ACTIVATION GROUP

艾德韦宣

Activation Group Holdings Limited

艾德韋宣集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9919)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of Activation Group Holdings Limited (the "**Company**") is pleased to announce the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 ("**FY2019**") together with comparative figures for the previous financial year. These annual results have been reviewed by the Company's Audit Committee.

FINANCIAL HIGHLIGHTS

1. **Adjusted profits reported new record high**

   Adjusted profits in 2019 achieved RMB72.0 million, increased by 65.5% from RMB43.5 million in 2018.

2. **Profit margin improved significantly**

   Gross profit margin increased from 25.2% in 2018 to 29.9% in 2019, adjusted profit margin increased from 6.4% in 2018 to 10.9% in 2019.

3. **Digital and brand communication service enjoyed a sustainable growth**

   Revenue of digital and brand communication services recorded RMB110.5 million in 2019, with a 4-year CAGR of 42.1%.

4. **IP development segment recorded a profitable result for the first time**

   2018: loss RMB9.9 million; 2019: profit RMB9.3 million

5. **Strong financial position**

   Cash and cash equivalents balance was approximately RMB129.5 million as at 31 December 2019, not including net proceeds estimated HK$345.0 million (equivalent RMB308.4 million) from IPO in January 2020.

* Adjusted profits: net profit plus one-off listing expenses, total fees, interest and exchange gain and loss from the one-off borrowing for the restructuring of the original shareholders

* CAGR: Compound annual growth rate, a measurement to assess the growth rate of value overtime.

CHAIRMAN'S STATEMENT

The Board is pleased to announce the first annual results of the Group since its listing.

In 2019, the Group reached another milestone in its development. To connect itself to the international financial market, the Group prepared for its listing during the year. On 16 January 2020, the Group was successfully listed on the Main Board on the Hong Kong Stock Exchange. Since then, the Group has increased its capital significantly, ready to unlock its potential further and laying a solid foundation for its future development.

The Group actively seized opportunities on the market and achieved excellent performance. For FY2019, the Group's revenue was RMB661.8 million and the profit attributable to shareholders was RMB30.0 million. Excluding the one-off expenses for the listing, the Group recorded an adjusted profit of RMB72.0 million for FY2019, representing an increase of 65.5% compared to that for the year ended 31 December 2018 ("**FY2018**").

The Board does not recommend the payment of any dividend for FY2019.

BUSINESS REVIEW

As a leading provider of experiential marketing services to international premium and luxury brands in Greater China, the Group provides a comprehensive range of marketing solutions for its clients. Its clientele consists of international premium and luxury brands in the industries of fashion, consumer products and automobiles with whom we have developed stable relationships.

In the first half of 2019, the Group posed a strong growth in adjusted profit. Due to social unrest in Hong Kong that had taken place since June 2019, some of the Group's clients in luxury and premium brands put on hold their upcoming experiential marketing projects originally scheduled for the second half of 2019. In 2019, revenue from clients in the automobile industry was affected significantly by the China-United States trade war whilst revenue from clients in the industries of luxury goods, beauty services and jewelry continued to record double-digit growth. To adapt itself to the market conditions, the Group revised its strategies for selecting which marketing projects to undertake. Since the first half of 2019, the Group strategically steered away from high-income, low-profit margin marketing projects for automotive companies and focused on high-profit margin marketing projects of clients in the fashion industry. As a result, the gross profit margin of our experiential marketing business increased from 26.2% in 2018 to 26.6% in 2019. The Group also actively developed its digital marketing business to improve its profitability and added value. As a result, the gross profit margin of our digital marketing business increased from 30.8% in 2018 to 39.6% in 2019. The aforementioned strategy for selecting marketing projects led to a significant decrease in the revenue from clients in the automobile industry. This, in turn, resulted in a decline in the overall revenue of the Group. However, the Group's overall gross profit margin in 2019 increased by 4.7 percentage points to 29.9% as compared to 2018 and the total gross profit maintained its long-term growth. The Group's adjusted profit margin increased from 6.4% in 2018 to 10.9% in 2019.

On the back of its strong capability to come up with creative solutions and its commitment to the provision of quality services for clients, the Group made a breakthrough in the diversification of its client base by developing and providing marketing services for brands that engage in other industries. The Group completed a substantial experiential marketing project for Alibaba Group's 20th anniversary party in September 2019 for a member company of the latter.

On the other hand, the Group further expanded the geographical market coverage of its sports event marketing business and successfully held a number of large-scale sporting competitions and events in mainland China in the second half of 2019, making good progress in its intellectual property ("**IP**") development business. During FY2019, gross profit of the IP development business surged by 34.2% as compared to FY2018. For instance, Le Tour de France Škoda Shanghai Critérium was held in Shanghai in November 2019 and the L'Étape du Tour de France race was held in Chengjiang, Yunnan in December 2019. The Group held tournaments of Le Tour de France and LaLiga Club in various big cities in the People's Republic of China (the "**PRC**") and made use of the IP of the two sports events to conduct marketing, sponsorship and merchandising activities in the country.

OUTLOOK AND PROSPECTS

In 2020, the spread of coronavirus disease (COVID-19) has dealt a inevitable blow to the world economy. The impact is expected to spill over into the Group's financial results to a certain extent. However, the seasonality of the Group's business means the impact is limited because the revenue for the first half of the previous financial years accounted for about 30-40% of the whole year only. Usually, fewer experiential marketing projects are held in the first quarter of a year due to the Chinese New Year holidays. However, if the pandemic persists, it may weigh on the performance of the Group's experiential marketing business in terms of the annual results. The management will monitor the situation and adjust the business strategy accordingly.

Although offline promotional activities have decreased significantly amid the pandemic, this has inadvertently popularised online promotional activities. The Group's competitive digital marketing and branding services enable clients to continue their online marketing campaigns. The Group has planned to speed up the digitalisation of its business in 2020. It will commit more efforts and workforce to enrich its digital marketing services.

In order to capture the growing market potential of digital marketing sector, the Company will accelerate the development of digital marketing business and allocate more resources to the related services by the following ways: (i) continuing to launch our "comprehensive digital campaign offering" to more clients. It includes the marketing campaign to build brand across all online social platform, e.g., Weibo, Wechat, Tiktok and Redbook etc. We also focus on the campaign to drive sell both in online, e.g. T Mall, client e-commerce sites etc, and through offline. (ii) enhancing our media/KOL platform through developing our fashion KOL platform and incubation, media ROI and sales performance management; (iii) providing social Customer Relationship Management (CRM) for our clients. The system includes data and engagement platform, retail solutions and data integration. Valued-added services, including big-data analysis will also be provided. (iv) combining the online and offline marketing resources and develop a better cloud show infrastructure in order to facilitate our clients to drive integrated online campaign.

Looking ahead, the Group will utilise its own advantages, increase its market share through several strategies, enhance its overall competitiveness as a leading integrated marketing solutions provider, and further expand its IP development business.

The Group has also been expanding both the geographical market coverage and the clientele of its integrated marketing solutions business. For instance, the Group has set up an office in Hangzhou dedicated to provide services to local internet and consumer brands. Meanwhile, the Group plans to set up an office in Guangzhou to strengthen its geographical coverage in the first-tier cities in China and to grasp the business opportunities that arise from the state policy on coordinating the development in the Guangdong-Hong Kong-Macao Greater Bay Area. The Group further plans to establish a Paris office to expand its client base in Europe and to assist Chinese local brands with their marketing in the European market.

In addition to organic growth, the Group is also exploring possibilities for acquisitions and cooperation to strengthen its market position and enhance its competitiveness in the integrated marketing solutions industry of the PRC. The Group will seek competent business partners to join the Group so as to enrich its experiential marketing/integrated marketing solutions business. In the PRC, the Group will diversify and foster the development of its digital marketing business through mergers and acquisitions. It is looking for acquisition targets in companies that specialise in marketing automation, big data and self-media multi-channel networks. Internationally, the Group will seek acquisition targets worldwide in companies which engage in the provision of marketing services for mid-range and high-end consumer brands. The Group aspires to become a leading global integrated marketing solutions provider with enhanced competitiveness and a reinforced competitive moat through these acquisition plans.

In its IP development business, the Group will continue to unlock the value of the brands of LaLiga Club and Le Tour de France in the PRC and, at the same time, plans to obtain the exclusive rights to operate the IP of more other premium brands. Such IP will create more business for the Group's marketing services and products. In addition, the Group will continue to explore opportunities for developing entertainment IP by cooperating with Stufish Productions Limited and other potential market players through its joint venture company with the Group, Stufish Asia Limited.

Although the pandemic has cast a shadow over the world, the Group will take positive steps to deal with the present situation, looking forward to an end of the pandemic outbreak and economic recovery in the second half of 2020. In general, the second half of a year is usually the peak season of the retail industry. Rebounds in the demand for luxury goods and the consumer market can be expected then on the back of the release of the pent-up buying power. The Group will closely monitor the market in order to provide the most suitable integrated marketing solutions and thus capitalise on the recovery of the market.

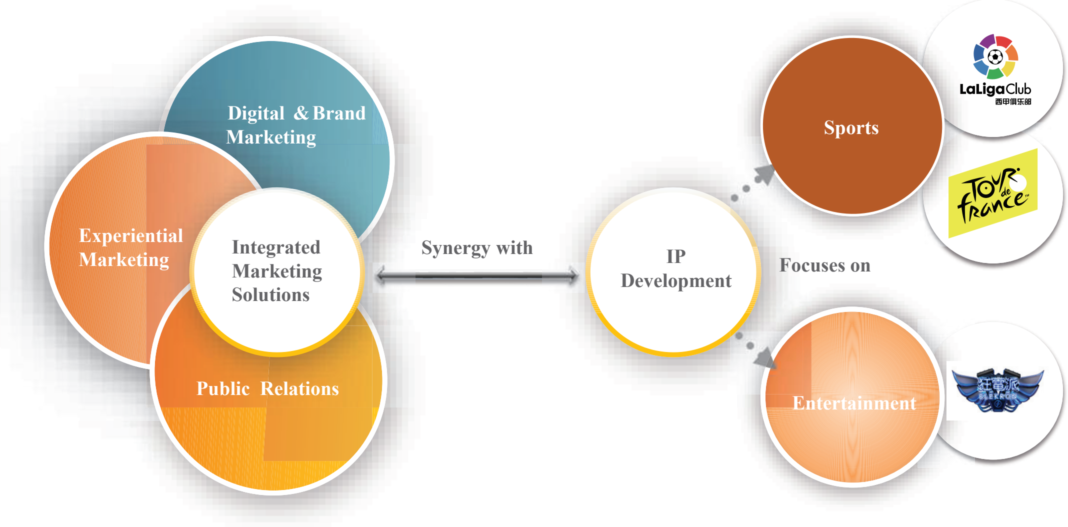
Now that the Group is successfully listed in Hong Kong, it expects its financial position to be strengthened and both its reputation and publicity to be enhanced. All these can help the Group attract more quality partners and clients. The Group is confident in becoming the global leader of integrated marketing solutions providers.

Finally, due to the impact of the pandemic and objective market factors, the management considers that the current trading price of the Company's shares (the "**Shares**") does not reflect their intrinsic value. Therefore, the Board is considering buy-backs of the Shares (the "**Share Buy-backs**") in the short term. The Board believes that the Share Buy-backs would reflect the Company's confidence in its long term business prospects and would ultimately benefit the Company, creating value for the Company and its shareholders (the "**Shareholders**").

Once again, I would like to take this opportunity to express my sincere gratitude to all the employees for their efforts and to the Shareholders for their support to the Group.

BUSINESS REVIEW

The Group is a leading and fast growing integrated marketing solutions provider that focuses on the provision of (i) experiential marketing, (ii) digital and brand communication, and (iii) public relations services which mainly operates in Shanghai and Beijing with coverage in Greater China. According to the independent market research report issued by China Insights Industry Consultancy Limited, in 2018 we ranked first, accounting for approximately 6.3% of the market share, in the experiential marketing services for premium and luxury brands market in Greater China, the market where the Group is operating and which has a market size of approximately RMB7.9 billion. We also focus on tapping into the sports and entertainment IP development sector. Since 2016, we have started our IP development business for sports market where we entered into cooperation agreements (the "**IP Cooperation Agreements**") with each of LaLiga and Amaury Sport Organisation for granting us exclusive rights to organise authorised events with LaLiga Club brand and Le Tour de France brand and other rights for marketing, sponsorship, merchandising and other uses in the PRC, subject to the terms of the respective IP Cooperation Agreements. In 2017, we also established Stufish Asia Limited with Stufish Productions Limited tap into entertainment IP development business.



In 2019, due to the impact of the China-United States trade war, social unrest in Hong Kong and the downturn in the automobile industry, the total revenue of the Group was RMB661.8 million (2018: RMB684.3 million), representing a slight decrease of 3.3% compared with that for 2018; but meanwhile, the Group's timely adjustment of its business strategy and its choice to undertake high-margin projects, control costs and explore more new customers in the industries enabled the Group to still achieve growth in both total gross profit and gross profit margin in 2019. The gross profit was RMB198.1 million in 2019 (2018: RMB172.4 million) and the overall gross profit margin increased significantly from 25.2% for FY2018 to 29.9% for FY2019;

The Group recorded a net profit of RMB40.9 million (2018: RMB43.5 million) for the year. The decrease in net profit was mainly due to the recording of one-off listing expenses and financial costs related to listing restructuring. The listing expenses mainly included legal, auditing and other professional expenses related to the initial public offering of the Company (the "**IPO**") (the impact of income statement was approximately RMB26.8 million); the total fees, interest, and exchange gains and losses of the Company resulting from the one-off borrowing for the restructuring of the original shareholder's shares were RMB4.3 million. The total of the above items reduced the profit of the Company by RMB31.1 million. Without considering the above one-off expenses, the Company achieved an adjusted profit of RMB72.0 million in 2019 (2018: RMB43.5 million), representing a year-on-year increase of 65.5%, achieving a substantial increase in financial results.

Geographical Review

Geographically, the Group's business in PRC in 2019 achieved revenue of RMB626.9 million (2018: RMB605.4 million), which accounted for 94.7% (2018: 88.5%) of the Group's total revenue in 2019; business in Hong Kong and Singapore achieved revenue of RMB34.9 million in 2019, which accounted for 5.3% of the Group's total revenue in 2019 (2018: 11.5%), representing a decrease of 55.8% compared with RMB78.9 million for 2018, mainly due to social unrest in Hong Kong which caused clients to cancel or postpone public relations activities for the second half of 2019.

Business Segment Review

During FY2019, revenue of the Group's integrated marketing solutions services was RMB616.6 million (2018: RMB645.9 million) and accounted for 93.2% (2018: 94.4%) of the Group's total revenue. Profit in this segment was RMB90.8 million (2018: RMB78.7 million). The increase in the profit in this segment was mainly due to the increase in profit margin of experiential marketing services. In terms of segments, the integrated marketing solutions segment contributed almost entirely to the growth in revenue for the compared years, while IP development segment remained relatively stable. In 2019, the revenue generated from IP development segment was RMB45.2 million, representing a year-on-year increase of 17.7%.

The main reason for the decline in revenue in 2019 is that the Group's revenue in the automobile industry has been reduced. As the automobile industry is affected by the macro situation and the China-United States trade war, the gross profit of the integration marketing projects from the automobile clients decreased. Thus, the Group strategically abandoned the low gross profit projects and focused on the clients in the fashion and internet industries. Since the projects in the automobile industry generally have a higher revenue and lower gross profit, the decrease of such projects caused the Group's overall revenue to be reduced compared to 2018. On the other hand, the gross profit margin of the Group's integrated marketing solutions segment had increased. In 2019, the Group's revenue from clients in automobile industry was RMB70.6 million (2018: RMB118.7 million) from clients in the automobile industry, decrease 40.5% compare to 2018. At the same time, the revenue from the client in the internet industry reached RMB74.0 million in 2019, becoming the second largest customer industry right after the fashion industry. This increase also offset the negative impact of the decline of revenue from automobile client.

Meanwhile, the revenue contribution and gross profit margin of the Group's digital marketing and public relations services have further improved, thus enhancing the Group's overall profitability.

Integrated Marketing Solutions Segment

(a) Experiential Marketing

The Group is a experiential marketing services provider to international premium and luxury brands in Greater China by providing a comprehensive range of marketing solutions to our clients including event concept, event planning and managements. Through the projects we designed, organised and managed, our clients can expect to achieve significant brand building and promotional effect to mass public or targeted recipients.

These services accounted for RMB470.8 million (2018: RMB514.7 million) or 71.1% (2018: 75.2%) of the Group's total revenue. The decrease in the proportion of revenue from the experiential marketing services was mainly due to the Group's increased focus on providing diversified services for all cases. The public relations and digital and brand communication services therefore grew faster.

(b) Digital and Brand Communication

The Group's digital and brand communication services usually help customers promote their brands and products on social media platforms such as Weibo, WeChat, Tiktok, Xiaohongshu, Facebook, Instagram, etc. The Group oversees the overall project implementing process, including creative strategy, management and coordination of parties involved in a project, devising detailed work plans, actualising the project until it goes online, as well as carrying out maintenance and on-going online services on a retainer basis.

These services accounted for RMB110.5 million (2018: RMB108.2 million) or 16.7% (2018: 15.8%) of the Group's total revenue in 2019.

The revenue from these services increased by 2.1% between FY2018 and FY2019. The gross profit margin of the business has been increased from 30.8% for 2018 to 39.6%. The gross profit increased by 30.8% from 33.4 million in 2018 to 43.7 million in 2019. The growth rate of annual revenue from the business for 2019 was relatively low, but the gross profit margin and gross profit grew faster, mainly because the Group increasingly helped customers to provide marketing strategies service, which brought higher added value to customers, and the gross profit margin also increased.

(c) Public Relations

The Group's public relations services typically involve marketing activities that help its clients to develop communication plans to reach out to their targeted consumers. The Group's services include public relations strategic consultancy services, day-to-day client communications, media relationship management, liaison and celebrity coordination services.

In 2019 revenue from these services increased by 53.5% to RMB35.3 million (2018: RMB23.0 million), accounted for 5.3% of the Group's total revenue (2018: 3.4%). The increase was mainly accounted to the enhanced synergy among different business units within the Group.

Public relations services achieved gross profit of RMB18.2 million in 2019, representing a year-on-year significant increase of 136.4% compared with RMB7.7 million for 2018, mainly due to substantial growth in revenue for 2019.

IP Development Segment

The Group has ventured into the area of IP development with a focus on sports and entertainment. These IP development brands, although relatively new in the PRC, have global appearances and superb publicity effect. The Directors believe that coupling them with the Group's integrated marketing solutions segment will bring out massive business potential and can create many new business opportunities for our integrated marketing solutions segment.

This segment generated revenue of RMB45.2 million (2018: RMB38.4 million), with a year-on-year increase of 17.7%, accounting for 6.8% (2018: 5.6%) of the Group's total revenue in 2019. The gross profit was RMB11.0 million (2018: RMB-3.8 million), representing a significant increase in profit compared with the loss for the corresponding period of the last year. The Group held a number of IP projects in 2019 and made good progress. In 2019, the Group signed three-year long-term competition contracts for organising local Le Tour de France competitions with Zhuji and Yunnan respectively, which significantly strengthened the sustainability and profitability of the IP developments segment of the Group. Moreover, the development of the IP development segment led to more business in the integrated marketing solutions segment including experiential marketing and public relations services, strengthening the synergy of different businesses within the Group.

MARKET REVIEW

In early 2020, the global outbreak of coronavirus disease (COVID-19) has caused severe impacts on both the PRC and global economy. Although the situation has been under control to a large extent with the effective prevention and control measures adopted by the PRC government, the worldwide spread of pandemic without showing any sign of recovery will greatly dampen investors' and consumers' confidence. The turmoil in financial markets and global economic activities have been hindered by the pandemic, which has curbed consumer demand for luxury goods within a short period of time. There have been disruptions of large-scale outdoor sports events due to the pandemic as well.

Fortunately, various countries have introduced a number of measures to prevent the spread of the coronavirus, as well as certain large scale monetary and fiscal stimulus packages to encourage consumption and guarantee employment. The economy will gradually recover once the situation eases up, and the purchasing power on hold during pandemic will also be released. At that time, the demand for luxury goods will pick up again, driving the global consumer market to rebound.

In order to respond to the latest market changes, the Group will take the following actions in the future:

1. Putting further efforts into brand customers in the Internet and consumer industries

After holding the anniversary celebration for the PRC internet giant Alibaba last year, the Group realised that the demand for experiential marketing services is growing for high-quality brands in the domestic Internet industry. The Group set up an office in Hangzhou, the hub of Internet companies in PRC, aiming at a gradual expansion of the experience marketing business from fashion, jewelry and automobiles sectors to the Internet and other consumer industry markets.

2. **Accelerating digital marketing business through mergers, acquisitions and cooperation**

   The digital economy is emerging in the PRC. With the outbreak of coronavirus disease (COVID-19) in the PRC, the real economy has been severely damaged, creating a good opportunity for the rapid development of the digital economy. At the same time, the advanced 5G development in the PRC has presented huge business opportunities to digital marketing. The Group will use customised software for big data analysis to improve operating efficiency and service types. In order to rapidly increase business volume and market share, the Group plans to accelerate the development of digital marketing business through mergers and acquisitions in the PRC, and is identifying acquisition targets such as marketing automation, big data, and self-media multi-channel network (MCN) companies.

3. **Expanding the geographical coverage of experiential marketing business**

   For international development outside the PRC, the Group focuses on the mid-range and high-end consumer service market, and is identifying suitable international mergers and acquisitions targets, aiming at becoming one of the leading global integrated marketing solution service providers focusing on serving mid-range and high-end brands while further improving the competitiveness of the Group and expanding coverage of businesses outside Asia.

4. **Attracting more quality partners and clients while strengthening and expanding integrated marketing and sports IP development business**

   The increasing health awareness of consumers will facilitate demand on sports activities bringing a new development opportunity for sports marketing. In response to the current market environment, the Group will adjust its integrated marketing strategy to provide customers with the most suitable integrated marketing solutions, attract more premium partners and clients and strengthen and expand the sports IP business. The Group will respond to the challenges in the current economy with a positive attitude. The second half of the year is a traditional peak season for the industry. The Group hopes that as the pandemic eases up and the economy gradually picks up, the demand for luxury goods is expected to recover, which will in turn bring a rebound in the consumer market. The Group will closely monitor the market conditions and seize the opportunity of market reversal.

FINANCIAL REVIEW

Cost of sales

The cost of sales of the Group decreased by 9.4%, from RMB511.9 million for FY2018 to RMB463.6 million for FY2019. Overall speaking, the decrease in the Group's cost of sales was mainly caused by the decrease in our revenue and increase of the gross profit margin. The fluctuations in the cost of sales components were mainly dependent on the types and mix of projects carried out by the Group in the respective periods. The cost of sales components mainly includes production cost, media cost and venue rental cost.

Gross profit and gross profit margin

As a result of the foregoing, the Group's gross profit increased by 14.9% from RMB172.4 million for FY2018 to RMB198.1 million for FY2019. The Group's overall gross profit margin significantly increased from 25.2% for FY2018 to 29.9% for FY2019. As mentioned above, it was mainly due to the increase in gross profit margin of each segment in 2019, and the proportion of public relations and digital marketing segments with higher gross profit margins has also increased.

Other income and gains

The Group's other income and gains increased significantly by 180.9%, from RMB6.8 million for FY2018 to RMB19.1 million for FY2019, mainly because (i) on 8 August 2019, the Group obtained a court ruling in favour of the Group against third party contracts for about RMB8.0 million (inclusive of tax) as compensation for the Le Tour de France challenge (originally scheduled to be held in 2018, but it failed to be held because the third party failed to fulfil the contract); and (ii) the Group received government subsidies of approximately RMB6.8 million during the same period.

Selling and distribution expenses

The Group's selling and distribution expenses increased by 16.2%, from RMB66.2 million for FY2018 to RMB76.9 million for FY2019. Such increase was primarily due to increase in staff cost. In 2019, the Group increased its investment in its business operations under digital marketing, IP development and other services, which led to the increase in aggregate annual salary of employees. The increase in staff costs was largely in line with the increase in the number of employees.

General and administrative expenses

The Group's administrative expenses increased by 60.1%, from RMB42.6 million for FY2018 to RMB68.2 million for FY2019. This was mainly because the one-off listing expenses recorded in general and administrative expenses mainly include the legal and other professional expenses related to the IPO of the Company (the impact of which on the profit or loss statement was approximately RMB26.8 million) and the one-off borrowing handling fees involved in the reorganization amounted to RMB1.6 million and there were related travel and personnel costs for the IPO work.

Other expenses, net

The Group's other expenses, net decreased from RMB2.9 million for FY2018 to RMB0.4 million for FY2019. Such decrease was primarily because there was no longer any significant impairment losses of the Group's assets in 2019.

Finance costs

The Group's finance costs increased by 350.0%, from RMB1.0 million for FY2018 to RMB4.5 million for FY2019, mainly due to the higher loan interest total of RMB2.6 million arising from one-off borrowing of RMB64.8 million for preparations for the restructuring in preparation of the IPO for FY2019.

Net profit

The Group recorded a net profit of RMB40.9 million (2018: RMB43.5 million) for the year. The decrease in net profit was mainly due to the recording of one-off listing expenses and financial costs related to listing restructuring. The listing expenses mainly included legal, auditing and other professional expenses related to the initial public offering of the Company (the "**IPO**") (the impact of income statement was approximately RMB26.8 million); the total fees, interest, and exchange gains and losses of the Company resulting from the one-off borrowing for the restructuring of the original shareholder's shares were RMB4.3 million. The total of the above items reduced the profit of the Company by RMB31.1 million. Without considering the above one-off expenses, the Company achieved an adjusted profit of RMB72.0 million in 2019 (2018: RMB43.5 million), representing a year-on-year increase of 65.5%, achieving a substantial increase in financial results.

FINAL DIVIDEND

The Board did not recommend the payment of final dividend for the FY2019.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and Cash Equivalents

As at 31 December 2019, the Group's cash and cash equivalents amounted to approximately RMB129.5 million (31 December 2018: RMB88.4 million).

Net Proceeds from the Global Offering

The Shares were listed on 16 January 2020 and the net proceeds from the Global Offering were estimated to be approximately HK$345.0 million. As at the date of this announcement, the following table sets out the breakdown of the use of proceeds from the Global Offering:

Designated use of net proceeds	**Percentage**	**Net Proceeds** *HK$ million*
To develop and expand our existing business of integrated marketing solutions and IP development	55.9%	192.8
Cash reserve for strategic investment funds for suitable cooperation or investment opportunities	34.2%	118.0
General working capital and general corporate purpose	9.9%	34.2
	100%	345.0

As at the date of this announcement, the Company does not anticipate any change to its plan on the use of proceeds as stated in the prospectus of the Company dated 31 December 2019.

Borrowing and Charges on the Group's Assets

As at 31 December 2019, the total interest-bearing borrowings of the Group were RMB74.8 million (31 December 2018: RMB19.0 million). The increase in borrowings was mainly due to the one-off restructuring loan of RMB64.8 million.

Gearing Ratio

The gearing ratio as at 31 December 2019, calculated on the basis of bank and other borrowings over total equity, was 103.9% as compared with 13.3% as at 31 December 2018. The increase in the gearing ratio was mainly due to the one-off loan borrowed by the Group in 2019 to repurchase the equity held by part of the original shareholders of the Group. These repurchases reduced the Group's owner's equity on 31 December 2019 and increased the Group's current liabilities.

With the current level of cash and cash equivalents as well as available banking facilities, the Group's liquidity position remains strong and has sufficient financial resources to meet its current working capital requirement and future expansion.

HUMAN RESOURCES

As at 31 December 2019, the total number of employees of the Group was approximately 343 and the employee benefit expenses including directors' emoluments were approximately RMB92.3 million. The Group offers a comprehensive remuneration package which is reviewed by management on a regular basis. The Group also invests in continuing education and training programs for its management staff and other employees with a view to constantly upgrade their skills and knowledge. The Group values employees as its most valuable assets and believes effective employee engagement is an integral part of business success. In this context, effective communication with employees at all levels is highly valued with the ultimate goal to enhance the efficiency in providing quality service to the clients.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	4	**661,774**	684,335
Cost of sales		**(463,646)**	(511,929)
Gross profit		**198,128**	172,406
Other income and gains	4	**19,142**	6,831
Selling and distribution expenses		**(76,881)**	(66,197)
General and administrative expenses		**(68,206)**	(42,550)
Other expenses, net		**(404)**	(2,884)
Finance costs		**(4,515)**	(968)
Share of profits and losses of associates		**(398)**	(1,378)
PROFIT BEFORE TAX	5	**66,866**	65,260
Income tax expense	6	**(25,995)**	(21,743)
PROFIT FOR THE YEAR		**40,871**	43,517
Attributable to:			
Owners of the parent		**29,969**	37,114
Non-controlling interests		**10,902**	6,403
		40,871	43,517
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted (RMB cents)		**4.99**	6.19

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**40,871**	43,517
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,520**	2,831
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**42,391**	46,348
Attributable to:		
Owners of the parent	**31,489**	39,945
Non-controlling interests	**10,902**	6,403
	42,391	46,348

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,873**	1,865
Right-of-use assets		**16,569**	10,057
Goodwill		**10,233**	10,233
Intangible assets		**268**	232
Investment in associates		**5,512**	6,524
Investment in entertainment projects		**—**	283
Deferred tax assets		**551**	2,434
Total non-current assets		**35,006**	31,628
CURRENT ASSETS			
Investment in entertainment projects		**1,594**	6,917
Trade receivables	*9*	**170,322**	258,647
Prepayments, deposits and other receivables		**14,324**	19,525
Pledged bank deposits		**8,940**	—
Cash and cash equivalents		**129,493**	88,397
Total current assets		**324,673**	373,486
CURRENT LIABILITIES			
Trade payables	*10*	**149,673**	163,073
Other payables and accruals		**33,547**	55,910
Interest-bearing bank and other borrowings		**74,813**	19,000
Lease liabilities		**4,175**	1,651
Tax payable		**11,975**	13,234
Total current liabilities		**274,183**	252,868
NET CURRENT ASSETS		**50,490**	120,618
TOTAL ASSETS LESS CURRENT LIABILITIES		**85,496**	152,246
NON-CURRENT LIABILITIES			
Lease liabilities		**13,257**	9,394
Deferred tax liabilities		**210**	250
Total non-current liabilities		**13,467**	9,644
Net assets		**72,029**	142,602

	2019	2018
	RMB'000	*RMB'000*
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**88**	—
Reserves	**59,804**	121,126
	59,892	121,126
Non-controlling interests	**12,137**	21,476
Total equity	**72,029**	142,602

1. CORPORATE AND GROUP INFORMATION

Activation Group Holdings Limited is a limited liability company incorporated in the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at 8/F, No. 399A Liu Zhou Road, Xu Hui District, Shanghai, the People's Republic of China (the "**PRC**"). The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 January 2020 (the "**Listing**").

The Company is an investment holding company. During the year ended 31 December 2019 (the "**Relevant Periods**"), the Company's subsidiaries were involved in the following principal activities:

- provision of integrated marketing solutions;
- management and operation of sport events; and
- investment in entertainment projects

2.1 REORGANISATION AND BASIS OF PRESENTATION

Pursuant to the reorganisation of the Company in connection with the Listing (the "**Reorganisation**"), the Company became the holding company of the companies now comprising the Group on 22 July 2019. The Reorganisation mainly involved the incorporation of the Company, inserting new holding entities at the top of an existing group and the transfer of equity interests in Activation Group from certain then shareholders of Activation Group (collectively, the "**Relevant Shareholders**") to the Company. The Reorganisation has not resulted in any changes of economic substance of the businesses of the Activation Group and its subsidiaries before and after the Reorganisation.

Accordingly, these financial statements have been presented as a continuation of Activation Group and its subsidiaries by applying the pooling of interests method as if the Reorganisation had been completed at the beginning of the earliest period presented. Details of the Reorganisation are set out in the paragraphs headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" in the prospectus of the Company dated 31 December 2019 (the "**Prospectus**").

The consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year ended 31 December 2019 have been prepared as if the current group structure had been in existence from the earliest date presented. The consolidated statement of financial position of the Group as at 31 December 2019 has been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at those dates. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries held by parties other than the Relevant Shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the pooling of interests method.

All intra-group transactions and balances have been eliminated on combination.

2.2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment in entertainment projects which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

All new and revised HKFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, had been adopted/early adopted by the Group to the earliest period presented.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

(a) Integrated marketing solutions segment

(b) IP development segment

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that unallocated gains, finance costs and corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, right-of-use assets, pledged bank deposits and corporate and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, dividend payables, tax payable, lease liabilities, deferred tax liabilities and corporate and other unallocated liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2019/At 31 December 2019

	Integrated marketing solutions *RMB'000*	IP development *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	**616,563**	**45,211**	**661,774**
Segment results	**90,844**	**9,308**	**100,152**
Reconciliation:			
Corporate and other unallocated expenses, net			**(28,771)**
Finance costs			**(4,515)**
Profit before tax			**66,866**
Segment assets	**291,378**	**40,937**	**332,315**
Reconciliation:			
Corporate and other unallocated assets			**27,364**
Total assets			**359,679**
Segment liabilities	**138,866**	**28,142**	**167,008**
Reconciliation:			
Corporate and other unallocated liabilities			**120,642**
Total liabilities			**287,650**
Other segment information			
Depreciation and amortisation	**975**	**12**	**987**
Impairment of trade receivables	**784**	**2**	**786**
Capital expenditure*	**1,037**	**—**	**1,037**

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Year ended 31 December 2018/At 31 December 2018

	Integrated marketing solutions *RMB'000*	IP development *RMB'000*	Total *RMB'000*
Segment revenue			
Sales to external customers	645,931	38,404	684,335
Segment results	78,655	(9,880)	68,775
Reconciliation:			
Corporate and other unallocated expenses, net			(2,547)
Finance costs			(968)
Profit before tax			65,260
Segment assets	349,333	42,881	392,214
Reconciliation:			
Corporate and other unallocated assets			12,900
Total assets			405,114
Segment liabilities	158,115	43,305	201,420
Reconciliation:			
Corporate and other unallocated liabilities			61,092
Total liabilities			262,512
Other segment information			
Depreciation and amortisation	964	6	970
Impairment of trade receivables	1,174	6	1,180
Capital expenditure*	1,123	—	1,123

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Geographical information

(a) Revenue from external customers

	2019	2018
	RMB'000	*RMB'000*
Mainland China	**626,915**	605,413
Hong Kong/Singapore	**34,859**	78,922
	661,774	684,335

The revenue information above is based on the locations where the underlying services were rendered.

(b) Non-current assets

	2019	2018
	RMB'000	*RMB'000*
Mainland China	**12,374**	12,842
Hong Kong/Singapore	**5,512**	6,295
	17,886	19,137

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and right-of-use assets.

Information about major customers

Revenue from external customers derived from sales by the integrated marketing solutions segment contributing over 10% to the total revenue of the Group for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
	RMB'000	*RMB'000*
Customer	**73,593**	N/A*

Revenue from this customer include sales to a group of entities which are known to be under common control with these customers.

* Less than 10% of the total revenue of the Group

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Revenue from contracts with customers		
Major service lines		
Integrated marketing solutions		
Experiential marketing services	**470,843**	514,721
Digital and brand communication services	**110,470**	108,204
Public relations services	**35,250**	23,006
	616,563	645,931
IP development		
Sports and entertainment services	**45,211**	38,404
	661,774	684,335

(i) Disaggregated revenue information

	2019 *RMB'000*	2018 *RMB'000*
Geographical locations		
Integrated marketing solutions		
Mainland China	**581,704**	567,009
Hong Kong/Singapore	**34,859**	78,922
	616,563	645,931
IP development		
Mainland China	**45,211**	38,404
Total revenue from contracts with customers	**661,774**	684,335
Timing of revenue recognition		
At a point in time	**516,054**	553,125
Over time*	**145,720**	131,210
Total revenue from contracts with customers	**661,774**	684,335

* Included projects in retainer basis

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of each of the current reporting period:

	2019 *RMB'000*	2018 *RMB'000*
Integrated marketing solutions	**5,712**	6,012
IP development	**8,364**	9,938
	14,076	15,950

An analysis of other income and gains is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Other income and gains		
Bank interest income	**606**	186
Government grants*	**6,819**	6,565
Compensation	**7,992**	—
Gain on disposal of an associate	**586**	—
Gain on termination of operating leases	**1,144**	—
Others	**1,995**	80
	19,142	6,831

* Various government grants have been received by certain subsidiaries from PRC's local government authorities as incentives to support the Group's business development/contribution to local economies/contribution for developing the cultural industry in specific cities. There were no unfulfilled conditions or contingencies relating to these government grants.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2019 *RMB'000*	2018 *RMB'000*
Cost of services rendered	**463,646**	511,929
Depreciation of property, plant and equipment**	**860**	853
Depreciation of right-of-use assets**	**3,355**	2,921
Amortisation of intangible assets**	**127**	117
Lease payments not included in the measurement of lease liabilities**	**2,728**	2,323
Fair value gains on investment in entertainment projects*	**(704)**	(288)
Loss/(gain) on disposal of investment in an associate	**(586)**	433
Impairment of trade receivables, net*	**786**	1,180
Write-off of other receivables*	**—**	269
Reversal of impairment of other receivables*	**(1,300)**	—
Foreign exchange differences, net	**1,445**	(83)

* Included in "Other expenses, net" in the consolidated statement of profit or loss.

** Included in "General and administrative expenses" in the consolidated statement of profit or loss.

6. INCOME TAX

Taxes on profits assessable in Mainland China have been calculated at the applicable PRC corporate income tax ("**CIT**") rate of 25% (2018: 25%) during the year.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

For those subsidiaries incorporated in Hong Kong, Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

For the subsidiary incorporated in Singapore, Singapore profits tax has been provided at the rate of 17% (2018: 17%) on the estimated assessable profits arising in Singapore during the year.

	2019	2018
	RMB'000	*RMB'000*
Current — PRC		
Charge for the year	**22,927**	18,479
Current — Hong Kong/Singapore		
Charge for the year	**1,225**	3,648
Deferred	**1,843**	(384)
Total tax charge for the year	**25,995**	21,743

7. FINAL DIVIDEND

No dividend has been paid or declared by the Company since its incorporation.

The dividends declared by a subsidiary of the Company to its then shareholders during the year are as follows:

	2019	2018
	RMB'000	*RMB'000*
Dividends	**33,544**	33,544

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share for the year ended 31 December 2019 is based on the profit attributable to owner of the parent of RMB29,969,000 (2018: RMB37,114,000), and the weighted average number of the Company's ordinary shares of 600,000,000 (2018: 600,000,000) in issue and issuable, comprising 100,000,000 share outstanding on 31 December 2019 and capitalisation issue of 500,000,000 shares on 16 January 2020, as if the respective shares were outstanding throughout the periods presented.

No adjustment has been made to the basic earnings per share presented for the years ended 31 December 2019 and 2018 as the Group had no potentially diluted ordinary shares in issue during those periods.

9. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Billed receivables	**106,457**	113,224
Impairment	**(2,204)**	(3,618)
	104,253	109,606
Unbilled receivables	**66,069**	149,041
	170,322	258,647

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally ranging from 60 to 90 days from the date of invoice to these customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, the Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the billed receivables as at the end of the reporting period, based on the invoice date or equivalent and net of loss allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**57,894**	69,760
1 to 3 months	**33,179**	22,695
Over 3 months	**13,180**	17,151
	104,253	109,606

10. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**109,392**	144,992
1 to 3 months	**19,279**	13,035
Over 3 months	**21,002**	5,046
	149,673	163,073

The trade payables are non-interest bearing and are normally settled on terms ranging from 60 to 90 days.

OTHER INFORMATION

Purchase, sale or redemption of the Company's listed securities

Since the shares of the Company was listed on the Main Board on 16 January 2020, neither the Company nor any member of the Group has purchased, sold or redeemed any of the Company's shares for the FY2019.

Compliance with Corporate Governance Code

The Company is committed to achieving and maintaining high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound corporate governance policies and measures, and the Board is responsible for performing such corporate governance duties. The Board will continue to review and monitor the corporate governance of the Company, as well as various internal policies and procedures, including but not limited to those applicable to employees and Directors, with reference to the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and other applicable legal and regulatory requirements so as to maintain a high standard of corporate governance of the Company.

As the Company was not yet listed on the Main Board of the Stock Exchange until 16 January 2020, the CG Code was not applicable to the Company during the FY2019. However, in the opinion of the Directors, the Company has fully complied with the CG Code except from the deviation from the Code Provision A.2.1 of the CG Code.

Mr. Lau Kam Yiu ("**Mr. Lau**") is currently performing the roles of joint-chairman of the Board and chief executive officer of the Group. Under code provision A.2.1 of Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Taking into account Mr. Lau's extensive experience in the marketing industry, the Board considered that the roles of joint-chairman and chief executive officer being performed by Mr. Lau enables more effective business planning and implementation by the Group. In order to maintain good corporate governance and fully comply with the provisions of the CG Code, the Board will regularly review the need to appoint different individuals to perform the roles of joint-chairman and chief executive officer separately.

Code of conduct for securities transactions

Since the shares of the Company was listed in the Main Board on 16 January 2020, the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company is not applicable to the Directors for the FY2019.

Audit Committee and review of financial statements

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consists of three independent non-executive Directors, namely Ms. Cheung Siu Wan, Mr. Yu Longjun and Dr. Cheung Wah Keung. Ms. Cheung Siu Wan was appointed as the chairlady of the Audit Committee.

The Audit Committee has reviewed the Group's annual results for the FY2019, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The Audit Committee has also discussed the auditing, internal control and financial reporting matters.

Auditor's procedures performed on this results announcement

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit of loss, consolidated statement of comprehensive income and the related notes thereto for the FY2019 as set out in the preliminary announcement have been agreed by the Company's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young 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 Ernst & Young on the preliminary announcement.

Annual general meeting

The forthcoming annual general meeting will be held on Tuesday, 2 June 2020 and its notice and all other relevant documents will be published and despatched to Shareholders in April 2020.

Closure of register of members

The register of members of the Company will be closed from Thursday, 28 May 2020 to Tuesday, 2 June 2020, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2020 annual general meeting (the "**2020 AGM**"). In order to be eligible to attend and vote at the 2020 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Wednesday, 27 May 2020.

Publication of 2019 annual results and annual report

This annual results announcement of the Group for the FY2019 is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.activation-gp.com. The 2019 annual report containing all applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the above websites in April 2020.

APPRECIATION

On behalf of the Board, we would like to take this opportunity to express our gratitude to the management and staff of the Group for their commitment and contribution during the year. We would also like to express our appreciation to the guidance from the regulators and continued support from the Shareholders and customers.

By order of the Board
Activation Group Holdings Limited
Lau Kam Yiu & Ng Bo Sing
Joint-Chairmen

Hong Kong, 24 March 2020

As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Lau Kam Yiu, Mr. Ng Bo Sing, Mr. Chan Wai Bun and Ms. Low Wei Mun and three independent non-executive Directors, namely, Ms. Cheung Siu Wan, Mr. Yu Longjun and Dr. Cheung Wah Keung.

This announcement is available for viewing on the Company's website at www.activation-gp.com and the Stock Exchange's website at www.hkexnews.hk.