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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 2017

FINANCIAL HIGHLIGHTS

- **Revenue** was approximately **RMB1,342.6 million**, increased by approximately RMB876.8 million, or increased 188.3%, when compared to approximately RMB465.8 million recorded for the corresponding period in 2016.
- The Group's **EBITDA*** was approximately **RMB333.8 million**, increased RMB264.9 million, or increased 384.5% from RMB68.9 million in the first half year of 2016.
- **Profit Attributable to Equity Holders** of the Company was approximately **RMB107.5 million** during the first half year of 2017, while it was approximately RMB29.0 million in the same period of 2016, representing an increase of 270.1%.
- The **Diluted EPS** was **RMB0.1039**, increased by approximately 233.0%, when compared to RMB0.0312, on a year-on-year basis.
- The Board has declared an interim dividend of **HKD0.02** per share for the six months ended 30th June 2017.

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

* For identification only

UNAUDITED INTERIM RESULTS

The board (the "Board") of 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 2017, together with the comparative figures for the corresponding periods ended 30th June 2016 to the shareholders of the Company.

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30th June	
	Note	2017	2016
		RMB'000	RMB'000
Revenue	3	1,342,619	465,769
Cost of revenue	4	(682,582)	(43,295)
Other income		22,655	6,561
Other gains, net		66,866	30,381
Selling and marketing expenses	4	(327,915)	(315,322)
Administrative expenses	4	(173,860)	(137,033)
Operating profit		247,783	7,061
Finance cost, net	5	(39,616)	(8,344)
Share of post-tax losses of associates		(6,344)	(4,560)
Share of post-tax profits of joint ventures		14,801	11,244
Profit before income tax		216,624	5,401
Income tax (expense)/credit	6	(68,524)	3,338
Profit for the period		148,100	8,739
Other comprehensive income and item that may be reclassified to profit or loss:			
Fair value (loss)/gain on available for sale financial assets		(68,300)	50,694
Fair value release on disposal of available-for-sale financial assets		(28,605)	(19,307)
Currency translation difference		10,243	(9,335)
Total comprehensive income for the period		61,438	30,791

		Unaudited	
		Six months ended 30th June	
	<i>Note</i>	2017	2016
		RMB'000	<i>RMB'000</i>
Profit attributable to:			
– Equity holders of the Company		107,520	29,048
– Non-controlling interests		40,580	(20,309)
		148,100	8,739
Total comprehensive income attributable to:			
– Equity holders of the Company		20,858	51,100
– Non-controlling interests		40,580	(20,309)
		61,438	30,791
Earnings per share attributable to the equity holders of the Company during the period (expressed in RMB per share)			
Basic earnings per share:	7	0.1074	0.0315
Diluted earnings per share:	7	0.1039	0.0312

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		Unaudited 30th June 2017 RMB'000	Audited 31st December 2016 RMB'000
ASSETS			
Non-current assets			
Land use rights	9	169,040	171,408
Investment properties	9	651,216	660,345
Property, plant and equipment	9	297,615	309,516
Intangible assets	9	1,846,183	1,521,619
Long-term deposits, prepayments and other receivables	11	9,942	32,011
Deferred income tax assets		13,208	11,386
Investments accounted for using equity method		591,980	579,023
Available-for-sale financial assets		66,158	484,071
Financial asset at fair value through profit or loss		4,200	4,600
Total non-current assets		3,649,542	3,773,979
Current assets			
Completed properties held for sale		193,819	364,617
Deferred expense		56,446	81,351
Current portion of financial leases receivables		326,888	352,327
Deposits, prepayments and other receivables	11	250,399	172,711
Trade receivables	11	242,154	154,989
Loans and interest receivables		95,044	–
Inventories		77,754	3,590
Available-for-sale financial assets		436,000	212,646
Financial assets at fair value through profit or loss		169,094	172,686
Cash and cash equivalents		611,997	963,523
Total current assets		2,459,595	2,478,440
Total assets		6,109,137	6,252,419
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital		93,687	93,885
Other reserves		2,241,680	2,307,761
Retained earnings		649,931	587,143
		2,985,298	2,988,789
Non-controlling interests		324,781	279,354
Total equity		3,310,079	3,268,143

	<i>Note</i>	Unaudited 30th June 2017 RMB'000	Audited 31st December 2016 RMB'000
LIABILITIES			
Non-current liabilities			
Non-current portion of bank borrowings	13	–	127,376
Non-current portion of other borrowings	13	14,028	22,206
Deferred government grants		180,583	185,508
Deferred income tax liabilities		132,108	144,654
Receipt in advance		40,282	40,282
Financial liabilities at fair value through profit or loss		118,126	27,123
Total non-current liabilities		485,127	547,149
Current liabilities			
Current portion of finance lease obligations		39	158
Trade payables	12	22,096	7,916
Accrued expenses and other payables		213,854	216,882
Deferred revenue		211,138	244,367
Current portion of bank borrowings	13	851,304	724,528
Current portion of other borrowings	13	18,362	9,372
Deferred government grants		26,200	14,500
Receipt in advance		174,394	453,540
Issued convertible bonds – liabilities portion		642,001	654,743
Financial liabilities at fair value through profit or loss		52,474	14,377
Other taxes payables		28,289	36,898
Income tax payables		73,780	59,846
Total current liabilities		2,313,931	2,437,127
Total liabilities		2,799,058	2,984,276
Total equity and liabilities		6,109,137	6,252,419

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited Attributable to equity holders of the Company				Non- controlling interests	Total
	Share capital	Other reserves	Retained earnings	Sub-total		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as at 1st January 2017	93,885	2,307,761	587,143	2,988,789	279,354	3,268,143
Profit for the period	-	-	107,520	107,520	40,580	148,100
Other comprehensive income:						
Fair value losses on available-for-sale assets, net of deferred tax	-	(68,300)	-	(68,300)	-	(68,300)
Fair value release on disposal of available-for-sale financial assets, net of deferred tax	-	(28,605)	-	(28,605)	-	(28,605)
Currency translation difference	-	10,243	-	10,243	-	10,243
Total comprehensive income for the period ended 30th June 2017	-	(86,662)	107,520	20,858	40,580	61,438
<hr style="border-top: 1px dashed black;"/>						
Transactions with owners:						
Non-controlling interest arising on business combination	-	-	-	-	297	297
Issuance of shares in related to contingent consideration arrangement	358	24,300	-	24,658	-	24,658
Buy-back shares	(556)	(25,169)	(556)	(26,281)	-	(26,281)
Share based compensation-value of employee services	-	21,450	-	21,450	-	21,450
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	4,550	4,550
Dividend payable related to 2016	-	-	(44,176)	(44,176)	-	(44,176)
Balance as at 30th June 2017	93,687	2,241,680	649,931	2,985,298	324,781	3,310,079

**Unaudited
Attributable to equity holders
of the Company**

	Share capital <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Sub-total <i>RMB'000</i>	Non- controlling interests <i>RMB'000</i>	Total <i>RMB'000</i>
Balance as at 1st January 2016	85,090	1,976,484	405,359	2,466,933	132,013	2,598,946
Profit for the period	–	–	29,048	29,048	(20,309)	8,739
Other comprehensive income:						
Fair value gains on available-for-sale assets, net of deferred tax	–	50,694	–	50,694	–	50,694
Fair value release on disposal of available-for-sale financial assets, net of deferred tax	–	(19,307)	–	(19,307)	–	(19,307)
Currency translation difference	–	(9,335)	–	(9,335)	–	(9,335)
Total comprehensive income for the period ended 30th June 2016	–	22,052	29,048	51,100	(20,309)	30,791
Transactions with owners:						
Issuance of shares in accordance to contingent consideration arrangement	8,045	304,561	–	312,606	–	312,606
Exercise of share options	1,279	10,429	–	11,708	–	11,708
Share based compensation-value of employee services	–	14,623	–	14,623	–	14,623
Non-controlling interest arising on business combination	–	–	–	–	14,085	14,085
Capital contribution from non-controlling shareholders of subsidiaries	–	–	–	–	16,650	16,650
Change in ownership interest in subsidiary without loss of control	–	50,000	–	50,000	3,333	53,333
Balance as at 30th June 2016	94,414	2,378,149	434,407	2,906,970	145,772	3,052,742

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

During the six months ended 30th June 2017, retained earnings amounted approximately RMB14,118,000 (30th June 2016: RMB3,498,000) had been transferred to the statutory reserves. As at 30th June 2017, retained earnings comprise statutory reserve fund amounting to RMB101,874,000 (30th June 2016: RMB67,414,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

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

The core business of the Company and its subsidiaries (collectively, the "Group") is to organise a business-to-business ("B2B") community across the People's Republic of China (the "PRC") by providing business information through both online and offline channels.

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

- Providing industrial search result prioritising services through its B2B website "hc360.com" and offering comprehensive IT-related product information by "zol.com.cn";
- Providing cross-industrial integrated marketing platforms development services;
- Providing trading and agency services through its B2B trading platforms by "ibuychem.com";
- Publishing its own trade catalogues and yellow page directories;
- Hosting exhibitions and seminar;
- Providing anti-counterfeiting products and services to enterprises;
- Providing finance leasing and factoring services;
- Engaging in micro-credit internet financing business through its joint venture;
- Sale of properties and provision of property rental and management services via its O2O business exhibition centre.

The condensed consolidated interim financial information are presented in Renminbi ("RMB"), unless otherwise stated. The interim condensed consolidated financial information has been approved for issue by the Board on 28th August 2017.

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

The comparative information for the condensed consolidated interim statement of financial position is based on the audited financial statements as at 31st December 2016. The comparative information for the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows, and related explanatory notes, for the period ended 30th June 2016 has not been audited or reviewed.

Significant events and transactions

During the period ended 30th June 2017, the Group completed the acquisition of the entire equity interest of Huijia Yuantian Limited, which in turn holds entire equity interest of Beijing Huijia Yuantian Advertisement Media Company Limited ("北京慧嘉元天文化傳媒有限公司" or "Beijing Huijia"). The acquiree through its subsidiaries are principally engaged in provision of marketing and public relations services mainly via mobile terminal in the PRC. The result from Huijia has been reflected in the "online services" and "Seminars and other services" segment.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30th June 2017 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 2016, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”).

3 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 2017, the Group is organised into the following business segments:

- (i) Trade catalogues and yellow page directories – provision of trade information through trade catalogues and yellow page directories operated/published by the Group.
- (ii) Online services – provision of a reliable platform and digital interactive media marketing tools to customers to do business and meet business partners online.
- (iii) Seminars and other services – services for hosting of seminars.
- (iv) O2O business exhibition centre – sales of properties and provision of property rental and management services.
- (v) B2B trading platform – provision of trading and agency services via its B2B trading platform.
- (vi) Anti-counterfeiting products and services – provision of products meticulous digital identity management services, consumer goods tracing and anti-counterfeiting services to enterprise.
- (vii) Financing services – provision of financing leasing and factoring service via its subsidiaries and engaged in micro-credit internet financing business via its joint venture in the PRC.

There were no sales or other transactions between the business segments for the period ended 30th June 2017 and 2016.

	Unaudited Six months ended 30 June 2017							Total RMB'000
	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	B2B trading platform RMB'000	Anti-counterfeiting products and services RMB'000	Financing services RMB'000	
Revenue	1,320	436,683	78,295	301,617	466,418	48,042	10,244	1,342,619
Segment results	(47)	58,232	12,073	78,068	1,376	(1,502)	10,062	158,262
Share of post-tax losses of associates		(3,780)		(2,095)		(469)		(6,344)
Share of post-tax profits of joint ventures							14,801	14,801
Other income								22,655
Other gains, net								66,866
Finance income, net								(39,616)
Profit before income tax								216,624
Depreciation and amortisation	80	35,859	5,021	12,092	52	3,039	8	56,151
Share based compensation expenses	9	18,324	757	2,287	-	-	73	21,450

	Unaudited Six months ended 30 June 2016							Total RMB'000
	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	B2B trading platform (Note a) RMB'000	Anti-counterfeiting products and services RMB'000	Financing services RMB'000	
Revenue	6,124	340,623	46,243		47,270	22,667	2,842	465,769
Segment results	(3,088)	1,744	1,546	(25,583)	51	(8,452)	2,741	(31,041)
Share of post-tax losses of associates		(2,179)		(2,434)		53		(4,560)
Share of post-tax profits of joint ventures							11,244	11,244
Other income								6,561
Other gains, net								32,563
Finance income, net								(8,344)
Profit before income tax								5,401
Depreciation and amortisation	200	33,367	3,665	133	20	3,147		40,532
Share based compensation expenses	252	13,016	1,053	110		192		14,623

The Group is domiciled in the PRC. For the six months ended 30th June 2017, all the sales to external customers are in the PRC (2016: same).

- a) The segment result of B2B trading platform for the six months ended 30th June 2016 was included in On-line services.

4 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	
	2017	2016
	RMB'000	RMB'000
Cost of properties sold	169,487	–
Direct expenses of B2B trade platform	462,887	46,797
Marketing and consultancy expenses	84,535	94,174
Amortisation of land use rights (Note 9)	2,368	213
Amortisation of intangible assets (Note 9)	31,041	25,077
Depreciation of property, plant and equipment (Note 9)	13,613	15,242
Amortisation of investment properties (Note 9)	9,129	–
Employee benefits expenses, including directors' emoluments	200,392	180,045
Provision for impairment of loan and interest receivables	1,430	–
Provision/(reversal of) for impairment and direct write-off of trade and other receivables	4,021	(4,434)
Operating lease payments in respect of land and buildings	28,807	15,087

5 Finance cost, net

	Unaudited	
	Six months ended 30th June	
	2017	2016
	RMB'000	RMB'000
Interest expense:		
– Bank borrowings	(25,421)	(14,967)
– Other borrowings	(812)	(1,142)
– Convertible bonds	(24,080)	(22,770)
– Others	(2,262)	(70)
Finance cost	(52,575)	(38,949)
Less: amounts capitalised on qualifying assets	–	4,734
Total finance cost	(52,575)	(34,215)
Finance income	12,959	25,871
Finance cost, net	(39,616)	(8,344)

6 Income tax (expense)/credit

	Unaudited	
	Six months ended 30th June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense		
– Hong Kong Profits Tax (i)	–	–
– PRC Corporate Income Tax (ii)	(44,292)	(10,893)
– PRC Land Appreciation Tax (iii)	(12,421)	–
– PRC Withholding Tax (iv)	(22,800)	–
Deferred income tax credit/(expense)		
– PRC Corporate Income Tax	15,568	14,231
– PRC Withholding Tax (v)	(4,579)	–
Income tax (expense)/credit	(68,524)	3,338

(i) No Hong Kong Profits Tax has been provided as there is no assessable profits arising in Hong Kong for the period (2016: Nil).

(ii) The PRC Corporate Income Tax represents taxation charged on assessable profits for the period at the rates of taxation prevailing in the cities in the PRC in which the Group operates.

The tax rate applicable to the subsidiaries in the PRC is 25%, except for certain subsidiaries of the Group in PRC granted with preferential tax treatment as High and New Technology Enterprise of which the applicable tax rates is 15% for a 3-year period from 2016 to 2019 according to the applicable CIT law.

(iii) The PRC Land Appreciation Tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including land use right and all property development expenditures

(iv) According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to foreign investors with respect to profits derived after 1st January 2008 are generally subject to a 10% withholding tax. For the period ended 30th June 2017, the Group has recognised and paid withholding tax of RMB22,800,000 (30th June 2016: Nil) in relation to the dividend of a subsidiary declared in 2016.

(v) As at 30th June 2017, the Group recognised the relevant deferred tax liabilities of RMB4,579,000 (31st December 2016: Nil) on earnings anticipated to be remitted by a subsidiary in the foreseeable future. Deferred income tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries totaling RMB108,639,000 at 30th June 2017 (31st December 2016: RMB93,879,000). Such amounts are considered by the directors to be permanently reinvested.

7 Earnings per share

	Unaudited	
	Six months ended 30th June	
	2017	2016
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	107,520	29,048

	Unaudited	
	Six months ended 30th June	
	2017	2016
	No. of Shares	No. of Shares
	'000	'000
Weighted average number of shares in issue	1,000,863	922,693
Incremental shares from assumed exercise of share options granted	33,809	8,716
Diluted weighted average number of shares	1,034,672	931,409

	Unaudited	
	Six months ended 30th June	
	2017	2016
Basic earnings per share (in RMB)	0.1074	0.0315
Diluted earnings per share (in RMB)	0.1039	0.0312

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

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

8 Dividends

A final dividend in respect of the year ended 31st December 2016 of HK\$0.05 (2015: Nil) was proposed pursuant to a resolution passed by the Board on 28th March 2017 and approved by the shareholders at the annual general meeting on 26th May 2017. Such dividend amounting to approximately RMB44,176,000 was payable as at 30th June 2017.

On 28th August 2017, the Board has declared an interim dividend of HKD0.02 per share for the six months ended 30th June 2017 and the interim dividend will be payable on or around 29th September 2017 to the shareholders of the Company whose names appear on the register of members of the Company on 14th September 2017.

Such interim dividends are not reflected as dividend payables in the Group's interim financial information for the period, but will be reflected as an appropriation of retained profits for the year ending 31st December 2017.

9 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>	Investment Properties <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Goodwill <i>RMB'000</i>
Opening net book amount as at 1st January 2017	309,516	171,408	660,345	452,632	1,068,987
Additions	4,181	–	–	9	–
Acquisition of subsidiaries (Note 10)	379	–	–	105,500	250,096
Disposals	(948)	–	–	–	–
Depreciation and amortisation	(13,613)	(2,368)	(9,129)	(31,041)	–
Government grant received	(1,900)	–	–	–	–
Closing net book amount as at 30th June 2017	297,615	169,040	651,216	527,100	1,319,083
Opening net book amount as at 1st January 2016	291,073	176,145	510,551	431,161	1,030,561
Additions	25,545	–	77,683	444	–
Acquisition of subsidiaries	1,281	–	–	69,900	38,426
Interest capitalised	–	–	2,367	–	–
Disposals	(1,353)	–	–	–	–
Depreciation and amortisation	(15,242)	(213)	–	(25,077)	–
Government grant received	(1,850)	–	–	–	–
Amortisation charge capitalised in investment properties	–	(2,155)	2,155	–	–
Closing net book amount as at 30th June 2016	299,454	173,777	592,756	476,428	1,068,987

The investment properties are carried at cost. An independent valuation of the Group's investment properties was performed by Vigers Appraisal and Consulting Limited and determined the fair value of the investment properties amounting to RMB1,152,000,000 as at 30th June 2017 (31st December 2016: RMB1,192,000,000). Fair value of the investment properties is derived essentially a means of valuing the completed properties by assuming sale of each of these properties in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and with adjustments to valuer's interpretation on the difference in factors such as location and property size.

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

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

At each financial period end, finance department

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

10 Business combinations

Huijia Yuantian Limited

On 13th January 2017, Mu Hao Holdings Limited, Hong Rui Technology Holdings Limited, Chance Technology Co., Ltd and Vanguard Technology Holdings Limited (Collectively, the "HJ Sellers"), the Company and Mr. Zou Kai (鄒凱), Mr. Hong Chaoran (洪超然), Ms. Wang Fei (王菲) and Mr. Sun Yi (孫毅) (collectively, the "HJ Seller Guarantors") entered into the sale and purchase agreement, pursuant to which the HJ Sellers have conditionally agreed to sell, and the Company has conditionally agreed to acquire the entire issued share capital of Huijia Yuantian Limited, for an aggregate consideration of RMB362,000,000. Part of the consideration amounting to RMB162,652,000 in cash and the remaining portion was settled by issuance and allotment of convertible bonds which are subject to downward adjustments stipulated in the sale and purchase agreement.

On 3rd February 2017, all the conditions precedent under the sale and purchase agreement have been fulfilled and the entire shares of Huijia Yuantian Limited have been transferred to the Company and the acquisition has been completed, which the Group has acquired the control over Huijia Yuantian Limited as the Group has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the variable returns.

The goodwill of RMB250,096,000 arising from the acquisition is attributable to the synergies from combining the operations of the Group and Huijia Yuantian Limited. None of the goodwill recognised is expected to be deductible for income tax purpose.

The following table summarises the consideration paid for Huijia Yuantian Limited, the fair value of assets acquired and liabilities assumed at the acquisition date.

Consideration: At 3rd February 2017	RMB'000
Cash	162,652
Financial liabilities at fair value through profit or loss	182,200
Total consideration transferred	344,852
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	3,753
Property, plant and equipment (Note 9)	379
Trade and other receivables	5,645
Intangible assets – technology knowhow (Note 9)	105,500
Trade and other payables	(4,266)
Deferred tax liabilities	(15,825)
Income tax payable	(133)
Total identifiable net assets	95,053
Non-controlling interests	(297)
Goodwill (Note 9)	250,096
	344,852

Acquisition-related costs RMB205,000 (have been charged to the general and administrative expenses in the consolidated comprehensive income statement for the period ended 30th June 2017).

	3rd February 2017 RMB'000
Cash consideration	162,652
Cash and equivalent in subsidiaries acquired	(3,753)
Outflow of cash to acquire business, net of cash acquired	158,899

Revenue and profit contribution

The acquired business contributed revenue of RMB50,464,000 and net profit of RMB11,496,000 to the Group for the period from 3rd February 2017 to 30th June 2017. If acquisition had occurred on the 1st January 2017, consolidated revenue and consolidated profit for the six months ended 30th June 2017 would have been RMB1,342,785,000 and RMB145,988,000 respectively.

Huijia Performance Targets and adjustment mechanism

Approximately RMB198,797,000 (equivalent to HK\$225,000,000) of the Consideration is subject to downward adjustments on the basis of the performance targets to each of the HJ Sellers. In the event that the performance targets are achieved in each of the performance undertaking years, the following principal amounts of the convertible bonds will be allotted and issued to each of the HJ Sellers:

Pursuant to the sale and purchase agreement, the HJ Seller Guarantors jointly, severally and irrevocably covenant and undertake to the Company that the audited consolidated distributable profit (after-tax) of Beijing Huijia shall achieve the Performance Targets for the relevant Performance Undertaking Years:

Financial year	Performance Targets
Year ending 31st December 2017 ("First Performance Undertaking Year")	RMB20,000,000
Year ending 31st December 2018 ("Second Performance Undertaking Year")	RMB26,000,000
Year ending 31st December 2019 ("Third Performance Undertaking Year")	RMB33,800,000

By the end of each Performance Undertaking Year, the Company shall procure the Huijia Yuantian Limited to prepare the audited consolidated financial statements of Beijing Huijia (the "Audited HJ Financial Statements") in accordance with HKFRSs, and provide the HJ Sellers with the Audited HJ Financial Statements within 90 days from the end of the relevant Performance Undertaking Year.

As at 3rd February 2017, financial liabilities at fair value through profit or loss of approximately RMB182,200,000 in relation to this arrangement were recognised in the consolidated statement of financial position based on the performance adjustment mechanism.

11 Trade receivables, deposits, prepayments and other receivables

	Unaudited 30th June 2017 RMB'000	Audited 31st December 2016 RMB'000
Trade receivables (<i>Note a</i>)	253,818	162,632
Less: provision for impairment of trade receivables	(11,664)	(7,643)
Trade receivables – net	242,154	154,989
Deposits, prepayments and other receivables	230,781	175,898
Loans to employees	29,560	28,824
	502,495	359,711
Less: Non-current deposit, prepayments and other receivables	(9,942)	(32,011)
Current portion	492,553	327,700

- (a) The Group generally grants a credit period of 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 30th June 2017 RMB'000	Audited 31st December 2016 RMB'000
Current to 90 days	167,373	98,603
91 to 180 days	44,100	37,608
181 to 365 days	32,181	20,183
Over 1 year	10,164	6,238
	253,818	162,632

12 Trade payables

The aging analysis of the trade payables are as follows:

	Unaudited 30th June 2017 RMB'000	Audited 31st December 2016 RMB'000
Current to 90 days	20,084	6,136
91 to 180 days	1,227	1,163
181 to 365 days	482	395
Over 1 year	303	222
	22,096	7,916

13 Borrowings

	Unaudited 30th June 2017 RMB'000	Audited 31st December 2016 RMB'000
Non-current portion:		
Bank borrowings	–	127,376
Other borrowings	14,028	22,206
Total non-current borrowings	14,028	149,582
Current portion:		
Bank borrowings	851,304	724,528
Other borrowings	18,362	9,372
Total current borrowings	869,666	733,900
Total borrowings	883,694	883,482

Movements in borrowings are analysed as follows:

	Unaudited 30th June 2017 RMB'000	Unaudited 30th June 2016 RMB'000
Six months ended 30th June		
Opening amount as at 1st January	883,482	527,309
Additions of principal and interest	40,633	259,515
Repayments of principal and interest	(40,421)	(99,313)
Closing amount as at 30th June	883,694	687,511

Bank borrowings mature in 2018 and bear average interest rate of 5.9% per annum (31st December 2016: 5.95% per annum), part of which amounting to RMB160,000,000 (31st December 2016: RMB160,000,000) are secured by certain properties and land use right amounting to RMB250,831,000 (31st December 2016: RMB257,271,000).

Other borrowings are provided by the non-controlling shareholders of a subsidiary of the Group for the investment in an associate. The borrowings are unsecured, mature until 2018 and bear average interest rate of 6.3% per annum (31st December 2016: 6.4% per annum). The carrying amounts of borrowings approximate their fair values and are denominated in RMB.

The Group's borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	30th June 2017 RMB'000	31st December 2016 RMB'000	30th June 2017 RMB'000	31st December 2016 RMB'000
Within 1 year	851,304	724,528	18,362	9,372
Between 1 and 2 years	–	127,376	11,544	19,792
Between 2 and 5 years	–	–	2,484	2,414
	851,304	851,904	32,390	31,578

As at 30th June 2017, the Group has undrawn banking facilities amounting to approximately RMB2,624,000 (31st December 2016: RMB12,624,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue Analysis	On-line services <i>RMB'000</i>	Trade catalogues and yellow page directories <i>RMB'000</i>	Seminars and other services <i>RMB'000</i>	Anti-counterfeiting products and services <i>RMB'000</i>	O2O business exhibition centre <i>RMB'000</i>	B2B trading platform <i>RMB'000</i>	Financing services <i>RMB'000</i>	Total <i>RMB'000</i>
First half of 2017	436,683	1,320	78,295	48,042	301,617	466,418	10,244	1,342,619
First half of 2016	340,623	6,124	46,243	22,667	-	47,270	2,842	465,769
Variance	28.2%	(78.4%)	69.3%	111.9%	N/A	886.7%	260.5%	188.3%

During the period, the Group recorded a revenue of approximately RMB1,342.6 million (2016: RMB465.8 million).

The above table shown the revenue breakdown of the Group.

The revenue was derived from the segments of online services, trade catalogues and yellow page directories, seminars and other services, anti-counterfeiting products and services, B2B trading platform and financing services.

The Group increased its selling and marketing expenses from approximately RMB315.3 million for the half year ended 30th June 2016 to approximately RMB327.9 million in the same period of 2017 which was mainly due to the increase of salaries, commissions and marketing expenses.

The Group's profit attributable to equity holders had increased to approximately RMB107.5 million for the six months ended 30th June 2017, increased 270.1% from the same period last year, the Board believes that the aforesaid increase is mainly due to the stable growth of income from on-line business of the group in general, the recognition of certain income from O2O business exhibition center and the disposal gain recorded from the sale of available-for-sale financial assets.

Business Review

In 2017, benefited from positive impact via industry structural reforms, information and advertising services of B2B1.0 has been developing steadily, at the meantime, the B2B2.0 vertical-industry trading platform has been growing rapidly. Leveraging on proactive arranged strategic blueprint and twenty five years' industry experience, the Group continued to promote 2.0 transaction service process of the vertical industry platform in the midst of upgrading the 1.0 information and advertising product.

With the increase in internet traffic and the information channel being more specialized, the SMEs' demand for B2B service platform in the PRC is gradually shifting towards the direction of, among the others, targeted advertising coverage and effective recommended exposure. In the first half of 2017, the Group continued to focus on renewing the internet technology services, including the SAAS application, "Youke (慧聰友客)", which functions is to intelligently acquire the customer's clues and to incorporate them into the customer relationship management, and to upgrade innovative projects such as the result-oriented payment P4P products "Hu-Tong-Bao (互通寶)".

In aligning with the marketing strategy of the PC end product, the Group is actively grasping the B2B business opportunities arising from the mobile end. In February 2017, the Group completed the acquisition of the entire issued share capital of Huijia Interactive (慧嘉互動), which is principally engaged in building cross-industrial integrated marketing platforms for its clients. To that end, Huijia Interactive has been developing digital interactive media marketing tools with mobile terminal as the carriers. By leveraging the Group's extensive knowledge about the industry and through an open mobile platform, the Group is developing a technological system for the SMEs in different industries. The Company believed that the commercial values of precision marketing, e-commerce and distribution as well as interactive media can be achieved. The successful merger between the Group and Huijia Interactive has facilitated the matching between the subscribers of the Group (being a customer or a supplier) and the customers and business network of Huijia Interactive. At the same time, the merger also allowed the Group to have a wider and deeper access to different groups of customers.

With the development of B2B1.0 business and launch of mobile-end high-technology driven marketing products supported by Huijia Interactive, for the first half of 2017, the B2B1.0 revenue (including online products, trade catalogues and yellow page, offline seminars) accounted to approximately RMB516 million, which grew by approximately 31.3% as compared to RMB393 million in the same period of last year.

As the traditional banking industry has adopted credit policy that limited to approval and loan terms towards the SMEs, the demand for supply chain financing for the SMEs continued to increase in the first half of 2017 whilst the domestic trading economy has been growing with a steady pace.

In September 2014, the Group jointly established Chongqing Digital China Huicong Micro-Credit Co., Ltd* 重慶神州數碼慧聰小額貸款公司 (hereinafter defined as “Chongqing Micro-Credit”), with its substantial shareholder, Digital China Holdings Limited. In the first half of 2017, the Group continued to deploy resources to assist customers in completing single or combined financing scheme such as trade loans, credit loans and position management. In June 2017, the Group announced framework agreement that with Digital China Holding Limited that to acquire the remaining shares of 60% of Chongqing Micro-Credit. The Group would hold 100% of Chongqing Micro-Credit after the deal completion, with great advantages in speeding the growth of the business and create more profit for the Group’s shareholders.

Despite the Chongqing Micro-Credit, the Group established Huicong Finance Leasing Company Limited and Tianjin Huicong Commercial Factoring Company Limited in September 2015 and April 2017, respectively. The development of micro-loan, finance lease and factoring businesses have also made significant contributions to the internet financial sector of the Group which formed good interaction with other sectors. On 30th June 2017, the balance of the Group’s internet finance cluster was RMB1.82 billion.

The Group established a household electrical appliance business exhibition center in Shunde Guangdong province, which commenced operation successfully on 18th March 2016. The centre is the first domestic O2O mall of a B2B nature also the first project in small electrical household appliances industry that provide close-lope trading services including information and advertisement, on-site purchase experience, online transaction, logistic services with cooperative parties and aided finance products. On 29th July 2017, the first “Intelligent Store” at the mall commenced operation. The B2B2C sales channel is revealed in the form of O2O model, which formed the first step for self-operation trading platform for household electrical appliances.

In the first half of 2017, thanks to more than 10 platforms including those for household appliances, machinery, plastics, electronic devices and hardware tools, the Group has assisted the SMEs to complete GMV amounting to approximately RMB43.2 billion. While it was approximately RMB15.2billion in the first half of 2016, representing an increase of approximately 184% year on year.

Based on the strategic review of B2B industry and foreseeing business plan, the Company had enjoyed initial achievements on market position, compatibility and financial position. We are confident to our future and believe current business plan would continue to become the growth driver for revenues and profits with endless effort from all levels of the Group.

Liquidity and financial resources

As at 30th June 2017 the Group had cash and bank balance of approximately RMB612.0 million and net current assets of approximately RMB143.7 million. The Group maintained a strong working capital position during the six months ended 30th June 2017.

The net cash outflow from operating activities was 276 million for the first half year of 2017, mainly attributable to the increase in investment in financing and self-operated mall business. Among which, the Group has invested 95.4 million and 80.6 million in cash for the commencement of the operation of factoring business and the continuous expansion of the development of self-operated mall business during the first half of the year, respectively. In addition, the O2O business exhibition income recognized for the current period of 296.0 million did not generated cash inflow during the current period, and the balance and taxes in relation to the construction paid during the period were 66.1 million in aggregate.

The Group had short-term loans amounting to approximately RMB869.7 million as at 30th June 2017 (including financial lease obligations). As at 30th June 2017, the gearing ratio of the Group was 22% (December 2016: 15%), 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 decreased by approximately RMB41.4 million from approximately RMB1,740.0 million as at 31st December 2016 to approximately RMB1,698.6 million as at 30th June 2017.

Significant investments

Saved as disclosed in this announcement, the Group had no significant investments during the six months ended 30th June 2017.

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 2017.

Staff

The continued success of the Group relies on the skills, motivation and commitment of its staff. As at 30th June 2017, the Group had 2,851 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 2017, 4,042,750 shares of the Company (“Shares”) were issued upon the conversion of the convertible bonds vested to the respective vendors upon fulfilment of the first year performance undertaking of the share transaction in relation to acquisition of ZhongFu Holdings Limited.

During the six months ended 30th June 2017, 4,844,000 shares repurchased by the Company but have not yet been cancelled.

The total number of issued Shares was 1,002,050,853 as at 30th June 2017.

As of 30th June 2017, 14,964,000 options under the share option scheme (if exercised, 14,964,000 shares may be issued) and convertible bonds (which if fully converted, 105,177,436 shares (subject to adjustment) may be issued) remain outstanding.

Please refer to the section headed “Subsequent Events” in this announcement for further details.

Charges on Group assets

As at 30th June 2017, the Group has bank borrowings amounting to RMB160.0 million which are secured by certain properties and land use rights.

Exchange risk

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

Contingent liabilities

Saved as the financial liabilities at fair value through profit or loss in the condensed consolidated interim financial information, the Group had no material contingent liabilities as at 30th June 2017.

Material acquisition and disposal

Major and connected transaction – Acquisition of the remaining equity interests in Chongqing Digital China Huicong Micro-Credit Co., Ltd and Digital China’s subscription of the Company’s new shares under a specific mandate

On 19th May 2017, the Company, Digital China Holdings Limited (“Digital China”, a company listed on the Main Board of the Stock Exchange (stock code: 00861), and a substantial shareholder of the Company), Beijing Huicong Internet Information Technology Co., Ltd* (北京慧聰互聯信息技術有限公司) (“Beijing Huicong Internet”, a wholly-owned subsidiary of the Company) (as purchaser) and Digital China Investments Limited* (神州投資有限公司) (“Digital China Investments”, an indirectly wholly-owned subsidiary of Digital China”) (as vendor) entered into a formal sale and purchase agreement (the “Formal SPA”) in relation to the acquisition of the remaining 60% equity interest (the “Sale Shares”) in Chongqing Digital China Huicong Micro-Credit Co., Ltd* (重慶神州數碼慧聰小額貸款有限公司) (“Chongqing Micro-Credit”) as contemplated under a framework agreement entered into between Digital China and the Company on 24th April 2017 (the “Acquisition”).

Chongqing Micro-Credit is a company established in the PRC and is indirectly owned as to 40% by the Company and 60% by Digital China through their respective wholly-owned subsidiaries. The Acquisition will enhance the development and expansion potential of the Group’s financial service cluster by providing more comprehensive services to small and medium size corporate customers in respect of supply chain and transaction funds etc.

Pursuant to the Formal SPA, Beijing Huicong Internet has conditionally agreed to purchase and Digital China Investments has conditionally agreed to sell the Sale Shares for a consideration of RMB1,083,637,320 (equivalent to HK\$1,227,000,000) (the “Consideration”). The Consideration is to be settled in cash by Beijing Huicong Internet within six months after the execution of the first equity transfer agreement to be executed between Beijing Huicong Internet and Digital China Investments in respect of the Acquisition.

Digital China has undertaken that upon Beijing Huicong Internet transferring any part of the Consideration to Digital China Investments in the PRC, Digital China will within 10 business days pay a sum equal to the said part of the Consideration to the Company in Hong Kong to subscribe for the new shares to be allotted and issued by the Company to Digital China or its designated wholly-owned subsidiary (the “Subscription”) pursuant to the Formal SPA at the issue price of HK\$7.0 each (the “New Shares”).

Upon the Purchaser paying the whole Consideration, a total of 175,285,714 New Shares shall have been subscribed by Digital China or its designated wholly-owned subsidiary.

The Acquisition constituted a major transaction of the Company. As Digital China is a substantial shareholder of the Company, the Acquisition and the Subscription constituted connected transactions of the Company. Completion to the above transactions are subject to the fulfilment of the conditions precedent as set out in the Formal SPA and the equity transfer agreement(s) to be executed between Beijing Huicong Internet and Digital China Investments in respect of the Acquisition in one batch or in stages as required by laws and regulations of People's Republic of China.

As of the date of this announcement, the Acquisition and the Subscription have not been completed in whole or in part.

Further details of the Acquisition and the Subscription are set out in the announcements of the Company dated 17th August 2016, 24th April 2017 and 19th May 2017 and the circular of the Company dated 27th June 2017.

Please also refer to the section headed "Subsequent Events" in this announcement for further details of the Acquisition and the Subscription.

Subsequent Events

Major and connected transaction – Acquisition of the remaining equity interests in Chongqing Digital China Huicong Micro-Credit Co., Ltd and Digital China's subscription of the Company's new shares under a specific mandate

Reference is made to the section headed "Material acquisition and disposal: Major and connected transaction – Acquisition of the remaining equity interests in Chongqing Digital China Huicong Micro-Credit Co., Ltd and Digital China's subscription of the Company's new shares under a specific mandate" of this announcement.

On 14th July 2017, the ordinary resolutions in relation to the Acquisition and the Subscription as set out in the notice of extraordinary general meeting dated 27th June 2017 were duly passed by the shareholders of the Company.

Further details are set out in the poll results announcement of the Company dated 14th July 2017.

Repurchase of Shares

On 1st August 2017, 4,844,000 Shares repurchased by the Company were cancelled. As at the date of this announcement, the Company has a total number of 997,680,853 ordinary Shares. Further details are set out in the next day disclosure return of the Company dated 1st August 2017.

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 2017.

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. Tang Jie and a non-executive Director, Mr. Li Jianguang. Mr. Zhang Ke is the Chairman of the Audit Committee.

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, and the unaudited interim results of the Group for the period ended 30th June 2017.

AUDITOR

PricewaterhouseCoopers, the auditor of the Company has reviewed these unaudited interim financial information of the Group for the period ended 30th June 2017.

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 2017.

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board had reviewed the Company's corporate governance practices and was satisfied that the Company had been in compliance with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended 30th June 2017.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save as disclosed in this interim announcement, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June 2017.

INTERIM DIVIDEND

The Board has declared an interim dividend of HKD0.02 per share for the six months ended 30th June 2017 and the interim dividend will be payable on or around 29th September 2017 to the shareholders of the Company whose names appear on the register of members of the Company on 14th September 2017.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the shareholders to the interim dividend, the register of members of the Company will be closed from 12th September 2017 to 14th September 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 11th September 2017.

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

Beijing, PRC, 28th August 2017

* *For identification purposes only*

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. Liu Jun (*Executive Director*)
Mr. Li Jianguang (*Non-executive Director*)
Mr. Wong Chi Keung (*Non-executive Director*)
Mr. Zhang Ke (*Independent non-executive Director*)
Mr. Zhang Tim Tianwei (*Independent non-executive Director*)
Mr. Tang Jie (*Independent non-executive Director*)