comprehensive income (note 19)	–	(64,148)	–
At 30 June 2023	7,173	293,178	(13,431)

	Financial asset at fair value through profit or loss <i>RMB'000</i> (Unaudited)	Financial assets at fair value through other comprehensive income <i>RMB'000</i> (Unaudited)	Financial liabilities at fair value through profit or loss <i>RMB'000</i> (Unaudited)
At 1 January 2022	18,219	392,686	(54,188)
Fair value loss on revaluation recognised in profit or loss (note 19)	(140)	–	2,486
Fair value loss on revaluation recognised in other comprehensive income (note 19)	–	26,740	–
At 30 June 2022	18,079	419,426	(51,702)

The Group's finance department includes a team that reviews, performs and monitors the valuation for financial reporting purposes, including level 3 fair values with assistance of external valuers. This team reports directly to the Chief Financial Officer (CFO) and the Audit Committee (AC). Discussion of valuation processes and results are held between the CFO, AC and the valuation team at least once every half year, in line with the Group's half-yearly reporting dates.

- (ii) Valuation inputs and relationships to fair value
The following table summarises the quantitative information about the significant unobservable inputs used in and level 3 fair value measurements:

	Fair value as at			Significant unobservable input		
	30 June 2023 RMB'000	31 December 2022 RMB'000	Valuation techniques and key inputs	30 June 2023 RMB'000	31 December 2022 RMB'000	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income – Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Ltd ("Jingu Bank")	293,178	357,326	It was estimated by market comparison approach, required the use of market information (the comparable companies in the industry) and significant unobservable input (the lack of marketability discount).	Price-to-book ratios: 0.53 Lack of marketability discount: 15%	Price-to-book ratios: 0.70 Lack of marketability discount: 15%	The lower the price-to-book ratio, the lower the fair value. The higher the lack of marketability discount, the lower the fair value.
Financial asset at fair value through profit or loss – Privately held partnership	7,173	11,283	It was estimated by market comparison approach, required the use of market information (the comparable companies in the industry) and significant unobservable input (the lack of marketability discount).	Price-to-book ratios: 1.00 Lack of marketability discount: 30%	Price-to-book ratios: 1.00 Lack of marketability discount: 30%	The lower the price-to-book ratio, the lower the fair value. The higher the lack of marketability discount, the lower the fair value.

	Fair value as at			Significant unobservable input		
	30 June 2023 RMB'000	31 December 2022 RMB'000	Valuation techniques and key inputs	30 June 2023 RMB'000	31 December 2022 RMB'000	Relationship of unobservable inputs to fair value
Financial liabilities at fair value through profit or loss						
– Contingent consideration payable arrangement related to the disposal of certain interest of Huizhou Union Cotton Cloud Technology Co., Limited	5,932	6,834	– It was estimated by scenario analysis	Upside: 26% Base: 30% Downside: 44%	Upside: 16% Base: 30% Downside: 54%	The highest risk-free rate, the lower fair value. The lower the probabilities to achieve the performance targets, the lower the fair value.
– Contingent consideration payable arrangement related to the disposal of certain interest of PanPass Information Technology Co., Ltd.	7,499	20,399	– It was estimated by scenario analysis	Upside: 65% Downside: 35%	Upside: 58% Downside: 42%	The highest risk-free rate, the lower fair value. The lower the probabilities to achieve the performance targets, the lower the fair value.
	13,431	27,233				

The Group's finance department includes a team that reviews, performs and at the end of the reporting period, finance department:

- verifies all major inputs to the independent valuation reports,
- assesses valuations movements when compared to the prior year valuation report, and
- holds discussion with the independent valuers.

6 Segment information

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

The Executive Directors assess the performance of the operating segments (including the discontinued 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 of 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 11.

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

	Unaudited Six months ended 30 June 2023					Total RMB'000
	Technology-driven new retail segment RMB'000	Continuing operations Smart industries segment RMB'000	Platform and corporate services segment RMB'000	Subtotal RMB'000	Discontinued operation Smart industries segment 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 (note)	1,037,377	7,808,461	60,482	8,906,320	-	8,906,320
Impairment losses 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			Subtotal RMB'000	Discontinued operation	Total RMB'000
	Technology- driven new retail segment RMB'000	Smart industries segment RMB'000	Platform and corporate services segment RMB'000		Smart industries segment 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 (note)	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

Note:

The Group is domiciled in the PRC. For the six months ended 30 June 2023, all revenue is derived from the operation in the PRC from external customers, except for the related party transactions disclosed in note 26 (30 June 2022: same).

Disaggregation of revenue

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Timing of revenue recognition		
– At a point in time	8,734,944	5,899,037
– Overtime	123,584	165,177
	8,858,528	6,064,214

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Revenue from contract with customers:		
Sales of goods through B2B trading platforms	8,642,541	5,824,483
Online services and advertisement	70,670	104,244
Anti-counterfeiting products and services	100,188	88,567
Marketing events, exhibition, seminars and other services	43,449	45,546
Others	1,680	1,374
Income from other source:	8,858,528	6,064,214
Interest income from financing services	47,792	52,733
Total revenue and income	8,906,320	6,116,947

7 Other gains, net

Other gains, net, mainly consist of the followings:

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 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 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 on disposal of a subsidiary amounting to approximately RMB17,310,000.

* English name is for translation purpose only.

8 Loss before income tax from continuing operations

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

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Cost of goods sold of B2B trading platforms	8,580,833	5,769,540
Cost of goods sold for anti-counterfeiting products and services	61,910	57,520
Cost of goods sold for online service and advertisement	1,333	15,547
Cost of goods sold for marketing events, exhibition, seminars and other services	3,614	9,617
Legal and professional fee	8,056	8,345
Agency costs	–	662
Amortisation of investment properties (note 14)	581	581
Amortisation of intangible assets (note 14)	35,672	26,281
Impairment of goodwill (note 14)	719,426	–
Depreciation of property, plant and equipment (note 14)	1,491	1,956
Depreciation of right-of-use assets	5,799	9,565
Employee benefits expenses, including directors' emoluments	101,525	135,138
Marketing and consultancy expenses	33,524	22,202
Reversal of impairment of trade receivables (note 15)	(1,462)	(1,090)
Provision for impairment of loans to customers of financing service business	167,586	37,529
Provision for/(reversal of) impairment of other loans and interest receivables	5,517	(748)
Provision for impairment of other financial assets	5,612	6,742
Staff commission	9,150	12,208
Transportation expense	3,730	2,381
Short term leases expense	760	548

9 Finance cost, net

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Interest expense:		
– Bank borrowings	(19,363)	(22,069)
– Other borrowings	(1,185)	(7,872)
– Lease liabilities	(296)	(675)
– Others	(1,048)	(1,245)
Finance cost	(21,892)	(31,861)
Finance income	5,161	4,911
Finance cost, net	(16,731)	(26,950)

10 Income tax credit

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Current income tax expense		
– The PRC (note ii)	(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

Note:

- (i) No Hong Kong profits tax has been provided as there is no assessable profits arising in Hong Kong for the six months ended 30 June 2023 (30 June 2022: Nil).
- (ii) PRC corporate income tax expense (“CIT”) represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

The tax rate applicable to the subsidiaries in the PRC is 25%, except for certain subsidiaries of the Group in the PRC which were approved as High and New Technology Enterprises and were subject to a reduced preferential CIT rate of 15% for a 3-year period. Moreover, certain subsidiaries of the Group were subjected to a reduced Preferential CIT rate ranging from 5% to 10% for Small Low-profit Enterprises.

11 Loss from discontinued operation

	2023 RMB'000	2022 RMB'000
Tianjin Guokai (note a)	(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. 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 27(ii). The respective assets and liabilities of Tianjin Guokai were classified as held for sale as at 30 June 2023 and 31 December 2022.

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

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

12 Loss per share

(a) *Basic loss per share*

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

	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)

13 Dividends

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

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

(Unaudited)	Property, plant and equipment <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Goodwill <i>RMB'000</i>
Opening net book amount as at 1 January 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, in the course of preparing the condensed consolidated interim financial information for the six months ended 30 June 2023 in July 2023, the Group revised the forecast to reflect the uncertainties in the online advertising market, in particular, lowered the revenue growth rate in the forecast period and engaged an independent external valuer, Ravia Global Appraisal Advisory Limited (the “Valuer”), to assist in determining the recoverable amount of this CGU as at 30 June 2023.

The lower compound annual revenue growth rate drive down the present value of the discounted cash flow and the overall valuation and other valuation parameter. As a result of the impairment assessment, the Group recognised impairment for goodwill for this CGU amounting to RMB719,426,000. The lower the compound annual revenue growth rate, the higher the impairment for goodwill the Group would recognise.

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 revenue growth rate	21%	24%
Terminal growth rate	3%	3%

- * The Group has adopted income approach as valuation method which estimates the future economic benefits and discounts these benefits to their present value using an appropriate discounts rate for all risks associated with realising those benefits. Such valuation method aligns with the prevailing market practice observed among other companies in similar industry,

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Trade receivables (<i>note a</i>)	106,949	156,694
Less: provision for impairment of trade receivables	(20,049)	(37,187)
Trade receivables, net	86,900	119,507
Deposits, prepayments and other receivables (<i>note b</i>)	689,528	2,046,134
Contract assets, net	18,158	4,068
	794,586	2,169,709
Less: Non-current deposits and prepayments (<i>note b</i>)	(9,064)	(5,490)
Current portion	785,522	2,164,219

(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

Note:

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

	Unaudited	
	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	37,187	22,421
Reversal of impairment of trade receivables		
– From continuing operations	(1,462)	(1,090)
Disposal of subsidiaries	(15,676)	–
At 30 June	20,049	21,331

The carrying amounts of trade receivables approximate their fair values.

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

(b) Deposits, prepayments and other receivables

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Non-current portion:		
– Deposits	–	1,140
– Prepayment for development of an intangible asset	9,064	4,350
	9,064	5,490
Current portion:		
– Deposits	16,251	30,237
– Prepayments (<i>note i</i>)	631,129	1,985,488
– Other receivables	33,084	24,919
	680,464	2,040,644
	689,528	2,046,134
The fair values are as follows:		
– Deposits	16,251	31,377
– Prepayments	640,193	1,989,838
– Other receivables	33,084	24,919
	689,528	2,046,134
Denominated in:		
Hong Kong dollars (“HK\$”)	2,654	8,286
RMB	686,874	2,037,848
	689,528	2,046,134

Note:

- (i) At 30 June 2023 and 31 December 2022, the amount mainly represented prepayment to suppliers for B2B trading platform business. The prepayment to suppliers for B2B trading platforms business is expected to be utilised within the next reporting period.

16 Loans and interest receivables

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Loans to customers of financing services business (<i>note (a), (b), (c)</i>)	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 (<i>note (a), (b), (c)</i>)	(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%

17 Restricted bank deposit

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Restricted bank deposit (<i>note</i>)	265,285	122,660

Note:

Restricted bank deposit primarily comprise bank balances pledged as security for bills payable and they are denominated in Renminbi as at 30 June 2023 and 31 December 2022.

18 Investments accounted for using equity method

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Associates	287,934	288,458
Joint venture	–	–

Movements in the investments in associates are as follows:

	Unaudited Six months ended 30 June 2023 RMB'000	2022 RMB'000
At 1 January	288,458	322,176
Addition (<i>note 7</i>)	–	13,604
Share of post-tax losses of associates	(524)	(44,145)
At 30 June	287,934	291,635

Set out below are the summarised financial information of the associates which, in the opinion of directors, are material to the Group and are accounted for using equity method. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of establishment or registration are also their principal places of business.

Name of entity	Place of business/ country of establishment	% of effective interest as at		Nature of the relationship	Measurement method	Carrying amount	
		30 June 2023	31 December 2022			Unaudited 30 June 2023	Audited 31 December 2022
Guangdong Zhongmo Cloud Digital Technology Co., Limited, formerly known as Guangdong Zhongmoyun Construction Science and Technology Co., Limited ("Zhongmo") (廣東中模雲數字科技股份有限公司)	PRC	22.4	22.4	Associate (note i)	Equity method	245,114	244,331
Guangdong Home Electronic Appliances World E-Commerce Co., Ltd.* ("JDSJ Group") (廣東家電世界電子商務有限公司)	PRC	20.0	20.0	Associate (note ii)	Equity method	28,469	29,287
Other immaterial associates						14,351	14,840
						287,934	288,458

Note i As at 30 June 2023, the Group directly holds 22.4% equity interests in Zhongmo, which is engaged in construction and formwork industry in the PRC.

Note ii As at 30 June 2023, the Group holds 20.0% equity interest of JDSJ Group. JDSJ Group is engaged in the e-commerce for home appliances in the PRC through its websites and mobile applications.

* English names are translated for identification purpose only

19 Financial assets and liabilities at fair values

(a) Financial assets at fair value through profit or loss and other comprehensive income

	Financial asset at fair value through profit or loss		Financial assets at fair value through other comprehensive income	
	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Trading securities – listed securities	–	–	28,750	45,059
Equity investment – unlisted securities	7,173	11,283	293,178	357,326
Financial assets	7,173	11,283	321,928	402,385

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

The change in the fair value of RMB890,000 (2022: RMB140,000) for financial asset at fair value through profit or loss for the period was charged to “other gains, net” in the condensed consolidated interim statement of comprehensive income. The change in the fair value of RMB68,886,000 (2022: RMB23,059,000) for financial assets at fair value through other comprehensive income for the period ended was recognised in other reserves.

During the six months ended 30 June 2023, the Group disposed financial assets at fair value through other comprehensive loss amounting to RMB11,807,000 (2022: RMB21,003,000) at their carrying amount. The cumulative loss of RMB2,636,000 (2022: cumulative loss of RMB3,324,000) previously recognised in other reserves is reclassified from other reserves to accumulated losses.

For further details about the fair value estimate and movements of the financial assets at fair value, please refer to note 5.3.

(b) Financial liabilities at fair value through profit or loss

	Huizhou Union Cotton Cloud Technology Co., Limited ("Huizhou Union Cotton")		PanPass Information Technology Co., Limited ("PanPass Information")	
	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Current	–	–	7,499	20,399
Non-current	5,932	6,834	–	–
	5,932	6,834	7,499	20,399

The change in fair value amounting to RMB13,802,000 were credited to "other gains, net" in the condensed consolidated interim statement of comprehensive income.

For further details about the fair value estimate and movements of the financial liabilities at fair value, please refer to note 5.3.

20 Contract liabilities

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Contract liabilities related to online services and advertisement	33,810	36,970
Contract liabilities related to sales of goods on B2B trading platforms	350,383	1,592,150
Contract liabilities	384,193	1,629,120

Note:

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

21 Trade and bill payables, accrued expenses and other payables

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Trade and bill payables (<i>note a</i>)	294,383	182,350
Accrued salaries and staff benefits (<i>note b</i>)	66,178	73,928
Accrued agency commission	6,584	6,388
Accrued expenses	42,994	45,682
Deposits from customers	9,234	8,451
Other tax payables	4,625	5,586
Others (<i>note c</i>)	245,916	229,737
	669,914	552,122

Note:

(a) *Trade and bill payables*

The aging analysis of the trade and bill payables based on 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

(b) As at 30 June 2023, the balance mainly represented the provision for social insurance and layoff compensation amounting to RMB32,197,000 and RMB7,333,000 respectively in relation to the dissolution of Beijing Huicong 360 Technology Company (31 December 2022: same).

(c) The balance mainly represented the deposits received by the Group in respect of the disposal of equity interest in Tianjin Guokai of RMB225,000,000. For details, please refer to note 27.

22 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).

Notes:

- (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

23 Share capital

	Number of ordinary shares	Par value RMB'000
At 1 January 2022, 30 June 2022, 1 January 2023 and 30 June 2023	1,309,931,119	120,977

The total authorised number of ordinary shares is 2,000,000,000 shares (31 December 2022: 2,000,000,000 shares) with a par value of HK\$0.1 per share (31 December 2022: HK\$0.1 per share). All issued shares are fully paid.

The total number of issued shares of the Company were 1,309,931,119 shares as at 30 June 2023 (31 December 2022: same).

(a) Share options

During the six months ended 30 June 2023, no share options were exercised (30 June 2022: Nil).

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

	For the six months ended 30 June 2023		For the year ended 31 December 2022	
	Exercise price in HK\$ per share	Share options	Exercise price in HK\$ per share	Share options
At 1 January	4.402	1,500,000	4.402	1,500,000
	9.84	2,100,000	9.84	2,880,000
	6.476	29,032,100	6.476	29,331,400
	4.6	25,936,379	4.6	26,103,379
Lapsed	4.402	(1,500,000)	4.402	–
	9.84	(420,000)	9.84	(780,000)
	6.476	–	6.476	(299,300)
	4.6	(482,773)	4.6	(167,000)
At 30 June 2023 and 31 December 2022	4.402	–	4.402	1,500,000
	9.84	1,680,000	9.84	2,100,000
	6.476	29,032,100	6.476	29,032,100
	4.6	25,453,606	4.6	25,936,379

Expiry date	Exercise price in HK\$ per share	Share options		
		Unaudited 30 June 2023	Exercise price in HK\$ per share	Audited 31 December 2022
3 April 2023	4.402	–	4.402	1,500,000
18 November 2023	9.84	1,680,000	9.84	2,100,000
13 October 2027	6.476	29,032,100	6.476	29,032,100
19 July 2028	4.6	15,953,606	4.6	16,436,379
20 June 2029	4.6	9,500,000	4.6	9,500,000

(b) Share Award Scheme

The following table represents the movements for number of shares under the Share Award Scheme for the periods ended 30 June 2023 and 2022.

	Number of shares (in thousand unit)
At 1 January 2023	16,767
Share transferred during the period	(4,479)
At 30 June 2023	12,288
At 1 January 2022	24,778
Share transferred during the period	(4,619)
At 30 June 2022	20,159

24 Deferred income tax

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

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
At 1 January	51,889	(2,866)
Credited to profit or loss	8,356	15,136
Credited to other comprehensive income	415	2,359
Currency translation differences	(107)	(422)
At 30 June	60,553	14,207

25 Other reserves

	Share premium RMB'000	Others reserve RMB'000	Merger reserve RMB'000	Share-based compensation reserves RMB'000	Share and capital redemption reserve RMB'000	Exchange reserve RMB'000	Share held for share award scheme RMB'000	Financial assets at fair value through other comprehensive income reserve RMB'000	Total RMB'000
At 1 January 2023	2,801,137	218,110	109,817	302,014	2,686	10,205	(22,893)	(75,683)	3,345,393
Fair value loss on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	(69,301)	(69,301)
Derecognition of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	2,636	2,636
Deferred tax	-	-	-	-	-	-	-	415	415
Fair value loss and derecognition of financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	(66,250)	(66,250)
Share-based compensation	-	-	-	-	-	-	-	-	-
Vesting of awarded shares	2,136	-	-	(6,615)	-	-	4,479	-	-
Transaction with non-controlling interests	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	760	-	-	760
At 30 June 2023	2,803,273	218,110	109,817	295,399	2,686	10,965	(18,414)	(141,933)	3,279,903

	Share premium RMB'000	Others reserve RMB'000	Merger reserve RMB'000	Share-based compensation reserves RMB'000	Share and capital redemption reserve RMB'000	Exchange reserve RMB'000	Share held for share award scheme RMB'000	Financial assets at fair value through other comprehensive income reserve RMB'000	Total RMB'000
At 1 January 2022	2,804,519	218,110	109,817	313,639	2,686	10,093	(41,965)	(42,270)	3,374,629
Fair value loss on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	20,701	20,701
Derecognition of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	1,814	1,814
Deferred tax	-	-	-	-	-	-	-	2,358	2,358
Fair value loss and derecognition of financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	24,873	24,873
Share-based compensation	-	-	-	418	-	-	-	-	418
Vesting of awarded shares	(2,190)	-	-	(9,047)	-	-	11,237	-	-
Transaction with non-controlling interests	-	3,829	-	-	-	-	-	-	3,829
Currency translation differences	-	-	-	-	-	1,771	-	-	1,771
At 30 June 2022	2,802,329	221,939	109,817	305,010	2,686	11,864	(30,728)	(17,397)	3,405,520

26 Related party transactions

(a) Key management compensation

The remuneration of directors and other members of key management during the period were as follows:

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Salaries and other short-term employee benefits	2,879	3,201
Share-based payments	-	418
	2,879	3,619

(b) Related party transaction

Other than those disclosed elsewhere in the condensed consolidated interim financial information, transactions were carried out with related parties in normal course of Group's business.

	Unaudited Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Interest income from associates and a joint venture	6,199	15,945

Note:

- (i) The Group has granted loans and finance lease receivables to certain associates. These loans and finance lease receivables are entered at terms mutually agreed by the parties concerned or in accordance with the terms of the underlying agreements, where appropriate.

(c) Related party balance

Saved as disclosed in the condensed consolidated interim financial information, the Group has the following balances with related parties as at 30 June 2023 and 31 December 2022, respectively.

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Loans receivables from associates and a joint venture, net of provision		
– Associates (note a)	14,000	–
– A former associate (note b)	14,736	59,862
– A joint venture (note c)	783	791
	29,519	60,653
Interest receivables from:		
– Associates (note a)	–	546
– A joint venture (note c)	20	5
	20	551
Deposits received from:		
– Associates (note d)	607	607
– Key management personnel (note d)	2,440	2,440
Finance lease receivables from		
– Associates (note e)	123,400	123,400
– A former associate (note f)	–	43,000
	123,400	166,400

Notes:

- a. As at 30 June 2023, the balance represents loans and interest receivable ,net of provision from Shanghai Xingou, a former subsidiary of the Group. (Please refer to note 7(iii) for details).

The Group granted loans amounting to RMB20,000,000 to Shanghai Xingou during the year ended 31 December 2020 and renewed the loan agreements during the year ended 31 December 2022. The loans bear interest rate of 12% per annum, are repayable in April 2024, and guaranteed by the director of an associated company of the Group.

As at 30 June 2023, the unsettled loan from Shanghai Xingou amounted to RMB20,000,000 with RMB6,000,000 impairment provision made.

- b. The balance represent loan and interest receivable of Zhejiang Huicong Investment Co., Ltd (“Zhejiang Huicong”), a former associated company of the Group. The Group disposed the entire equity interest in Zhejiang Huicong held by it in January 2023 to an independent third party.

Prior to the disposal, the Group granted loans amounting to RMB80,000,000 to Zhejiang Huicong during the year ended 31 December 2021 and renewed the loan agreements during the year ended 31 December 2022. The loans bear interest rate of 6% per annum and are repayable in December 2024. As at 31 December 2022, the outstanding loans from Zhejiang Huicong amounted to RMB59,862,000.

Subsequent to the disposal, Zhejiang Huicong repaid RMB45,729,000 of loans during the six month ended 30 June 2023. The remaining loans amounting to RMB14,736,000 would be settled in 2024.

- c. Another loan and interest receivables of RMB803,000 (31 December 2022: RMB796,000) to a joint venture will mature in 2023 and is interest bearing at rate of 6% per annum (31 December 2022: same).
- d. The balance includes deposits received from associates and an executive director of the Company as guarantee for the loan granted from micro-credit loan business to their customers. The deposit would be refunded upon the repayment of the loans.
- e. The balance represents finance lease receivables of RMB123,400,000 (31 December 2022: RMB123,400,000) from Zhongmo Group, which is an associate of the Group. Balance of RMB83,400,000 will mature in the second half of 2023 and RMB40,000,000 will mature in 2025 and are interest bearing at rate of 10% per annum (31 December 2022: same).
- f. The balance represents finance lease receivables of RMB43,000,000 from Zhejiang Huicong, bearing interest rate of 6% per annum.

Subsequent to the disposal, Zhejiang Huicong repaid RMB43,000,000 of finance lease receivables during the six months ended 30 June 2023.

- * English names are translated for identification purpose only

27 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 report, the Proceeding is still in progress and has yet to be completed.

The directors of the Company, after taking updated advice from its legal advisors 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 report, and there would be no material impact to the condensed consolidated 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 Company 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 report, 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).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2023, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

(a) Directors' and chief executive's long positions in the shares of the Company ("Shares")

Name	Class of Shares	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total number of Shares	Percentage of shareholding (approximate)
Liu Jun	Ordinary	Beneficial owner	79,252,100	-	-	-	79,252,100 (Note 1)	6.05%
Zhang Yonghong	Ordinary	Beneficial owner	13,600,000				13,600,000 (Note 2)	1.04%
Liu Xiaodong	Ordinary	Beneficial owner and Interest of controlled corporation	5,168,085		62,273,794		67,441,879 (Note 3)	5.15%
Guo Fansheng	Ordinary	Beneficial owner and founder of a discretionary trust who can influence how the trustee exercise his discretion	2,088,000	-	-	55,661,015	57,749,015 (Note 4)	4.41%

Notes:

1. Among such interests include interests in 29,032,100 underlying Shares derived from the share options ("Options") granted under the Share Option Scheme.
2. Among such interests include interests in 9,500,000 underlying Shares derived from Options.

3. Among such interests include interests in 3,168,085 underlying Shares from Options. Mr. Liu Xiaodong is also deemed to be interested in 62,273,794 Shares held by Wisdom Limited (a company wholly and beneficially owned by him) pursuant to the SFO.
4. Mr. Guo Fansheng is deemed to be interested in 55,661,015 Shares (long position) held by a trustee of a trust of which Mr. Guo Fansheng is a founder of a discretionary trust who can influence how the trustee exercise his discretion pursuant to the SFO. He 100% controls Frandor Limited (which 100% controls Altair Associates Ltd). Altair Associates Ltd. 100% controls Cedoria Capital LLC, who is interested in such 55,661,015 Shares.
5. More information about the Directors' interests in the Options is set out in the paragraph headed "Share Schemes" below.

Save as disclosed above, none of the Directors and chief executive of the Company has any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO) or required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code as of the end of the Period.

SHARE SCHEMES

2003 Share Option Scheme

Pursuant to written resolutions of the shareholders of the Company dated 30 November 2003, a share option scheme (the "2003 Share Option Scheme") was adopted by the Company. Following the listing of the Shares being transferred from the Growth Enterprise Market (now known as GEM) to the Main Board of the Stock Exchange on 10 October 2014, the 2003 Share Option Scheme was terminated. Notwithstanding the termination of the 2003 Share Option Scheme, the outstanding options under the 2003 Share Option Scheme (the "Outstanding Options") shall continue to be valid and exercisable until the expiry of the option period (i.e. the period to be notified by the Board to the grantee in the offer of options, but in any event shall not exceed 10 years from the date of the offer).

The principal terms of the 2003 Share Option Scheme were summarised in the paragraph headed "Share Options" in Appendix V of the prospectus of the Company dated 8 December 2003. Set out below is a summary of the 2003 Share Option Scheme:

Purpose and participants

The purpose of the 2003 Share Option Scheme is to provide incentive and/or reward to directors or employees of the Group and other persons who in the sole discretion of the Board has contributed or will contribute to the Group.

Total number of Shares available for issue and the maximum entitlement of each participant

The maximum number of Shares which may be issued upon the exercise of all the outstanding options granted and yet to be exercised under the 2003 Share Option Scheme and any other schemes of the Company, must not, in aggregate, exceed 30% (or such other percentage as may be allowed under the Listing Rules) of the total number of Shares in issue from time to time. The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) under the 2003 Share Option Scheme or any other share option schemes of the Company shall not exceed 1% of the Shares in issue at the time of such grant.

As at 30 June 2023, 1,680,000 Options under the 2003 Share Option Scheme were outstanding, upon full exercise of which 1,680,000 Shares may be issued, representing approximately 0.13% of the issued Shares as at the date of this report. The 2003 Share Option Scheme had been terminated and no further options would be granted.

Time of exercise of the Options

An Option may be exercised by the grantee at any time during the period to be notified by the Board to the grantee in the offer of options, but in any event shall not exceed 10 years from the date of offer.

Notwithstanding the termination of the 2003 Share Option Scheme, the Outstanding Options shall continue to be valid and exercisable until the expire of the option period.

Minimum holding period

The Board may offer to grant any Options subject to such terms and conditions in relation to the minimum period of the options to be held and/or the performance criteria to be satisfied before such options can be exercised and/or any other terms as the Board may determine in its absolute discretion.

Amount payable on acceptance of the Option

An offer shall be deemed to have been accepted and an Option to which the offer relates shall be deemed to have been granted and accepted and to have taken effect when a letter in such form as the Board may from time to time determine signifying acceptance of the Option duly signed by the grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within 7 days from the offer date (inclusive of the offer date).

Basis of determining the exercise price

The subscription price shall be a price determined solely by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a Share on the offer date.

2015 Share Option Scheme

On 22 May 2015 (the "Adoption Date"), a share option scheme was approved by the shareholders of the Company ("2015 Share Option Scheme"). More information of the 2015 Share Option Scheme were included in the circular of the Company dated 5 May 2015. Set out below is a summary of the 2015 Share Option Scheme:

Purpose and participants

The purpose of the 2015 Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, customers, advisers, distributors, contractors, suppliers, agents, business partners or service providers of the Group and to promote the success of the business of the Group ("Participant(s)"). The Board may, at its absolute discretion, invite any person belonging to any of the aforesaid classes of persons of any member of the Group to be a Participant of the 2015 Share Option Scheme.

Total number of Shares available for issue

The total number of Shares available for issue in respect of which Options may be granted under the 2015 Share Option Scheme is 102,085,221 Shares, representing approximately 7.79% of the issued Shares as at the date of this report.

Maximum entitlement of each Participant

The total number of Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) under the 2015 Share Option Scheme or any other share option schemes of the Company in any 12-month period up to date of grant shall not exceed 1% of the Shares in issue.

Time of exercise of the Options

An Option may be exercised by the grantee at any time during the period to be notified by the Board to the grantee (the "Grantee") in the offer of Options (the "Offer"), but in any event shall not exceed 10 years from the date of offer (the "Offer Date").

Minimum holding period

The Board may offer to grant any Options subject to such terms and conditions in relation to the minimum period of the Options to be held and/or the performance criteria to be satisfied before such Options can be exercised and/or any other terms as the Board may determine in its absolute discretion.

Amount payable on acceptance of the Option

An Offer shall be deemed to have been accepted and an Option to which the Offer relates shall be deemed to have been granted and accepted and to have taken effect when a letter in such form as the Board may from time to time determine signifying acceptance of the Option duly signed by the Grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within 7 days from the Offer Date (inclusive of the Offer Date).

Basis of determining the exercise price

The subscription price shall be a price determined solely by the Board and notified to a Participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the Offer Date; and (iii) the nominal value of a Share on the Offer Date.

Remaining life of the 2015 Share Option Scheme

The 2015 Share Option Scheme shall be valid for a period of 10 years commencing on the Adoption Date.

Outstanding Share Options

As at 30 June 2023, Options to subscribe for an aggregate of 56,165,706 Shares, which comprise 1,680,000 Options granted under the 2003 Share Option Scheme and 54,485,706 Options granted under the 2015 Share Option Scheme, were outstanding, details of which were as follows:

Name/category of grantee	Date of grant	Exercise price per share HK\$	Number of Options				Outstanding as at 30 June 2023 (Note 1)	Vesting Exercise period and conditions
			Outstanding as at 1 January 2023	Granted during the Period	Exercised during the Period	Lapsed during the Period		
Directors/chief executive								
Liu Jun (Note 12)	13 October 2017	6.476	5,986,000	-	-	-	5,986,000	13 October 2018 – 12 October 2027 Note 13
			5,986,000	-	-	-	5,986,000	13 October 2019 – 12 October 2027
			5,686,700	-	-	-	5,686,700	13 October 2020 – 12 October 2027
			5,686,700	-	-	-	5,686,700	13 October 2021 – 12 October 2027
			5,686,700	-	-	-	5,686,700	13 October 2022 – 12 October 2027
Zhang Yonghong (Note 12)	20 June 2019	4.6	3,163,500	-	-	-	3,163,500	20 June 2020 – 19 June 2029 Note 14
			3,163,500	-	-	-	3,163,500	20 June 2021 – 19 June 2029
			3,173,000	-	-	-	3,173,000	20 June 2022 – 19 June 2029
Liu Xiaodong (Note 12)	19 July 2018	4.6	1,332,000	-	-	-	1,332,000	19 July 2019 – 18 July 2028 Note 15
			1,034,485	-	-	-	1,034,485	19 July 2020 – 18 July 2028
			801,600	-	-	-	801,600	19 July 2021 – 18 July 2028

Name/category of grantee	Date of grant	Exercise price per share HK\$	Number of Options					Vesting period and conditions	
			Outstanding	Granted during the Period	Exercised during the Period	Lapsed during the Period	Outstanding		
			as at 1 January 2023				as at 30 June 2023 <i>(Note 1)</i>		
Five highest paid individual (not Director)									
2 individuals (also being senior management), in aggregate <i>(Note 12)</i>	19 July 2018	4.6	1,681,650	-	-	-	1,681,650	19 July 2019 – 18 July 2028	<i>Note 15</i>
			1,507,660	-	-	-	1,507,660	19 July 2020 – 18 July 2028	
			1,012,020	-	-	-	1,012,020	19 July 2021 – 18 July 2028	
Other senior management									
1 individual <i>(Note 12)</i>	19 July 2018	4.6	999,000	-	-	-	999,000	19 July 2019 – 18 July 2028	<i>Note 15</i>
			895,640	-	-	-	895,640	19 July 2020 – 18 July 2028	
			200,400	-	-	-	200,400	19 July 2021 – 18 July 2028	
Other employees									
In aggregate <i>(Note 11)</i>	3 April 2013	4.402	300,000	-	-	(300,000)	-	3 April 2014 – 2 April 2023	<i>Note 4</i>
			300,000	-	-	(300,000)	-	3 April 2015 – 2 April 2023	
			300,000	-	-	(300,000)	-	3 April 2016 – 2 April 2023	
			300,000	-	-	(300,000)	-	3 April 2017 – 2 April 2023	
			300,000	-	-	(300,000)	-	3 April 2018 – 2 April 2023	

Name/category of grantee	Date of grant	Exercise price per share HK\$	Number of Options				Outstanding as at 30 June 2023 (Note 1)	Vesting Exercise period and conditions
			Outstanding as at 1 January 2023	Granted during the Period	Exercised during the Period	Lapsed during the Period		
			In aggregate (Note 2, 11)	18 November 2013	9.84	210,000		
			210,000	-	-	(42,000)	168,000	18 November 2015 – 17 November 2023
			420,000	-	-	(84,000)	336,000	18 November 2016 – 17 November 2023
			630,000	-	-	(126,000)	504,000	18 November 2017 – 17 November 2023
			630,000	-	-	(126,000)	504,000	18 November 2018 – 17 November 2023
In aggregate (Note 3, 12)	19 July 2018	4.6	2,321,651	-	-	(160,763)	2,160,888	19 July 2019 – 18 July 2028
			2,321,651	-	-	(160,763)	2,160,888	19 July 2020 – 18 July 2028
			2,328,622	-	-	(161,247)	2,167,375	19 July 2021 – 18 July 2028
Total			58,568,479	-	-	(2,402,773)	56,165,706	

Notes:

- Each Option granted and accepted shall be valid for a period of 10 years from the date of grant. Each Option has a vesting period from its date of grant up to the date immediately before the commencement of its exercise period.

For the Options exercisable at HK\$4.402 granted on 3 April 2013, the relevant grantee may exercise Options up to 20%, 40%, 60%, 80% and 100%, respectively of the shares of the Company comprised in his or her Options (less any number of shares of the Company in respect of which the Options have been previously exercised), commencing from the first, second, third, fourth and fifth anniversaries of the date of the grant of Options.

For the Options exercisable at HK\$9.84 granted on 18 November 2013, the relevant grantees may exercise Options up to 10%, 20%, 40%, 70% and 100%, respectively, of the Shares comprised in his or her Options (less any number of Shares in respect of which the Options have been previously exercised), commencing from the first, second, third, fourth and fifth anniversaries of the date of the grant of Options.

For the Options exercisable at HK\$6.476 granted on 13 October 2017, the relevant grantees may exercise Options up to 20%, 40%, 60%, 80% and 100%, respectively, of the Shares comprised in his or her Option (less any number of Shares in respect of which the Option has been previously exercised), commencing from the first, second, third, fourth and fifth anniversaries of the date of the grant of Options.

For the Options exercisable at HK\$4.60 granted on 19 July 2018, the relevant grantees may exercise Options up to 33.3%, 66.6% and 100%, respectively, of the Shares comprised in his or her Option (less any number of Shares in respect of which the Option has been previously exercised), commencing from the first, second and third anniversaries of the date of the grant of Options. See also the paragraph below headed "Vesting periods and vesting conditions of the Options granted on 19 July 2018".

For the Options exercisable at HK\$4.60 granted on 20 June 2019, the relevant grantees may exercise Options up to 33.3%, 66.6% and 100%, respectively, of the Shares comprised in his or her Options (less any number of shares of the Company in respect of which the Options have been previously exercised), commencing from the first, second and third anniversaries of the date of the grant of Options.

2. 5 employees with Options to subscribe Shares at HK\$9.84 per Share.
3. 7 employees with Options to subscribe Shares at HK\$4.60 per Share.
4. These Options are conditional upon the continuation of employment of the relevant grantee.
5. The fair value of Options granted under the Share Option Scheme on 3 April 2013, determined using the Binomial Model valuation model, was approximately RMB3,754,000. The significant inputs into the model were exercise price of HK\$4.402 standard deviation of expected share price returns of 75%, expected life of Options ranging from 9.1 to 9.6 years expected dividend paid out rate of 0% and annual risk-free interest rate 1.111%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
6. The fair value of Options granted under the Share Option Scheme on 18 November 2013, determined using the Binomial Model valuation model, was approximately RMB50,125,000. The significant inputs into the model were exercise price of HK\$9.84 standard deviation of expected share price returns of 71.5%, expected life of Options ranging from 4.7 to 7.9 years expected dividend paid out rate of 0% and annual risk-free interest rate 1.915%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
7. The fair value of Options granted under the Share Option Scheme on 13 October 2017, determined using the Binomial Model valuation model, was approximately RMB100,356,000. The significant inputs into the model were exercise price of HK\$6.476 standard deviation of expected share price returns of 62%, expected life of Options 4.9 years expected dividend paid out rate of 0.9% and annual risk-free interest rate 1.745%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.

8. The fair value of Options granted under the 2015 Share Option Scheme on 19 July 2018, determined using the Binomial Model valuation model, was approximately RMB70,258,000. The significant inputs into the model were exercise price of HK\$4.6 standard deviation of expected share price returns of 70%, expected life of Options 10 years expected dividend paid out rate of 0% and annual risk-free interest rate 2.13%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical price movement of the Company and other comparable companies with similar business nature.
9. In respect of employees resigned during the Period whose Options have not been vested, such Options are lapsed, and the share compensation costs recognised previously are credited to consolidated statement of comprehensive income.
10. The values of Options recognised in share-based compensation reserves are subject to a number of assumptions and with regard to the limitation of the valuation model.
11. The Options were granted under the 2003 Share Option Scheme.
12. The Options were granted under the 2015 Share Option Scheme.
13. The Options granted on 13 October 2017 are subject to the following vesting period and conditions:

20% each of the Options would be vested and become exercisable on each of the first, second, third, fourth and fifth anniversary dates of date of offer (being 13 October 2017). Out of each of these 20%, half of them (i.e. an aggregate of 50% of all Options) would only be vested and become exercisable if the following performance targets are met:

Percentage of performance targets achieved	Percentage of the special Options becoming exercisable
100%	100%
70%–99%	Proportionate to the percentage of performance targets actually achieved for the relevant financial year
Less than 70%	Nil

If the grantee ceases to be an employee, unvested Options will lapse automatically, and Options vested but not yet exercised will lapse if such Options have not been exercised within three months from the date of his cessation of employment.

14. Options granted on 19 June 2019 are subject to the following vesting period and conditions:

	Date when the Options become exercisable	Percentage of Shares comprised in the Option which is vested and exercisable (subject to fulfillment of vesting conditions set out in the next column) <i>(Notes)</i>	Condition 1	Condition 2
First tranche of Options	First anniversary date of the Date of Grant (the "First Anniversary Date")	33.3%	The performance target of the Company for the year 2019 is achieved	The Grantee shall remain as an employee of the Group as at the First Anniversary Date
Second tranche of Options	Second anniversary date of the Date of Grant (the "Second Anniversary Date")	33.3%	The performance target of the Company for the year 2020 is achieved	The Grantee shall remain as an employee of the Group as at the Second Anniversary Date
Third tranche of Options	Third anniversary date of the Date of Grant (the "Third Anniversary Date")	33.4%	The performance target of the Company for the year 2021 is achieved	The Grantee shall remain as an employee of the Group as at the Third Anniversary Date

50% of the respective tranche of Options in each vesting period are exercisable only if Condition 1 and Condition 2 set out above are fully achieved. The remaining 50% of the respective tranche of Options in each vesting period are exercisable if Condition 2 is fulfilled.

15. The Options granted on 19 July 2018 are subject to the following vesting periods and conditions:

	Date when the Options become exercisable	Percentage of Shares comprised in the Option which is vested and exercisable (subject to fulfillment of vesting conditions set out in the next column) <i>(Notes)</i>	Condition 1	Condition 2	Condition 2
First tranche of Options	First anniversary date of the Date of Grant (the "First Anniversary Date")	33.3%	The revenue of the Company for the year 2018 reaches RMB10 billion or above.	The Grantee has achieved the performance targets for the year 2018 set out by the department or business unit where he/she belongs.	The Grantee shall remain as an employee of the Group as at the First Anniversary Date
Second tranche of Options	Second anniversary date of the Date of Grant (the "Second Anniversary Date")	33.3%	The revenue of the Company for the year 2019 reaches RMB20 billion or above.	The Grantee has achieved the performance targets for the year 2019 set out by the department or business unit where he/she belongs.	The Grantee shall remain as an employee of the Group as at the Second Anniversary Date
Third tranche of Options	Third anniversary date of the Date of Grant (the "Third Anniversary Date")	33.4%	The revenue of the Company for the year 2020 reaches RMB30 billion or above.	The Grantee has achieved the performance targets for the year 2020 set out by the department or business unit where he/she belongs.	The Grantee shall remain as an employee of the Group as at the Third Anniversary Date

Notes:

1. If a Grantee fulfills Condition 1 and Condition 3 set out above in the respective vesting period, the Grantee will be entitled to exercise 40% of the respective tranche of Options.
2. If a Grantee fulfills Condition 2 and Condition 3 set out above in the respective vesting period, the Grantee will be entitled to exercise 40% of the respective tranche of Options.
3. If a Grantee fulfills Condition 3, the Grantee will be entitled to exercise 20% of the respective tranche of Options.
4. All the Options will be automatically cancelled if the Grantee fails to fulfil Condition 3 regardless of whether Condition 1 and/or Condition 2 are achieved.
5. In addition to the above vesting conditions, if performance targets set out in Condition 1 or Condition 2 above cannot be fully achieved, the number of Options corresponding to fulfilment of Condition 1 and/or Condition 2 as referred to in notes 1 and 2 above which can be exercisable in the respective vesting period will be further adjusted in the following manner:

Percentage of performance targets achieved	Percentage of the Options becoming exercisable
100%	100%
70%-99%	Proportionate to the percentage of performance targets actually achieved
Less than 70%	Nil

Save as disclosed, no options were exercised, granted, lapsed or cancelled during the Period. Details of the value and movement of the share options during the Period are also set out in note 23(a) to the condensed consolidated interim financial information included in this report.

The Employees' Share Award Scheme of the Company expired in 2021, and all awards granted thereunder have vested prior to the Period. There were no unvested awards during the Period.

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

As at 30 June 2023, the interests and short positions of substantial shareholders (not being Directors and the chief executive of the Company) in the shares and underlying shares of the Company, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name	Class of Shares	Long position	Capacity	Percentage of shareholding (approximate)
Substantial shareholders				
Talent Gain Developments Limited	Ordinary	253,671,964 (Note 1)	Beneficial owner and interest in controlled corporation	19.37%
Digital China (BVI) Limited	Ordinary	253,671,964 (Note 1)	Interest in controlled corporation	19.37%
Digital China Holdings Limited	Ordinary	253,671,964 (Note 1)	Interest in controlled corporation	19.37%
Other persons				
Ideal South Limited	Ordinary	80,000,000 (Note 2)	Beneficial owner	6.11%
Wong Luen Hei	Ordinary	129,705,000 (Note 2)	Interest in controlled corporation and founder of discretionary trust(s) who can influence how the trustee exercises his discretion	9.90%
Fortune Value Investment Holdings Limited	Ordinary	104,562,000 (Note 3)	Beneficial owner	7.98%
Zhu Lemin	Ordinary	104,562,000 (Note 3)	Interest in controlled corporation	7.98%

Notes:

So far as the Company is aware of with reference to publicly available information:

- Such interests in the Company comprise: (1) 230,263,964 Shares held by Talent Gain Developments Limited and (2) 23,408,000 Shares held by Unique Golden Limited. Unique Golden Limited is wholly and beneficially owned by Talent Gain Developments Limited, which in turn is wholly and beneficially owned by Digital China (BVI) Limited and indirectly wholly and beneficially owned by Digital China Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 861). Therefore, Talent Gain Developments Limited is deemed to be interested in the Shares held by Unique Golden Limited, and each of Digital China (BVI) Limited and Digital China Holdings Limited is deemed to be interested in the Shares held by Talent Gain Developments Limited and Unique Golden Limited.

2. Ideal South Limited is wholly and beneficially owned by Mr. Wong Luen Hei. Mr. Wong is also interested in an aggregate of 49,705,000 Shares, in the capacity of a founder of discretionary trust(s) who can influence how the trustee exercises his discretion.
3. Fortune Value Investment Holdings Limited is wholly and beneficially owned by Mr. Zhu Lemin.

Save as disclosed above, as at 30 June 2023, the Company had not been notified of any interests or short positions of substantial Shareholders or other persons in the shares and underlying shares of the Company which are required to be kept under Section 336 of the SFO.

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Audit Committee currently comprises Mr. Zhang Ke (Chairman of the Audit Committee), Ms. Qiyang (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 unaudited interim results of the Group for the Period and this report.

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.

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 profit/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 the 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 issuers 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 six months ended 30 June 2023 and 2022, to the nearest measures prepared in accordance with HKFRS.

	Unaudited	
	Six months ended 30 June	
	2023	2022
	RMB'000	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 amortisation	43,543	38,383
Adjusted EBITDA*	69,447	9,875

* Earning before interest, taxes, depreciation and amortisation.

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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 key management 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 applicable 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 securities 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 report, 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*)