慧聪集团
HC GROUP

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 2019

HIGHLIGHTS

- Total revenue was approximately RMB14,832.8 million, increased by approximately 40.2%, when compared to RMB10,583.1 million recorded in 2018.
- Loss Attributable to Equity Holders of the Company was approximately 376.5 million in this year, while a profit attributable to equity holders of the Company of approximately RMB275.6 million was recorded in 2018.
- The Group's EBITDA* was approximately RMB88.8 million, while it was RMB641.2 million in previous year.
- The Diluted (loss)/earnings per share for 2019 was RMB(0.3360), while it was RMB0.2458 for the previous year.
- The Board does not recommend payment of final dividend for the year ended 31 December 2019.

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

Reference is made to the announcement of HC Group Inc. (the "Company", together with its subsidiaries, the "Group") dated 27 March 2020 in relation to the unaudited annual results for the year ended 31 December 2019 (the "Unaudited Results Announcement"). Unless otherwise indicated, capitalised terms used herein shall have the same meanings as those adopted in the Unaudited Results Announcement.

The board (the "Board") of directors (the "Directors") of the Company would like to announce that the Company's auditor, PricewaterhouseCoopers, has completed its audit of the consolidated financial statements of the Group for the year ended 31 December 2019 and that the audited consolidated financial results of the Group for the year ended 31 December 2019 (the "Year"), together with the comparative audited figures for the year ended 31 December 2018 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019**	2018
		RMB'000	*RMB'000*
Revenue	*3*	**14,712,969**	10,447,418
Interest income from financing services	*3*	**119,863**	135,693
		14,832,832	10,583,111
Cost of revenue		**(13,903,827)**	(9,316,068)
Other income		**28,962**	35,464
Other gains, net	*4*	**272,453**	258,181
Selling and marketing expenses		**(684,337)**	(722,858)
Administrative expenses		**(420,957)**	(413,885)
Impairment loss on goodwill and intangible assets		**(296,639)**	–
Net impairment losses of financial assets		**(97,629)**	(37,144)
Operating (loss)/profit		**(269,142)**	386,801
Finance cost, net		**(159,943)**	(82,380)
Share of post-tax profits of associates		**13,593**	28,014
Share of post-tax loss of a joint venture		**(5)**	–
(Loss)/profit before income tax		**(415,497)**	332,435
Income tax expense	*5*	**(44,268)**	(55,560)
(Loss)/profit for the year		**(459,765)**	276,875
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Currency translation differences		**2,090**	14,913
Items that will not be reclassified to profit or loss			
Fair value gain/(loss) on financial assets at fair value through other comprehensive income			
– Group		**1,100**	(16,856)
– Associate		**6,716**	–
Currency translation differences for financial assets through other comprehensive income		**1,423**	3,932
Total comprehensive (loss)/income for the year, net of tax		**(448,436)**	278,864
(Loss)/profit attributable to:			
Equity holders of the Company		**(376,490)**	275,610
Non-controlling interests		**(83,275)**	1,265
		(459,765)	276,875

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2019

	Note	**2019** *RMB'000*	2018 *RMB'000*
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		**(365,161)**	277,599
Non-controlling interests		**(83,275)**	1,265
		(448,436)	278,864
(Loss)/earnings per share attributable to the equity holders of the Company (expressed in RMB per share)			
Basic (loss)/earnings per share	*6*	**(0.3360)**	0.2462
Diluted (loss)/earnings per share	*6*	**(0.3360)**	0.2458

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Land use rights		**–**	161,934
Investment properties		**770,831**	623,829
Property, plant and equipment		**64,139**	533,787
Right-of-use assets		**214,305**	N/A
Intangible assets	*9*	**2,552,626**	2,992,052
Long term deposits and prepayments		**3,568**	5,604
Loans and interest receivables	*11*	**42,257**	103,160
Deferred income tax assets		**46,969**	31,292
Investments accounted for using equity method		**969,248**	677,808
Finance lease receivables		**176,266**	25,000
Financial assets at fair value through other comprehensive income		**65,387**	95,247
Financial assets at fair value through profit or loss		**20,592**	16,758
Total non-current assets		**4,926,188**	5,266,471
Current assets			
Completed properties held for sale		**47,324**	82,500
Finance lease receivables		**153,481**	63,855
Loans and interest receivables	*11*	**1,591,722**	1,419,592
Deposits, prepayments and other receivables		**487,412**	281,079
Trade receivables	*10*	**413,698**	512,094
Contract assets		**22,390**	38,965
Inventories		**147,523**	354,984
Financial assets at fair value through profit or loss		**22,671**	740
Restricted bank deposit		**282,171**	276,003
Cash and cash equivalents		**331,893**	471,672
Total current assets		**3,500,285**	3,501,484
Total assets		**8,426,473**	8,767,955
Equity			
Equity attributable to the Company's equity holders			
Share capital		**103,638**	103,625
Other reserves		**3,152,947**	3,092,149
Retained earnings		**766,586**	1,141,955
		4,023,171	4,337,729
Non-controlling interests		**706,541**	883,895
Total equity		**4,729,712**	5,221,624

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	12	**480,000**	368,000
Non-current portion of other borrowings	12	**23,539**	351,162
Lease liabilities		**17,397**	N/A
Deferred government grants		**155,958**	165,808
Convertible bonds – liabilities portion		**–**	83,145
Deferred income tax liabilities		**236,517**	274,100
Contract liabilities		**–**	36,622
Total non-current liabilities		**913,411**	1,278,837
Current liabilities			
Trade payables	13	**128,209**	94,922
Accrued expenses and other payables		**130,551**	282,652
Contract liabilities		**410,987**	348,866
Current portion of bank borrowings	12	**1,111,089**	860,244
Current portion of other borrowings	12	**689,773**	547,932
Lease liabilities		**74,598**	N/A
Deferred government grants		**11,450**	10,650
Convertible bonds – liabilities portion		**90,670**	44,417
Other taxes payables		**90,488**	25,882
Income tax payables		**45,535**	51,929
Total current liabilities		**2,783,350**	2,267,494
Total liabilities		**3,696,761**	3,546,331
Total equity and liabilities		**8,426,473**	8,767,955

NOTES

1 GENERAL INFORMATION

HC Group Inc. (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 4th Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands, 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 Company is an investment holding company. The Company and its subsidiaries (collectively, the "Group") are principally engaged in the following activities in the PRC:

- Providing industrial internet trading platform and advertising services through its B2B website "hc360.com" and offering comprehensive IT-related product information by "zol.com.cn";
- Sales of goods through its B2B trading platforms;
- 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;
- Providing construction equipment rental services;
- Sales of properties and provision of property rental and management services via its O2O business exhibition centre;
- Hosting exhibitions and seminars.

On 26 December 2019, the Group's subsidiary Hunan Zhongmoyun Construction Science and Technology Co., Ltd. ("Zhongmo") completed its share placement to an independent third party in which the investors subscribed 1.96% of newly issued shares in Zhongmo with an aggregate consideration of RMB20 million. Upon completion of the above transaction, the Group's interest in Zhongmo was diluted from 36.80% to 36.08%. Following the completion of the transaction, the memorandum of articles of Zhongmo had been revised. Accordingly, the Group only has right to appoint two directors out of five positions in the Board of directors of Zhongmo, and will no longer be able to control Zhongmo Group but continue to exercise significant influence over Zhongmo and its subsidiaries (collectively, the "Zhongmo Group"). As a result, Zhongmo Group ceased to be subsidiaries of the Group with effect from 26 December 2019 and Zhongmo Group has then been accounted for as investment in associates in the consolidated financial statements using the equity method of accounting. Such transaction was recognised as deemed disposal of subsidiaries. A fair value gain on deemed disposal of Zhongmo Group amounting to RMB246,797,000 was recognised as "other gains, net" in the consolidated statement of comprehensive income.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 at fair value through profit or loss, which are measured at fair value.

(iii) New and amended standards and interpretations 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 2019:

Annual Improvements	Annual Improvements 2015-2017 Cycle (amendments)
HKAS 19	Plan Amendment, Curtailment or Settlement (amendments)
HKAS 28	Long-term Interests in Associates and Joint Ventures (amendments)
HKFRS 9	Prepayment Features with Negative Compensation (amendments)
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting HKFRS 16, details of which are disclosed in note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior period and are not expected to significantly affect the current or future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(iv) New standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
HKAS 1 and HKAS 8	Definition of Material (amendments)	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting (amendments)	1 January 2020
HKFRS 3	Definition of a Business (amendments)	1 January 2020
HKFRS 17	Insurance Contracts (new standard)	1 January 2021
HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)	To be determined

None of these new standards and interpretations are expected to have a material impact on the Group's consolidated financial statements.

2.2 Changes in accounting policy

This note explains the impact of the adoption of HKFRS 16 Lease on the Group's consolidated financial statements.

As indicated in note 2.1 above, the Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7.1%.

The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policy (Continued)

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to perform an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Adjustments recognised on adoption of HKFRS 16

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	185,063
Discounted using the lessee's incremental borrowing rate as at the date of initial application	170,825
Less: short-term leases recognised on a straight-line basis as expense	(7,515)
Lease liabilities recognised as at 1 January 2019	163,310
Of which are:	
Current lease liabilities	70,714
Non-current lease liabilities	92,596
	163,310

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policy (Continued)

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any contract liabilities, prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

(iv) Adjustments recognised on adoption of HKFRS 16

	As at 1 January 2019		
Consolidated statement of financial position (extract)	**As previously stated** *RMB'000*	**Effect on adoption of HKFRS 16** *RMB'000*	**As restated** *RMB'000*
Assets			
Non-current assets			
Land use rights	**161,934**	**(161,934)**	**–**
Right-of-use assets	**–**	**259,118**	**259,118**
Equity			
Equity attributable to the Company's equity holders			
Retained earnings	**1,141,955**	**(2,146)**	**1,139,809**
Non-controlling interests	**883,895**	**(4,589)**	**879,306**
Liabilities			
Non-current liabilities			
Lease liabilities	**–**	**92,596**	**92,596**
Current liabilities			
Accrued expenses and other payables	**282,652**	**(46,582)**	**236,070**
Contract liabilities	**348,866**	**(12,809)**	**336,057**
Lease liabilities	**–**	**70,714**	**70,714**

(v) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policy (Continued)

(vi) Accounting for sales and leaseback transaction

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package.

Until 31 December 2018, the accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

On the initial application day, the Group do not re-assess sale and leaseback transactions entered into before the date of initial application to determine whether or not the sale fulfilled the condition of HKFRS 15. The seller-lessee accounts for any deferred gain or loss due to off-market term as an adjustment to the leaseback right-of-use asset for an operating leaseback.

Upon adoption of HKFRS 16, the associated right-of-use for sales and leaseback entered into before the date of initial application were measured at the amount equal to the lease liability, adjusted by the amount of other liabilities, retain earnings and non-controlling interest, relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

3 SEGMENT INFORMATION

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

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

As at 31 December 2019, the Group is organised into the following business segments:

(i) Technology-driven new retail segment, which mainly include provision of online advertising services through "zol.com.cn" as well as B2B2C retail business of electronics products by leveraging big data and internet technology through the Group's websites and trading platforms;

(ii) Smart industries segment, which mainly include the trading business through the Group B2B platforms, provision of anti-counterfeiting products and services, supply chain management services as well as rental services of construction equipment;

(iii) Platform and corporate services segment, which mainly include the online services provided through "hc360.com", advanced marketing services as well as provision of financing services and other services; and

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

3 SEGMENT INFORMATION (CONTINUED)

The table below shows the segment information of sales or other transactions between the business segments for the year ended 31 December 2019.

	Year ended 31 December 2019				
	Technology-driven new retail segment	**Smart industries segment**	**Platform and corporate services segment**	**O2O business exhibition centre**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**844,493**	**13,050,827**	**796,942**	**20,707**	**14,712,969**
Interest income from financing services	**–**	**–**	**119,863**	**–**	**119,863**
Total revenue	**844,493**	**13,050,827**	**916,805**	**20,707**	**14,832,832**
Impairment loss on goodwill and intangible assets	**–**	**(38,426)**	**(258,213)**	**–**	**(296,639)**
Segment results	**(96,445)**	**(9,817)**	**(311,540)**	**(152,755)**	**(570,557)**
Other income					**28,962**
Other gains, net					**272,453**
Share of post-tax profit of associates					**13,593**
Share of post-tax loss of a joint venture					**(5)**
Finance income					**17,226**
Finance cost					**(177,169)**
Loss before income tax					**(415,497)**
Other information:					
Depreciation and amortisation					**263,652**
Share based compensation expense					**80,685**

3 SEGMENT INFORMATION (CONTINUED)

The table below shows the segment information of 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 *RMB'000*	Total *RMB'000*
Revenue	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 profit of associates					28,014
Finance income					12,044
Finance cost					(94,424)
Profit before income tax					332,435
Other information:					
Depreciation and amortisation					151,817
Share based compensation expense					74,580

4 OTHER GAINS, NET

Other gains and losses are analysed as follows:

	2019 *RMB'000*	2018 *RMB'000*
Impairment loss recognised in respect of investment in associates	**(2,735)**	(19,547)
Fair value gains on deemed disposal of Zhongmo Group *(note 8)*	**246,797**	–
Change in fair value on financial liabilities at fair value through profit or loss	**–**	3,374
Gains on disposal of an associate	**1,289**	–
Change in fair value on financial assets at fair value through profit or loss	**25,765**	10,192
Change in fair value on financial asset at fair value through profit or loss in relation to Jingu	**–**	94,000
Fair value gains on deemed disposal on step acquisition on Shanghai Mianlian E-business Co., Limited	**–**	2,304
Fair value gains on deemed disposal on step acquisition on Guangdong Jiadian Shijie E-business Company Limited	**–**	2,314
Fair value gains on deemed disposal on step acquisition on Beijing Rongshang Tonglian Technology Co., Ltd.	**–**	164,878

5 INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current income tax expense		
– Hong Kong profits tax	–	–
– The PRC corporate income tax ("CIT")	**55,565**	69,367
– The PRC land appreciation tax	**35,728**	29,509
Deferred income tax credit		
– The PRC corporate income tax	**(47,025)**	(38,737)
– The PRC withholding tax	–	(4,579)
	44,268	55,560

6 (LOSS)/EARNINGS PER SHARE

	2019	2018
	RMB'000	*RMB'000*
(Loss)/profit attributable to equity holders of the Company	**(376,490)**	275,610

	2019	2018
	'000	*'000*
Weighted average number of shares in issue	**1,120,494**	1,119,464
Incremental shares from assumed exercise of share option granted	–	1,959
Diluted weighted average number of shares	**1,120,494**	1,121,423
Basic (loss)/earnings per share (in RMB)	**(0.3360)**	0.2462
Diluted (loss)/earnings per share (in RMB)	**(0.3360)**	0.2458

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares repurchased by the Company.

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

During the year ended 31 December 2019, all of these convertible debt and the share options had anti-dilutive effect to the Company and it is ignored in the calculation of diluted loss per share (2018: Convertible debt had anti-dilutive effect to the Company and it is ignored in the calculation of diluted earnings per share).

7 DIVIDENDS

No dividend was paid or declared by the Company during and for the year ended 31 December 2019 (2018: Nil).

8 DEEMED DISPOSAL OF HUNAN ZHONGMOYUN CONSTRUCTION SCIENCE AND TECHNOLOGY CO., LIMITED ("ZHONGMO") AND ITS SUBSIDIARIES (COLLECTIVELY, "ZHONGMO GROUP")

On 26 December 2019, the Group's subsidiary Hunan Zhongmoyun Construction Science and Technology Co., Ltd. ("Zhongmo") completed its share placement to an independent third party in which the investors subscribed 1.96% of newly issued shares in Zhongmo with an aggregate consideration of RMB20 million. Upon completion of the above transaction, the Group's interest in Zhongmo was diluted from 36.80% to 36.08%. Following the completion of the transaction, the memorandum of articles of Zhongmo had been revised. Accordingly, the Group only has right to appoint two directors out of five positions in the Board of directors of Zhongmo, and will no longer be able to control Zhongmo Group but continue to exercise significant influence over Zhongmo Group. As a result, Zhongmo Group ceased to be subsidiaries of the Group with effect from 26 December 2019 and Zhongmo Group has then been accounted for as investment in associates in the consolidated financial statements using the equity method of accounting. Such transaction was recognised as deemed disposal of subsidiaries. A fair value gain on deemed disposal of Zhongmo Group amounting to RMB246,797,000 was recognised as "other gains, net" in the consolidated statement of comprehensive income.

9 INTANGIBLE ASSETS

	2019	2018
	RMB'000	*RMB'000*
Goodwill	**1,542,408**	1,843,785
Other intangible assets	**1,010,218**	1,148,267
	2,552,626	2,992,052

Impairment test for goodwill and other intangible assets

Management reviews the business performance based on type of business. Goodwill are allocated to the following cash-generating units ("CGUs"). Goodwill is monitored by the management at the operating segment level.

	2019	2018
	RMB'000	*RMB'000*
Technology-driven new retail segment		
Online services – B2B2C business	**980,247**	980,247
New technology retails solutions	**454,720**	454,720
Smart industries segment		
Anti-counterfeiting products and services	**50,314**	50,314
Online services – garment industry *(note i)*	**–**	38,426
Trading services – cotton industry	**21,544**	21,544
Construction equipment rental services	**–**	14,933
Platform and corporate services segment		
Integrated marketing and advertising services *(note ii)*	**–**	248,018
Financing services	**19,626**	19,626
Electronic appliance e-business	**15,957**	15,957
	1,542,408	1,843,785

9 INTANGIBLE ASSETS (CONTINUED)

The recoverable amount of the CGUs are determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five or ten years forecast period depending on individual CGU circumstances. Cash flows beyond the forecast period are extrapolated using the estimated growth rates stated below. Management estimates the pre-tax discount rate that reflects market assessment of the time value of money and specific risk relating to the industry.

As a result of the impairment assessment, the Group recognised impairment for goodwill and other intangible assets for the (i) online services-garment industry CGU and (ii) integrated marketing and advertising services CGU amounting to RMB38,426,000 and RMB258,213,000 respectively. For details, refer to the following notes.

Note:

(i) Impairment provision for goodwill and other intangible assets related to "online services – garment industry"

On 18 December 2015, the Group acquired the entire equity interest in ZhongFu Holdings Limited ("Zhongfu"), which is principally engaged in the online service business in the garment industry in the PRC. The total consideration was HK$170,807,500 (equivalent to approximately RMB144,573,000). The Group recognised identifiable intangible assets amounted to RMB69,900,000 and goodwill amounted to RMB38,426,000 in relation to such acquisition and allocated to the "Online services – garment industry" CGU at the acquisition date.

Management has been reviewing the business the development and operations of Zhongfu where the operating environment for online services provider on garment industry continues to be very challenging. In light of the changing market conditions, the Group has initiated transformation of Zhongfu's business plan from being a traditional online services provider to an advanced technology-driven retails solution provider in 2019.

The Directors assessed the recoverable amount of the CGU with reference to the valuation performed by Ravia Global Appraisal Advisory Limited, an independent professional valuer.

As at 31 December 2019, the recoverable amount of this CGU is determined based on a value in use calculation which uses a revised cash flow projection based on financial budgets of the ZhongFu Holdings Group covering a five-financial years business plan. Management consider the financial budgets prepared is appropriate after considering the revised business development plan, sustainability of business growth, stability of core business developments and achievement of business targets. The financial model assumes an average growth rate of 12% (2018: 14%) for five financial years budgets, a pre-tax discount rate of 20% (2018: 16%) per annum and a terminal growth rate of 3% (2018: 3%) per annum beyond the five years period taking into account of long term gross domestic product growth, inflation rate and other relevant economic factors.

As at 31 December 2019, the recoverable amount of this CGU determined based on the value in use calculations was lower than the carrying amount of this CGU. Accordingly, management has provided impairment loss on goodwill amounting to RMB38,426,000 which has been charged to profit or loss during the year ended 31 December 2019.

(ii) Impairment provision for goodwill and other intangible assets related to "integrated marketing and advertising services"

On 13 January 2017, the Group acquired the entire equity interest in Huijia Yuantian Limited ("Huijia"), which is principally engaged in the integrated marketing and advertising services in the PRC. The total consideration was RMB362,000,000 of which RMB162,652,000 was settled in cash and the remaining portion was settled in shares, part of which has been issued and the remaining portion had been accounted as "financial assets through profit or loss". The Group recognised identifiable intangible assets amounted to RMB105,500,000 in total and goodwill amounted to RMB250,096,000 in relation to such acquisition and allocated to the "Integrated marketing and advertising services" CGU at the acquisition date.

9 INTANGIBLE ASSETS (CONTINUED)

The impairment was mainly due to the downtrend of the automotive industry in China, which is the major customer sector of Huijia. During the year ended 31 December 2019, the performance of Huijia is significantly lower than the budgeted amount, therefore, the management has revised the budget forecast.

The Directors assessed the recoverable amount of the CGU with reference to the valuation performed by Ravia Global Appraisal Advisory Limited, an independent professional valuer.

As at 31 December 2019, the recoverable amount of this CGU is determined based on a value in use calculation which uses cash flow projection based on the revised financial budgets of the Huijia covering five financial years. The directors and management considered financial budgets prepared is appropriate after considering the revised business development plan, sustainability of business growth, stability of core business developments and achievement of business targets. The financial model assumes an average growth rate of –22% (2018: 12%) for five financial years budgets, a pre-tax discount rate of 18% (2018: 15%) per annum and a terminal growth rate of 3% (2018: 3%) per annum beyond the five years period taking into account of long term gross domestic product growth, inflation rate and other relevant economic factors.

As at 31 December 2019, the recoverable amount of this CGU determined based on the value in use calculations was lower than the carrying amount of this CGU. Accordingly, management has provided impairment loss on goodwill and intangible assets amounting to RMB258,213,000 which has been charged to profit or loss in the year ended 31 December 2019.

For the contingent shares in related to this acquisition, since the sellers and guarantors of Huijia could not complete the performance target set out in the sale and purchase agreement, the Group is entitled to repurchase the shares placed in the custodian account at HK$1 and cancel the shares accordingly. As at 31 December 2019, these shares are remeasured at its fair value as RMB22,671,000. Hence a fair value gain of RMB22,271,000 was recognised in "other gains, net" in the consolidated statement of comprehensive income.

10 TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables *(note a)*	**477,227**	544,521
Less: provision for impairment of trade receivables	**(63,529)**	(32,427)
Trade receivables – net	**413,698**	512,094

(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 invoice date are as follows:

	2019	2018
	RMB'000	*RMB'000*
Current to 90 days	**301,627**	349,430
91 to 180 days	**47,678**	117,500
181 to 270 days	**42,664**	29,819
271 to 365 days	**26,999**	5,214
Over 1 year	**58,259**	42,558
	477,227	544,521

11 LOANS AND INTEREST RECEIVABLES

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

	2019	2018
	RMB'000	*RMB'000*
Loans to customers of financing services business *(note a)*	**1,684,983**	1,552,826
Loans to employees	**3,885**	3,885
Loans to associates and joint venture	**60,867**	47,540
Interest receivables	**25,443**	24,209
Loans and interest receivables, gross	**1,775,178**	1,628,460
Less: impairment allowance on loans for financing services business *(note a)*	**(140,014)**	(104,563)
Less: impairment allowance on loans to employees	**(31)**	(31)
Less: impairment allowance on loans to associates and a joint venture	**(1,006)**	(749)
Less: impairment allowance on interest receivables	**(148)**	(365)
Loans and interest receivables, net	**1,633,979**	1,522,752
Less: Non-current portion	**(42,257)**	(103,160)
Current portion	**1,591,722**	1,419,592

Note:

(a) Analysed by nature

The balance comprises loans granted in financing business:

	2019	2018
	RMB'000	*RMB'000*
Loans to customers of financing services business	**1,684,983**	1,552,826
Less: impairment allowance	**(140,014)**	(104,563)
	1,544,969	1,448,263

12 BORROWINGS

	2019 *RMB'000*	2018 *RMB'000*
Non-current portion:		
Bank borrowings	**480,000**	368,000
Other borrowings	**23,539**	351,162
	503,539	719,162
Current portion:		
Bank borrowings	**1,111,089**	860,244
Other borrowings	**689,773**	547,932
	1,800,862	1,408,176
Total borrowings	**2,304,401**	2,127,338

Bank borrowings bear average interest rate of 6.69% per annum (2018: 6.17% per annum), mature ranging from 2020 to 2022, part of which amounting to RMB730,000,000 (2018: RMB372,376,000) are secured by properties, investment properties and land use rights, which is classified as right-of-use assets after the adoption of HKFRS 16 with carrying value amounting to RMB979,310,000 (2018: RMB771,035,000). Bank borrowings amounting to RMB248,500,000 (2018: RMB251,500,000) are secured by restricted bank deposits with carrying amount of RMB282,171,000 (2018: RMB276,003,000).

Other borrowings of RMB27,816,000 (2018: same) were provided by a non-controlling shareholder of a subsidiary, in which 25% of its equity interest is effectively held by Mr. Liu Jun, an executive director of the Company. These borrowings are unsecured, mature ranging from 2020 to 2022 and bear average interest rate of 6.34% per annum (2018: 6.34% per annum). During the year ended 31 December 2019, the corresponding interest expenses was approximately RMB1,763,000 (2018: RMB1,763,000).

Other borrowings with a total principal amount of RMB200,000,000 (2018: Nil) were provided by an independent third party with maturity dates on July 2020 and November 2020. These borrowings are interest free and secured by certain equity shares of a subsidiary.

The remaining other borrowings are provided by independent third parties and bear interest rate ranging from 4.4% to 14.3% per annum (2018: 4.5% to 13.7% per annum). Out of these other borrowings, RMB442,218,000 (2018: RMB519,917,000) are either guaranteed by the Executive Directors or Non-Executive Director of the Group (2018: same) and secured by certain inventories, right-of-use assets, listed equity shares held by the Group and the equity of certain subsidiaries (2018: certain loan receivables, inventories, and listed equity shares held by the Group).

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**	
	2019 *RMB'000*	2018 *RMB'000*	**2019** *RMB'000*	2018 *RMB'000*
Within 1 year	**1,111,089**	860,244	**689,773**	547,932
Between 1 and 2 years	**400,000**	233,000	**–**	351,162
Between 2 and 5 years	**80,000**	135,000	**23,539**	–
	1,591,089	1,228,244	**713,312**	899,094

13 TRADE PAYABLES

The aging analysis of trade payables based on invoice date are as follows:

	2019	2018
	RMB'000	*RMB'000*
Current to 90 days	**115,752**	83,415
91 to 180 days	**9,984**	8,756
181 to 365 days	**2,473**	2,345
Over 1 year	**–**	406
	128,209	94,922

14 EVENT AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

There is an outbreak of Coronavirus Disease ("COVID-19") in early 2020 throughout the world. The Group expects the economy in the PRC to be negatively impacted and this may potentially affect the Group's business and financial performance in 2020. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date of this result announcement, the Group was not aware of any material adverse effects on the consolidated financial statements as a result of the COVID-19 outbreak.

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. Qiyan, and a non-executive Director, Mr. Li Jianguang. Mr. Zhang Ke is the chairman of the Audit Committee.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, the internal control procedures, the audited results of the Company for the year ended 31 December 2019 and has met with the external auditors and discussed the financial matters of the Group that arose during the course of audit for the year ended 31 December 2019. The Audit Committee has agreed with the audited annual results of the Group for the year ended 31 December 2019 ("2019 Annual Results") set out in this announcement.

EXPLANATION OF THE DIFFERENCES BETWEEN THE UNAUDITED ANNUAL RESULTS AND THE AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Since the Unaudited Result Announcement published by the Company on 27 March 2020 was not audited nor agreed with the auditor of the Company, and currently, the auditing process of the Company's annual results for the year ended 31 December 2019 has been completed, the Company advises that the Shareholders and potential investors shall pay attention to certain differences ("Differences") between the financial information of the unaudited annual results and the financial information of the audited annual results. In this regard, the Company hereby sets forth the details and reasons for the Differences in this announcement in accordance with Rule 13.49(3)(ii)(b) of the Listing Rules.

Extraction of consolidated statement of comprehensive income

	Announcement of the audited annual results 2019 *RMB'000*	Announcement of the unaudited annual results 2019 *RMB'000*	
Revenue	**14,712,969**	**14,719,287**	
Interest income from financing services	**119,863**	**113,545**	*Note a*
	14,832,832	**14,832,832**	
Fair value gain/(loss) on financial assets at fair value through other comprehensive income			
– Group	**1,100**	**1,100**	
– Associates	**6.716**	**–**	*Note b*

Extraction of consolidated statement of financial position

	Announcement of the audited annual results 2019 *RMB'000*	Announcement of the unaudited annual results 2019 *RMB'000*	
Investments accounted for using equity method	**969,248**	**962,532**	*Note b*
Other reserves	**3,152,947**	**3,146,231**	*Note b*

Note a:

Interest income generated from financing leasing business of RMB6,318,000 has been reclassified from revenue to interest income from financing services in accordance with HKAS1 presentation requirement.

Note b:

The differences of RMB6,716,000 in both (i) investments accounted for using equity method and (ii) other comprehensive income – fair value gain/(loss) on financial assets at fair value through other comprehensive income ("FAOCI"), represents the Group's share of post-tax other comprehensive income of associates, arising from the fair value changes of the FAOCI held by an associate company in accordance with HKFRS9 requirement.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and cash equivalent decreased by approximately RMB139,779,000 from approximately RMB471,672,000 as at 31 December 2018 to approximately RMB331,893,000 as at 31 December 2019, approximately 93.6% of which is denominated in RMB.

As at 31 December 2019, the Group had a total borrowings of RMB2,304,401,000 (as at 31 December 2018: RMB2,127,338,000), of which RMB1,591,089,000 (as at 31 December 2018: RMB1,228,244,000) were bank borrowings which bear an average interest rate of 6.69% per annum (as at 31 December 2018: 6.17% per annum) and mature ranging from 2020 to 2022, and RMB713,312,000 (as at 31 December 2018: RMB899,094,000) were other borrowings. As at 31 December 2019, the Group has no undrawn banking facilities (31 December 2018: Nil). Other borrowings of RMB27,816,000 were provided by a non-controlling shareholder of a subsidiary in which 25% of its equity interest is effectively held by Mr. Liu Jun, an executive Director. The borrowings are unsecured, mature ranging from 2020 to 2022 and bear average interest rate of 6.34% per annum (as at 31 December 2018: 6.34% per annum). The remaining other borrowings are provided by independent third parties and bear interest rate ranging from Nil to 14.3% per annum (as at 31 December 2018: 4.5% to 13.7% per annum). The Group's borrowings were mainly made in RMB. As at 31 December 2019, the Group was in net debt position, whereas the Group's gearing ratio is 28%, which is calculated as net debt, including lease liabilities, divided by total capital.

The capital and reserves attributable to equity holders of the Company decreased by approximately RMB314.5 million from approximately RMB4,337.7 million as at 31 December 2018 to approximately RMB4,023.2 million as at 31 December 2019.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

IMPORTANT EVENT(S) AFTER THE REPORTING PERIOD

COVID-19 Outbreak

After the outbreak of COVID-19 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date of this announcement, the Group was not aware of any material adverse effects on the Group's operation and financial performance as a result of the COVID-19 outbreak.

Huijia Performance Target for the year 2019

According to the audited consolidated financial statement of Beijing Huijia for the year ended 31 December 2019 dated 27 March 2019, the audited consolidated distributable profit attributable to equity holders of Beijing Huijia for the year ended 31 December 2019 is less than RMB23,660,000, being the minimum level of Huijia Performance Target for the year ended 31 December 2019. According to the subscription agreement dated 5 January 2018 entered into between the Huajia Sellers and the Company, no Shares will be released to Huijia Sellers, and the Company will buy back and cancel 10,909,091 Shares with HK$1.

Save as disclosed above, there were no significant events after 31 December 2019 and up to the date of this announcement.

Save as disclosed in this announcement, all the information contained in the Unaudited Results Announcement remains unchanged. For details of the management's discussion and analysis of the 2019 Annual Results and other information in relation to the Group, please refer to pages 21 to 37 of the Unaudited Results Announcement.

SCOPE OF WORK OF THE AUDITORS OF THE COMPANY

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 2019 as set out in this annual results announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited 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 this annual results announcement.

PUBLICATION OF ANNUAL REPORT

This audited 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 2019 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 before the end of April 2020.

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

Hong Kong, 17 April 2020

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. Sun Yang (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)