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# HC GROUP INC.
# 慧聰集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 02280)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

**HIGHLIGHTS**

- Total revenue was approximately RMB10,583.1 million, increased by approximately 185.8%, when compared to RMB3,702.5 million recorded in 2017.
- Profit Attributable to Equity Holders of the Company was approximately 275.6 million in this year, while it was approximately RMB267.8 million in 2017, indicating an increase of approximately 2.9%.
- The Group's EBITDA* was approximately RMB641.2 million, while it was RMB653.1 million in previous year.
- The Diluted EPS for 2018 was RMB0.2458, while it was RMB0.2559 for the year before.
- The Board does not recommend payment of final dividend for the year ended 31 December 2018.

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

The board ("Board") of directors (the "Directors") of HC Group Inc. (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (the "Group" or "HC") for the year ended 31 December 2018 together with the comparative figures for the same period in 2017.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the year ended 31 December 2018*

| | Note | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Revenue | 4 | **10,447,418** | 3,663,094 |
| Interest income from financing services | 4 | **135,693** | 39,372 |
| | | **10,583,111** | 3,702,466 |
| Cost of revenue | | **(9,316,068)** | (2,397,882) |
| Other income | | **35,464** | 44,359 |
| Other gains, net | 5 | **258,181** | 168,255 |
| Selling and marketing expenses | | **(722,858)** | (708,017) |
| Administrative expenses | | **(413,885)** | (304,467) |
| Net impairment losses of financial assets | | **(37,144)** | (53) |
| Operating profit | | **386,801** | 504,661 |
| Finance cost, net | | **(82,380)** | (85,962) |
| Share of post-tax profits/(losses) of associates | | **28,014** | (22,405) |
| Share of post-tax profits of joint ventures | | **–** | 19,774 |
| Profit before income tax | | **332,435** | 416,068 |
| Income tax expense | 6 | **(55,560)** | (98,758) |
| Profit for the year | | **276,875** | 317,310 |
| Other comprehensive income: | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Fair value loss on available-for-sale financial assets | | **–** | (48,875) |
| Fair value release on disposal of available-for-sale financial assets | | **–** | (28,605) |
| Currency translation differences | | **14,913** | 13,724 |
| *Items that will not be reclassified to profit or loss* | | | |
| Fair value loss on financial assets at fair value through other comprehensive income | | **(16,856)** | – |
| Currency translation differences for financial assets through other comprehensive income | | **3,932** | – |
| Total comprehensive income for the year, net of tax | | **278,864** | 253,554 |
| Profit attributable to: | | | |
| Equity holders of the Company | | **275,610** | 267,777 |
| Non-controlling interests | | **1,265** | 49,533 |
| | | **276,875** | 317,310 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)**
*For the year ended 31 December 2018*

| | *Note* | **2018** **RMB'000** | 2017 *RMB'000* |
|---|---|---|---|
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | | **277,599** | 204,021 |
| Non-controlling interests | | **1,265** | 49,533 |
| | | **278,864** | 253,554 |
| Earnings per share attributable to the equity holders of the Company (expressed in RMB per share) | | | |
| Basic earnings per share | *7* | **0.2462** | 0.2651 |
| Diluted earnings per share | *7* | **0.2458** | 0.2559 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
*As at 31 December 2018*

| | Note | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Land use rights | | **161,934** | 166,671 |
| Investment properties | | **623,829** | 642,087 |
| Property, plant and equipment | | **533,787** | 286,358 |
| Intangible assets | | **2,992,052** | 2,376,400 |
| Long term deposits, prepayments and other receivables | *11* | **5,604** | 11,146 |
| Loans and interest receivables | *12* | **103,160** | 304,400 |
| Deferred income tax assets | | **31,292** | 21,115 |
| Investments accounted for using equity method | | **677,808** | 124,583 |
| Available-for-sale financial assets | | **–** | 528,960 |
| Finance lease receivables | | **25,000** | – |
| Financial assets at fair value through other comprehensive income | *10* | **95,247** | – |
| Financial assets at fair value through profit or loss | *10* | **16,758** | – |
| Total non-current assets | | **5,266,471** | 4,461,720 |
| **Current assets** | | | |
| Completed properties held for sale | | **82,500** | 110,750 |
| Deferred expenses | | **–** | 49,335 |
| Inventories | | **354,984** | 142,910 |
| Finance leases receivables | | **63,855** | 155,587 |
| Loans and interest receivables | *12* | **1,419,592** | 1,345,918 |
| Deposits, prepayments and other receivables | *11* | **281,079** | 164,046 |
| Trade receivables | *11* | **512,094** | 290,848 |
| Contract assets | *2.2(c)* | **38,965** | – |
| Available-for-sale financial assets | | **–** | 39,500 |
| Financial assets at fair value through profit or loss | *10* | **740** | 172,021 |
| Restricted bank deposit | | **276,003** | – |
| Cash and cash equivalents | | **471,672** | 401,918 |
| Total current assets | | **3,501,484** | 2,872,833 |
| **Total assets** | | **8,767,955** | 7,334,553 |
| **Equity** | | | |
| **Equity attributable to the Company's equity holders** | | | |
| Share capital | | **103,625** | 100,740 |
| Other reserves | | **3,092,149** | 2,737,941 |
| Retained earnings | | **1,141,955** | 815,417 |
| | | **4,337,729** | 3,654,098 |
| **Non-controlling interests** | | **883,895** | 803,031 |
| **Total equity** | | **5,221,624** | 4,457,129 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

*As at 31 December 2018*

| | Note | **2018** | 2017 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Non-current portion of bank borrowings | *13* | **368,000** | 712,376 |
| Non-current portion of other borrowings | *13* | **351,162** | 267,412 |
| Convertible bonds – liabilities portion | | **83,145** | – |
| Deferred government grants | | **165,808** | 175,658 |
| Deferred income tax liabilities | | **274,100** | 271,710 |
| Receipt in advance | | **–** | 40,282 |
| Contract liabilities | *2.2(c)* | **36,622** | – |
| Financial liabilities at fair value through profit or loss | | **–** | 115,672 |
| Total non-current liabilities | | **1,278,837** | 1,583,110 |
| **Current liabilities** | | | |
| Trade payables | *14* | **94,922** | 19,482 |
| Accrued expenses and other payables | *14* | **282,652** | 219,864 |
| Deferred revenue | *14* | **–** | 158,983 |
| Contract liabilities | *2.2(c)* | **348,866** | – |
| Receipt in advance | | **–** | 163,581 |
| Current portion of bank borrowings | *13* | **860,244** | 393,837 |
| Current portion of other borrowings | *13* | **547,932** | 123,505 |
| Deferred government grants | | **10,650** | 20,627 |
| Convertible bonds – liabilities portion | | **44,417** | 41,387 |
| Financial liabilities at fair value through profit or loss | | **–** | 53,328 |
| Other taxes payables | | **25,882** | 34,422 |
| Income tax payables | | **51,929** | 65,298 |
| Total current liabilities | | **2,267,494** | 1,294,314 |
| **Total liabilities** | | **3,546,331** | 2,877,424 |
| **Total equity and liabilities** | | **8,767,955** | 7,334,553 |

*Note:* Under the transition method chosen, corporative information is not restated for the initial adoption of HKFRS 9 and HKFRS 15.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2017*

| | Attributable to the Company's equity holders | | | | | |
|---|---|---|---|---|---|---|
| | Share capital *RMB'000* | Other reserves *RMB'000* | Retained earnings *RMB'000* | Sub-total *RMB'000* | Non-controlling interests *RMB'000* | Total *RMB'000* |
| Balance at 1 January 2017 | 93,885 | 2,307,761 | 587,143 | 2,988,789 | 279,354 | 3,268,143 |
| **Comprehensive income** | | | | | | |
| Profit for the year | – | – | 267,777 | 267,777 | 49,533 | 317,310 |
| **Other comprehensive (loss)/income** | | | | | | |
| Fair value loss on available-for-sale financial assets, net of deferred tax | – | (48,875) | – | (48,875) | – | (48,875) |
| Fair value release on disposal of available-for-sale financial assets, net of deferred tax | – | (28,605) | – | (28,605) | – | (28,605) |
| Currency translation differences | – | 13,724 | – | 13,724 | – | 13,724 |
| Total comprehensive (loss)/income | – | (63,756) | 267,777 | 204,021 | 49,533 | 253,554 |
| **Transactions with owners** | | | | | | |
| Issuance of shares in relation to contingent consideration arrangement | 358 | 24,352 | – | 24,710 | – | 24,710 |
| Issuance of new shares | 7,438 | 513,227 | – | 520,665 | – | 520,665 |
| Buy-back of shares | (982) | (24,317) | (982) | (26,281) | – | (26,281) |
| Exercise of share options | 41 | 476 | – | 517 | – | 517 |
| Share based compensation – value of employee services | – | 33,815 | – | 33,815 | – | 33,815 |
| Partial redemption of convertible bonds – equity portion | – | (47,494) | 22,817 | (24,677) | – | (24,677) |
| Non-controlling interests arising on business combination | – | – | – | – | 471,808 | 471,808 |
| Contribution from non-controlling shareholders of subsidiaries | – | – | – | – | 8,713 | 8,713 |
| Transactions with non-controlling interests | – | (6,123) | – | (6,123) | (6,377) | (12,500) |
| Dividend paid | – | – | (61,338) | (61,338) | – | (61,338) |
| Total transactions with owners | 6,855 | 493,936 | (39,503) | 461,288 | 474,144 | 935,432 |
| Balance at 31 December 2017 | 100,740 | 2,737,941 | 815,417 | 3,654,098 | 803,031 | 4,457,129 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

*For the year ended 31 December 2018*

| | Attributable to the Company's equity holders | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital** | **Other reserves** | **Retained earnings** | **Sub-total** | **Non-controlling interests** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at 1 January 2018 | 100,740 | 2,737,941 | 815,417 | 3,654,098 | 803,031 | 4,457,129 |
| Effect on adoption of HKFRS 9 | – | (63,515) | 51,042 | (12,473) | (1,760) | (14,233) |
| **Comprehensive income** | | | | | | |
| Profit for the year | – | – | 275,610 | 275,610 | 1,265 | 276,875 |
| **Other comprehensive income** | | | | | | |
| Fair value loss on financial assets at fair value through other comprehensive income, net of deferred tax | – | (16,856) | – | (16,856) | – | (16,856) |
| Currency translation differences | – | 18,845 | – | 18,845 | – | 18,845 |
| Total comprehensive income | – | 1,989 | 275,610 | 277,599 | 1,265 | 278,864 |
| **Transactions with owners** | | | | | | |
| Issuance of shares in relation to contingent consideration arrangement | 2,964 | 163,620 | – | 166,584 | – | 166,584 |
| Buy-back of shares | (114) | (4,877) | (114) | (5,105) | – | (5,105) |
| Exercise of share options | 35 | 177 | – | 212 | – | 212 |
| Share based compensation – value of employee services | – | 74,580 | – | 74,580 | – | 74,580 |
| Issuance of convertible bonds – equity portion | – | 12,359 | – | 12,359 | – | 12,359 |
| Non-controlling interests arising on business combination | – | – | – | – | 81,509 | 81,509 |
| Contribution from non-controlling shareholders of subsidiaries | – | – | – | – | 11,789 | 11,789 |
| Transactions with non-controlling interests | – | 169,875 | – | 169,875 | (1,803) | 168,072 |
| Dividend paid to non-controlling interests of a subsidiary | – | – | – | – | (10,136) | (10,136) |
| Total transactions with owners | 2,885 | 415,734 | (114) | 418,505 | 81,359 | 499,864 |
| Balance at 31 December 2018 | 103,625 | 3,092,149 | 1,141,955 | 4,337,729 | 883,895 | 5,221,624 |

## NOTES

### 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 "Stock Exchange").

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 SaaS (Software as a Service) services in 3C industrial internet and new technology retail solutions in PRC.
- Providing cross-industrial integrated marketing and advertising services;
- Providing anti-counterfeiting products and services and supply chain management to enterprises;
- Engaging in finance business; including micro-credit financing, lease financing and factoring services;
- Sales of goods through its B2B trading platforms;
- Providing construction equipment rental services;
- Sale of properties and provision of property rental and management services via its O2O business exhibition centre;
- Hosting exhibitions and seminars;

On 27 June 2018, Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Limited ("Jingu") obtained the approval from China Banking Regulatory Commission in relation to the change of the composition of the board of director. Upon the completion, the Group would have the right to appoint one director to the board, which in turn enable the Group to exercise significant influence to Jingu. The investment has been reclassified from "financial assets at fair value through profit or loss" to "investment in associate company" on the approval date, the gain on fair value changed from the beginning of the current period to the approval date amounting to RMB94,000,000 was recognised in "other gains, net" in the consolidated statement of comprehensive income.

In addition, during the year ended 31 December 2018, the Group has also completed several business combinations by acquisition of subsidiaries and step acquisition of associates, total intangible assets and goodwill amounting to RMB173,000,000 and RMB507,154,000 were recognised. Please refer to Note 9 in relation to these transactions.

These consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of HC Group Inc. and its subsidiaries.

### 2.1 Basis of preparation

#### *(i) Compliance with HKFRS*

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

#### *(ii) Historical cost convention*

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income, and financial assets and liabilities at fair value through profit or loss, which are measured at fair value.

#### *(iii) New and amended standards adopted by the Group*

The Group has applied the following standards and amendments to HKFRS issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time for their annual reporting period commencing 1 January 2018:

| | |
|---|---|
| HKFRS 2 (Amendment) | Classification and measurement of share-based payment transactions |
| HKFRS 4 (Amendment) | Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts |
| HKFRS 9 | Financial instruments |
| HKFRS 15 | Revenue from contracts with customers |
| HKFRS 15 (Amendments) | Clarifications to HKFRS 15 |
| HK (IFRIC) 22 | Foreign currency transactions and advance consideration |
| HKAS 40 (Amendments) | Transfer of investment property |
| HKFRS 1 and HKAS 28 | Annual improvements to HKFRS 2014-2016 cycle |

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any material impact on the Group's accounting policies and did not require retrospective adjustments.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

#### *(iv) New standards and amendments to HKFRS in issue but not yet effective*

Certain new accounting standards and amendments have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group.

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| Amendments to HKFRS | Annual improvements to HKFRS 2015-2017 cycle | 1 January 2019 |
| HKAS 1 and 8 (Amendments) | Definition of material | 1 January 2020 |
| HKAS 19 (Amendments) | Employee benefits | 1 January 2019 |
| HKAS 28 (Amendments) | Investments in associates and joint ventures | 1 January 2019 |
| HKAS 9 (Amendments) | Prepayment features with negative compensation | 1 January 2019 |
| HKFRS 3 (Amendments) | Definition of business | 1 January 2020 |
| HKFRS 16 | Leases | 1 January 2019 |
| HKFRS 17 | Insurance contracts | 1 January 2021 |
| HK(IFRIC) – Int 23 | Uncertainty over income tax treatments | 1 January 2019 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or contribution of assets between an investor and its associate and joint venture | To be determined |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior years.

#### *2.2(a) Impact on the financial statements*

As a result of the changes in the entity's accounting policies, prior year consolidated financial statements had to be restated.

As explained in 2.2(b) below, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

As explained in 2.2(c) below, the Group elects to use a modified retrospective approach for transition of HKFRS 15 without restating comparative information. The Group will recognise the cumulative effect of initially applying the revenue standard as an adjustment to the opening balance of retained earnings.

#### *2.2(b) HKFRS 9 Financial Instruments*

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of consolidated financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in note 2.14 below. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

| | *Notes* | *RMB'000* |
|---|---|---|
| **Closing retained earnings as at 31 December 2017 – HKAS 39** | | 815,417 |
| Reclassify investments from available-for-sale financial assets ("AFS") to financial assets at fair value through profit or loss ("FVPL") | *(a)* | 63,515 |
| Increase in provision for trade receivables, contract assets, finance lease receivables and loan and interest receivables | *(b)* | (13,674) |
| Increase in deferred tax assets relating to impairment provisions | | 1,201 |
| **Opening retained earnings as at 1 January 2018 – HKFRS 9** | | 866,459 |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy (Continued)

#### *2.2(b) HKFRS 9 Financial Instruments (Continued)*

*(a) Classification and measurement*

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

**Financial assets – 1 January 2018**

| | *Notes* | **AFS** *RMB'000* | **FVPL** *RMB'000* | **FVOCI** *RMB'000* |
|---|---|---|---|---|
| **Closing balance 31 December 2017 – HKAS 39 *** | | **568,460** | **172,021** | **–** |
| Reclassify investments from AFS to FVPL | *(i)* | **(533,925)** | **533,925** | **–** |
| Reclassify investments from FVPL to FVOCI | *(ii)* | **–** | **(76,932)** | **76,932** |
| Reclassify investments from AFS to FVOCI | *(iii)* | **(34,535)** | **–** | **34,535** |
| **Opening balance 1 January 2018 – HKFRS 9** | | **–** | **629,014** | **111,467** |

The impact of these changes on the Group's equity is as follows:

**Financial assets – 1 January 2018**

| | *Notes* | **Effect on AFS reserves** *RMB'000* | **Effect on retained earnings** *RMB'000* |
|---|---|---|---|
| **Opening balance – HKAS 39** | | 63,515 | 815,417 |
| Reclassify investments from AFS to FVPL | *(i)* | (63,515) | 63,515 |
| **Opening balance – HKFRS 9** | | – | 878,932 |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy (Continued)

#### *2.2(b) HKFRS 9 Financial Instruments (Continued)*

*(a) Classification and measurement (Continued)*

(i) Reclassification from available-for-sale financial assets to FVPL

Certain investments in equity shares and private fund were reclassified from available-for-sale to financial assets at fair value through profit and loss (RMB533,925,000 as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest and the Group does not designate investment in equity instrument previously recognised in available-for-sale as FVOCI. Related fair value gains of RMB63,515,000 were transferred from the available-for-sale financial assets reserves to retained earnings on 1 January 2018.

(ii) Reclassification from FVPL to FVOCI

Certain investments in equity shares were reclassified from financial assets at FVPL (RMB76,932,000 as at 1 January 2018) to FVOCI, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

(iii) Reclassification from available-for-sale financial assets to FVOCI

The Group elected to present in OCI changes in the fair value of certain equity investments previously classified as available-for-sale financial assets, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RMB34,535,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and related fair value gains were reclassified from the available-for-sale financial assets reserves to the FVOCI reserves on 1 January 2018.

(iv) Other financial assets

Equity securities that held for trading are required to be classified as FVPL under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from adoption.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy (Continued)

#### *2.2(b) HKFRS 9 Financial Instruments (Continued)*

*(b) Impairment of financial assets*

The Group has following types of financial assets at amortised cost that are subjected to HKFRS 9's new expected credit loss ("ECL") model:

- Trade receivables
- Contract assets
- Finance lease receivables
- Loans and interest receivables

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

*Trade receivables, contract assets, finance lease receivables and loan and interest receivables*

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and finance lease receivables.

This resulted in an increase of the loss allowance on 1 January 2018 by RMB7,434,000 for trade receivable, RMB131,000 for contract assets, RMB778,000 for finance lease receivables, RMB 5,331,000 for loan and interest receivables.

#### *2.2(c) HKFRS 15 Revenue from Contracts with Customers*

The effects of the adoption of HKFRS 15 are as follows:

*Accounting for costs incurred to obtain a contract*

Following the adoption of HKFRS 15, stamp duty, sales commissions and other costs only incurred if the contract is obtained, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy (Continued)

#### *2.2(c) HKFRS 15 Revenue from Contracts with Customers (Continued)*

*Accounting for costs incurred to obtain a contract (Continued)*

The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18 that was previously in effect before the adoption of HKFRS 15 is as follows:

| Consolidated statement of financial position (extract) | As at 1 January 2018<br>As previously stated<br>*RMB'000* | Effects of the adoption of HKFRS 15<br>*RMB'000* | As restated<br>*RMB'000* |
|---|---|---|---|
| **Current assets** | | | |
| Contract assets | – | 62,297 | 62,297 |
| Deferred expense | 49,335 | (49,335) | – |
| Trade receivables | 290,848 | (12,962) | 277,886 |
| **Non-current liabilities** | | | |
| Contract liabilities | – | 40,282 | 40,282 |
| Receipt in advance | 40,282 | (40,282) | – |
| **Current liabilities** | | | |
| Contract liabilities | – | 322,564 | 322,564 |
| Deferred revenue | 158,983 | (158,983) | – |
| Receipt in advance | 163,581 | (163,581) | – |

*Details of contract assets are as follows*

| | **As at 31 December 2018**<br>***RMB'000*** | As at 1 January 2018<br>*RMB'000* |
|---|---|---|
| Unbilled revenue related to online services *(note i)* | **8,134** | 12,962 |
| Costs to fulfil contracts *(note ii)* | **30,831** | 49,335 |
| | **38,965** | 62,297 |

*Notes:*

(i) These contract assets mainly represent unbilled revenue arising from online services recognised prior to the date on which it is invoiced to customers.

(ii) Management expects the incremental costs, principally comprises of sale, commissions and agency fees, as a result of obtaining the online services contract are recoverable. The Group has capitalised the amounts and amortised when the related revenue are recognised.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policy (Continued)

#### *2.2(c) HKFRS 15 Revenue from Contracts with Customers (Continued)*

*Details of contract liabilities are as follows*

| | **As at 31 December 2018** *RMB'000* | As at 1 January 2018 *RMB'000* |
|---|---|---|
| Contract liabilities related to online services *(note i)* | **140,190** | 147,914 |
| Contract liabilities related to sales of goods on B2B trading platform *(note ii)* | **185,856** | 150,506 |
| Contract liabilities related to sales of properties *(note iii)* | **59,442** | 64,426 |
| | **385,488** | 362,846 |

*Notes:*

(i) These contract liabilities consist of deferred revenue resulting from online services when the Group received payments from customers in advance.

(ii) These contract liabilities consist of advanced payments, related to the B2B trading platform business, received from customers for goods that have not yet been transferred to the customers.

(iii) These contract liabilities consist of advanced payments received from customers and deferred revenue resulting from the properties sales and sales and leaseback arrangement, respectively.

(iv) Presentation of assets and liabilities related to contracts with customers

The Group has also voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of HKFRS 15 and HKFRS 9:

- Contract liabilities in relation to payments received in advance from customers were previously presented as deferred revenue amounting RMB116,448,000 (RMB158,983,000 as at 31 December 2017).

- Contract liabilities in relation to payments received in advance from customers were previously presented as receipts in advance amounting RMB269,040,000 (RMB203,863,000 as at 31 December 2017).

- Contract assets in relation to revenue recognised prior to the date on which it is invoiced to customers were previously presented as part of trade receivables amounting RMB8,134,000 (RMB12,962,000 as at 31 December 2017).

- Contract assets in relation to the incremental costs, primarily sales commission paid, as a result of obtaining the online services contract were previously presented as part of deferred expenses amounting RMB30,831,000 (RMB49,335,000 as at 31 December 2017).

## 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.

During the year, the Group adjusted its organisation structure into four business sectors, namely (i) Technology-driven new retail Segment, (ii) Smart Industries Segment, (iii) Platform and corporate services Segment, and (iv) O2O Business Exhibition Centre Segment.

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 operating segments.

As at 31 December 2018, the Group is organised into the following business segments:

(i) Technology-driven new retail segment, which mainly integrated offline and online retail of electronics products by leveraging big data and mobile internet technology, and provision of online services through "zol.com.cn".

(ii) Smart industries segment, which mainly include B2B trading platform and the anti-counterfeiting products and services, and supply chain management.

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

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

There were no sales or other transactions between the business segments for the year ended 31 December 2018.

| | Year ended 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | **Technology-driven new retail segment** *RMB'000* | **Smart industries segment** *RMB'000* | **Platform and corporate services segment** *RMB'000* | **O2O business exhibition centre segment** *RMB'000* | **Total** *RMB'000* |
| Revenue under HKFRS 15 | **557,875** | **9,211,537** | **591,870** | **86,136** | **10,447,418** |
| Interest income from financing services | **–** | **–** | **135,693** | **–** | **135,693** |
| Total revenue | **557,875** | **9,211,537** | **727,563** | **86,136** | **10,583,111** |
| Segment results | **62,697** | **3,383** | **67,584** | **(40,508)** | **93,156** |
| Other income | | | | | **35,464** |
| Other gains, net | | | | | **258,181** |
| Share of post-tax losses of associates | | | | | **28,014** |
| Finance income | | | | | **12,044** |
| Finance cost | | | | | **(94,424)** |
| Profit before income tax | | | | | **332,435** |
| Other information: | | | | | |
| Depreciation and amortisation | | | | | **151,874** |
| Share based compensation expense | | | | | **74,580** |

## 3 SEGMENT INFORMATION (CONTINUED)

| | Year ended 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | Technology-driven new retail segment *RMB'000* | Smart industries segment *RMB'000* | Platform and corporate services segment *RMB'000* | O2O business exhibition centre segment *RMB'000* | Total *RMB'000* |
| Revenue under HKFRS 15 | 411,909 | 2,154,579 | 663,509 | 433,097 | 3,663,094 |
| Interest income from financing services | – | – | 39,372 | – | 39,372 |
| Total revenue | 411,909 | 2,154,579 | 702,881 | 433,097 | 3,702,466 |
| Segment results | 108,137 | (22,669) | 134,171 | 72,408 | 292,047 |
| Other income | | | | | 44,359 |
| Other gains, net | | | | | 168,255 |
| Share of post-tax losses of associates | | | | | (22,405) |
| Share of post-tax profits of joint ventures | | | | | 19,774 |
| Finance income | | | | | 21,105 |
| Finance cost | | | | | (107,067) |
| Profit before income tax | | | | | 416,068 |
| Other information: | | | | | |
| Depreciation and amortisation | | | | | 117,230 |
| Share based compensation expense | | | | | 33,815 |

The comparative amounts have been reclassified to conform with current year's presentation.

As at 31 December 2018, the total non-current assets includes land use rights, investment properties, property, plant and equipment and intangible assets located in PRC is approximately RMB4,311,602,000 (2017: RMB3,471,516,000) and the total of these non-current assets located in other countries is Nil (2017: Nil).

## 4 REVENUE

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Revenue under HKFRS 15: | | |
| B2B trading platform | **9,102,366** | 2,041,038 |
| Online services | **887,142** | 951,170 |
| Anti-counterfeiting products and services | **157,991** | 106,066 |
| Seminars and other services | **118,688** | 127,569 |
| O2O business exhibition centre | **59,238** | 430,095 |
| Rental income from leasing of construction equipment and investment properties | **119,127** | 3,002 |
| Others | **2,866** | 4,154 |
| | **10,447,418** | 3,663,094 |
| Revenue under other accounting standard: | | |
| Interest income from financing services | **135,693** | 39,372 |
| Total revenue | **10,583,111** | 3,702,466 |

## 5 OTHER GAINS, NET

Other gains and losses are analysed as follows:

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Impairment loss recognised in respect of investment in associates | **(19,547)** | – |
| Gains on disposal of an associate | **–** | 5,000 |
| Gains on disposal of available-for-sale financial assets | **–** | 34,217 |
| Change in fair value on financial liabilities at fair value through profit or loss | **3,374** | – |
| Change in fair value on financial assets at fair value through profit or loss | **10,192** | (6,913) |
| Change in fair value on financial asset at fair value through profit or loss in relation to Jingu *(Note 1)* | **94,000** | – |
| Fair value gains on deemed disposal on step acquisition on Chongqing Digital China Huicong Micro-Credit Company Limited | **–** | 117,963 |
| Fair value gains on deemed disposal on step acquisition on Shanghai Mianlian E-business Co., Limited *(Note 9 (a))* | **2,304** | – |
| Fair value gains on deemed disposal on step acquisition on Guangdong Jiadian Shijie E-commerce Company Limited *(Note 9(c))* | **2,314** | – |
| Fair value gains on deemed disposal on step acquisition on Rongshang Tonglian *(Note 9 (d))* | **164,878** | – |

## 6 INCOME TAX EXPENSE

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Current income tax expense | | |
| – Hong Kong profits tax | **–** | – |
| – The PRC Corporate income tax ("CIT") | **69,367** | 65,335 |
| – The PRC Land appreciation tax ("LAT") | **29,509** | 17,046 |
| – The PRC Withholding tax | **–** | 22,800 |
| Deferred income tax (credit)/expense | | |
| – The PRC Corporate income tax | **(38,737)** | (11,002) |
| – The PRC Withholding tax | **(4,579)** | 4,579 |
| | **55,560** | 98,758 |

## 7 EARNINGS PER SHARE

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Profit attributable to equity holders of the Company | **275,610** | 267,777 |

| | **2018** ***No. of shares ('000)*** | 2017 *No. of shares ('000)* |
|---|---|---|
| Weighted average number of shares in issue | **1,119,464** | 1,010,215 |
| Incremental shares from assumed exercise of share options granted | **1,959** | 36,083 |
| Diluted weighted average number of shares | **1,121,423** | 1,046,298 |
| Basic earnings per share (in RMB) | **0.2462** | 0.2651 |
| Diluted earnings per share (in RMB) | **0.2458** | 0.2559 |

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares repurchased by the Company.

## 8 DIVIDENDS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interim dividend paid of HK$Nil (2017: HK$0.02) per share *(Note a)* | **–** | 17,953 |
| No proposed final dividend (2017: Nil) | **–** | – |
| | **–** | 17,953 |

*Notes:*

(a) An interim dividend of HK$0.02 per share was declared paid on 18 September 2017.

## 9 BUSINESS COMBINATIONS

### (a) Step acquisition of Shanghai Mianlian E-business Co., Limited ("上海棉聯電子商務有限公司" or "Mianlian")

On 6 May 2016, Beijing Huicong Zaichuang Technology Co., Limited ("北京慧聰再創科技有限公司" or "Beijing Zaichuang"), a wholly-owned subsidiary of the Company, had contributed RMB5,000,000 by way of cash to Mianlian for approximately 15% of its equity interest. The investment was classified as an associate under "Investments accounted for using the equity method" as the Group has significant influence in Mianlian.

On 23 April 2018, the Group completed a further investment in newly issued ordinary shares representing 43.84% equity interest in Mianlian for a total cash consideration of RMB50,000,000.

Upon closing of the said transaction, the Group's effective equity interest in Mianlian increased to 51%, the Group acquired controls over Mianlian and it became a consolidated subsidiary of the Group.

The fair value of the Group's then effective equity holding immediately before the completion of the Step Acquisition formed part of the total consideration of the Step Acquisition and was included in the calculation of goodwill on the Step Acquisition.

The fair value of the initial 15% interest in Mianlian held by Beijing Zaichuang prior to the completion of the Step Acquisition was estimated by Access Partner Consultancy & Appraisals Limited, an independent professional qualifies valuer, to be RMB6,400,000, which comparing to the carrying amount of RMB4,096,000 as at the acquisition date will give rise to a fair value gain of RMB2,304,000. The gain was recognised as "Gain on step acquisition" under "Other gains, net" in the consolidated statement of comprehensive income.

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

## 9 BUSINESS COMBINATIONS (CONTINUED)

### (a) Step acquisition of Shanghai Mianlian E-business Co., Limited ("上海棉聯電子商務有限公司" or "Mianlian") (Continued)

| | *RMB'000* |
|---|---|
| **Consideration:** | |
| **On 23 April 2018** | |
| Cash consideration | **50,000** |
| Fair value of existing shares held by the Group | **6,400** |
| | **56,400** |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | |
|---|---|
| Cash and cash equivalents | **40,156** |
| Property, plant and equipment | **128** |
| Trade and other receivables | **50,844** |
| Deferred tax assets | **450** |
| Intangible assets – trademark | **12,200** |
| Intangible assets – database | **2,100** |
| Intangible assets – customer relationship | **3,000** |
| Inventories | **28,743** |
| Trade and other payables | **(23,109)** |
| Borrowings | **(41,842)** |
| Deferred tax liabilities | **(4,325)** |
| Net identifiable assets acquired | **68,345** |
| Non-controlling interests | **(33,489)** |
| Goodwill | **21,544** |
| | **56,400** |

The goodwill of RMB21,544,000 arising from the acquisition is attributable to the synergies from combining the operations of the Group and Mianlian. None of the goodwill recognised is expected to be deductible for income tax purpose.

Acquisition-related costs were insignificant included in administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2018.

## 9 BUSINESS COMBINATIONS (CONTINUED)

### (b) Zhongmoyun (Tianjin) Construction Science and Technology Co., Limited

On 18 July 2018, the Group completed the acquisition of 51% equity interest in Zhongmoyun (Tianjin) Construction Science and Technology Company Limited (中模雲(天津)建築科技有限公司) ("Zhongmoyun"),which consisted of newly issued ordinary shares and existing ordinary shares held by Kashen Tongyuan Information Technology Company Limited (喀什同源信息技術有限合夥企業) ("Kashi") in total cash consideration of RMB38,590,000. Upon the completion, the Group has acquired the control over Zhongmoyun as the Group has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect its variable returns.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | *RMB'000* |
|---|---|
| **Consideration:** | |
| **On 18 July 2018** | |
| Cash consideration | **38,590** |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | |
|---|---|
| Cash and cash equivalents | **15,791** |
| Property, plant and equipment | **104,878** |
| Trade and other receivables | **57,281** |
| Intangible assets – patent | **32,100** |
| Intangible assets – contract | **600** |
| Intangible assets – software | **7,100** |
| Bank borrowing | **(119,365)** |
| Trade and other payables | **(27,640)** |
| Deferred tax liabilities | **(8,169)** |
| Net identifiable assets acquired | **62,576** |
| Non-controlling interest | **(38,919)** |
| Goodwill | **14,933** |
| | **38,590** |

The goodwill of RMB14,933,000 arising from the acquisition is attributable to the synergies from combining the operations of the Group and Zhongmoyun. None of the goodwill recognised is expected to be deductible for income tax purpose.

Acquisition-related costs were insignificant and included in administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2018.

## 9 BUSINESS COMBINATIONS (CONTINUED)

### (c) Step acquisition of Guangdong Jiadian Shijie E-commerce Company Limited

On July 2016, the Group acquired 15% equity interest in Guangdong Jiadian Shijie E-commerce Company Limited (廣東家電世界電子商務有限公司)("Jiadian Shijie") by subscribing its newly issued ordinary shares for a cash consideration of RMB5,000,000. The investment was classified as an associate under "Investments accounted for using the equity method" as the Group has significant influence in Jiadian Shijie.

On 21 September 2018, the Group completed a further investment in newly issued ordinary shares representing 60% equity interest in Jiadian Shijie for a total cash consideration of RMB43,200,000.

Upon closing of this transaction, the Group's effective equity interest in Jiadian Shijie increased to 75%, the Group acquired controls over Jiadian Shijie which became a consolidated subsidiary of the Group.

On 21 September 2018, Jiadian Shijie holds 40% in Guangzhou Huicong Network Technology Company Limited (廣州慧聰網絡科技有限公司) ("Guangzhou Huicong"), which was a 60% owned subsidiary of the Group. Upon closing of this transaction, the Group's equity interest in Guangzhou Huicong had increased from 60% to 90%. The carrying amount of the non-controlling interests in Guangzhou Huicong held by the Group as at the date of acquisition was RMB24,098,000. The Group recognised a decrease in non-controlling interests of RMB18,074,000, and decrease in other reserve of RMB23,203,000.

As at 21 September 2018, the fair value of the initial 15% interest in Jiadian Shijie held by Beijing Zaichuang prior to the completion of the Step Acquisition was estimated by an independent professional qualified valuer to be RMB9,180,000, which will give rise to a fair value gain of RMB2,314,000. The gain was recognised as "Gain on step acquisition" under "Other gains, net" in the consolidated statement of comprehensive income.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | ***RMB'000*** |
|---|---|
| **Consideration:** | |
| **On 21 September 2018** | |
| Cash consideration | 43,200 |
| Fair value of equity interests in Jiadian Shijie previously held by the Group | 9,180 |
| Adjustment to consideration based on the net assets value as at acquisition date | 30,086 |
| Total consideration | 82,466 |
| Less: transaction with non-controlling interest | (41,277) |
| | 41,189 |

## 9 BUSINESS COMBINATIONS (CONTINUED)

### (c) Step acquisition of Guangdong Jiadian Shijie E-commerce Company Limited (Continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

| | *RMB'000* |
|---|---|
| Cash and cash equivalents | 7,217 |
| Inventory | 5,349 |
| Property, plant and equipment | 134 |
| Trade and other receivables | 24,077 |
| Intangible assets – platform | 3,900 |
| Amount due to shareholder | (2,767) |
| Trade and other payables | (2,657) |
| Deferred tax liabilities | (975) |
| Net identifiable assets acquired | 34,278 |
| Non-controlling interest | (9,046) |
| Goodwill | 15,957 |
| Net assets acquired | 41,189 |

The goodwill of RMB15,957,000 arising from the acquisition is attributable to the synergies from combining the operations of the Group and Jiadian Shijie. None of the goodwill recognised is expected to be deductible for income tax purpose.

### (d) Acquisition of Zale Inc. and step acquisition of Beijing Rongshang Tonglian Technology Co., Ltd.

On 16 June 2016, the Group acquired 34.63% equity interest in Beijing Rongshang Tonglian Technology Co., Ltd. (北京融商通聯科技有限公司) ("Rongshang Tonglian") by subscribing its newly issued ordinary shares for a cash consideration of RMB12,750,000. The investment was classified as an associate under "Investments accounted for using the equity method" as the Group has significant influence in Rongshang Tonglian.

On 27 December 2018, Z.Tech Holdings Limited ("Z.Tech"), a wholly-owned subsidiary of the Group, completed the acquisition of 100% equity interest in Zale Inc. ("Zale") from Zale Limited, Ruthfly Limited and Fejack Limited (collectively, the "Vendors") for a total consideration of RMB366,500,000, among which RMB100,000,000 to be payable by cash and the remaining part by way of allotment and issuance of 10.66% Z.Tech consideration shares.

Pursuant to the sale and purchase agreement, the vendor guarantors undertake to the Group that Beijing Rongshang shall achieve the performance target (i.e. a GMV of RMB1,800,000,000) for the financial year ending 31 December 2019. If the Performance Target cannot be achieved, the Group shall have the right, to repurchase and cancel all or part of the Z.Tech Consideration Shares held by each of the Vendors.

Zale indirectly holds the 65.37% equity interest in Rongshang Tonglian. Following the completion of transaction and issuance of 10.66% share consideration, the Group effectively holds 89.34% equity interest in Zale and Rongshang Tonglian. As a result, Zale and Rongshang Tonglian became consolidated subsidiaries of the Group.

The initial accounting has not been completed as the business combination occurred in late December 2018, being close to the Group's year end and when the fair value is not easily determinable. Therefore, management is in the view of accounting for the business combination using provisionally determined amounts for goodwill, other intangible assets and deferred tax liabilities arising from business combination.

## 9 BUSINESS COMBINATIONS (CONTINUED)

### (d) Acquisition of Zale Inc. and step acquisition of Beijing Rongshang Tonglian Technology Co., Ltd. (Continued)

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | *RMB'000* |
|---|---|
| **Consideration:** | |
| **On 27 December 2018** | |
| Cash Consideration | 100,000 |
| Fair value of Z.Tech's consideration shares *(Note)* | 266,500 |
| Fair value of equity interests in Rongshang Tonglian previously held by the Group *(Note)* | 164,878 |
| Adjustment to consideration based on the net assets value as at acquisition date | 44,177 |
| Financial assets at fair value through profit and loss | (340) |
| Total consideration | 575,215 |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | *RMB'000* |
|---|---|
| **On 27 December 2018** | |
| Cash and cash equivalents | 53,266 |
| Property, plant and equipment | 47 |
| Investment in associates | 452 |
| Inventories | 457 |
| Trade and other receivables | 9,783 |
| Intangible asset – platform | 112,000 |
| Trade and other payables | (27,455) |
| Deferred tax liabilities | (28,000) |
| Net identifiable assets acquired | 120,550 |
| Non-controlling interest | (55) |
| Goodwill | 454,720 |
| | 575,215 |

## 9 BUSINESS COMBINATIONS (CONTINUED)

### (d) Acquisition of Zale Inc. and step acquisition of Beijing Rongshang Tonglian Technology Co., Ltd. (Continued)

*Note*: The fair value of the Z.Tech share consideration issued as part of the consideration paid for Zale (RMB266,500,000) was estimated by an independent professional qualified valuer on 27 December 2018.

Upon the acquisition of Zale, the Group would in turn step-acquire Rongshang Tonglian by effectively holding approximate 90% of the issued shares of the company. The fair value of the Group's then effective equity holding immediately before the completion of the step acquisition of Rongshang Tonglian form part of the total consideration of the acquisition and was included in the calculation of goodwill on the acquisition.

As at 27 December 2018, the fair value of the initial 34.63% equity interest in Rongshang Tonglian held by the Group prior to the completion of the step acquisition were estimated by an independent professional qualified valuer to be RMB164,878,000. As the carrying amount of the investment in Rongshang Tonglian as at the date of acquisition was nil, the step acquisition has given risk to a fair value gain of RMB164,878,000. The gain was recognised as "Fair value gain on step acquisition" under "Other gains, net" in the consolidated statement of comprehensive income.

The following fair values have been determined on a provision basis:

(a) The fair value of other intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the use and eventual sales of the goods and services of the acquired subsidiaries.

The goodwill of RMB454,720,000 arising from the acquisition is attributable the synergies from combining the operations of the Group and Zale Inc. None of the goodwill recognised is expected to be deductible for income tax purpose.

## 10 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

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

| | Financial assets at fair value through profit or loss | | Financial assets at fair value through other comprehensive income | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Contingent shares in relation to acquisition of Orange Triangle Inc. | **–** | 2,100 | **–** | – |
| Contingent shares in relation to acquisition of Huijia Yuantian Limited *(Note)* | **400** | – | **–** | – |
| Contingent consideration in relation to acquisition of Zale Inc. | **340** | – | **–** | – |
| Trading securities – listed securities | **–** | 169,921 | **62,647** | – |
| Equity investment – unlisted securities | **16,758** | – | **32,600** | – |
| Financial assets at fair value through profit or loss | **17,498** | 172,021 | **95,247** | – |
| Less: Non-current | **16,758** | – | **95,247** | – |
| Current | **740** | 172,021 | **–** | – |

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

| | Zhongfu Holdings Limited *(Note)* | | Huijia Yuantian Limited *(Note)* | | Total | |
|---|---|---|---|---|---|---|
| | **31 December 2018** | 31 December 2017 | **31 December 2018** | 31 December 2017 | **31 December 2018** | 31 December 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Current | **–** | 14,393 | **–** | 38,935 | **–** | 53,328 |
| Non-current | **–** | 12,607 | **–** | 103,065 | **–** | 115,672 |
| | **–** | 27,000 | **–** | 142,000 | **–** | 169,000 |

*Note:* On 5 January 2018, the Company entered into subscriptions agreement with the bondholders of Zhongfu Holdings Limited and Huijia Yuantian Limited in relation to the contingent consideration for the acquisition completed in 2016 and 2017, respectively. Pursuant to the subscription agreement, the Company agreed to allot 36,028,500 new shares in aggregate to the bondholders in exchange for the surrender of the convertible bonds of the Company. The shares allotted will be put into custodian accounts and would be released to the bondholders or repurchased by the Company subjected to the achievement of the target for Zhongfu Holdings Limited and Huijia Yuantian Limited, as set out in the agreement, representively. The subscription has been completed on 16 January 2018.

## 11 TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **544,521** | 308,762 |
| Less: provision for impairment of trade receivables | **(32,427)** | (17,914) |
| Trade receivables – net | **512,094** | 290,848 |
| Deposits, prepayments and other receivables | **286,683** | 175,192 |
| | **798,777** | 466,040 |
| Less: Non-current deposit, prepayments and other receivables | **(5,604)** | (11,146) |
| Current portion | **793,173** | 454,894 |

### (a) Trade receivables

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current to 90 days | **349,430** | 176,883 |
| 91 to 180 days | **117,500** | 59,654 |
| 181 to 270 days | **29,819** | 32,837 |
| 271 to 365 days | **5,214** | 16,045 |
| Over 1 year | **42,558** | 23,343 |
| | **544,521** | 308,762 |

*Note:*

As at December 31, 2017, receivables with amounts that are individually significant have been separately assessed for impairment. Allowance was set up against impaired receivables arising from credit default of several customers who are in financial difficulties.

Since January 1, 2018, the Group have applied the simplified approach permitted by HKFRS 9, which requires the expected lifetime losses to be recognised from initial recognition of the assets. This provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates.

## 12 LOANS AND INTEREST RECEIVABLES

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

| | 2018 | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Loans to customers of financing services business *(Note)* | **1,552,826** | 1,632,113 |
| Loans to employees | **3,885** | 10,350 |
| Loans to associates | **47,540** | 65,540 |
| Interest receivables | **24,209** | 19,565 |
| Loans and interest receivables, gross | **1,628,460** | 1,727,568 |
| Less: impairment allowance | | |
| – Collective assessed | | |
| Loans and interests receivables from customers of financing services business *(Note)* | **(31,681)** | (16,176) |
| Loans and interests receivables from employees and associates | **(964)** | – |
| – Individually assessed | | |
| Loans and interests receivables from customers of financing services business *(Note)* | **(73,063)** | (61,074) |
| Total impairment allowance | **(105,708)** | (77,250) |
| Loans and interest receivables, net | **1,522,752** | 1,650,318 |
| Less: Non-current portion | **(103,160)** | (304,400) |
| Current portion | **1,419,592** | 1,345,918 |

*Note:*

**(a) Analysed by nature**

The balance comprises loans granted in micro-credit financing business, and finance leasing business:

| | 2018 | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Loans to customers of financing services business | **1,552,826** | 1,632,113 |
| Less: Impairment allowance | **(104,563)** | (77,250) |
| | **1,448,263** | 1,554,863 |

For the year ended 31 December 2018, the weighted average annual interest rate for the loans receivable to customers of financing services business were approximately 11.2% (2017: 12.7%), and the outstanding loan receivables were RMB1,552,826,000 as at 31 December 2018 (2017: RMB1,632,113,000).

## 13 BORROWINGS

| | 2018 | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Non-current portion: | | |
| Bank borrowings | **368,000** | 712,376 |
| Other borrowings | **351,162** | 267,412 |
| | **719,162** | 979,788 |
| Current portion: | | |
| Bank borrowings | **860,244** | 393,837 |
| Other borrowings | **547,932** | 123,505 |
| | **1,408,176** | 517,342 |
| Total borrowings | **2,127,338** | 1,497,130 |

Movements in borrowings is analysed as follows:

| | 2018 | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **1,497,130** | 883,482 |
| Acquisition of a subsidiary | **100,075** | 368,890 |
| Additions of borrowings | **1,407,177** | 944,368 |
| Repayments of borrowings | **(874,544)** | (699,610) |
| Exchange difference | **(2,500)** | – |
| At 31 December | **2,127,338** | 1,497,130 |

Bank borrowings bear average interest rate of 6.17% per annum (2017: 5.98% per annum), mature ranging from 2018 to 2022 part of which amounting to RMB372,376,000 (31 December 2017: RMB507,376,000) are secured by investment properties and land use right with carrying value amounting to RMB771,035,000 (31 December 2017: RMB1,054,040,000). Borrowings amounting to RMB251,500,000 are secured by restricted bank deposits with carrying amount of RMB276,003,000. Borrowing amounting RMB980,000 is secured by bank acceptance bills with carrying amount of RMB1,000,000.

Other borrowings of RMB27,816,000 were obtained for the investment in an associate and are provided by the non-controlling shareholder of Huicong Tianjin, in which 25% of its equity interest is effectively held by Liu Jun, an executive director and the chief executive officer of the Company as disclosed in Note 13. The borrowings are unsecured, mature ranging from 2018 to 2020 and bear average interest rate of 6.34% per annum (2017: 6.2% per annum). During the year ended 31 December 2018, the corresponding interest expenses was approximately RMB1,763,000 (2017: RMB1,639,000).

The remaining other borrowings are provided by independent third parties and bear interest rate ranging from 4.5% to 13.7% per annum (31 December 2017: 5.5%-7.1% per annum). Borrowings amounting to RMB519,917,000 (31 December 2017: RMB255,000,000) are either secured by certain loan receivables, inventories, and listed equity shares held by the Group with total carrying amount of RMB783,401,000 (31 December 2017: RMB381,730,000) or are guaranteed by the Company.

## 13 BORROWINGS (CONTINUED)

The carrying amounts of borrowings approximate their fair values.

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Denominated in: | | |
| – Hong Kong Dollars | **293,716** | - |
| – Renminbi | **1,802,032** | 1,497,130 |
| – US Dollars | **31,590** | - |
| | **2,127,338** | 1,497,130 |

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

| | **Bank borrowings** | | **Other borrowings** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within 1 year | **860,244** | 393,837 | **547,932** | 123,505 |
| Between 1 and 2 years | **233,000** | 572,376 | **351,162** | 257,555 |
| Between 2 and 5 years | **135,000** | 140,000 | **–** | 9,857 |
| | **1,228,244** | 1,106,213 | **899,094** | 390,917 |

As at 31 December 2018, the Group has no undrawn banking facilities (2017: Nil) and other banking facilities amounting to approximately RMB188,628,000 (2017: Nil).

## 14 TRADE PAYABLES, DEFERRED REVENUE AND ACCRUED EXPENSES AND OTHER PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables *(Note a)* | **94,922** | 19,482 |
| Deferred revenue | **–** | 158,983 |
| Accrued salaries and staff benefits | **35,577** | 28,190 |
| Accrued agency commissions | **14,459** | 17,564 |
| Accrued expenses | **100,502** | 72,903 |
| Deposit from customers | **66,908** | 73,507 |
| Accurred consideration for acquiring a subsidiary | **35,742** | – |
| Other payables | **29,464** | 27,700 |
| | **377,574** | 398,329 |

**(a)** The aging analysis of trade payables is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current to 90 days | **83,415** | 9,843 |
| 91 to 180 days | **8,756** | 6,426 |
| 181 to 365 days | **2,345** | 2,142 |
| Over 1 year | **406** | 1,071 |
| | **94,922** | 19,482 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

To better describe our business, we restated our revenue from the segments of B2B trading platform, online services, trade catalogues, seminars and other services, anti-counterfeiting products and services, financing services and O2O business exhibition centre to the segments of (i) technology-driven new retail, (ii) smart industries, as well as (iii) platform and corporate services and (iv) O2O business exhibition centre services.

For the financial year ended 31 December 2018, the Group generated a total revenue of approximately RMB10,583,111,000 (2017: RMB3,702,466,000). This represented an increase of approximately 185.8% as compared to that in 2017. The increase of revenue was mainly from the segment of smart industries through our well-developed B2B trading platform.

For the Group's financial performance, a total revenue of approximately RMB557,875,000 was achieved from the segment of technology-driven new retail segment in 2018, and represented an increase of approximately 35.4% from approximately RMB411,909,000 in 2017. Revenue from the smart industries segment increased from approximately RMB2,154,579,000 in 2017 to approximately RMB9,211,537,000 in 2018 which represented an increase of approximately 327.5%. Revenue derived from the segment of platform and corporate services was approximately RMB727,563,000 in 2018, which represented an increase of approximately 3.5% from approximately RMB702,881,000 in 2017. Revenue from O2O business exhibition centre was approximately RMB86,136,000 in 2018, which represented a decrease of approximately 80% from 433,097,000 in 2017 due to a decline in revenue from sale of properties.

During the financial year ended 31 December 2018, the Group increased its operating expenses from approximately RMB1,012,537,000 in 2017 to approximately RMB1,173,887,000 which was mainly due to an increase of share based compensation expense related to share award and share option granted.

The Group achieved a profit for the year of approximately RMB276,875,000 in 2018 (2017: RMB317,310,000). The decrease is mainly due to an increase of share based compensation expense related to share award and share option granted.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group's cash and cash equivalent increased by approximately RMB69,754,000 from approximately RMB401,918,000 as at 31 December 2017 to approximately RMB471,672,000, approximately 85% of which is denominated in RMB.

The Group had total borrowings (including issued convertible bonds) amounted to approximately RMB2,254,900,000 as at 31 December 2018 (2017: RMB1,538,517,000), of which approximately 80% is denominated in RMB. The increase of approximately 47%, in total borrowings is mainly for the purpose of refinancing, as the Company has redeemed HK$728,400,000 convertible bonds in November of 2017. As at 31 December 2018, the gearing ratio of the Group was 22% (2017: 20%), where the Group's gearing ratio is calculated as net debt divided by total capital. The capital and reserves attributable to the Company's equity holders increased by approximately RMB683,631,000 from RMB3,654,098,000 in 2017, to RMB4,337,729,000 in 2018. The increase is mainly due to the issue of consideration shares and profit for the year.

The Group's net current assets amounted to approximately RMB1,233,990,000 as at 31 December 2018 (2017: RMB1,578,519,000). Its current ratio, which is calculated by dividing current assets by current liabilities, was approximately 1.54 times as at 31 December 2018 as compared to approximately 2.22 times as at 31 December 2017. The change is mainly due to part of bank and other borrowings amounting to RMB967,376,000 has become current from non-current. The Group's trade receivables turnover has decreased from approximately 21.98 days in 2017 to approximately 14.02 days in 2018. The change is mainly due to the management has implemented effective credit management policy.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

## BUSINESS REVIEW

In 2018, the Group worked for its vision of becoming a leading group for "Industrial Internet" in China by leveraging internet thinking, instruments and methods to ramp up industrial efficiency, empower supply chains and industrial chains, and establish a win-win ecosystem to serve customers.

By focusing on and integrating advantageous resources, the Group has upgraded its organizational structure, with its business composed of three segments, namely the business groups of technology-driven new retail, smart industries, and platform and corporate services.

### Business group for technology-driven new retail

In late 2018, the Group regarded zol.com.cn as the principal entity, and combined 北京融商通聯科技有限公司 (Beijing Rongshang Tonglian Technology Co., Ltd.*) ("Rongshang Tonglian") and 慧聰雲商(佛山)網絡科技有限公司 (Huicong Yunshang (Foshan) Internet Technology Co., Ltd.*) ("jdhui.com") to become the business group of technology-driven new retail for the Group.

Zol.com.cn is China's first vertical tech media. It provides integrated service solutions that combine product data, professional consultation, tech video, and interactive marketing for the world's top-500 companies. Over the last year, zol.com.cn has introduced its online users to offline shops; Internet instruments such as SaaS are also utilized to connect paid retailers which increases their ability to attract customers, profitability and operational efficiency. Furthermore, with the data collected through offline sales channels and analysis of data application, zol.com.cn is able to provide comprehensive "online + offline" marketing solutions to customers, which increases their core competitiveness. By converging resources and boosting the service capability both upstream and downstream, our business group of technology-driven new retail provides solutions to key issues faced by various parties along the 3C and home appliances industrial chain.

"Rongshang Tonglian" is a professional SaaS resolutions service provider in industrial internet. By providing SaaS products and services channels, the Company empowers their customers with new retail capabilities. Meanwhile, Rongshang Tonglian creates synergy between the operating revenue and profit in each industry, which are increased by the empowerments on supply chain and internet finance, introduces integrated industrial resources into industrial internets and empowers partners.

"jdhui.com" is an e-commerce transaction service platform focuses on home appliances across the industrial chain. Through the "Supply Chain + SaaS System + Service" Model, jdhui.com leverages on its coverage on transactions, finance, payments, warehousing and logistics and after-sales services, which assists traditional home appliances retail shops to upgrade to "online + offline shops" , enhances their overall competitiveness and transforms home appliances distributors into new retailers.

Incorporating the power of "zol.com.cn", "Rongshang Tonglian", and "jdhui.com", the technology-driven new retail business group improved its capability in media influence, SaaS, supply chain and data.

*Media business: Influencing an average of over 30 million purchasers everyday*

In the past 20 years, the media business of zol.com.cn has been providing professional technology information, with its impact extending to an average of over 30 million purchasers of technology products everyday through cooperative partners such as Baidu, Sogou and Toutiao.com (今日頭條).

In January 2018, zol.com.cn served as the official media partner for the American Consumer Electronics Show (CES) to cover this global event for the tenth consecutive year. It attracted 60 million views in total and covered 109 million people with its content. In particular, 300 professional articles were produced and distributed on 17 leading communication platforms including toutiao.com (今日頭條), Baidu Baijia (百度百家), IQiyi (愛奇藝), Taobao Toutiao (淘寶頭條).

In September 2018, zol.com.cn provided online coverage on the Autumn new product release of Apple. The live stream lasted over 3 hours, with 596,643 online viewers, over 4,000 times user interactions, 58 professional articles and more than 2.47 million views. During the release, 1+N Communication strategy cooperated with more than 10 leading platforms such as Baidu, Sougou, toutiao.com and douyu.com, garnering the attention of 200 million through cooperative exclusive resources.

*3C and home appliance routers: Empowering technology-driven new retail in an in-depth manner*

Under the business group of technology-driven new retail, our 3C router business has carried out in-depth collaboration with D. Phone (迪信通), Canover Industrial (捷信實業) and Union Communications (華聯通訊). Currently, the 3C router business is serving thousands of businesses, with daily transaction worth tens of millions of RMB. As for home appliance routers, our business covers seven provinces, with in-depth collaboration established with Gree, Midea, Skyworth and Aux successively.

Throughout 2018, the business group of technology-driven new retail garnered an average of more than 30 million technology product purchasers everyday, and linked to over 7,000 SaaS paid retailers.

**Business group of smart industries**

The business group of smart industries, which mainly comprises of five key components, namely four vertical service platforms for industrial internet (“ibuychem.com”, “Union Cotton”, “China Formwork” and “www.efu.com.cn”) and PanPass, an IoT solutions provider for digital transformation. “Focus” and “Significant Verticality” are the Group’s important strategies.

Positioned to provide centralized purchasing and integrated e-commerce service for chemicals and plastics, ibuychem.com was incubated by the Group as a non-wholly-owned subsidiary in March 2015, and originated from the chemical e-commerce platform established by the Group over 20 years ago. It has developed into a leading B2B platform in the domestic chemical industry. Its services cover nearly one million enterprises and eight million online members in the chemical rubber and plastics industry chain in China. The platform focuses on the spot trading of chemical rubber and plastic products.

In 2018, the ibuychem.com platform had about 5,900 transaction customers, including well-known enterprises from home and abroad such as PetroChina, Sinopec, DuPont, Akzo Nobel, and 3trees, with an annual transaction size exceeding RMB5.5 billion. Based on the transaction data of buyers and vendors, ibuychem.com also actively carried out supply chain finance and commercial factoring services.

Positioned as an excellent spot transaction platform for cotton, “Union Cotton” provides integrated B2B e-commerce service for spot cotton through online platforms, including self-operated online shopping stores, supply-chain financing service and warehouse receipt pledge. “Union Cotton”, one of the earliest B2B e-commerce operators in the cotton industry, has accumulated extensive industrial experience and significant market resources in the cotton industry, with an annual transaction size exceeding RMB1.7 billion. As of April 2018, Shanghai Huijing E-Commerce Co. Limited (上海慧旌電子商業有限公司) (“Shanghai Huijing”), a wholly-owned subsidiary of the Group, contributed RMB50 million to Shanghai Mianlian E-commerce Co., Ltd* (上海棉聯電子商務有限公司) (“Shanghai Mianlian”) and held approximately 43.84% of its equity interests. Following the transaction, the Group held an aggregate of 51% equity interests in Shanghai Mianlian. Since then, the Group has quickened its pace to optimize the service chain layout of the cotton industry.

Positioned to develop a national material bank for the construction formwork industry, “China Formwork” provides smart attached lifting scaffolding, aluminum alloy formwork system, glass fiber formwork system, building smart device, etc. Relying on the internet SaaS system, IoT technology and industrial parks, China Formwork provides design, installation, maintenance, refurbishment, supply chain finance, sub-leasing and leasing business that cater to materials.

On 27 July 2018, China Formwork signed an exclusive distribution agreement (the “Exclusive Agreement”) with Hanwha Advanced Materials (Beijing) Co., Ltd.* (韓華高新材料(北京)有限公司) (“Hanwha Company”). Under the Exclusive Agreement, China Formwork will serve as the exclusive distributor for the glass-fibre construction composite formwork products of Hanwha Company in Mainland China for a term of three years.

As at the end of 2018, the business coverage of China Formwork had extended to 17 provinces and cities nationwide, serving over 500 buildings under construction. Currently, China Formwork manages assets worth more than RMB500 million.

Positioned to practice "to B" new retail for apparel, www.efu.com.cn (a domain owned and operated by Zhejang Zhongfu, a non-wholly owned subsidiary which 80.38% of its equity interest was strategically purchased by the Group in December 2015) has leveraged on model and technology iteration to transition from media information coverage to establishment of "Internet Celebrity" transaction platforms, to serve apparel brand manufacturers in an in-depth manner.

Beijing PanPass Information Technology Co., Ltd* ("PanPass") (OTC Stock Code: 430073) relies on its core platform Z-SCM, a proprietary supply chain management system, and is based on carriers such as IoT, big data, artificial intelligence and cloud computing, digital code, QR code, RFID and other markers, providing lifetime traceability and management service for brand clients.

In 2018, the Group had increased its shareholding in PanPass which currently led to the increase of the Group's shareholding to 81.08% in PanPass.

Throughout 2018, PanPass lifetime product traceability and management services made progress in stages. PanPass Information established collaborative ties with SINOPEC Lubricant Company, a branch of China National Petroleum Corporation which is a Fortune 500 company, to work for the integrated project for the construction and installation of a QR-code system platform, in a bid to build the data asset system for SINOPEC Lubricant Company. PanPass also entered into a strategic cooperation agreement with Haier Digital Technology (Shanghai) Co., Ltd. under the Haier Group. Based on the shared development capability of Haier COSMOPlat, PanPass Information developed the SaaS application of a cloud traceability platform on Haier COSMOPlat, which has been used to provide product traceability services for agricultural projects such as Jinxiang Garlic. Meanwhile, PanPass further cooperated with the Gourmet City under Shandong Dezhou Braised Chicken Co., Ltd. (山東德州扒雞股份有限公司) and overseas Holiday Inn on food safety, and worked on a new factory project based on IoT for Shijiazhuang Junlebao Dairy Co., Ltd. (石家莊君樂寶乳業有限公司).

Relying on the operating entities of PanPass, the Group builds a credit system based on quality traceability of the entire industry chain, big data analysis, supply chain management, etc., and provides cross-business interconnectivity services including IoT-based anti-counterfeiting traceability, IoT-based supply chain management, digital marketing, smart packaging, and supply chain finance.

**Business group of platform and corporate services**

Leveraging on "hc360.com" and "Huijia" and integrating the Group's financial services, our business group of platform and corporate services is committed to developing industrial internet instruments that can help small and medium-sized enterprises (SMEs) improve industrial efficiency and create value for customers. This business group also works to build industrial data chains and business scenarios to empower SMEs by providing them with more value-added services such as financial service, data marketing and SaaS, to facilitate their transformation and upgrade and serve the economic development of the PRC.

Other than SME customers, Huijia is also providing data marketing service to more and more large enterprise customers, as part of the Group's strategy of serving both SMEs and large enterprise customers.

"hc360.com" centered on continuous in-depth upgrade of internet information services, including improving and enhancing traditional product service and customer experience such as Mai Mai Tong ("買賣通") and focusing on utilising technological innovations to drive the upgrade of products, service and technology as well as efficient operation. By utilising artificial intelligence (AI), the most suitable products and services can be matched up with sellers and buyers accurately, effectively reducing the operation cost of customers, accurately reaching target users and enhancing user experience, which will achieve the purpose of maximising marketing effectiveness.

On 26 December 2018, the Group and Tencent CCM, an enterprise product under Tencent Cloud, announced their strategic cooperation to jointly carry out product research and development, sales promotion and other business. In addition, "Huicong Youke" (慧聰友客), a precision marketing product under hc360.com, will combine its advantages with those of Tencent CCM to engage in product cooperation and joint marketing in technical aspects such as AI, machine learning, IoT, SaaS and IM.

On 8 March 2019, Huicong Youke launched its 2.0 VIP version, providing customers with various ways to search for leads (downstream companies, subscription for leads, and "seeking" leads), help users obtain valuable sales leads and complete lifetime management of sales leads from acquisition, follow-up, conversion to retention.

As an important operating entity of the Group's data service segment and a leading cross-sector integrated marketing platform, "Huijia" provided its customers with customized, precise and integrated marketing solutions through online advertising and market data analysis. Meanwhile, the network opened up new areas such as big data marketing and new media marketing to provide data and technology solutions for branded customers, and customized technical marketing products for customers through its mobile terminal.

In June 2018, "Huijia" entered into cooperation agreements with the "Department of Industrial Engineering of Tsinghua University" and "Shanghai Unicom", respectively. Shanghai Unicom is an important partner of the Group in big data. As a platform-based communication enterprise integrating data sources, technologies, platforms and networks, Shanghai Unicom has an advantageous network and data resources. The research on big data application by the Department of Industrial Engineering of Tsinghua University is conducive to the Group's construction of data models.

In 2018, approximately 5.3% of the Group's revenue came from its business group of technology-driven new retail, approximately 87.0% was from the business group of smart industries approximately 6.9% came from the business group of platform and corporate services and approximately 0.7% from the O2O business exhibition centre.

**Prospects**

Stiffer competition among enterprises has become a new normal, along with the changes in economic and competition landscape from home and abroad. Facing fresh changes and challenges, Chinese enterprises are keen to apply new technologies, such as the internet and big data, to accelerate their transformation and upgrade, cut costs and enhance efficiency.

This has ushered in a new period of development opportunities for the sector of industrial internet in China. It has been widely accepted in the industry that "industrial internet will dominate the next stage of internet development". To transform, upgrade and be more competitive, it is vital for the Chinese real economy to empower its traditional industries and enhance its efficiency with industrial internet.

Leveraging on 27 years of experience in serving over 60 industries, the Group has developed an in-depth insight into the industry as well as the ability to reach customers. On top of that, the Group announced its entry into industrial internet in the beginning of 2018. With concentrated effort, we are able to offer industrial internet solutions to boost the size and efficiency of SMEs based on vertical industries, and has established a business model that empowers traditional industries through advanced technologies such as SaaS, the Internet of Things (IoT) and big data.

At the beginning of 2019, the Group went through another comprehensive structural upgrade, by which business groups were established for technology-driven new retail, smart industries and platform and corporate services. By focusing on the vertical tracks of industrial internet and stressing on ecosystem construction, the Group has been rolling out more and better products and services to its customers, with improving capability of empowering traditional industries and creating values for customers.

In regard to the business group of technology-driven new retail, the Group keeps on iterating business and management capabilities, empowering traditional industries with the internet and data, and creating values for customers. In the next three years, we wish to amplify our investment to build a new router for the technology industry that integrates online and offline users and channel transactions, and ramp up our whole-industry-chain service capability featuring technology industry media matrix plus technology-driven new retail.

In regard to the business group of smart industries, we work to aggregate industrial advantages, increase our income and ultimately benefit our shareholders by leveraging on four vertical industry service platforms, supply chain management, third-party warehousing services and financial instruments. Over the next three years, leading industrial platforms such as "Union Cotton" and "ibuychem.com" will achieve an annual transaction volume of more than RMB10 billion and become leaders in their respective industries, while "China Formwork" will maintain its "unicorn" status in the market. PanPass is an industrial leader mainly in traceability service. It is committed to digitalizing its products and visualising the whole production process, which is to label its products with identification codes to trace the products during the process of warehousing, logistics and marketing. Thereby, PanPass has built up a digitalized supply chain, enhancing the visualization and collaboration of the enterprise supply chain ecosystem, realizing a reacting supply chain and satisfying consumers' increasingly high expectations. In the future, PanPass will continue to innovate new technologies like the IoT, big data, artificial intelligence (AI) and cloud computing to enrich and optimize its business scope, intensifying the application of new technologies to its business segments. As such, PanPass will become a leading digitalization-transited loT solution provider in China and an important component of the Group's industrial internet ecosystem.

In regard to the business group of platform and corporate services, the Group signed a strategic cooperation agreement with Tencent Cloud at the end of 2018. We hope that the infrastructure and internet instruments of Tencent are able to interact with the transaction scenarios of the Group's vertical industries and will enable both sides to jointly develop industrial internet instruments that can help SMEs improve industrial efficiency and help customers make transactions. Meanwhile, the financial services of the Group will be incorporated into this business group, to meet the increasingly vibrant trading scenarios for SMEs.

## SIGNIFICANT EVENTS

### Change of head office and principal place of business in the People's Republic of China

With effect from 1 January 2018, the address of the Company's head office and principal place of business in the PRC have been changed to 7/F, Tower A1, Junhao Central Park Plaza, No. 10 Chaoyang Park South Road, Chaoyang District, Beijing 100026.

### Subscription of new shares of the Company under general mandate in consideration of the Convertible Bonds

On 5 January 2018, the Company entered into the subscription agreements ("Exchange Subscription Agreements") with (i) Daxiong Holdings Limited ("Daxiong"), Hanson He Holdings Limited, Richard Chen Holdings Limited, Grand Novel Developments Limited (浩新發展有限公司) and Mr Moustache Holdings Limited (together, the "Zhongfu Sellers"), and (ii) Mu Hao Holdings Limited, Hong Rui Technology Holdings Limited, Chance Technology Co. Ltd and Vanguard Technology Holdings Limited (together, the "Huijia Sellers") (the Zhongful Sellers and the Huijia Sellers, collectively, the "Bondholders"), pursuant to which the Company agreed to allot 36,028,500 new shares ("Exchange Shares") in aggregate to each of the Bondholders in exchange for the surrender of the convertible bonds of the Company ("Convertible Bonds") issued to the Zhongfu Sellers and Huijia Sellers respectively pursuant to the sale and purchase agreement dated 18 December 2015 entered into between, among others, the Company and the Zhongfu Sellers (the "Zhongfu SPA") and sale and purchase agreement dated 13 January 2017 entered into between, among others, the Company and the Huijia Sellers (the "Huijia SPA") which remain outstanding and unconverted as at 5 January 2018 (the "Exchange Shares Subscriptions"). The number of Exchange Shares allotted to each of the Zhongfu Sellers and the Huijia Sellers was calculated in accordance with the outstanding principal amount of the Convertible Bonds they are holding and the conversion price of HK$10 per Share for Zhongfu Sellers or the conversion price of HK$7.5 per Share for Huijia Sellers. Pursuant to the Exchange Subscription Agreements, the Exchange Shares allotted to the Bondholders will be put into custodian accounts and will only be released to the Bondholders upon ascertaining the level of fulfilment of the performance targets set out in the Exchange Subscription Agreements.

The total number of Exchange Shares under the Exchange Shares Subscriptions, being 36,028,500 shares of the Company, represents approximately 3.32% of the issued share capital of the Company of 1,085,323,710 Shares as at 5 January 2018 and approximately 3.21% of the then issued share capital of 1,121,352,210 Shares as enlarged by the Exchange Shares Subscriptions. The aggregate nominal value of the Exchange Shares under the Exchange Shares Subscriptions was HK$3,602,850. The Exchange Shares were allotted and issued pursuant to the general mandate granted to the Directors by the shareholders of the Company (the "Shareholders") at the annual general meeting of the Company held on 26 May 2017. The Exchange Shares were issued and allotted to the Bondholders on 16 January 2018 and the Convertible Bonds were cancelled accordingly.

For more details, please refer to the announcement of the Company dated 5 January 2018.

**Fulfilment of Zhongfu Performance Target and Huijia Performance Target for the year ended 31 December 2017**

*Zhongfu Performance Target*

Pursuant to the Exchange Subscription Agreements, the yearly target amount of the audited consolidated distributable profit (after-tax) of ZheJiang Zhong Fu Internet Technology Company Limited* (浙江中服網絡科技有限公司, "Zhejiang Zhongfu") ("Zhongfu Performance Target") for the year ended 31 December 2017 was RMB13,000,000. According to the audited consolidated financial statement of Zhejiang Zhongfu for the year ended 31 December 2017 dated 27 March 2018, the audited consolidated distributable profit (after-tax) of Zhejiang Zhongfu for the year ended 31 December 2017 exceeded RMB13,000,000. Accordingly, the Zhongfu Performance Target for the year ended 31 December 2017 was met, and 3,014,250 Exchange Shares have been released to the Zhongfu Sellers, representing approximately 0.27% of the issued share capital of the Company as at the date of this announcement.

*Huijia Performance Target*

Pursuant to the Exchange Subscription Agreements, the yearly target amount of the audited consolidated profit attributable to equity holders of Beijing Huijiayuantian Cultural Media Company Limited* (北京慧嘉元天文化傳媒有限公司, "Beijing Huijia") ("Huijia Performance Target") for the year ended 31 December 2017 is RMB20,000,000. According to the audited consolidated financial statement of Beijing Huijia for the year ended 31 December 2017 dated 27 March 2018, the audited consolidated distributable profit attributable to equity holders of Beijing Huijia for the year ended 31 December 2017 exceeded RMB20,000,000. Accordingly, the Huijia Performance Target for the year ended 31 December 2017 was met, and 8,181,819 Exchange Shares have been released to the Huijia Sellers, representing approximately 0.73% of the issued share capital of the Company as at the date of this announcement.

For more details, please refer to the announcement of the Company dated 27 March 2018.

**Change of Company name and stock short name**

On 1 March 2018, the Company changed its name in Chinese from "慧聰網有限公司" to "慧聰集團有限公司", which is used for identification purposes only. Accordingly, the Chinese stock short name of the Company for trading of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") changed from "慧聰網" to "慧聰集團" with effect from 9:00 a.m. on 6 March 2018.

Following the aforesaid changes, on 25 May 2018, a special resolution approving the change of the English name of the Company from "HC International, Inc." to "HC Group Inc." and adoption of the Chinese name of "慧聰集團有限公司" as the dual foreign name of the Company ("Change of Company Name") was passed by the Shareholders at the extraordinary general meeting of the Company held on 25 May 2018 (the "EGM"). The Certificate of Incorporation on Change of Name was issued by the Registrar of Companies in the Cayman Islands on 29 May 2018. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 3 July 2018 confirming the registration of the Company's new English and Chinese names in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

Accordingly, the English stock short name of the Company was changed from "HC INTL" to "HC GROUP" for trading in the Shares on the Stock Exchange, with effect from 9:00 a.m. on 12 July 2018. The stock code of the Company on the Stock Exchange remains unchanged as "2280".

The short name for trading in the Company's 5.00% convertible bonds due 2019 (the "2019 CB") on the Stock Exchange was changed from "HC INTL B1911" to "HC GROUP B1911" on 12 July 2018. The stock code of the 2019 CB remains unchanged as "5839".

For more details, please refer to the announcements of the Company dated 26 April 2018, 25 May 2018 and 9 July 2018, and the circular of the Company dated 3 May 2018.

**Amendments of the Articles of Association of the Company**

At the EGM, the Shareholders approved the special resolution in respect of the amendments to the articles of association (the "M&A") of the Company to amend and restate the M&A to reflect the Change of Company Name and the previous increase in the authorised share capital of the Company approved by the Shareholders on 19 June 2015.

For more details, please refer to the announcement of the Company dated 26 April 2018 and the circular of the Company dated 3 May 2018.

**Discloseable transaction in relation to capital injection into Shanghai Mianlian E-Business Co, Ltd.**

On 8 April 2018, Shanghai Huijing, a company established in the PRC and a wholly-owned subsidiary of the Company, entered into the capital increase agreement (the "Capital Increase Agreement") with Beijing Huicong Zaichuang Technology Co., Ltd* (北京慧聰再創科技有限公司), a wholly-owned subsidiary of the Company, Geron Co., Ltd. (金輪藍海股份有限公司), Gong Wenlong (龔文龍), Beijing Wenlong Technological Development Centre (Limited Partnership)* (北京文龍科技發展中心(有限合夥)) and Shanghai Mianlian. Pursuant to the Capital Increase Agreement, Shanghai Huijing has conditionally agreed to make capital contribution in the amount of RMB50,000,000 by way of cash to Shanghai Mianlian and become a shareholder of Shanghai Mianlian holding approximately 43.84% of its equity interests (the "Capital Increase"). Completion of the Capital Increase took place on 23 April 2018. Upon completion of the Capital Increase, the Group held an aggregate of approximately 51% equity interests in Shanghai Mianlian and therefore, Shanghai Mianlian became an indirect non-wholly owned subsidiary of the Company and its financial results have been consolidated in the consolidated financial statements of the Group.

For more details, please refer to the announcement of the Company dated 8 April 2018.

**Change of Directors**

1) *Change of Chairman of the Board, members of the Board Committees, Authorised Representative and Compliance Officer*

With effect from 27 March 2018,

(i) Mr. Guo Jiang resigned as an executive Director, the chairman of the Board, the chairman of the nomination committee of the Company (the "Nomination Committee"), a member of the remuneration committee of the Company (the "Remuneration Committee"), an authorised representative for the purpose of the Listing Rules (the "Authorised Representative") and the compliance officer of the Company (the "Compliance Officer");

(ii) Mr. Liu Jun ("Mr. Liu"), an executive Director, the then chief executive officer of the Company and an Authorised Representative, has been appointed as the chairman of the Board, the chairman of the Nomination Committee, the member of the Remuneration Committee and the Compliance Officer; and

(iii) Mr. Lee Wee Ong, the then executive Director, was appointed as an Authorised Representative.

Code Provision A.2.1 of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2018, upon the appointment of Mr. Liu as the chairman of the Board, Mr. Liu performed both the roles as the chairman of the Board and the chief executive officer of the Company, which deviated from the said code provision. After evaluation of the situation of the Company and taking into account the experience and past performance of Mr. Liu, the Board was of the opinion that it was appropriate and in the best interests of the Company for Mr. Liu to hold both positions as the chairman and chief executive officer of the Company as it helped to maintain the continuity of the policies and the stability of the operation of the Company. Furthermore, the Board considered that this arrangement did not impair the balance of power and authority between the Board and the management of the Company as a majority of the Board members were non-executive Directors and independent non-executive Directors and the Board met regularly to consider major matters affecting the operations of the Group and all Directors were properly and promptly briefed on such matters with adequate, complete and reliable information.

For more details, please refer to the announcement of the Company dated 27 March 2018.

2) *Appointment of Executive Director*

With effect from 1 June 2018, Mr. Liu Xiaodong, the then co-president of the Company, has been appointed as an executive Director.

For more details, please refer to the announcement of the Company dated 26 April 2018.

**Grant of share options**

On 19 July 2018, an aggregate of 36,000,000 share options to subscribe for the ordinary shares of HK$0.10 each in the share capital of the Company (the "Options") were granted to a total of 21 persons (the "Grantees"), who are the core management staff and officers of the Group, at an exercise price of HK$4.60 per Share, under the Company's share option scheme adopted on 22 May 2015, subject to the acceptance of the Grantees. Of the 36,000,000 Options, 4,000,000 Options were granted to Mr. Liu Xiaodong, an executive Director and the then co-president of the Company, and 2,200,000 Options were granted to Mr. Lee Wee Ong, a then executive Director and chief financial officer of the Company.

For more details, please refer to the announcement of the Company dated 19 July 2018.

**Issue of HK$350,000,000 2.85% plus HIBOR guaranteed and secured notes and issue of HK$100,000,000 2.85% plus HIBOR guaranteed and secured convertible bonds**

On 16 November 2018, the Company and Chance Talent Management Limited (the "Investor") entered into an investment agreement, pursuant to which the Investor agreed to subscribe for the 2.85% guaranteed and secured notes due 2020 (the "Notes") and the 2.85% guaranteed and secured convertible bonds due 2020 (the "2020 Convertible Bonds"). Completion of the issue of the Notes and the 2020 Convertible Bonds took place and the Notes and Convertible Bonds were issued to the Investor on 3 December 2018.

The Convertible Bonds will be convertible into ordinary shares of the Company (the "Shares"). Assuming full conversion of the 2020 Convertible Bonds at the conversion price of HK$6.00 per new Shares to be issued upon conversion of the 2020 Convertible Bonds (the "Conversion Shares"), the 2020 Convertible Bonds will be convertible into 16,666,667 new Shares. The Conversion Shares represent approximately 1.49% of the existing issued share capital of the Company and approximately 1.47% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares. The net proceeds from the issue of the Notes and the 2020 Convertible Bonds would be approximately HK$436 million.

For more details, please refer to the announcements of the Company dated 16 November 2018 and 4 December 2018.

**Discloseable transaction in relation to (i) the acquisition of the entire issued share capital of ZALE INC.; and (ii) issuance and allotment of Z.TECH consideration shares and deemed disposal of 10.66% of interest in Z.TECH**

On 20 December 2018, Zalef Limited ("Zalef"), Ruthfly Limited ("Ruthfly") and Fejack Limited ("Fejack") (together, the "Zale Vendors"), Z.TECH Holdings Limited ("Z.TECH" or "Purchaser") and YANG Fan ("Ms. Yang"), GENG Qian ("Ms. Geng") and LI Song ("Mr. Li") (together, the "Vendor Guarantors" who owns the entire issued share capital of Zalef, Ruthfly and Fejack, respectively) entered into a sale and purchase agreement, pursuant to which the Vendors have conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire 500,000,000 ordinary shares of Zale Inc. (the "Target Company"), representing the entire issued share capital of Zale Inc. for an aggregate consideration of RMB392,220,000 in equivalent Hong Kong dollars at an exchange rate of HK$1.00 to RMB0.88 (i.e. HK$445,704,545) to be settled at completion by way of (i) cash; and (ii) issuance and allotment of Z.TECH an aggregate of 5,966 new ordinary shares ("Z.TECH Consideration Shares") to the Vendors (subject to downward adjustments).

After the allotment and issue of Z.TECH Consideration Shares, the Zale Vendors shall hold approximately 10.66% of the issued share capital of Z.TECH in aggregate. The number of Z.TECH Consideration Shares to be issued is based on the valuation of the interest in Orange Triangle Inc. (100%), 北京融商通聯科技有限公司 (Beijing Rongshang Tonglian Technology Co., Ltd.*) ("Beijing Rongshang") (100%) and 慧聰雲商(佛山)網絡科技有限公司 (Huicong Yunshang (Foshan) Internet Technology Co., Ltd.*) ("Huicong Yunshang") (65.6%) held or to be held by Z.TECH as at 9 December 2018 using market approach by an independent valuer at approximately RMB2,740,000,000.

For more details, please refer to the announcement of the Company dated 20 December 2018.

## CAPITAL STRUCTURE

During the year ended 31 December 2018, 400,000 Shares were issued upon the exercise of share options under the share option scheme of the Company.

On 16 January 2018, 30,000,000 Shares and 6,028,500 Shares had been allotted and issued to Huijia Vendors and Zhongfu Sellers (as defined in the announcement of the Company dated 5 January 2018) pursuant to the subscription agreements dated 5 January 2018, respectively.

During the year ended 31 December 2018, 1,350,000 Shares were repurchased pursuant to the general mandate to repurchase Shares and 1,350,000 Shares had been cancelled.

The total number of issued shares of the Company was 1,120,402,210 as at 31 December 2018 (2017: 1,085,323,710).

## STAFF AND REMUNERATION

The success of the Group depends on the skills, motivation and commitment of its staff. As at 31 December 2018, the total number of Group's employees was 2,778, among which 957 were employed in the Sales and Marketing Division, 420 were employed in the Editorial Division, 406 were employed in the Information Technology Division and the remaining were employed in other divisions of the Group.

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

## CHARGES ON GROUP ASSETS

As at 31 December 2018, part of the bank borrowings, amounting to RMB372,376,000 are secured by certain properties and land use right, amounting to RMB251,500,000 are secured by bank deposit, and amounting to RMB980,000 are secured by bank acceptance bills. Part of the other borrowings, amounting to RMB255,000,000 are secured by certain loans receivable and amounting to RMB233,872,000 are secured by certain inventories.

## EXCHANGE RISK

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

## CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no contingent liability (2017: Nil).

## SUBSEQUENT EVENTS

### (1) Appointment of executive Director; (2) resignation of co-president; (3) re-designation as president; (4) change of chief executive officer; (5) resignation of executive Director; and (6) change of Authorised Representative

With effect from 4 January 2019:

(1) Mr. Zhang Yonghong has been appointed as the executive Director and as the chief executive officer of the Company and has resigned as the co-president of the Company;

(2) Mr. Liu Xiaodong has been re-designated from the co-president of the Company to the president of the Company;

(3) Mr. Liu Jun has resigned as chief executive officer of the Company, but will continue to serve as the chairman of the Board;

(4) Mr. Lee Wee Ong has resigned as an executive Director, but will continue to serve as the chief financial officer of the Company; and

(5) Mr. Lee Wee Ong has ceased to be the Authorised Representative and Mr. Zhang Yonghong has been appointed as the Authorised Representative.

Following the appointment of Mr. Zhang Yonghong as the chief executive officer of the Company in place of Mr. Liu Jun on 4 January 2019, the Company has complied with the Code Provision A.2.1 of the Code in respect of the separation of the roles of chairman and chief executive officer. For more details, please refer to the announcement of the Company dated 4 January 2019.

## AUDIT COMMITTEE

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

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises two independent non-executive Directors, Mr. Zhang Ke and Ms. Qi Yan 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, the internal control procedures, the annual results of the Company for the year ended 31 December 2018 and has met with external auditors and discussed the financial matters of the Group that arose during the course of audit for the year ended 31 December 2018. The Audit Committee held 2 meetings during the year.

## REVIEW OF FINANCIAL STATEMENTS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed in this announcement, during the year ended 31 December 2018, the Company had complied with the code provisions of the Code.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company total issued share capital was held by the public as at the date of this announcement.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Directors and their respective close associates (as defined in the Main Board Listing Rules) has confirmed that none of them had any business or interest in any company that materially competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the year ended 31 December 2018.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a written confirmation or an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers the independent non-executive Directors are or have been remained independent.

## PERMITTED INDEMNITY

Pursuant to Article 167 of the M&A, the Directors and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices. This indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Such provisions were in force during the financial year ended 31 December 2018 and remained in force as of the date of this announcement. The Company has also arranged appropriate directors and officers liability insurance in respect of potential legal action against Directors and other officers.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2018, 1,350,000 Shares repurchased under the general mandates to repurchase Shares and 1,350,000 Shares had been cancelled.

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the shares of the Company during the year ended 31 December 2018.

By order of the Board
**HC Group Inc.**
**LIU Jun**
*Chairman*

Hong Kong, 26 March 2019

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

*Mr. Liu Jun (Executive Director and Chairman)*
*Mr. Zhang Yonghong (Executive Director and Chief Executive Officer)*
*Mr. Liu Xiaodong (Executive Director and President)*
*Mr. Guo Fansheng (Non-executive Director)*
*Mr. 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)*
*Ms. Qi Yan (Independent non-executive Director)*

*This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.hcgroup.com), and the 2018 Annual Report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.*