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20 years, young HC!

HC INTERNATIONAL, INC.

慧聪网有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2280)

INTERIM RESULTS ANNOUNCEMENT FOR SIX MONTHS ENDED 30TH JUNE 2015

FINANCIAL HIGHLIGHTS

- **Revenue** was approximately **RMB391.1 million**, decreased by approximately RMB74.2 million, or decreased 16.0%, when compared to approximately RMB465.3 million recorded for the corresponding period in 2014.
- The Group's **EBITDA*** was approximately **RMB71.1 million**, decreased RMB62.5 million from RMB133.6 million in the first half year of 2014.
- **Profit Attributable to Equity Holders** of the Company was approximately **RMB41.1 million** during the first half year of 2015, while it was approximately RMB102.5 million in the same period of 2014, representing a decrease of 59.9%.
- The **Diluted EPS** was **RMB0.0599**, decreased by approximately 59.4%, when compared to RMB0.1474, on a year-on-year basis.

Note: *Profit before interest, income tax, depreciation, amortisation of intangible assets, land use rights and share based payment

* For identification purpose only

UNAUDITED INTERIM RESULTS

The board (the "Board") of the Directors (the "Directors") of HC International, Inc. (the "Company") hereby announces the unaudited financial results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30th June 2015 (the "Reporting Period"), together with the comparative figures for the corresponding period ended 30th June 2014 to the shareholders of the Company.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Unaudited Six months ended 30th June	
	<i>Note</i>	2015	2014
		RMB'000	<i>RMB'000</i>
Revenue	4	391,052	465,271
Cost of revenue	7	(34,211)	(24,802)
Gross profit		356,841	440,469
Other income		2,080	3,521
Selling and marketing expenses	7	(229,511)	(264,530)
Administrative expenses	7	(99,124)	(76,629)
Operating profit		30,286	102,831
Finance income	8	26,680	15,936
Finance cost	8	(21,640)	(429)
Share of post-tax losses of associates	5	(2,493)	(127)
Share of post-tax profits of joint ventures	6	9,127	–
Profit before income tax		41,960	118,211
Income tax expense	9	(7,977)	(18,997)
Profit for the period		33,983	99,214
Other comprehensive income and item that may be reclassified to profit or loss:			
Fair value gain on available-for-sale financial assets	26	164,358	–
Currency translation difference	26	821	2,057
Total comprehensive income for the period		199,162	101,271
Profit attributable to:			
– Equity holders of the Company		41,131	102,455
– Non-controlling interests		(7,148)	(3,241)
		33,983	99,214

		Unaudited Six months ended 30th June	
	Note	2015 RMB'000	2014 RMB'000
<hr/>			
Total comprehensive income attributable to:			
– Equity holders of the Company		206,310	104,512
– Non-controlling interests		(7,148)	(3,241)
		<hr/>	
		199,162	101,271
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Earnings per share attributable to the equity holders of the Company during the period (expressed in RMB per share)			
Basic earnings per share:	10	0.0616	0.1547
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Diluted earnings per share:	10	0.0599	0.1474
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Dividends	11	–	–
		<hr/>	

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
	Note		
ASSETS			
Non-current assets			
Land use rights	12	178,513	180,882
Intangible assets	12	102,677	105,687
Investment properties	12	337,591	194,974
Properties under development	13	499,877	359,415
Property, plant and equipment	12	286,877	296,052
Deferred income tax assets	19	8,701	4,452
Long-term deposit, prepayments and other receivables	14	138,929	92,649
Investment in associates	5	80,030	45,523
Investment in joint ventures	6	409,967	270,840
Available-for-sale financial assets	15	371,103	174,267
Total non-current assets		2,414,265	1,724,741
Current assets			
Trade receivables	16	54,210	31,692
Deposits, prepayments and other receivables	14	353,735	57,467
Direct selling costs	17	104,188	113,746
Inventories		231	520
Cash and cash equivalents		867,166	1,321,989
Total current assets		1,379,530	1,525,414
Total assets		3,793,795	3,250,155
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	25	66,517	66,465
Other reserves	26	921,574	741,008
Retained earnings		393,938	352,807
		1,382,029	1,160,280
Non-controlling interests		148,359	154,887
Total equity		1,530,388	1,315,167

	<i>Note</i>	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
LIABILITIES			
Non-current liabilities			
Receipt in advance	18	825,895	519,532
Deferred income tax liabilities	19	59,541	23,987
Non-current portion of finance lease obligations		534	979
Deferred government grants	24	206,300	206,300
Non-current portion of bank borrowings	21	57,901	32,766
Non-current portion of other borrowings	21	25,215	8,373
Issued convertible bonds – liability portion	22	559,099	553,956
Total non-current liabilities		1,734,485	1,345,893
Current liabilities			
Trade payables	20	8,207	2,988
Accrued expenses and other payables		61,161	72,782
Current portion of bank borrowings	21	140,000	90,000
Current portion of other borrowings	21	–	8,525
Current portion of finance lease obligations		853	1,175
Deferred revenue		294,197	371,747
Other taxes payable	23	13,235	15,357
Income tax payable	23	11,269	26,521
Total current liabilities		528,922	589,095
Total liabilities		2,263,407	1,934,988
Total equity and liabilities		3,793,795	3,250,155
Net current assets		850,608	936,319
Total assets less current liabilities		3,264,873	2,661,060

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Note	Unaudited Attributable to equity holders of the Company			Non-	Total
		Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	controlling interests RMB'000	
Balance as at 1st January 2015		66,465	741,008	352,807	154,887	1,315,167
Profit/(loss) for the period		–	–	41,131	(7,148)	33,983
Other comprehensive income:						
Fair value gains on available-for-sale assets	26	–	164,358	–	–	164,358
Currency translation difference	26	–	821	–	–	821
Total comprehensive income/(loss) for the period ended 30th June 2015		–	165,179	41,131	(7,148)	199,162
Transactions with owners:						
Share based compensation-value of employee services	26	–	14,775	–	–	14,775
Exercise of share options	25,26	52	612	–	–	664
Contribution from non-controlling interest		–	–	–	620	620
Balance as at 30th June 2015		66,517	921,574	393,938	148,359	1,530,388

Unaudited Attributable to equity holders of the Company					
Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Non- controlling interests RMB'000	Total RMB'000
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Balance as at 1st January 2014	65,865	666,239	165,174	113,196	1,010,474
Profit/(loss) for the period	–	–	102,455	(3,241)	99,214
Other comprehensive income:					
Currency translation difference	26	–	2,057	–	2,057
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Total comprehensive income/(loss) for the period ended 30th June 2014	–	2,057	102,455	(3,241)	101,271
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Transactions with owners:					
Share purchase for share-award scheme	26	–	(20,358)	–	(20,358)
Share based compensation-value of employee services	26	–	16,623	–	16,623
Changes in ownership interests in subsidiaries without change of control	27	–	72	98	170
Exercise of share options	25,26	255	4,010	–	4,265
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Balance as at 30th June 2014	66,120	668,643	267,629	110,053	1,112,445

PRC companies are required to allocate 10% of the companies' net profit to a subsidiary reserve fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised upon approval of relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capital. As at 30th June 2015, retained earnings comprised statutory reserve fund amounting to RMB52,730,000 (2014 June: RMB28,641,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

The core business of HC International, Inc. (the “Company”) and its subsidiaries (together, the “Group”) is to organise a business-to-business (“B2B”) community across the People’s Republic of China (“China” or the “PRC”) by providing business information through both on-line and offline channels.

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

- Providing industrial search result prioritising services through its B2B website “hc360.com”;
- Publishing its own trade catalogues and yellow page directories;
- Hosting exhibitions and seminars;
- Providing anti-counterfeiting products and services to enterprises;
- Engaging in micro-credit internet financing business through its joint venture;
- In the process of constructing O2O business exhibition center.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 4th Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands, British West Indies. The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited since 10th October 2014.

The condensed consolidated interim financial information are presented in Renminbi (“RMB”), unless otherwise stated. The condensed consolidated interim financial information has been approved for issue by the Board on 25th August 2015.

This condensed consolidated interim financial information has not been audited.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30th June 2015 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2014, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”).

3 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31st December 2014, as described in those annual financial statements.

Amendments to HKFRSs effective for the financial year ending 31 December 2015 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standards and interpretations have been issued but not yet to be effective for the financial year beginning 1st January 2015 and have not been early adopted:

HKAS 1 (Amendment)	Disclosure initiative ¹
HKAS 16 and 38 (Amendments)	Clarification of acceptance methods of depreciation and amortisation ¹
HKAS 16 and 41 (Amendment)	Agriculture: bearer plants ¹
HKAS 27 (Amendment)	Equity method in separate financial statements ¹
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture ¹
HKFRS 9	Financial instruments ³
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment entities: applying the consolidation exception ¹
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations ¹
HKFRS 14	Regulatory deferred accounts ¹
HKFRS 15	Revenue from contracts with customers ²
Annual improvements project	Annual improvements 2012–2014 cycle ¹

(1) Effective for annual periods beginning on or after 1 January 2016

(2) Effective for annual periods beginning on or after 1 January 2017

(3) Effective for annual periods beginning on or after 1 January 2018

Management is assessing the impact of the above amendments to standards and interpretations, which have been issued but are not yet effective for 2015, on the Group's operations, and is yet to be in the position to conclude the impact.

There are no other HKFRSs or HK(IFRIC) interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

4 Segment information

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

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

As at 30th June 2015, the Group is organised into the following business segments:

- (i) On-line services – provision of a reliable platform to customers to do business and meet business partners on-line.
- (ii) Trade catalogues and yellow page directories – provision of trade information through trade catalogues and yellow page directories operated/published by the Group.
- (iii) Seminars and other services – services for hosting of seminars.
- (iv) O2O business exhibition centre – originally known as B2B household electrical appliances business exhibition centres, sales of properties and provision of property rental and management services.
- (v) Anti-counterfeiting products and services – provision of products meticulous digital identity management services, consumer goods tracing and anti-counterfeiting services to enterprise.
- (vi) Micro-credit financing services – engaging in micro-credit internet financing business in the PRC.

There were no sales or other transactions between the business segments for the period ended 30th June 2015 and 2014.

Unaudited Six months ended 30th June 2015							
	Trade catalogues and yellow page directories RMB'000	On-line services RMB'000	Seminars and other services RMB'000	O2O business exhibition centre RMB'000	Anti-counterfeiting products and services RMB'000	Micro-credit business segment RMB'000	Total RMB'000
Revenue	8,447	315,936	37,061	–	29,608	–	391,052
Segment results	(2,129)	36,318	1,438	(9,827)	2,406	–	28,206
Share of post-tax losses of associates	–	27	–	(2,520)	–	–	(2,493)
Share of post-tax profits of joint ventures	–	–	–	–	–	9,127	9,127
Other income	–	–	–	–	–	–	2,080
Finance income, net	–	–	–	–	–	–	5,040
Profit before income tax	–	–	–	–	–	–	41,960
Depreciation and amortisation	277	14,232	1,343	274	3,292	–	19,418
Share based compensation expenses	338	12,653	1,484	104	196	–	14,775

Unaudited Six months ended 30th June 2014							
	Trade catalogues and yellow page directories RMB'000	On-line services RMB'000	Seminars and other services RMB'000	O2O business exhibition centre RMB'000	Anti-counterfeiting products and services RMB'000	Micro-credit business segment RMB'000	Total RMB'000
Revenue	16,100	409,650	39,521	–	–	–	465,271
Segment results	(18,963)	117,764	7,173	(6,664)	–	–	99,310
Other income	–	–	–	3,521	–	–	3,521
Shares of post-tax losses of associates	–	–	–	(127)	–	–	(127)
Finance income, net	–	–	–	–	–	–	15,507
Profit before income tax	–	–	–	–	–	–	118,211
Depreciation and amortisation	1,098	12,529	571	59	–	–	14,257
Share based compensation expenses	576	14,633	1,414	–	–	–	16,623

The Group is domiciled in the PRC. All revenues for the six months ended 30th June 2015 are from external customers in the PRC (six months ended 30th June 2014: same).

5 Investment in associates

	Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000
Beginning of the period	45,523	20,000
Addition	37,000	–
Share of post-tax losses of associates	(2,493)	(127)
End of the period	80,030	19,873

Set out below are associates of the Group as at 30th June 2015. 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 is also their principal place of business.

Name of entity	Place of business/ country of establishment	% of ownership interest	Nature of the relationship	Measurement method
慧德控股有限公司 (Hui De Holding Co., Ltd.*)	PRC	12	<i>Note 1</i>	Equity
浙江慧聰投資有限公司 (Zhejiang Huicong Investment Co., Ltd*)	PRC	29.6	<i>Note 2</i>	Equity
北京優螞科技有限公司 (Beijing Urmbo Technology Limited*)	PRC	20	<i>Note 3</i>	Equity
中模(北京)國際品牌管理有限公司 (China Formwork (Beijing) International Brand Management Limited*)	PRC	20	<i>Note 4</i>	Equity

* *English names are translated for identification purpose only*

Note 1: Hui De Holding Co., Ltd* (“慧德控股”) provides investment management and projects investments in the PRC. The Group holds 60% interests of its subsidiary, 慧聰(天津)電子商務有限公司, which in turn holds 20% of interests in 慧德控股.

Note 2: Zhejiang Huicong Investment Co., Limited* (“浙江慧聰”) engages in investment in real estate consultation and management.

Note 3: Beijing Urmbo Technology Limited* (“北京優螞”) provides MRO industrial products centralized purchasing the PRC.

Note 4: China Formwork (Beijing) International Brand Management Limited* (“北京中模”) provides e-commerce business for formwork industry in the PRC.

The Group's share of profits/(losses) in associates and its aggregate assets and liabilities are shown below:

	慧德控股 Unaudited Six months ended 30th June		浙江慧聰 Unaudited Six months ended 30th June		北京優螞 Unaudited Six months ended 30th June		北京中模 Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Assets	400,227	119,365	346,245	–	4,536	–	39,360	–
Liabilities	303,401	20,000	105,084	–	225	–	18,830	–
Profits/(losses) for the period ended 30 June	(816)	(635)	(8,183)	–	(76)	–	208	–
Share of profits/(losses) for the period ended 30 June	(98)	(127)	(2,422)	–	(15)	–	42	–
Percentage held	12%	12%	29.6%	–	20%	–	20%	–

6 Investment in joint ventures

	Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000
Beginning of the period	270,840	–
Addition	130,000	150,000
Share of post-tax profits of joint ventures	9,127	–
End of the period	409,967	150,000

Set out below are joint venture companies of the Group as at 30th June 2015. The joint venture companies 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 place of business.

Nature of investment in joint ventures as at 30th June 2015:

Name of entity	Place of business/ country of establishment	% of ownership interest	Nature of the relationship	Measurement method
重慶神州數碼慧聰小額貸款有限公司 (Chongqing Digital China Huicong Micro-Credit Co., Ltd.*)	PRC	40	Note 1	Equity
北京神州數碼慧聰信息諮詢有限公司 (Beijing Digital China Huicong Micro-Credit Consulting Co, Ltd.*)	PRC	40	Note 2	Equity

Note 1: Chongqing Digital China Huicong Micro-Credit Co., Ltd.* provides development and operation of the micro-credit internet financing business in the PRC.

Note 2: Beijing Digital China Huicong Micro-Credit Consulting Co., Ltd.* provides consulting services for the micro-credit internet financing business in the PRC.

* *English names are translated for identification purpose only*

The Group's share of profit in Chongqing Digital China Huicong Micro-Credit Co., Ltd and its aggregate assets and liabilities are shown below:

	Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000
Assets	1,236,145	375,000
Liabilities	225,528	—
Profits for the period ended 30 June	22,789	—
Share of profit for the period ended 30 June	9,116	—
Percentage held	40%	40%

The Group's share of profit in Beijing Digital China Huicong Micro-Credit Consulting Co., Ltd and its aggregate assets and liabilities are shown below:

	Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000
Assets	341	—
Liabilities	133	—
Profit for the period ended 30 June	28	—
Share of profit for the period ended 30 June	11	—
Percentage held	40%	—

7 Expenses by nature

Expenses including cost of revenue, selling and marketing expenses and administrative expenses are analysed as follows:

	Unaudited Six months ended 30th June	
	2015	2014
	RMB'000	RMB'000
Direct expenses of trade catalogues and yellow page directories	4,702	7,643
Direct expenses of on-line services	1,445	2,675
Direct expenses of seminars and other services	14,668	14,484
Direct expenses of anti-counterfeiting products and services	13,396	–
Agency costs	51,789	90,960
Marketing expenses	45,647	29,973
Network and telephone expenses	7,624	7,633
Auditor's remuneration	1,425	1,189
Other professional fees	7,587	3,957
Staff costs, including directors' emoluments	138,324	140,946
Amortisation of land use rights	214	214
Amortisation of intangible assets	3,010	2
Share based compensation expenses	14,775	16,623
Depreciation of property, plant and equipment	16,194	14,041
Provision for impairment and direct write-off of trade and other receivables	1,957	1,895
Loss on disposal of property, plant and equipment	104	28
Operating lease payments in respect of land and buildings	11,755	8,647
Travelling expenses	5,048	3,789
Other expenses	23,182	21,262
Total cost of revenue, selling and marketing expenses and administrative expenses	362,846	365,961

8 Finance income, net

	Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000
Interest expense:		
– Bank borrowings	(6,214)	–
– Other borrowings	(672)	(5,097)
– Issued convertible bonds (Note 22)	(20,771)	–
– Finance lease liabilities	(139)	(118)
Finance expenses	(27,796)	(5,215)
Less: amounts capitalised on qualifying assets	6,156	4,786
Total finance expenses	(21,640)	(429)
Finance income	26,680	15,936
Net finance income	5,040	15,507

9 Income tax expense

	Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000
Current income tax		
– Hong Kong profits tax (i)	–	–
– The PRC corporate income tax ("CIT") (ii)	(9,150)	(14,200)
Deferred income tax	1,173	(4,797)
	(7,977)	(18,997)

- (i) No Hong Kong profits tax has been provided as there is no assessable profit arising in Hong Kong for the period (2014: Nil).
- (ii) The PRC corporate income tax represents taxation charged on assessable profits for the year 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 subsidiaries granted with preferential tax treatment as High/New Technology Enterprise of which the applicable tax rates is 15%.

10 Earnings per share

	Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000
Profit attributable to equity holders	41,131	102,455
	Unaudited Six months ended 30th June	
	2015 No. of Shares '000	2014 No. of Shares '000
Weighted average number of shares in issue	667,478	662,109
Incremental shares from assumed exercise of share options granted	19,407	33,125
Diluted weighted average number of shares	686,885	695,234
Basic earnings per share (in RMB)	0.0616	0.1547
Diluted earnings per share (in RMB)	0.0599	0.1474

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of the share options, the dilutive potential ordinary shares of the Company. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares over the period) based on the monetary value of the subscription rights attached to outstanding share options. The weighted average number of issued shares as at 30th June 2015 is compared with the number of shares that would have been issued assuming the exercise of the share options.

11 Dividends

No dividends was paid or declared by the Company during the period (2014: Nil).

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

	Property, plant and equipment <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Goodwill <i>RMB'000</i>	Investment properties <i>RMB'000</i>
Opening net book amount as at 1st January 2015	296,052	180,882	55,373	50,314	194,974
Additions	10,233	–	–	–	137,384
Interest capitalised	–	–	–	–	3,078
Disposals	(3,214)	–	–	–	–
Depreciation and amortisation	(16,194)	(214)	(3,010)	–	–
Amortisation charge capitalised in investment properties	–	(2,155)	–	–	2,155
Closing net book amount as at 30th June 2015	286,877	178,513	52,363	50,314	337,591
Opening net book amount as at 1st January 2014	214,586	185,619	5	–	39,518
Additions	89,977	–	–	–	46,894
Interest capitalised	–	–	–	–	2,393
Disposals	(663)	–	–	–	–
Depreciation and amortisation	(14,041)	(214)	(2)	–	–
Amortisation charge capitalised in investment properties	–	(2,155)	–	–	2,155
Closing net book amount as at 30th June 2014	289,859	183,250	3	–	90,960

The investment properties are carried at cost. They are under construction in progress as at 30th June 2015.

At each financial period end, finance department

- verifies all major inputs to the independent valuation report;
- assess property valuations movements when compared to the prior year valuation report; and
- holds discussion with the independent valuer.

13 Properties under development

	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
Properties under development comprise:		
– Construction cost and other capitalised expenditures	315,352	177,968
– Interest capitalised	12,184	9,106
– Land use rights	172,341	172,341
	499,877	359,415

The properties under development include cost of acquiring rights to use certain lands, which are located in the PRC, for property development over a fixed period. Land use rights are held on leases of 40 years.

The properties under development are expected to be completed after 30th June 2016.

14 Deposits, prepayments and other receivables

	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
Non-current portion:		
– Deposits	2,905	2,905
– Prepayments (Note (i))	67,815	42,544
– Loans to employees (Note (ii))	26,887	26,244
– Loans to an associate (Note (iii))	41,322	20,956
	138,929	92,649
Current portion:		
– Deposits	14,432	12,097
– Prepayments	22,345	21,385
– Amount due from a former associated company (Note (iv))	439	405
– Loans to employees (Note (ii))	5,800	23,580
– Loan to a joint venture (Note (v))	80,467	–
– Loans to third parties (Note (vi))	230,252	–
	353,735	57,467
	492,664	150,116

	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
The fair values are as follows:		
– Deposits	17,337	15,002
– Prepayments	90,160	63,929
– Other receivables	385,167	71,185
	492,664	150,116
	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
Denominated in:		
HK dollars	5,800	23,580
US dollars	146,258	–
RMB	340,606	126,536
	492,664	150,116

The fair values of the deposits and other receivables approximate their carrying value.

Note (i): The balance represents prepayment of tax associated with the presale of properties on B2B household electrical appliance business exhibition centre under development.

Note (ii): The non-current portion includes a balance of RMB26,887,000 (31st December 2014: RMB26,244,000) which represents loans granted to several management members of Beijing Panpass Information Technology Co., Ltd (“Panpass”), a subsidiary acquired by the Group on 8th October 2014, for their sole purpose of purchase of shares of Panpass at market price and the shares purchased are pledged to secure the loans. The loans will mature on 28th September 2017, and is interest bearing at a rate of 5% per annum. These management members hold 20% issued share capital of Panpass after the acquisition of Panpass by the Group on 8th October 2014.

The current portion includes a balance of RMB5,800,000 (31st December 2014: RMB23,580,000) granted in connection with the Employee Share Scheme. On 21st December 2012, the Group granted loans to several employees of the Group for the sole purpose of purchase of shares of the Group at market price. The loans will mature on 21st December 2015, and is interest bearing at a rate of 5% per annum. The loans are denominated in HK dollars.

Note (iii): This balance represents loan and interest receivable from 慧德控股有限公司, an associate of the Group, amounting to RMB41,322,000. (At 31st December 2014: RMB20,956,000). The loan will mature on 14th November 2017, and is interest bearing at a rate of 7% per annum (2014: 7% per annum).

Note (iv): The balance represents receivable for provision of data library services from 北京鄧白氏慧聰市場信息諮詢有限公司, a former associated company, which was disposed of in 2011.

Note (v): This balance represents loan and interest receivable from 重慶神州數碼慧聰小額貸款有限公司, a joint venture, amounting to RMB80,467,000 (2014: Nil). On 27th May 2015, the Group granted a loan amounting to RMB80,000,000 to the joint venture. The loan will mature on 26th November 2015, and is interest bearing at a rate of 6% per annum.

Note (vi): The balance includes loans and interest receivable from an independent third party, amounting RMB146,258,000 (2014: Nil), for its sole purpose of funding the acquisition of Orange Triangle Inc.. The balance shall be automatically converted into a prepayment by the Group towards the cash settlement of the consideration, upon completion of the acquisition. The balance bears interest at a rate of 10% per annum and was converted as part of the cash consideration on the completion of the acquisition on 3rd July 2015.

The balance also includes an entrusted loan advanced to an independent third party amounting RMB48,994,000 (2014: Nil), through a financial institution in the PRC, as lending agent. The loan is interest bearing at 10% per annum, repayable on 9th September 2015.

The balance also includes an entrusted loans advanced to an independent third party amounting RMB35,000,000 (2014: Nil), through a financial institution in the PRC, as lending agent. The loan is interest bearing at 8% per annum, repayable on 20th December 2015.

15 Available-for-sale financial assets

	Cogobuy Group (Note a) RMB'000	Zamplus (Cayman) Holdings Limited (Note b) RMB'000	Total RMB'000
Beginning balance as at 1st January 2015	130,412	43,855	174,267
Fair value gain recognised in other comprehensive income	196,836	–	196,836
Ending balance as at 30th June 2015	327,248	43,855	371,103

Note a:

In July 2014, the Group subscribed for 38,758,000 ordinary shares of Cogobuy Group for an aggregate amount of US\$20,000,000 (equivalent to approximately RMB124,281,000). Cogobuy Group is a corporation listed on the Main Board of the Stock Exchange of Hong Kong Limited, the investment from the Group represents 2.8% of all issued share capital of Cogobuy Group.

Note b:

In August 2014, the Group subscribed for 89,286 shares of Zamplus (Cayman) Holdings Limited ("Zamplus") for an aggregate amount of US\$5,000,000 (equivalent to approximately RMB30,743,000). Zamplus is a private company incorporated in the Cayman Islands. Its subsidiaries provide consulting services on online advertisement to the customers. The investment from the Group represents 4.76% of all shares of Zamplus.

There were no impairment provisions on available-for-sale financial assets ("AFS") made during the period ended 30th June 2015.

16 Trade receivables

The Group generally grants a credit period of 30 days to 90 days to customers. The ageing analysis of the trade receivables as at 30th June 2015 and 31st December 2014 are as follows:

	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
Current to 90 days	47,371	27,815
91 to 180 days	3,479	2,464
181 to 365 days	2,673	2,827
Over 1 year	7,216	2,810
	60,739	35,916
Less: provision for impairment of trade receivables	(6,529)	(4,224)
	54,210	31,692

17 Direct selling costs

Upon the receipt of subscription revenue from third party customers, the Group is obliged to pay sales commissions and agency fees to the salespersons and agents. The subscription revenue are initially deferred and recognised in the consolidated statement of comprehensive income in the period during which the services are rendered. Accordingly, the commissions and agency fees, which are directly attributable to earning from such subscription revenue during the service period, are deferred and recognised, in employees benefit expense and direct expenses of on-line services respectively, of the consolidated statement of comprehensive income throughout the same period.

18 Receipt in advance

	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
Receipt in advance	825,895	519,532

The amount represents deposits received from independent third parties on the presale of properties on O2O business exhibition centre under development.

19 Deferred income tax

The net movement of the deferred income tax account is as follows:

	Unaudited Six months ended 30th June 2015 RMB'000	2014 RMB'000
Opening balance at 1 January	(19,535)	(10,802)
Credit/(charged) to the consolidated statement of comprehensive income	1,173	(4,797)
Charged to the other comprehensive income	(32,478)	–
Closing balance at 30 June	(50,840)	(15,599)

20 Trade payables

The ageing analysis of the trade payables are as follows:

	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
Current to 90 days	5,221	2,479
91 to 180 days	2,515	247
181 to 365 days	283	152
Over 1 year	188	110
	8,207	2,988

21 Borrowings

	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
Non-current portion:		
Bank borrowings	57,901	32,766
Other borrowings	25,215	8,373
	83,116	41,139
Current portion:		
Current portion of non-current bank borrowing	140,000	90,000
Other borrowings	–	8,525
	223,116	139,664

Movements in borrowings are analysed as follows:

	Unaudited 30th June 2015 RMB'000	Unaudited 30th June 2014 RMB'000
Six months ended 30th June		
Opening amount 1st January	139,664	113,671
Additions of borrowings	149,739	25,191
Repayments of borrowings	(66,287)	–
Closing amount as at 30th June	223,116	138,862

Bank borrowings of RMB140,000,000 (31st December 2014: RMB90,000,000) is a current portion to be repaid in the next twelve months by instalments, while the remaining portion of RMB57,901,000 (31st December 2014: RMB32,766,000) will mature on 10th May 2017. The bank borrowings bear interest rate of 7.8% per annum (31st December 2014: 7.7% per annum). The bank borrowings are secured by land use rights, investment properties and properties under development amounting to RMB1,001,642,000 (31st December 2014: RMB718,831,000). The carrying amounts of bank borrowings approximate their fair values and are denominated in RMB.

Other borrowings are provided by the non-controlling shareholders of a subsidiary of the Group for the investment in the associates. The borrowings are unsecured, and bear average interest of 6.3% per annum (31st December 2014: 6.5%). The carrying amounts of other borrowings approximate their fair values and are denominated in RMB.

As at 30th June 2015, the Group's borrowings were repayable as follows:

	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
Within 1 year	140,000	98,525
Between 1 and 2 years	57,901	32,766
Between 2 and 5 years	25,215	8,373
	223,116	139,664

22 Convertible bonds

The Group issued convertible bonds with a coupon rate of 5% per annum at a total principal value of HK\$780,000,000, equivalent to approximately RMB615,342,000 on 27th November 2014. The convertible bonds will mature on 27th November 2019 at its principal amount or can be converted into the Group's shares at the bondholder's option at rate of HK\$11.63 per share.

The fair values of the convertible bonds were valued by an independent valuer as at 27th November 2014. The convertible bonds comprise a liability component and an equity conversion component.

The fair values of the bond component were calculated by using a market interest rate of similar non-extendable and non-convertible bonds. The fair values of the convertible bonds were valued by using the Binomial Option Pricing Model. The residual amount, representing the value of the equity conversion component, is included in the convertible bond-equity conversion reserve under equity attributable to equity holders of the Company.

The convertible bonds recognised in the consolidated balance sheet are as follows:

	<i>RMB'000</i>
Cash received	615,342
Fair values of convertible bonds issued on 27th November 2014	615,342
Less: Legal and professional fee paid	(14,594)
Less: Equity conversion component (<i>Note 26</i>)	(50,858)
Liability component on initial recognition at 27th November 2014	549,890
Add: Effective interest expense	3,960
Add: Exchange reserve	106
Less: Interest paid	–
Liability component as at 31st December 2014 and 1st January 2015	553,956
Add: Effective interest expense (<i>Note 8</i>)	20,771
Less: Interest paid	(15,413)
Add: Exchange reserve	(215)
Liability component as at 30th June 2015	559,099

The fair value of the bond component of the convertible bonds is calculated using cash flows discounted at a rate based on the discount rate of 7.5%.

The convertible bonds – liability component are classified under non-current liabilities. The carrying amounts of convertible bonds – liability component are denominated in HK\$.

23 Income tax payable and other taxes payable

	Unaudited 30th June 2015 RMB'000	Audited 31st December 2014 RMB'000
Income tax payable:		
Corporate income tax	11,269	26,521
Other taxes payable:		
Value added tax	2,759	3,422
Cultural and development tax	1,624	1,555
Other taxes	8,852	10,380
	13,235	15,357

24 Deferred government grants

The deferred government grants represented (i) Grants received from government to subsidise the Group for the rental discount that the Group will provide to its prospective tenants of the O2O business exhibition centre in Shunde of Guangzhou, which is still under construction. (ii) To subsidise the Group's purchase of property, plant and equipment for the Group's expansion in Beijing.

The conditions attached to these grants have not been satisfied as at 30th June 2015.

25 Share capital

	Number of Shares	Ordinary Shares <i>RMB'000</i>
As at 1st January 2015	667,166,618	66,465
Exercise of share options	658,000	52
As at 30th June 2015	667,824,618	66,517
As at 1st January 2014	659,579,618	65,865
Exercise of share options	3,237,000	255
As at 30th June 2014	662,816,618	66,120

The total authorised number of ordinary shares is 2,000 million shares (30th June 2014: 1,000 million shares) with a par value of HK\$0.1 per share (30th June 2014: HK\$0.1 per share). All issued shares are fully paid.

During the six months ended 30th June 2015, 658,000 shares (30th June 2014: 3,237,000 shares) of the Company were issued upon the exercise of share options under the share option scheme of the Company at exercise price of HK\$1.24, HK\$0.82 HK\$1.108 and HK\$9.84 and resulted in approximately RMB612,000 (30th June 2014: RMB4,010,000) increase in share premium.

The total number of issued shares of the Company was 667,824,618 as at 30th June 2015 (30th June 2014: 662,816,618).

Share options

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

(a) Share Option Scheme

	2015		2014	
	Exercise price in HK\$ per share	Share options	Exercise price in HK\$ per share	Share Options
As at 1st January	2.40	–	2.40	1,396,000
Lapsed	2.40	–	2.40	–
Exercise	2.40	–	2.40	(1,396,000)
As at 30th June	2.40	–	2.40	–
As at 1st January	1.49	1,528,000	1.49	1,844,000
Lapsed	1.49	–	1.49	–
Exercised	1.49	–	1.49	(316,000)
As at 30th June	1.49	1,528,000	1.49	1,528,000
As at 1st January	1.24	4,375,000	1.24	5,370,000
Lapsed	1.24	–	1.24	–
Exercised	1.24	(80,000)	1.24	(895,000)
As at 30th June	1.24	4,295,000	1.24	4,475,000
As at 1st January	0.604	3,000,000	0.604	4,200,000
Lapsed	0.604	–	0.604	–
Exercised	0.604	–	0.604	(200,000)
As at 30th June	0.604	3,000,000	0.604	4,000,000
As at 1st January	0.82	12,218,000	0.82	15,868,000
Lapsed	0.82	–	0.82	–
Exercised	0.82	(500,000)	0.82	(400,000)
As at 30th June	0.82	11,718,000	0.82	15,468,000
As at 1st January	1.108	250,000	1.108	280,000
Lapsed	1.108	–	1.108	–
Exercised	1.108	(50,000)	1.108	(30,000)
As at 30th June	1.108	200,000	1.108	250,000

	2015		2014	
	Exercise price in HK\$ per share	Share options	Exercise price in HK\$ per share	Share Options
As at 1st January	4.402	1,500,000	4.402	1,500,000
Granted	4.402	–	4.402	–
Lapsed	4.402	–	4.402	–
Exercise	4.402	–	4.402	–
As at 30th June	4.402	1,500,000	4.402	1,500,000
As at 1st January	9.84	10,000,000	–	–
Granted	9.84	–	9.84	10,000,000
Lapsed	9.84	–	9.84	–
Exercise	9.84	(28,000)	9.84	–
As at 30th June	9.84	9,972,000	9.84	10,000,000

	Share options		
Expiry date	Exercise price HK\$ per share	30th June 2015	31st December 2014
18th February 2014	2.4	–	–
23rd June 2016	1.49	1,528,000	1,528,000
11th July 2017	1.24	4,295,000	4,375,000
29th September 2018	0.604	3,000,000	3,000,000
7th April 2020	0.82	11,718,000	12,218,000
28th March 2021	1.108	200,000	250,000
3rd April 2023	4.402	1,500,000	1,500,000
18th November 2023	9.84	9,972,000	10,000,000

Share Award Scheme

On 23rd November 2011 and pursuant to the Share Award Scheme, the Board resolved to grant an aggregate of 24,181,000 shares to 72 selected employees (including an executive director of the Company).

On 14th June 2012, the Board resolved to grant Lee Wee Ong, an executive director of the Company, 3,000,000 shares, subjected to a vesting period of 36 months.

On 20th August 2012, the shareholders resolved to grant Guo Jiang, an executive director of the Company, 16,700,000 shares, subjected to a vesting period of 72 months.

Since the commencement of the share award scheme, 45,566,000 shares had been purchased by the trustee as awarded shares pursuant to the terms of the Share Award Scheme. The awarded shares will be held by the trustee in accordance with the rules of the Share Award Scheme and the relevant trust period.

The awarded shares are subject to vesting periods from 6 months to 72 months.

The following table represents the movement for number of unvested shares under the Share Award Scheme for the period ended 30th June 2015.

	Number of Shares
As at 1st January 2015	31,435,399
Shares purchased from the market	–
Amount vested during the period	(2,738,281)
As at 30th June 2015	28,697,118
As at 1st January 2014	34,749,335
Shares purchased from the market	1,492,000
Amount vested during the period	(4,056,936)
As at 30th June 2014	32,184,399

26 Other reserves

	Share premium <i>RMB'000</i>	Convertible bond reserve <i>RMB'000</i>	Others reserve <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	Share-based compensation reserves <i>RMB'000</i>	Share redemption reserve <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Share held for share award scheme <i>RMB'000</i>	AFS reserve <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1st January 2015	640,820	50,858	(17,421)	109,817	81,801	496	(10,478)	(130,952)	16,067	741,008
Currency translation difference	–	–	–	–	–	–	821	–	–	821
Share based compensation- value of employee services	–	–	–	–	14,775	–	–	–	–	14,775
Fair value gain on available-for- sale assets, net of deferred tax (Note 15 & 19)	–	–	–	–	–	–	–	–	164,358	164,358
Vesting of share award	1,454	–	–	–	(5,226)	–	–	3,772	–	–
Exercise of share options	612	–	–	–	–	–	–	–	–	612
As at 30th June 2015	642,886	50,858	(17,421)	109,817	91,350	496	(9,657)	(127,180)	180,425	921,574
As at 1st January 2014	633,269	–	(17,493)	109,817	60,797	496	(12,833)	(107,814)	–	666,239
Currency translation difference	–	–	–	–	–	–	2,057	–	–	2,057
Share based compensation- value of employee services	–	–	–	–	16,623	–	–	–	–	16,623
Share purchased for share award scheme	–	–	–	–	–	–	–	(20,358)	–	(20,358)
Changes in ownership interest in subsidiaries without change of control (Note 27)	–	–	72	–	–	–	–	–	–	72
Vesting of share award	–	–	–	–	(4,902)	–	–	4,902	–	–
Exercise of share options	4,010	–	–	–	–	–	–	–	–	4,010
As at 30th June 2014	637,279	–	(17,421)	109,817	72,518	496	(10,776)	(123,270)	–	668,643

27 Changes in ownership interests in subsidiaries without change of control

(a) Disposal of interest in a subsidiary without loss of control

On 24th February 2014, a new shareholder injected capital amounting to RMB170,000 into 佛山市慧從匯電子商務有限公司, a subsidiary of the Group which is owned as to 59% by 慧聰(天津)電子商務投資有限公司 ("Tianjin HC"). The new shareholder subscribes 10% of the equity interest. After this transaction, the equity interest in 佛山市慧從匯電子商務有限公司 was diluted from 59% to 53.1%.

The carrying amount of the non-controlling interest acquired and consideration paid in excess of carrying value recognised within equity as a result of the transaction with non-controlling interest were as follows:

	Unaudited 30th June 2014 RMB'000
Carrying amount of non-controlling interest acquired	98
Consideration received for the non-controlling interests	(170)
Consideration paid in excess of carrying value recognised within equity	(72)

28 Related-party transactions

Apart from the transactions already disclosed in other notes in these financial statements, the Group has the following significant transactions that were carried out with related parties:

(a) Sales of services

	Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000
Sales of services		
– 北京慧聰建設信息諮詢有限公司 (technology services) (i)	–	106
– 北京慧聰建設信息諮詢有限公司 (granted the right to use the domain names and trademark) (ii)	–	120
	–	226

- (i) 北京慧聰建設信息諮詢有限公司 (“HC Construction”), a company owned as to 50% by Mr. Guo Fansheng, the Chairman of the Board and an Executive Director of the Company and as to 50% by Mr. Guo Jiang, an Executive Director. The chief executive officer of the Company, entered into a three-year Technology Services Agreement with the Group in 2002, and on 31st December 2004, the parties entered into a supplemental agreement which extended the term of the Technology Services Agreement to 31st December 2007 and on 30th December 2007, 2009, 2011, and 15th September 2014, the parties entered into another supplemental agreement which extended the term of the Technology Services Agreement to 31st December 2009, 2011, 2014 and 15th September 2017 respectively.

Pursuant to the Technology Service Agreement (as supplement), the Group received technical service income from HC Construction based on the working hours devoted to the service and support.

- (ii) HC Construction entered into a three-year Domain Names and Trademark Licence Agreement with the Group in 2002, and on 31st December 2004, the parties entered into a supplemental agreement which extended the term of the Domain Names and trademark Licence Agreement to 31st December 2007 and on 30th December 2007, 2009, 2011, and 15th September 2014, the parties entered into another supplemental agreement which extended the term of the Domain Names and Trademark Licence to 31st December 2009, 2011, 2014 and 15th September 2017 respectively.

Pursuant to the Domain Names and Trademark Licence Agreement (as supplemented), HC Construction was granted the right to use the domain names and trademark owned or attained by the Group during the agreement period for a fixed fee.

Started from 15th September 2014, the financial condition and results of operation of HC Construction are consolidated into the Group and the sales of service transactions with HC Construction are no longer related party transactions of the Group.

(b) *Purchases of services*

	Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000
Purchases of services:		
– 北京慧聰建設信息諮詢有限公司 (on-line information distribution services) (i)	–	120
– 北京慧聰建設信息諮詢有限公司 (on-line advertisement publication services) (ii)	–	50
	–	170

- (i) HC Construction entered into a three-year Online Information Distribution Agreement with the Group in 2002, and on 31st December 2004, 2007, 2009, 2011, and 15th September 2014, the parties entered into a supplemental agreement which extended the term of the Online Information Distribution Agreement to 31st December 2007, 2009, 2011, 2014 and 15th September 2017 respectively.

Pursuant to the Online Information Distribution Agreement (as supplement), HC Construction received distribution income from the Group at a fixed rate per annum. It disseminated the Group's business information and research reports on its web-site and on those as stipulated by the Group.

- (ii) HC Construction entered into a three-year Online Advertisement Publication Agreement with the Group in 2002, and on 31st December 2004, 2007, 2009, 2011, and 15th September 2014, the parties entered into supplemental agreements which extended the term of Online Advertisement Publication Agreement to 31st December 2007, 2009, 2011, 2014 and 15th September 2017 respectively.

Pursuant to the Online Advertisement Publication Agreement (as supplement), HC Construction received publication income from the Group at a fixed fee. It published the Group's advertisements on its website and on those as stipulated by the Group.

Started from 15th September 2014, the financial condition and results of operation of HC Construction are consolidated into the Group and the purchases of service transactions with HC Construction are no longer related party transactions of the Group.

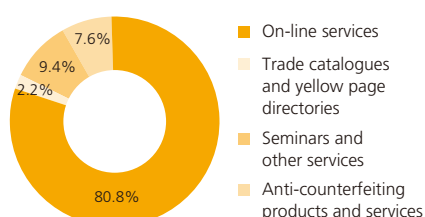
(c) *Key management compensation*

	Unaudited Six months ended 30th June	
	2015 RMB'000	2014 RMB'000
Salaries and other short-term employee benefits	2,993	2,916
Share-based payments	4,027	6,128
	7,020	9,044

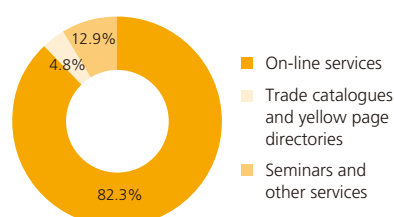
FINANCIAL REVIEW

Revenue Analysis	On-line services RMB'000	Trade catalogues and yellow page directories RMB'000	Seminars and other services RMB'000	Anti-counterfeiting products and services RMB'000	Total RMB'000
First Half of 2015	315,936	8,447	37,061	29,608	391,052
First Half of 2014	409,651	16,100	39,520	–	465,271
Variance	(22.9%)	(47.5%)	(6.2%)	100%	(16.0%)

2015 First Half Revenue



2014 First Half Revenue



During the period, the Group recorded a revenue of approximately RMB391.0 million (2014: RMB465.3 million).

The revenue was derived from the segments of on-line services, trade catalogues and yellow page directories, seminars and other services and anti-counterfeiting products and services, of which breakdowns are stated in the above table and charts. As a consequence of the new segment of anti-counterfeiting products and services, our overall gross profit ratio has decreased by approximately 3.4 percentage points to 91.3% (2014: 94.7%).

The Group decrease its selling and marketing expenses from approximately RMB264.5 million for the six months ended 30th June 2014 to approximately RMB229.5 million in the same period of 2015 which was mainly due to the decrease in agency costs, sales staff salaries and commissions.

The Group's profit attributable to equity holders had decreased to approximately RMB41.1 million for the six months ended 30th June 2015, represents a decrease of 59.9% from the same period last year. The Board believes that the said decrease is mainly due to, among other things, the slow down of the PRC's economic growth, the decrease in number of fee-paying users resulting in a decline in the Group's revenue, and the increase in input of resources by the Group on business of B2B 2.0 which included transactions and internet finance.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospect

In the first half of 2015, GDP in China grew at 7% year-on-year, which has slowed down as compared with the growth rate over the same period in 2014(7.4%). In particular, the industrial growth in Northern regions of China declined with falling efficiency in certain enterprises coupled with a depressing investment inclination. From January to July 2015, the PMI of small enterprises was lingering in the contraction range between 46.4% and 48.4%. Among our clients, certain small and medium enterprises with traditional operation models, mainly the small distributors, were facing more operational difficulties, leading to a reduction of the number of our fee-paying members, which in turn decreased our revenue compared with the same period last year. In addition, since the "Internet+" concept had become popular during the "Two Sessions", the quick expansion of various online-to-offline ("O2O") models impacted the traditional B2B business model.

The commencement of layout in 2013 has enabled the Group to create its own B2B ecosystem, including the building of B2B transaction platform, HuiFuBao (慧付寶), and to improve user experience constantly. As for internet financing, from leveraging on the auxiliary internet financing products from the third party to forming a micro-credit financing company with Digital China Holdings Limited by way of joint venture as well as acquiring 2.49% of the shares of Hohhot Jingu Rural Commercial Bank in Inner Mongolia on 22 July 2015, the Group's safe proliferation of internet financing generated blending effects and continued to brew, ultimately facilitating B2B transactions. Meanwhile, our development and utilisation of "Cai-Gou-Tong" and "Mai-Mai-Tong", the mobile terminals, provide services for customers.

In the first half of 2015, the Group continued to focus on the business model of facilitating B2B transactions. Collaborating with the Group's partners, we acquired two pieces of land with areas of 43,965 sq.m. and 48,103 sq.m. in Shunde in Foshan, Guangdong Province and Yuyao City, Zhejiang Province, respectively. The Group continued the construction of the online to offline business exhibition centre (the "O2O Business Exhibition Centre") in Shunde, which is expected to be completed by the end of 2015 and commence operation in the first half of 2016. In order to maintain the financial position for such project, as of the date of announcement, the Group had presold the property of such project with total gross floor area of approximately 51,000 sq.m., contracted amount to approximately RMB928 million. Regarding Yuyao's second household electrical appliances business exhibition centre located in Zhejiang Province, the construction has begun in the first half of 2015. Apart from the household electrical appliance end-products, such project is covering plastic and plastic moulds for the manufacturing of household electrical appliances.

Despite that Shunde and Zhongshan accounted for one-third of the manufacturing of household electrical appliance by the country at a production value of more than RMB100 billion, the current B2B transactions of the household electrical appliance industry were not mainly realized in Shunde and Zhongshan. With an aim of utilising B2B in household electrical appliance transactions, the

Business Exhibition Centre in Shunde is going to adopt the setting of “store in the front, factory at the back” to attract household electrical appliance manufacturers to settle in, including small to middle size distributors that are trading cost sensitive, major distributors with specific requirements in product specifications and trading methods, and terminal distributors that serve consumers. Leveraging on the over 20 years of trading experience in the household electrical appliance industry of the Group, the Business Exhibition Centre in Shunde, operating under the model of “O2O”, is going to facilitate the destocking of the peripheral household electrical appliance factories and enable them to become more market-sensitive. We also assist the distributors of the household electrical appliance industry in completing online-to-offline B2B transactions. Currently, 20 to 30 items are possessed by the household from a developed country, and every Chinese household possesses five to seven items of household electrical appliances in average. This shows huge potential in market growth. Relying on about two-third of household electrical appliances manufacturers in China (the three largest Chinese electrical manufacturers are located at Shunde and Zhongshan, Qingdao in Shandong and Yuyao and Cixi in Zhejiang) and the two Business Exhibition Centres in Yuyao and Shunde, the Group will explore and increase the trading in the household electrical appliance industry.

Despite the declining results on the business of traditional B2B 1.0, we have never been so excited about the future prospects of the B2B e-commerce. The Group is of the view that, in such situation, acquisition of B2B vertical portals of potential industries and commencement of strategic cooperation will promote the exploration on the potential of business growth for the business of B2B 1.0 and lay a foundation for the business of B2B 2.0 so as to build the Group’s own B2B ecosystem.

On 3 July 2015, the Group completed the acquisition of “中關村在線” (www.zol.com.cn), a leading technology vertical-interactive portal which offers content and comprehensive IT-related products information, such as specifications, pricing, reviews, test reports and upcoming trends, and was undergoing resource consolidation. By combining the core technological strengths of the Group and ZOL, we are going to develop a new product for the provision of precise services to small to middle enterprises and middle-sized enterprises of the IT industry, increasing the added value of the original product. The ZOL’s B2B2C business model on top of the B2B1.0 in the IT industry prompted the Group’s objective to be embedding the B2B2C business model into industry with enormous market potential yet insufficiently developed, such as IT, household electrical appliance, automobile goods, building materials, furniture and renovation and clothing, providing the Group’s clients with products and services of “B2B1.0+B2B2C”.

While exploring potential industries deeply and vertically, we are committed to upgrading the Group’s procurement and search services to help buyers and sellers reaching a supply-demand balance, enabling quality trading services. During the Reporting Period, the Group’s Stock Keeping Unit (SKU) had been further strengthened by 46.6% to 352 million up from 240 million as of the end of 2014.

We believe the Group is witnessing, while be a significant part of, the gradual maturing of B2B e-commerce that involves: internet technologies, internet finance, O2O business models, logistics, mobile terminals & applications, anti-counterfeit deployment and etc. The business of the B2B2.0 is going to reshape client's experience and ultimately contribute to the Group's earnings. We strongly believe that the Group's relentless efforts in building the B2B ecosystem will bring us to our destiny that definitely will be more blossoms with the patience and supports from our fellow investors.

Contractual arrangements

In light of the relevant PRC laws and regulations restricting the participation and operation of internet content services by foreign investors, the Group has engaged Beijing Huicong Construction Information Consulting Co., Ltd. (北京慧聰建設信息諮詢有限公司) ("Huicong Construction") to operate its online platform, and disseminate its business information on the internet pursuant to certain contractual arrangements (the "Contractual Arrangements"). The Group relies on the Contractual Arrangements in respect of its online services. Please also refer to the prospectus of the Company dated 8th December 2003, the announcement of the Company dated 25th September 2014 in relation to the transfer of listing, and the 2014 annual report of the Company for further details of the Contractual Arrangements.

Liquidity and financial resources

As at 30th June 2015 the Group had cash and bank balance of approximately RMB867 million and net current assets of approximately RMB851 million. The Group maintained a strong working capital position during the six months ended 30th June 2015.

The Group had short-term loans amounting to approximately RMB141 million as at 30th June 2015 (including financial lease obligations). As at 30th June 2015, the Group was in net cash position, whereas the Group's gearing ratio is calculated as net debt divided by total capital.

The capital and reserves attributable to equity holders of the Company increased by approximately RMB222 million from approximately RMB1,160 million as at 31st December 2014 to approximately RMB1,382 million as at 30th June 2015.

Significant investments

Saved as disclosed in this announcement, the Group had no significant investments during the six months ended 30th June 2015.

Future plans for material investments

Saved as disclosed in this announcement, the Group had no future plans for material investments during the six months ended 30th June 2015.

Staff

The continued success of the Group relies on the skills, motivation and commitment of its staff. As at 30th June 2015, the Group had 2522 employees.

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

Capital structure

During the six months ended 30th June 2015, 658,000 shares of the Company ("Shares") were issued upon the exercise of share options. The total number of issued Shares was 667,824,618 as at 30th June 2015.

Charges on Group assets

As at 30th June 2015, the Group has bank borrowings amounting to RMB198 million and undrawn banking facilities of RMB12 million, which are secured by land use rights.

Exchange risk

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

Contingent liabilities

As at 30th June 2015, the Group had no material contingent liabilities.

Material acquisition and disposal

Further to the entering into of the letter of intent dated 17 March 2015, on 8 May 2015, the Company (as purchaser), NAVI-IT Limited (as seller) and Mr. Liu Xiaodong (劉小東), Ms. Wang Qian (王倩), Mr. Shi Shilin (施世林) and Ms. Yang Ye (as seller's guarantors) entered into a sale and purchase agreement (the "Sale and Purchase Agreement"). Pursuant to the Sale and Purchase Agreement, the Seller conditionally agreed to sell, and the Company conditionally agreed to acquire all the issued share capital of Orange Triangle Inc. (the "Target Company") for a consideration of RMB1,500,000,000.

The consideration is proposed to be settled as to 30% (being US\$ equivalent amount of RMB450,000,000) in cash and as to 70% (being US\$ equivalent amount of RMB1,050,000,000) by allotment of 155,684,485 new Shares at HK\$8.5 each (as to 40% to Mr. Liu Xiaodong, as to 25% to Ms. Wang Qian, as to 20% to Mr. Shi Shilin and as to 15% to Ms. Yang Ye, respectively, and subject to adjustment mechanism stipulated in the Sale and Purchase Agreement). The allotment is subject to, among other things, shareholders' approval of a specific mandate in a general meeting to be convened and held.

Completion of the transactions contemplated under the Sale and Purchase Agreement is also conditional upon satisfaction of the conditions precedent set out in the Sale and Purchase Agreement.

Subject to fulfillment or waiver (as the case may be) of the conditions precedent set out in the Sale and Purchase Agreement, the Target Company or Orange Beijing (a company to be incorporated under the laws of the PRC and which will be indirectly wholly and beneficially owned by the Target Company) will enter into certain structured contracts (the “Structured Contracts”) with Beijing Zhixing Ruijing Technology Co., Ltd. (“Beijing Zhixing Ruijing”) and/or its shareholders. Pursuant to such Structured Contracts to be entered, Orange Beijing or the Target Company will provide certain technical consultation and service, including but not limited to technical services support, intellectual property licensing, and business and management consultation, whereas Beijing Zhixing Ruijing will pay the service fee equal to a certain percentage of its net income. Relevant parties will also enter into certain agreements in relation to, among other things, the pledge of, and grant of exclusive acquisition rights of, the equity interests in Beijing Zhixing Ruijing.

Please also refer to the announcement of the Company dated 8th May 2015 for further details, including among others, the principal terms and conditions of the Sale and Purchase Agreement, and the Structured Contracts.

Resignation of Executive Director

Mr. Yang Ning resigned as an executive Director and president of the Company with effect from 30th March 2015.

Adoption of new share option scheme

Following the listing of the Shares being transferred from Growth Enterprise Market to the Main Board of the Stock Exchange on 10th October 2014, the share option scheme adopted on 30 November 2003 was terminated while share options granted remain valid. It was proposed that a new share option scheme (the “2015 Share Option Scheme”) in compliance with the Rules Governing the Listing of Securities (the “Listing Rules”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) be adopted. The resolution of the proposed adoption were duly passed by the shareholders by way of poll at the extraordinary general meeting of the Company held on 22 May 2015. Please refer to the circular of the Company dated 5th May 2015 for further details of the proposed adoption of the 2015 Share Option Scheme, including its conditions.

Increase in authorised share capital

Pursuant to a resolution passed on 19th June 2015, it is resolved that the authorised share capital of the Company increased to HK\$200,000,000 divided into 2,000,000,000 shares of HK\$0.10 each by the creation of an additional 1,000,000,000 shares of HK\$0.10 each. The increase in authorised share capital provides the Company with flexibility for fund raising by allotting and issuing Shares in future for future investment opportunities. For further details, please refer to the announcement of the Company dated 13th May 2015.

Subsequent Events

On 8th May 2015, the Group ("the Purchaser") entered into a sale and purchase agreement with NAVI-IT LIMITED ("the Seller") and Mr. Liu Xiaodong, Ms. Wang Qian, Mr. Shi Shilin, Ms. Yang Ye (collectively referred to as "the Seller Guarantors"), pursuant to which the Purchaser has conditionally agreed to acquire all the issued share capital of Orange Triangle Inc. On 3rd July 2015, the Group has fulfilled all the conditions precedent of the sale and purchase agreement previously entered with the Seller and the Seller Guarantors, and the acquisition has been completed accordingly. Please also refer to the announcement of the Company dated 3rd July 2015 for further details.

On 3rd July 2015, the Group has entered into a letter of intent, in which the Group has intended to enter into a share purchase agreement with 杭州賽點科技有限公司 (Hang Zhou Sai Dian Technology Company Limited*), 浙江浩遠創業投資有限公司 (Zhejiang Hao Yuan Chuang Ye Investment Company Limited*), Chen Xue Jun, He Shun Sheng and Cao Guo Xiong ("the Vendors"), to acquire approximately 80% of the equity interest of 浙江中服網絡科技有限公司 (Zhe Jiang Zhong Fu Interest Technology Company Limited*), a company incorporated in the PRC for a total consideration of RMB120,570,000. The acquiree is principally engaged in the provision of vertical websites in the garment industry in the PRC. 30% of the total consideration shall be paid in cash and the remaining 70% of which shall be paid by way of issuing new shares by the Group as calculated at HK\$10 per share. Please also refer to the announcement of the Company dated 3rd July 2015 for further details.

On 22th July 2015, HC Internet Information Technology Company Limited, a wholly-owned subsidiary of the Group ("the Purchaser"), entered into a sale and purchase agreement with Wang Feng Feng ("the Vendor"), pursuant to which the Purchaser has conditionally agreed to acquire representing approximately 2.49% of the issued share capital of the 內蒙古呼和浩特金谷農村商業銀行股份有限公司 (Inner Mongolia Hohhot Jingu Rural Commercial Bank Limited Company*), a commercial bank based in Inner Mongolia, for a consideration of RMB57,900,000. The acquisition constitutes a discloseable transaction of the Group under Chapter 14 of the Listing Rules. Please also refer to the announcement of the Group dated 22nd July 2015 for further details.

* For identification purpose only

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted written guidelines regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standard of dealings and the said guidelines regarding Directors' securities transactions during the six months ended 30th June 2015.

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, and the interim results of the Group for the period ended 30th June 2015.

AUDITOR

PricewaterhouseCoopers, the auditor of the Company has reviewed these unaudited interim financial information of the Group for the period ended 30th June 2015.

DIRECTORS' AND MANAGEMENT SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Each of the Directors or the management shareholders of the Company and their respective associates (as defined in the Listing Rules) has confirmed that none of them had any business or interest in any company that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the six months ended 30th June 2015.

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board had reviewed the Company's corporate governance practices and was satisfied that the Company had been in compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules during the six months ended 30th June 2015.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2015.

By order of the Board
HC International, Inc.
Guo Jiang
Chief Executive Officer and Executive Director

Beijing, PRC, 25th August 2015

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

Mr. Guo Fansheng (*Executive Director and Chairman*)
Mr. Guo Jiang (*Executive Director and Chief Executive Officer*)
Mr. Lee Wee Ong (*Executive Director and Chief Financial Officer*)
Mr. Li Jianguang (*Non-executive Director*)
Mr. Guo Wei (*Non-executive Director*)
Mr. Zhang Ke (*Independent non-executive Director*)
Mr. Xiang Bing (*Independent non-executive Director*)
Mr. Zhang Tim Tianwei (*Independent non-executive Director*)