

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



HC GROUP INC.

慧聪集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 02280)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

HIGHLIGHTS

- Total revenue was approximately RMB14,531.3 million, decreased by approximately 1.47%, when compared to RMB14,748.4 million recorded in 2019 from continuing operations.
- Loss Attributable to Equity Holders of the Company was approximately RMB623.5 million in this year, while a loss attributable to equity holders of the Company of approximately RMB16.5 million was recorded in 2019 from continuing operations.
- The Group's adjusted net loss* was approximately RMB95.8 million, while it was RMB280.6 million in previous year.
- The Group's adjusted EBITDA* was approximately RMB70.8 million, while it was RMB122.8 million in previous year.
- The loss per share from continuing operations for 2020 was RMB0.5033, while it was RMB0.0148 for the previous year.
- The Board does not recommend payment of final dividend for the year ended 31 December 2020.

* The adjusted net loss and adjusted EBITDA are non-HKFRS financial measures, for details, please refer to page 41 in this result announcement.

The board ("Board") of directors (the "Directors") of HC Group Inc. (the "Company") would like to announce the audited results of the Company and its subsidiaries (the "Group" or "HC") for the year ended 31 December 2020 (the "Year") together with the comparative figures for the same period in 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000 (Restated)
Continuing operations			
Revenue	3	14,392,567	14,628,552
Interest income from financing services	3	138,754	119,863
		<u>14,531,321</u>	<u>14,748,415</u>
Cost of revenue		(13,741,173)	(13,817,992)
Other income		15,868	16,240
Other gains, net	4	69,784	272,453
Selling and marketing expenses		(474,295)	(621,491)
Administrative expenses		(330,798)	(346,302)
Impairment loss on goodwill and intangible assets	10	(578,338)	(38,426)
Net impairment losses of financial assets		<u>(160,691)</u>	<u>(71,683)</u>
Operating (loss)/profit		(668,322)	141,214
Finance cost, net		(123,532)	(129,661)
Share of post-tax (loss)/profit of associates	13	(81,181)	13,593
Share of post-tax loss of a joint venture		<u>(1,537)</u>	<u>(5)</u>
(Loss)/profit before income tax		(874,572)	25,141
Income tax credit/(expense)	5	<u>127,542</u>	<u>(10,069)</u>
(Loss)/profit from continuing operations		(747,030)	15,072
Discontinued operations			
Loss from discontinued operations	8	<u>(126,238)</u>	<u>(474,837)</u>
Loss for the year		(873,268)	(459,765)
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		(621)	2,090
<i>Items that will not be reclassified to profit or loss</i>			
Fair value gain/(loss) on financial assets at fair value through other comprehensive income			
– Group		17,031	1,100
– Associate		(9,977)	6,716
Currency translation differences for financial assets through other comprehensive income		<u>(4,232)</u>	<u>1,423</u>
Total comprehensive loss for the year, net of tax		<u>(871,067)</u>	<u>(448,436)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2020

	<i>Note</i>	2020 RMB'000	2019 <i>RMB'000</i> (Restated)
Loss for the year attributable to:			
Equity holders of the Company		(745,537)	(376,490)
Non-controlling interests		(127,731)	(83,275)
		<u>(873,268)</u>	<u>(459,765)</u>
Loss from the year attributable to the equity holders of the Company arises from:			
Continuing operations		(623,473)	(16,529)
Discontinued operations		(122,064)	(359,961)
		<u>(745,537)</u>	<u>(376,490)</u>
Total comprehensive loss for the year attributable to:			
Equity holders of the Company		(743,336)	(365,161)
Non-controlling interests		(127,731)	(83,275)
		<u>(871,067)</u>	<u>(448,436)</u>
Total comprehensive loss for the year attributable to the equity holders of the Company arises from:			
Continuing operations		(621,272)	(5,200)
Discontinued operations		(122,064)	(359,961)
		<u>(743,336)</u>	<u>(365,161)</u>
Loss per share for loss from continuing operations attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	6	(0.5033)	(0.0148)
Diluted loss per share	6	<u>(0.5033)</u>	<u>(0.0148)</u>
Loss per share for loss attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	6	(0.6018)	(0.3360)
Diluted loss per share	6	<u>(0.6018)</u>	<u>(0.3360)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Assets			
Non-current assets			
Investment properties		134,348	770,831
Property, plant and equipment		40,808	64,139
Right-of-use assets		44,630	214,305
Intangible assets	<i>10</i>	1,827,175	2,552,626
Long term deposits		884	3,568
Loans and interest receivables	<i>12</i>	571,438	42,257
Deferred income tax assets		50,692	46,969
Investments accounted for using equity method		896,390	969,248
Finance lease receivables		79,994	176,266
Financial assets at fair value through other comprehensive income		80,716	65,387
Financial assets at fair value through profit or loss		20,234	20,592
Total non-current assets		3,747,309	4,926,188
Current assets			
Completed properties held for sale		–	47,324
Finance lease receivables		297,641	153,481
Loans and interest receivables	<i>12</i>	945,377	1,591,722
Deposits, prepayments and other receivables		731,720	487,412
Trade receivables	<i>11</i>	478,284	413,698
Contract related assets		2,802	22,390
Inventories		153,455	147,523
Financial assets at fair value through profit or loss		–	22,671
Restricted bank deposit		25,848	282,171
Cash and cash equivalents		254,301	331,893
Total current assets		2,889,428	3,500,285
Total assets		6,636,737	8,426,473
Equity			
Equity attributable to equity holders of the Company			
Share capital		120,977	103,638
Other reserves		3,366,441	3,152,947
Retained earnings		31,404	766,586
		3,518,822	4,023,171
Non-controlling interests		506,957	706,541
Total equity		4,025,779	4,729,712

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2020

		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	14	280,228	480,000
Non-current portion of other borrowings	14	–	23,539
Lease liabilities		17,599	17,397
Deferred government grants		–	155,958
Deferred income tax liabilities		73,581	236,517
Total non-current liabilities		371,408	913,411
Current liabilities			
Trade payables	15	478,940	128,209
Accrued expenses and other payables		166,059	130,551
Contract liabilities		552,039	410,987
Current portion of bank borrowings	14	615,080	1,111,089
Current portion of other borrowings	14	340,959	689,773
Lease liabilities		15,050	74,598
Deferred government grants		1,600	11,450
Convertible bonds – liabilities portion		–	90,670
Other taxes payables		2,980	90,488
Income tax payables		66,843	45,535
Total current liabilities		2,239,550	2,783,350
Total liabilities		2,610,958	3,696,761
Total equity and liabilities		6,636,737	8,426,473

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 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 anti-counterfeiting products and services and supply chain management to enterprises;
- Engaging in finance business; including micro-credit financing, lease financing and factoring services;
- Hosting exhibitions and seminars.

During the year ended 31 December 2020, the Group decided to discontinue the operation of integrated marketing and advertising services operated by Huijia Yuantian Limited, a wholly subsidiary of the Group and the operation of the O2O business exhibition centre segment. In accordance with HKFRS 5, the financial results of Huijia Yuantian Limited, the segment of O2O business exhibition centre and the relevant impairment expenses for the years ended 31 December 2020 and 2019 were classified as discontinued operation in the Group’s financial statements.

Certain comparative amounts have been reclassified to conform with current year presentation.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(i) Compliance with HKFRS

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

(ii) Historical cost convention

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

(iii) New and amended standards and framework 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 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The 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 and amended standards, interpretation and accounting guidance issued but not yet effective

Certain new and amended standards, interpretation and accounting guidance have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments to HKFRS 16	Covid-19-Related Rent Concessions	1 June 2020
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments	1 January 2022
Annual improvements 2018-2020 cycle	Improvements to HKFRSs	1 January 2022
Revised Accounting Guideline 5	Merger Accounting for Common Control Combinations	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKFRS 17	Insurance contracts	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023
Revised Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

None of these new and amended standards, interpretation and accounting guidance are expected to have a material impact on the Group's consolidated financial statements.

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 (including the discontinued operation) 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 2020, 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 B2B trading platforms, provision of anti-counterfeiting products and services, supply chain management services.
- (iii) Platform and corporate services segment, which mainly include the online services provided through “hc360.com”, advance marketing services utilising the digital big data and tools, and provision of financing and other services.
- (iv) O2O business exhibition centre segment, which mainly include sales of properties and provision of properties rental and management services.

During the year ended 31 December 2020, the Group decided to discontinue the operation of integrated marketing and advertising services operated by Huijia Yuantian Limited, a wholly subsidiary of the Group and the operation of the O2O business exhibition centre segment. In accordance with HKFRS5, the financial results of Huijia Yuantian Limited, the segment of O2O business exhibition centre and the relevant impairment expenses for the years ended 31 December 2020 and 2019 were classified as discontinued operation in the Group’s financial statements.

For details of the disposal, refer to Note 9.

3 SEGMENT INFORMATION (CONTINUED)

	Year ended 31 December 2020							
	Continuing operations			Discontinued operations				Total
	Technology-driven new retail segment	Smart industries segment	Platform and corporate services segment	Subtotal	O2O business exhibition centre	Platform and corporate services segment	Subtotal	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,022,760	13,168,532	201,275	14,392,567	10,812	1,941	12,753	14,405,320
Interest income from financing services	–	–	138,754	138,754	–	–	–	138,754
Total revenue and income	1,022,760	13,168,532	340,029	14,531,321	10,812	1,941	12,753	14,544,074
Impairment loss on goodwill and intangible asset	–	(37,645)	(540,693)	(578,338)	–	(47,185)	(47,185)	(625,523)
Segment results	(12,291)	(107,749)	(633,934)	(753,974)	(53,602)	(73,957)	(127,559)	(881,533)
Other income				15,868			62,811	78,679
Other gains, net				69,784			(43,041)	26,743
Share of post-tax loss of associates				(81,181)			–	(81,181)
Share of post-tax loss of a joint venture				(1,537)			–	(1,537)
Finance income				15,799			2,752	18,551
Finance cost				(139,331)			(23,430)	(162,761)
Loss before income tax				(874,572)			(128,467)	(1,003,039)
Other information:								
Depreciation and amortisation				130,783			38,450	169,233
Share based compensation expense				60,496			–	60,496

3 SEGMENT INFORMATION (CONTINUED)

	Year ended 31 December 2019							
	Continuing operations			Discontinued operations				Total
	Technology-driven new retail segment RMB'000	Smart industries segment RMB'000	Platform and corporate services segment RMB'000 (Restated)	Subtotal RMB'000	O2O business exhibition centre RMB'000	Platform and corporate services segment RMB'000	Subtotal RMB'000	
Revenue	844,493	13,050,827	733,232	14,628,552	20,707	63,710	84,417	14,712,969
Interest income from financing services	–	–	119,863	119,863	–	–	–	119,863
Total revenue and income	844,493	13,050,827	853,095	14,748,415	20,707	63,710	84,417	14,832,832
Impairment loss on goodwill and intangible asset	–	(38,426)	–	(38,426)	–	(258,213)	(258,213)	(296,639)
Segment results	(96,445)	(9,817)	(41,217)	(147,479)	(152,755)	(270,323)	(423,078)	(570,557)
Other income				16,240			12,722	28,962
Other gains, net				272,453			–	272,453
Share of post-tax profit of associates				13,593			–	13,593
Share of post-tax loss of a joint venture				(5)			–	(5)
Finance income				15,411			1,815	17,226
Finance cost				(145,072)			(32,097)	(177,169)
Profit/(loss) before income tax				25,141			(440,638)	(415,497)
Other information:								
Depreciation and amortisation				219,709			43,943	263,652
Share based compensation expense				80,685			–	80,685

4 OTHER GAINS, NET

Other gains, net, mainly consist of the following:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Impairment loss recognised in respect of investment in associates	–	(2,735)
Fair value gains on deemed disposal of Zhongmo Group	–	246,797
Gain on disposal of subsidiaries	12,664	–
Gain on partial disposal of JDSJ Group (<i>note 9(a)</i>)	65,323	–
Gains on disposal of associates	–	1,289
Change in fair value on financial assets at fair value through profit or loss	(8,779)	25,765

5 INCOME TAX CREDIT/(EXPENSE)

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Current income tax credit/(expense)		
– Hong Kong profits tax	–	–
– The PRC corporate income tax (“CIT”)		
– Current year	(44,729)	(57,398)
– Prior year	2,386	1,833
– The PRC land appreciation tax	(5,680)	(35,728)
Deferred income tax credit		
– The PRC corporate income tax	177,794	47,025
	129,771	(44,268)
Income tax credit/(expense) is attributable to:		
– Loss from continuing operations	127,542	(10,069)
– Loss from discontinued operations	2,229	(34,199)
	129,771	(44,268)

6 LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss 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.

	2020 RMB'000	2019 RMB'000 (Restated)
Loss attributable to equity holders of the Company		
– from continuing operations	(623,473)	(16,529)
– from discontinued operations	(122,064)	(359,961)
	<u>(745,537)</u>	<u>(376,490)</u>
	2020 '000	2019 '000 (Restated)
Weighted average number of shares in issue	<u>1,238,917</u>	<u>1,120,494</u>
Basic loss per share		
From continuing operations (in RMB)	(0.5033)	(0.0148)
From discontinued operations (in RMB)	(0.0985)	(0.3212)
Total basic loss per share attributable to the equity holders of the Company (in RMB)	<u>(0.6018)</u>	<u>(0.3360)</u>

(b) Diluted

Diluted loss 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 2020, all of these share options had anti-dilutive effect to the Company and it is ignored in the calculation of diluted loss per share (2019: same). For the year ended 31 December 2020, diluted loss per share equaled to basic loss per share (2019: same).

7 DIVIDENDS

No dividend was paid or declared by the Company during and for the year ended 31 December 2020 (2019: Nil).

8 DISCONTINUED OPERATIONS

	2020 RMB'000	2019 RMB'000 (Restated)
Huicong (Tianjin) E-commerce Investment Co., Ltd (<i>note a</i>)	(60,229)	(207,082)
Huijia Yuantian Limited (<i>note b</i>)	<u>(66,009)</u>	<u>(267,755)</u>
	<u>(126,238)</u>	<u>(474,837)</u>

(a) Disposal of equity interest of Huicong (Tianjin) E-commerce Investment Co., Ltd

On 23 November 2020, the Group entered into a sale and purchase agreement with an independent third party to dispose its 60% equity interest of Huicong (Tianjin) E-commerce Investment Co., Ltd (“Huicong (Tianjin)”) at a consideration of RMB16,000,000. Huicong (Tianjin) and its subsidiaries (together, the “Huicong Tianjin Group”) was included in O2O business exhibition business centre segment. The disposal was completed on 30 November 2020. In accordance with HKFRS 5, the financial results of Huicong Tianjin Group is reported in the current period as a discontinued operation for the years as set out below. A disposal loss of Huicong Tianjin Group amounting to RMB43,041,000 was included in discontinued operation in the consolidated statement of comprehensive income.

8 DISCONTINUED OPERATIONS (CONTINUED)

(a) Disposal of equity interest of Huicong (Tianjin) E-commerce Investment Co., Ltd (Continued)

(i) Financial performance

The financial performance presented are for the eleven months ended 30 November 2020 and the year ended 31 December 2019.

	Eleven months ended 30 November 2020 RMB'000	2019 RMB'000
Revenue	10,812	20,707
Cost of revenue	(5,423)	(54,598)
Other income	62,795	12,030
Selling and marketing expenses	(25,911)	(37,927)
Administrative expenses	(25,797)	(67,583)
Net impairment losses for financial assets	(7,283)	(13,354)
Operating profit/(loss)	9,193	(140,725)
Finance cost, net	(20,682)	(30,197)
Loss before income tax	(11,489)	(170,922)
Income tax expense	(5,699)	(36,160)
Loss after income tax	(17,188)	(207,082)
Loss on disposal	(43,041)	–
Total loss from discontinued operation	<u>(60,229)</u>	<u>(207,082)</u>

8 DISCONTINUED OPERATIONS (CONTINUED)

(b) Discontinued operation of Huijia Yuantian Limited

During the year ended 31 December 2020, the Group decided to discontinue the operation of Huijia Yuantian Limited and its subsidiaries (together, the “Huijia Group”), which is principally engaged in the integrated marketing and advertising services in the PRC.

(i) Financial performance

The financial performance presented are for the years ended 31 December 2020 and 31 December 2019.

	2020 RMB'000	2019 RMB'000
Revenue	1,941	63,710
Cost of revenue	(708)	(31,237)
Other income	16	692
Selling and marketing expenses	(1,196)	(24,919)
Administrative expenses	(367)	(7,072)
Impairment loss on goodwill and intangible assets	(47,185)	(258,213)
Net impairment losses of financial assets	(26,442)	(12,592)
Operating loss	(73,941)	(269,631)
Finance income/(cost), net	4	(85)
Loss before income tax	(73,937)	(269,716)
Income tax credit	7,928	1,961
Loss from discontinued operation	<u>(66,009)</u>	<u>(267,755)</u>

9 PARTIAL DISPOSAL/DISPOSAL OF SUBSIDIARIES

(a) Partial disposal of subsidiaries – JDSJ Group

On 27 August 2020, the Group entered into agreement with 廣東領球高貿有限公司 (“Guangdong Lingqiu Commercial Trading Co., Ltd”), 新余聰穎網絡科技合夥企業 (有限合夥) (“Xinyu Congying Internet Technology Partnership (Limited Partnership)”) and Home Electronic Appliances World Group (“JDSJ Group”). The Group agreed to transfer 30% of the equity interest in JDSJ Group to Guangdong Lingqiu Commercial Trading Co., Ltd and 25% of the equity interest in JDSJ Group to Xinyu Congying Internet Technology Partnership (Limited Partnership). As a results, the Group owns 20% of the equity interest in JDSJ Group. JDSJ Group ceased to be the subsidiary of the Group, but has been accounted as an investment in associate in the consolidated financial statement using equity method. Disposal gains amounting to RMB65,323,000 was recognised as “other gains, net” in the consolidated statement of comprehensive income.

(b) Disposal of subsidiaries – Huicong Tianjin Group

On 23 November 2020, the Group entered into agreement with 廣東豐明物業管理有限公司 (“Guangdong Fengming Property Management Co., Ltd.”) and agreed to transfer 60% of the equity interest in Huicong Tianjin Group. Huicong Tianjin Group ceased to be subsidiaries of the Group. A disposal loss amounting to RMB43,041,000 was recognised and included in discontinued operation in the consolidated statement of comprehensive income.

10 INTANGIBLE ASSETS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Goodwill	1,506,825	1,542,408
Other intangible assets	<u>320,350</u>	<u>1,010,228</u>
	<u><u>1,827,175</u></u>	<u><u>2,552,626</u></u>

Impairment test for goodwill and other intangible assets

Managements monitors and reviews the business performance at the operating segment level. Goodwill and other intangible assets are allocated to the following cash generating units (“CGUs”).

	2020		2019	
	Goodwill <i>RMB'000</i>	Other intangible assets <i>RMB'000</i>	Goodwill <i>RMB'000</i>	Other intangible assets <i>RMB'000</i>
Technology-driven new retail segment				
Online-services – B2B2C business	980,247	207,134	980,247	240,382
New technology retails solutions	454,720	80,000	454,720	96,000
Smart industries segment				
Anti-counterfeiting products and services	50,314	20,770	50,314	26,407
Online services – garment industry (<i>note i</i>)	–	–	–	41,140
Trading services – cotton industry	21,544	10,218	21,544	12,874
Platform and corporate services segment				
Integrated marketing and advertising services (<i>note ii</i>)	–	–	–	53,180
Financing services (<i>note iii</i>)	–	–	19,626	534,310
Electronic appliance e-business (<i>note iv</i>)	–	–	15,957	3,204
Other intangible assets	<u>–</u>	<u>2,228</u>	<u>–</u>	<u>2,721</u>
	<u><u>1,506,825</u></u>	<u><u>320,350</u></u>	<u><u>1,542,408</u></u>	<u><u>1,010,218</u></u>

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 year period or ten year period depending on individual CGU circumstances. Cash flows beyond the five or ten years 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.

10 INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill and other intangible assets (Continued)

As a result of the impairment assessment, the Group recognised

- (i) impairment for intangible assets for the “online services-garment industry” CGU amounting RMB37,645,000 (2019: impairment for goodwill RMB38,426,000);
- (ii) impairment for intangible assets for the “integrated marketing and advertising services” CGU of RMB47,185,000 (2019: impairment for goodwill and other intangible assets RMB258,213,000); and
- (iii) impairment for the goodwill and intangible assets for “financing services” CGU amounting RMB540,693,000 (2019: Nil).
- (iv) On 27 August 2020, the Group agreed to transfer 30% of the equity interest in JDSJ Group to Guangdong Lingqiu Commercial Trading Co., Ltd and 25% of the equity interest in JDSJ Group to Xinyu Congying Internet Technology Partnership (Limited Partnership).

The goodwill and intangible assets for electronic appliance e-business was derecognised upon partial disposal of JDSJ Group (Note 9(a)).

For details, refer to the following notes.

Note:

- (i) Impairment provision for goodwill and other intangible assets related to “online services – garment industry” CGU

On 18 December 2015, the Group completed the acquisition of the entire equity interest in ZhongFu Holdings Limited (“Zhongfu”), which is principally engaged in the online service business in relation to the garment industry in the PRC. The total consideration was HKD170,807,500 (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 development and operations of Zhongfu where the operating environment for online service providers on the garment industry continued to be very challenging. In the 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 since 2019.

During the year ended 31 December 2020, due to fierce competition in the e-commerce industry and the outbreak of Coronavirus disease (“COVID-19”), the business transformation plans cannot be implemented successfully as expected. These factors lead to a substantial decline in revenue of Zhongfu as compared to the prior financial budget. As a result, the management has provided full impairment loss on the intangible assets related to “Online services – garment industry” CGU amounted RMB37,645,000 (2019: provision for impairment of goodwill of RMB38,426,000).

10 INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill and other intangible assets (Continued)

Note: (Continued)

- (ii) Impairment provision for goodwill and other intangible assets related to “integrated marketing and advertising services” CGU

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. 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.

During the year ended 31 December 2019, due to the downtrend of the automotive industry in China, which is the major customer sector of Huijia. The performance of Huijia is significantly lower than the budgeted amount, therefore, the management has revised the budget forecast and made a provision for impairment of goodwill and other intangible assets of RMB258,213,000.

During the year ended 31 December 2020, due to the outbreak of Coronavirus disease (“COVID-19”), lots of small and medium enterprises had tightened their advertising budget; hence Huijia’s business transformation plans cannot be implemented successfully as expected. As a result, the Group had decided to discontinue the operation of integrated marketing and advertising services operated by Huijia Yuantian Limited and has provided full impairment loss on the intangible assets related to “Integrated marketing and advertising services” CGU amounting RMB47,185,000.

- (iii) Impairment provision for goodwill and other intangible assets related to “Financing Services” CGU

On 28 November 2017, the Group step-up acquired 30% of the equity interest of Chongqing Digital China Huicong Micro-Credit Co. Ltd (“Micro-Credit”), which principally engaged in the integrated marketing and advertising services in the PRC. Upon completion of the acquisition, the Group holds 70% of equity interest and obtained control over Micro-Credit and reclassified as investment in subsidiary. The Group recognised identifiable intangible assets amounted to RMB561,900,000 in total and goodwill amounted to RMB19,626,000 in relation to such acquisition and allocated to the “Financing Services” CGU at the acquisition date.

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 2020, 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 Micro-Credit covering ten financial years which reflected management’s latest development plan over the financing services business, included but not limited to further inject working capital into this segment.

10 INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill and other intangible assets (Continued)

Note: (Continued)

- (iii) Impairment provision for goodwill and other intangible assets related to “Financing Services” CGU (Continued)

Management has been reviewing the business development and regulatory requirement for operating micro-lending in PRC. On 7 September 2020, the China Banking and Insurance Regulatory Commission (“CBIRC”) issued the “Notice on Strengthening the Supervision and Management of Micro-lending Companies”, which aims to further strengthen the supervision and management, standardise business behavior, prevent and resolve risks, and promote the standardised and healthy development of the industry of micro-lending companies. The notice will significantly impact the microlending companies from all aspects of business operations.

In view of the stricter regulatory requirement and uncertainties in pose, the Group revised the financial budgets after considering the revised business development plan, working capital injection plans, products offering and other risk factors faced by Micro-Credit. The financial model assumes an average growth rate of 19% (2019: 23%) for ten financial years budgets, a pre-tax discount rate of 15% (2019: 16%) per annum and a terminal growth rate of 3% (2019: 3%) per annum beyond the ten years period taking into account of long term gross domestic product growth, inflation rate and other relevant economic factors.

As at 31 December 2020, the recoverable amount of this CGU determined based on the value-in-use calculations was lower than the carrying amount of this CGU. Accordingly, the management has provided full impairment loss on goodwill, license right and other intangible assets of RMB540,693,000 and charged to profit or loss in the year ended 31 December 2020 (2019: Nil).

11 TRADE RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	530,570	477,227
Less: provision for impairment of trade receivables	<u>(52,286)</u>	<u>(63,529)</u>
Trade receivables, net	<u><u>478,284</u></u>	<u><u>413,698</u></u>

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 is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current to 90 days	454,297	301,627
91 to 180 days	31,417	47,678
181 to 270 days	6,710	42,664
271 to 365 days	5,364	26,999
Over 1 year	<u>32,782</u>	<u>58,259</u>
	<u><u>530,570</u></u>	<u><u>477,227</u></u>

12 LOANS AND INTEREST RECEIVABLES

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Loans to customers of financing services business (<i>note a</i>)	1,601,442	1,684,983
Loans to employees	3,885	3,885
Loans to associates	90,721	60,867
Interest receivables	10,762	25,443
Loans and interest receivables, gross	1,706,810	1,775,178
Less: impairment allowance on loans to customers of financing services business (<i>note a</i>)	(184,149)	(140,014)
Less: impairment allowance on loans to employees	(34)	(31)
Less: impairment allowance on loans to associates and joint ventures	(5,523)	(1,006)
Less: impairment allowance on interest receivables	(289)	(148)
Loans and interest receivables, net	1,516,815	1,633,979
Less: Non-current portion	(571,438)	(42,257)
Current portion	<u>945,377</u>	<u>1,591,722</u>

Note:

(a) Analysed by nature

The balance comprises loans granted in financing service business:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Loans to customers of financing services business	1,601,442	1,684,983
Less: impairment allowance	(184,149)	(140,014)
	<u>1,417,293</u>	<u>1,544,969</u>

13 SHARE OF POST TAX (LOSS)/PROFIT OF ASSOCIATES

During the year ended 31 December 2020, the share of post-tax loss of associates is mainly contributed by the share of loss in the Group's investment in associate in 內蒙古呼和浩特金穀農村商業銀行股份有限公司 ("Jingu Bank") amounting to RMB50,509,000 (2019: share of profit amounting to RMB27,845,000) and 慧德嘉美科技有限公司 ("Huide Jiamei") amounting to RMB18,122,000 (2019: share of loss amounting to RMB10,018,000).

14 BORROWINGS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Non-current portion:		
Bank borrowings	280,228	480,000
Other borrowings	–	23,539
	<u>280,228</u>	<u>503,539</u>
Current portion:		
Bank borrowings	615,080	1,111,089
Other borrowings	340,959	689,773
	<u>956,039</u>	<u>1,800,862</u>
Total borrowings	<u><u>1,236,267</u></u>	<u><u>2,304,401</u></u>

As at 31 December 2020, bank borrowings bear average interest rate of 7.00% per annum (2019: 6.69% per annum), mature ranging from 2021 to 2023 (2019: from 2020 to 2022), of which RMB130,000,000 (2019: RMB730,000,000) are secured by properties, investment properties and right-of-use assets with carrying value of RMB174,125,000 (2019: RMB979,310,000). The other bank borrowings of RMB548,000,000 (2019: RMB563,000,000) was provided by Jingu Bank and are guaranteed by an associate company of the Group (2019: same).

As at 31 December 2019, bank borrowings of RMB248,500,000 was secured by restricted bank deposits with carrying amount of RMB282,171,000 and was fully settled in August and October 2020.

As at 31 December 2020, other borrowings with a total principal amount of RMB230,000,000 (2019: RMB200,000,000) were provided by an independent third party. The principal amount of RMB200,000,000 are repayable on demand while the principal amount of RMB30,000,000 are matured on May 2021 (2019: July 2020 and November 2020). This other borrowing is interest-free and secured by certain equity shares of a subsidiary (2019: same).

As at 31 December 2019, other borrowings of RMB27,816,000 were provided by a non-controlling shareholder of a subsidiary, in which 25% of its equity interest was formally owned 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 (2019: 6.34% per annum). This other borrowing was fully settled in October 2020, and the corresponding interest expense during the year ended 31 December 2020 was RMB1,469,000 (2019: RMB1,763,000).

14 BORROWINGS (CONTINUED)

The remaining other borrowings are provided by independent third parties, director of a subsidiary, a non-controlling shareholder of a subsidiary and associate companies (2019: independent third parties) and bear interest rate ranging from Nil to 10.0% per annum (2019: Nil to 14.3% per annum). Out of these other borrowings RMB88,001,000 (2019: RMB442,218,000) are secured by certain inventories (2019: either guaranteed by the Group, Executive Directors and Non-executive Directors of the Group or certain inventories, right-of-use assets, listed equity shares held by the Group and the equity of certain subsidiaries).

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	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	615,080	1,111,089	340,959	689,773
Between 1 and 2 years	246,857	400,000	–	–
Between 2 and 5 years	33,371	80,000	–	23,539
	<u>895,308</u>	<u>1,591,089</u>	<u>340,959</u>	<u>713,312</u>

As at 31 December 2020, the Group has no undrawn banking facilities (2019: Nil).

15 TRADE PAYABLES

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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current to 90 days	370,081	115,752
91 to 180 days	106,296	9,984
181 to 365 days	747	2,473
Over 1 year	<u>1,816</u>	–
	<u>478,940</u>	<u>128,209</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 31 December 2020, the Group has discontinued the operation of integrated marketing and advertising services operated by Huijia Yuantian Limited, a wholly-owned subsidiary of the Group and the operation of the O2O business exhibition centre segment. In accordance with HKFRS5, the financial results of Huijia Yuantian Limited, the segment of O2O business exhibition centre and the relevant impairment expenses for the years ended 31 December 2020 and 2019 were classified as discontinued operation in the Group's financial statements.

During the financial year ended 31 December 2020, the Group generated a total revenue of approximately RMB14,531,321,000 (2019: RMB14,748,415,000) from continuing operation business. This represented a decrease of approximately 1.5% as compared to that in 2019. The decrease of revenue was mainly attributable to the deemed disposal of Hunan Zhongmoyun Construction Science and Technology Company Limited and its subsidiaries ("Zhongmo Group"), which contributed a revenue of approximately RMB400,030,000 to the Group in 2019 and was accounted for as investment in associates with effected from 26 December 2019.

For the Group's financial performance in different segments of continuing operation business, a total revenue of approximately RMB1,022,760,000 was achieved from the segment of technology-driven new retail in 2020, and represented an increase of approximately 21.1% from approximately RMB844,493,000 in 2019. Revenue from the smart industries segment increased from approximately RMB13,050,827,000 in 2019 to approximately RMB13,168,532,000 in 2020 which represented an increase of approximately 0.9%. Revenue derived from the segment of platform and corporate services was approximately RMB340,029,000 in 2020, which represented a decrease of approximately 60.1% from approximately RMB853,095,000 in 2019.

During the financial year ended 31 December 2020, operating expenses of continuing operation decreased from approximately RMB967,793,000 in 2019 to approximately RMB805,093,000 which was mainly due to the deemed disposal of Zhongmo Group, the decrease of staff cost and marketing expense.

The loss attributable to equity holders of the Company was approximately RMB745.5 million for the Year, while loss attributable to equity holders of the Company of approximately RMB376.5 million was recorded for the year ended 31 December 2019. The loss was mainly attributable to, among other things: (i) the Company has recognized impairment for the goodwill and intangible assets of the business units that could not attain the expected results, which amounted to approximately RMB578.3 million from continuing operation and 47.2 million from discontinued operation, (ii) the share of loss of associates increased, (iii) due to change of business plan, the Group decided to discontinue operating certain loss-making business which resulted in certain one-off disposal losses and (iv) in light of the adverse impact of the COVID-19 and the economic environment, the Company has made further provision for impairment for the financial assets of approximately RMB160,691,000.

Regarding the disposals and discontinued operations and impairment assessment on goodwill and intangible assets, the management would like to highlight that the Group has acquired or invested in certain companies and business for development purpose in the past decade. Due to the challenges imposed by macroeconomics and to align with the strategic development goals of the Group, the Group began its transformation include taking actions to lower its gearing ratio, integrating and optimising its resources assets, discontinuing loss-making business and disinvesting from the non-core business. The Group wish to concentrate its resources to further develop its core business with advantageous (details of which are set out in the paragraphs headed “BUSINESS REVIEW” and “Prospect” in this announcement.) Therefore, the Group provided impairment assessments on goodwill and intangible assets of relevant CGUs after considering the key assumptions (including the growth rate and discount rate of CGUs) of non-core business held.

LIQUIDITY AND FINANCIAL RESOURCES

The Group’s cash and cash equivalent decreased by approximately RMB77,592,000 from approximately RMB331,893,000 as at 31 December 2019 to approximately RMB254,301,000 as at 31 December 2020, approximately 88.03% of which was denominated in RMB.

As at 31 December 2020, the Group had a total borrowings of RMB1,236,267,000 (as at 31 December 2019: RMB2,304,401,000), of which RMB895,308,000 (as at 31 December 2019: RMB1,591,089,000) were bank borrowings with fixed interest rates averaged at 7.00% per annum (as at 31 December 2019: 6.69% per annum) and mature ranging from 2021 to 2023, and RMB340,959,000 (as at 31 December 2019: RMB713,312,000) were other borrowings with fixed interest rates ranging from Nil to 10% per annum (as at 31 December 2019: Nil to 14.3% per annum). As at 31 December 2020, the Group has no undrawn banking facilities (31 December 2019: Nil). The Group’s borrowings were mainly made in RMB.

As at 31 December 2020, the Group was in net debt position, whereas the Group’s gearing ratio was 20%, which was 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 RMB504.4 million from approximately RMB4,023.2 million as at 31 December 2019 to approximately RMB3,518.8 million as at 31 December 2020.

During the Year, the Group had conservative treasury policies in terms of cash and financial management. The Group did not use any financial instruments for hedging purposes.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2020 (2019: Nil).

BUSINESS REVIEW

In 2020, the Group continued to work on its vision of becoming a leading group for “Industrial Internet” in China by leveraging internet thinking, instruments and methods to ramp up industrial efficiency, empower supply chains and industrial chains, and establish a win-win ecosystem to serve customers. By focusing on and integrating advantageous resources, the Group’s businesses are divided into three segments: namely the platform and corporate services segment, the technology-driven new retail segment, and the smart industries segment.

In 2020, approximately 7.1% of the Group's revenue was generated from the technology-driven new retail segment, approximately 90.6% of the Group's revenue was derived from the smart industries segment, approximately 2.3% of the Group's revenue was attributable to the platform and corporate services segment.

Platform and corporate services segment

Leveraging on hc360.com, the platform and corporate services segment is committed to developing industrial internet business platform instruments that enable small and medium-sized enterprises ("SMEs") to "improve industrial efficiency" and "create value for customers". This segment also aims at constructing industrial data chains and business layouts to empower SMEs by providing them with more value-added services such as financial services, data marketing and SaaS, promoting the transformation and upgrade of SMEs, and facilitating the economic development of the PRC. "hc360.com", being the core operation entity of the platform and corporate services segment, has its strategy to become the "operating service platform of SMEs", with a core value of "managing and operating the infrastructures for multi-stores" for corporate customers. In 2020, with means such as artificial intelligence, big data etc., products of hc360.com collected and sorted out huge inquiries from buyers by means of manual labeling, machine identification, knowledge map, etc., which is known as "buyer service", and matched high-quality suppliers of hc360.com catering for customer demand, which is known as the "seller service". During the service process, hc360.com quickly obtained industry information and constantly optimized and upgraded our underlying system. Our fundamental logic is to establish a knowledge map of enterprise information and business opportunities, which connects online merchants with Internet traffic and excavate effective information for intelligent pairing-up, so as to improve the efficiency of marketing services.

In February 2020, taking into account the actual difficulties of SMEs affected by the pandemic, hc360.com responded quickly by taking actions to support the commercial sector. Nine major measures were introduced to facilitate the business expansion of enterprises, helping them to resume production and operation by means of online matching, manual roster, etc.

In March 2020, hc360.com launched a new product, namely "Huishengyi" (慧生意), which is a one-stop multi-contact platform, and was positioned as a "salesman in pocket" to assist customers to automatically seize the business opportunities. utilising the info page for buyers and manual matching services, users' demands are satisfied, so as to better improve the connection between enterprises and customers, helping them to solve the operating difficulties such as seeking customers and online operation, as well as to reduce the manual communication cost of the enterprises.

As an efficient, intelligent and safe online socialised operation platform, Tencent Qidian (騰訊企點) took full use of its advantages in social platforms and carried out in-depth cooperation with hc360.com. After the joint establishment of "Huicaigou" (慧採購), a heavyweight procurement platform with big data and information services, a mini application of "Huicaigou" was launched in August 2020 to promote the efficiency for users' connection.

In September 2020, the new homepage of hc360.com was launched, which comprehensively improved and enriched the page functions to provide better search and browsing experience for the vast number of purchasers and SMEs. On the brand new PC website, we built a “real time-smart-connected” platform for “excellent merchants and products” to provide better display and recommendation for competent merchants to enter the transaction side with focus on business scenarios and provide “matching services”. In addition, the new hc360.com built a “smart business district” as a new e-commerce social model. “Smart business district” is a new connection mode of business, commodities and users, providing a new online communication platform for business opportunities. Since its launch in September 2020, over 10,000 enterprises joined the “fine goods and products” platform, receiving more than 3,000 enquiries from buyers per month.

In November 2020, relying on the traffic advantage of huge daily searches of 360 Search, hc360.com launched a new B2B information aggregation platform – b2b.so.com. In the next 3 years, b2b.so.com will become an independent entrance of “360 Search” facing B2B vertical crowd. hc360.com is entitled to the exclusive operation and marketing agency rights of b2b.so.com, and will continue to tap the value of search traffic of vertical industry, so that enterprises can obtain more business opportunities.

Technology-driven New Retail Segment

In late 2018, with ZOL as the principal entity, the Group restructured the technology-driven new retail segment by combining ZOL with 北京融商通聯科技有限公司 (Beijing Rongshang Tonglian Technology Co., Ltd.*) (“Rongshang Tonglian”) and 慧聰雲商 (佛山) 網絡科技有限公司 (Huicong Yunshang (Foshan) Internet Technology Co., Ltd.*) (“jdhui.com”). The strategic objectives of the technology-driven new retail segment are to connect retailers (small b) through guiding C-end consumers, SaaS tools, reversed customisation, and supply chain services, as well as to enhance their ability to secure customers, profitability and operational efficiency. Meanwhile, with the channel data collected from small b and data analysis, we are able to provide comprehensive “online + offline” marketing solutions to corporate customers (big B) as well as the solutions to core requirements of various parties along the 3C and home appliances industrial chain, forming a B2b2C business model.

In 2020, adjustment and optimisation were made to the corporate organisation structure of the technology-driven new retail segment, establishing four segments, namely “wise marketing”, “smart retail”, “smart enterprise procurement segment” and “self-owned brand segment”.

“Wise marketing” business provides industry partners with integrated marketing services of whole network resources, covering mainstream platforms such as ZOL’s main site, Baidu, ByteDance, JD.com, Taobao and Bilibili. At the same time, we provide mature operation management agency services ranged from user operation to opening stores for our partners, so as to obtain trust with our professional competence.

As the router of science and technology industry, we pay equal attention to industrial channels, i.e. the trading business with “jdhui.com” as the main operating entity. The smart retail business with Huimaimai and ZOL cloud store as the core helps merchants to easily purchase goods on one hand and sell goods on the other hand, providing comprehensive solutions for industrial partners to solve the problems of supply chain connection and difficulties of seeking customers brought by opening stores on the whole network. Among them, ZOL cloud store is a joint-brand manufacturer based on the retail matrix created by SaaS cloud store tools – the selection of products is completed by ZOL’s joint manufactures via the central live broadcast rooms of the platform to gather tens of thousands of small b of distributed 2C traffic in private sector, forming a B2b2C industrial router.

In 2020, a total of 22 “to b” live shows had been held successfully by smart retail segment through APP “Huimaimai” (慧買賣) with top-tier brands such as Midea, Little Swan, MeiLing, TCL, Changhong, Skyworth, Robam and Fotile, with accumulative online viewers of 0.62 million and a total of 0.4 million units of products sold. Among which, the “618 Big Sale” activity had a transaction volume of over 200 million, representing a year-on-year increase of 272%, with 4,500 participating retailers.

For “smart enterprise procurement segment”, i.e. ZOL business (<http://www.zol.com/>), has created six functional platforms with the core components of supply chain financing, media information flow services, supply chain output and product customisation, procurement platform solutions, value-added after-sales service, and the digital logistics platforms, providing efficient one-stop, customised and intelligent cloud procurement solutions as well as precise quotations for government and corporate customers, empowering industrial partners with ToG capacity and allowing competent manufacturers to become suppliers of government and corporate procurement.

For “self-owned brand segment”, the RHT air purification is a national brand independently developed and patented in China. It has been designated as the supplier of air purifier system and fresh air system by Fortune Global 500. With the globally patented core technology, NCCO is the first air purifier brand in Mainland China to obtain the German TUV Rheinland certification. Currently, it is providing services to nearly 100 hospitals in over 10 countries around the world. In February 2020, the killing rate of RHT air purification system for human coronavirus (HCoV-229E) achieved over 99.99% according to the authoritative test report of Guangdong Detection Center of Microbiology.

In terms of media, ZOL has the most authoritative technology product library, covering over 20,000 technology brands, 850 product lines and nearly 500,000 popular products for sale up to now. At the same time, it is connected with the data of various mainstream search engines such as Baidu, 360 and Toutiao, and outputs our professional opinions to more than 400 million Internet users focusing on technology every day. In terms of new retail, as of the date of the announcement, ZOL cloud store has connected with more than 25,000 paid small b retailers through the SaaS tools.

Smart Industries Segment

The smart industries segment mainly comprises of PanPass, an IoT solutions provider for digital transformation, Union Cotton, a spot transaction platform for cotton, and ibuychem.com, which is positioned to provide centralised purchasing and integrated e-business service for chemicals and plastics. “Focus” and “significant verticality” are the Group’s important strategies for the smart industries segment.

Beijing PanPass Information Technology Co., Ltd. (北京兆信信息技術股份有限公司) (“PanPass”) or (“PanPass Information”) (NEEQ Stock Code: 430073) is a platform with Z-SCM, a proprietary intellectual right supply chain management system, as its core, and is based on the technologies such as IoT, big data, artificial intelligence (AI) and computation, as well as the markers of digital code, QR code, RFID, etc. as carriers, providing a lifetime traceability and management service for brand customers. PanPass’s anti-counterfeiting traceability solutions has been serving more than 40,000 enterprises, covering the world’s top 500 enterprises, domestic leading enterprises in the industry, and the construction projects from national key platforms such as MOFCOM, MOA, MIIT. PanPass owns over 20 national invention patents, including anti-counterfeiting patent for codes, and invention patent for product logistics anti-channel conflict management system. In 2019, PanPass has continued to further the cooperation with various customers with long business history such as PetroChina, Junlebao, Lulu (露露), Tong Ren Tang and Hongyuan Waterproof. Taking advantages of “One Product, One Code”, a new type of retailing, PanPass rendered service to the market by building a big database among enterprises, products, distributors and consumers which became a sales channel for Chinese liquors, where serviced customers included Maotai, Langjiu, Luzhoulaojiao, Banchengjiu (板城酒), Sitejiu (四特酒), Shanzhuanglaojiu (山莊老酒) and Hankejiuye (酣客酒業).

In February 2020, PanPass provided public welfare product support for enterprises, provided 50,000 to 100,000 anti-counterfeit labels free of charge for qualified brand enterprises recognised by China that produce social emergency supplies, and actively participated in China’s anti-pandemic works. In May 2020, the western operation center of PanPass was set up, bringing technology and services to Chengdu. The service scope has extended to the surrounding provinces and cities, including Sichuan, Chongqing, Guizhou, Yunnan, Shaanxi, Gansu, and Qinghai, enabling enterprises in need to enjoy localization services.

The announcement regarding the Decision on the First Batch of Periodical Adjustment of Market Tiers in 2020 (2020年第一批市場層級定期調整決定的公告) was issued by National Equities Exchange And Quotations Co., Ltd. on 22 May 2020. As the most competent listed company in respect of anti-counterfeiting in China, PanPass has successfully entered Innovation Tier, thus embracing greater opportunities from capital market development.

At the same time, we deepened the strategic cooperation with leading customers such as Langjiu (郎酒) and Luzhoulaojiao (瀘州老窖) and upgraded digital operation and construction projects. With the product digital management platform, PanPass will assist its customers to complete the construction of seven sub-modules including digital coding, digital production, digital logistics, digital marketing, digital internal control, big data application support, and security standard system, in order to practically achieve the digital management of closed-loop supply chain compassing “product research and development – coding production – transportation and logistics – distributors – consumption terminals – consumers – big data analysis – product research and development”.

During the year of 2020, PanPass won a number of awards: in July, the company became the first batch of “Small and Medium-sized Enterprises with ‘Specialized and New Technology’ in Beijing in 2020”, passed the national technical review for the sixth time for 15 consecutive years, and obtained the anti-counterfeiting technical review certificate; PanPass obtained the “Software Enterprise Certificate” issued by Beijing Trade Association for Software and Information Service, and successfully obtained “double soft certification” since then, becoming one of the few enterprises in the industry that obtained the “double soft certification”. In August, PanPass was awarded by China Trade Association for Anti-counterfeiting and was recognized as a member actively contributing to epidemic prevention and control. In October, PanPass was awarded the “Top 100 Small and Medium-sized Private Enterprises in Beijing in 2020”. In November, it was recognized as an “innovative” enterprise. In November 2020, PanPass was awarded the “Top 10 Reputable Brands (in software and information industry) in China in 2020”.

At the end of 2020, PanPass signed a strategic investment agreement with Fosun Xingyuan (復星星元) of the Fosun Group, and Fosun invested approximately 87.42 million in PanPass through share issue. After the said round of investment, Fosun Xingyuan became the second largest shareholder of PanPass, providing assistance in capital increase for PanPass’s rapid development in the field of corporate product digital transformation.

Positioned as an excellent spot transaction platform for cotton, Union Cotton provides integrated B2B e-business service for spot cotton through online platforms, including self-operated online shopping stores, supply-chain financial service and warehouse receipt pledge. Union Cotton, one of the earliest B2B e-business pioneers in the cotton industry, has accumulated extensive industrial experience and significant market resources in the cotton industry.

Since the spread of the epidemic in February 2020, Union Cotton has focused on providing free online “transaction services” for both the supply and demand sides through big data algorithms, providing timely raw material purchases for epidemic prevention and protective equipment manufacturers, and supply chain service support for the protective products manufacturing enterprises under high financial pressure. In March 2020, Cotton Union’s cumulative trading revenue exceeded 10 billion, becoming one of the leading Internet integrated service providers in the cotton textile industry chain, establishing extensive and good business reputation. In September 2020, Union Cotton and COFCO (中糧國際) signed a strategic cooperation agreement. The two parties carried out in-depth strategic cooperation on the cotton import business, gave full play to their respective advantages in resources and service in the cotton field, and realized overall improvement of the market service capabilities of both parties. In October 2020, Union Cotton promoted the strategic transformation and upgrading on all front, established the yarn business department and polyester business department, opened the online trading business of yarn and polyester products, and comprehensively improved the service capabilities of the cotton textile chemical industry chain. In December 2020, the single-month turnover receivable exceeded 1 billion. In the year of 2020, Union Cotton has been listed in the “Top 100 Companies in China’s Industrial Internet” for the fifth consecutive year, obtaining 9 software copyrights and 3 invention patents in total.

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

In February 2020, ibuychem.com launched “Battle”, an online public welfare programme to provide chemical workers with knowledge during the fight against the epidemic, and to fully prepare for the resumption of production after the epidemic. More than 1,500 people participated in the live interaction online, and users gave rave reviews to the programme. In June 2020, ibuychem.com and Guangdong University of Foreign Studies jointly established an industrial Internet practice base, integrating the multilingual, multidisciplinary, and cross-cultural resource advantages of colleges and universities with the advantages of the industrial information service platform of “ibuychem.com”, carrying out in-depth school-enterprise interactions with focus on the cultivation of talents, commercial logistics, the Belt and Road Initiative and enterprise service outsourcing. In December 2020, ibuychem.com was listed as one of the “2020 Top 100 Companies in China’s Industrial Internet”, ranking 55th. Since the establishment of the “Top 100 List” in 2005, ibuychem.com has been on the 11 lists for 11 consecutive times. In the same month, ibuychem.com cooperated with CHINACOAT, the world’s largest paint exhibitor, and took advantage of its own Internet technology to jointly organize a number of brilliant online and offline high-quality events. In the same month, ibuychem.com and Xiong’an New District organized domestic high-quality construction materials suppliers to participate in the “2020 Xiong’an New District (Xiong County) Construction Materials Supply Chain Innovative Development Forum”(2020雄安新區(雄縣) 建材供應鏈創新發展論壇) to coordinate with the construction projects of the new district.

Prospect

The Group was founded in 1992. During the start-up phase from 1992 to 2003, the core product of the Group was HC Trade (慧聰商情), which is a classified advertising service based on paper media. From 2003 to 2017, the Group transformed from paper media to PC and built hc360.com, helping SMEs open stores and provide traffic referral services. In October 2017, the Group achieved a full strategic transformation and committed to becoming a leading industrial internet company in China.

In 2018, the technology-driven new retail segment, with ZOL as the principal entity, transformed from a media company into a new retail company. Up to the date of this announcement, relying on the influence of more than 20,000 brands and 70 million technological consumers, technology-driven new retail segment had connected 25,000 retailers “small B” and at the same time, helped those “small B” with the selection of products with low price, so as to help them sell their products and provide them with one-stop solutions from online shop opening, media selection for promotion and supply chain management through Huimaimai and ZOL online shop.

Industrial internet is the process of restoring users' behavior, understanding their pain points and reviewing industries across multiple industries. Based on such consideration, among the many vertical runways of the Group, we operate the Company in a cooperative model of "joint investment + incubation" with industrial people. In addition, the Group assisted vertical runway companies to strengthen technology, update and upgrade products, and connect investment financing and traffic resources. The smart industries segment is designed based on the industrial business logic, gradually observing the business behavior of customers, disassembling the behaviours of customers in a transaction, identify the pain points of customers, and turn these pain points into solutions through the Internet, and then provides customers with one-stop solutions based on the entire industry chain. The commercial value of vertical runway company is to endow the Internet and data capabilities in vertical subdivision fields and assist the upstream and downstream customers to reduce costs and enhance efficiency. In addition to the continuous development of the smart industries segment, the Group will mainly spend our efforts on platform and corporate services segment primarily based on hc360.com. Currently, hc360.com has a huge amount of inquiries and clues every year, proving that B-end buyers are still in rigid demand to buy goods at the right price. hc360.com has abundant resources on buyers accumulated over the past 20 years, and it also has the resources on inquiries and sellers. In the future, hc360.com will match buyers and sellers through AI algorithm to assist customers in seeking business and doing business, being the bottom clue. In addition, we will also construct the middle-level worktable of hc360.com with an open and cooperative mind. At the contact end, hc360.com actively cooperates with Internet traffic giants such as Baidu, Tencent, Sogou and Toutiao. At present, leading companies have strong demand in the "TO B" field, while the Group has just accumulated a large number of users and, at the same time, has a huge sales system and the competency of reaching customers. The Group and its cooperative partners will develop products collectively, hoping to construct a top-level tool for managing multiple stores and operating multiple stores. The efforts were made for enhancement of efficiency and effectiveness, and hc360.com hopes to utilize the products to allow SMEs to carry out actual business, so that the whole ecology can generate the value of synergy.

Since its transformation in 2018, HC Group has formed a mature industrial Internet view and methodology and achieved certain results: Class I rockets (including zol.com.cn, Zhongmo, nahuomall.com, PanPass, Union Cotton, and ibuychem.com) gradually take off; class II rocket hc360.com is on the rise; class III rocket industry chain finance has entered forward-looking incubation.

In the past three years, our Class I rockets have gradually taken off through continuous deep ploughing, and we have clearly seen the path to success. At the end of 2020, we were pleased to witness that Zhongmo, PanPass, and nahuomall.com have obtained financing from leading institutions and started the journey of capitalization. The newly upgraded hc360.com in September 2020 established a knowledge map of corporate information and business opportunities, connecting online businesses and external network resources, and intelligently matching by exploring useful information. Class II rocket (hc360.com) is on the rise, which will be developed with our best endeavour.

2021 is a crucial year for the HC Group. While our certain class I rocket company has successively begun to initiate IPO, the class II rocket hc360.com has entered a rapid development track. The Group will further strengthen the trinitarian market position of the “hc360.com + zol.com.cn + PanPass” and continues to strive to be a leading industrial Internet group in China; using the Internet and data to empower traditional industries; HC puts interests first, matches its words to its deeds, and creates value for customers.

SIGNIFICANT EVENT(S)

Huijia Performance Target for the year 2019

According to the audited consolidated financial statement of 北京慧嘉元天文化傳媒有限公司 (Beijing Huijia yuantian Cultural Media Company Limited*, “Beijing Huijia”) for the year ended 31 December 2019 dated 27 March 2020, 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 the performance target for the year ended 31 December 2019 set under the subscription agreement dated 5 January 2018 (the “Subscription Agreement”) entered into between Mu Hao Holdings Limited, Hong Rui Technology Holdings Limited, Chance Technology Co. Ltd and Vanguard Technology Holdings Limited (together, the “Huijia Vendors”) and the Company. Pursuant to the Subscription Agreement, no Shares were released to Huijia Vendors, and the Company bought back (the “Huijia Buy-back”) the 10,909,091 Shares on 20 July 2020 at a total consideration of HK\$1.00, all of which were cancelled on 23 July 2020.

For further details, please refer to the announcements of the Company dated 13 January 2017, 3 February 2017, 5 January 2018 and 27 March 2020.

Placing of new shares under general mandate

On 29 April 2020, the Company entered into a placing agreement (the “Placing Agreement”) with Hao Tian International Securities Limited (the “Placing Agent”) pursuant to which the Company conditionally agreed to place, through the Placing Agent on a best effort basis, an aggregate of up to 200,000,000 Shares (the “Placing Shares”) with a total nominal value of HK\$20,000,000 to placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons (the “Placing”). The Placing Shares were allotted and issued pursuant to the general mandate granted to the Directors by resolution of the shareholders of the Company at the annual general meeting of the Company held on 24 May 2019. The Directors are of the view that the Placing will expand the Company’s shareholders and capital base, and optimise the capital structure, which is conducive for lowering its indebtedness and reducing its financial burden.

The Placing was completed on 20 May 2020. An aggregate of 200,000,000 Placing Shares have been successfully placed by the Placing Agent to two Placees, namely Ideal South Limited and Fortune Value Investment Holdings Limited (the “Placees”), at the placing price of HK\$1.20 per Placing Share (the “Placing Price”).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placees and their respective ultimate beneficial owners are third party independent of and not connected with the Company and its connected persons. None of the Placees have become a substantial shareholder of the Company immediately upon the completion of the Placing.

The 200,000,000 Placing Shares represents approximately 15.14% of the issued share capital of the Company as at the date of completion of the Placing.

The Placing Price of HK\$1.20 represents (i) a discount of approximately 9.09% to the closing price of HK\$1.32 per Share as quoted on The Stock Exchange of Hong Kong Limited on the date of the Placing Agreement; and (ii) a discount of approximately 7.41% to the average closing price of HK\$1.296 per Share for the last five consecutive trading days immediately prior to the date of the Placing Agreement.

Use of Proceeds

The gross proceeds from the Placing was approximately HK\$240,000,000. The net proceeds from the Placing, after deduction of the commission for the Placing and other related expenses, amounted to approximately HK\$238,500,000.

The maximum net price raised per Share upon the completion of the Placing was approximately HK\$1.1925 per Share.

Set out below is the details of the use of proceeds from the Placing during the year ended 31 December 2020:

	Percentage of total net proceeds	Proceeds utilized during the year ended 31 December 2020
Intended use of net proceeds		
Repayment of part of the current debt of the Group	80%	190,800,000
The Group's research and development and general working capital	20%	47,700,000
Total	100%	238,500,000

For further details, please refer to the announcements of the Company dated 29 April 2020 and 20 May 2020.

Adjustment to the Conversion Price and Early Final Redemption of Convertible Bonds

On 3 December 2018, the Company issued HK\$100,000,000 2.85% plus HIBOR guaranteed and secured convertible bonds due 2020 (the “Convertible Bonds”) and, as a result of the Placing, the relevant conversion price under the Convertible Bonds was adjusted from HK\$4.50 to approximately HK\$4.445 with effect from 20 May 2020 and the aggregate outstanding principal amount was convertible into 22,499,122 Shares (the “Conversion Shares”). The Company made an early final redemption of the Convertible Bonds in full during the year ended 31 December 2020. No Conversion Share was issued before the said early final redemption of the Convertible Bonds.

For further details, please refer to the announcements of the Company dated 16 November 2018, 4 December 2018, 31 December 2019, 29 April 2020, 20 May 2020, and 23 October 2020.

Early Final Redemption of Guaranteed and Secured Notes

On 3 December 2018, the Company issued HK\$350,000,000 2.85% plus HIBOR guaranteed and secured notes due 2020 (the “Notes”). The Company made early redemptions of the Notes in full during the year ended 31 December 2020.

For further details, please refer to the announcements of the Company dated 16 November 2018, 4 December 2018, 31 August 2020 and 23 October 2020.

Change of Chief Financial Officer

Mr. Lee Wee Ong (“Mr. Lee”) resigned as the chief financial officer of the Company for other personal commitments with effect from 31 May 2020 but remained at service to the Company as senior consultant.

Following Mr. Lee’s resignation, Ms. Zhao Hong has been appointed as the chief financial officer of the Company with effect from 31 May 2020.

For further details, please refer to the announcement of the Company dated 4 May 2020.

Change of Non-executive Director and Members of the Audit Committee

Mr. Li Jianguang resigned as a non-executive Director and a member of the audit committee of the Company (the “Audit Committee”), with effect from 1 July 2020 due to other businesses and personal commitments.

Following his resignation, with effect from 1 July 2020,

- (i) Mr. Lin Dewei was appointed as a non-executive Director; and
- (ii) Mr. Guo Fansheng, an existing non-executive Director, was appointed as a member of the Audit Committee.

For further details, please refer to the announcement of the Company dated 19 June 2020.

Discloseable Transaction in Relation to the Disposal of 55% of Equity Interest in Home Electronic Appliances World

On 27 August 2020, 北京慧聰互聯信息技術有限公司 (Beijing Huicong Internet Information Technology Co., Ltd) (“Beijing Huicong”), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with 廣東領球商貿有限公司 (Guangdong Lingqiu Commercial Trading Co., Ltd.) (“Home Electronic Appliances World”), Mr. Yu Zhiguo (喻治國) and 廣東家電世界電子商務有限公司 (Guangdong Home Electronic Appliances World E-Commerce Co., Ltd.) and 新余聰穎網路科技合夥企業 (有限合夥) (Xinyu Congying Internet Technology Partnership (Limited Partnership)), pursuant to which Beijing Huicong agreed to transfer: (i) 30% of the equity interest in Home Electronic Appliances World to 廣東領球商貿有限公司 (Guangdong Lingqiu Commercial Trading Co., Ltd.) at RMB45,000,000; and (ii) 25% of the equity interest in Home Electronic Appliances World to 新余聰穎網路科技合夥企業 (有限合夥) (Xinyu Congying Internet Technology Partnership (Limited Partnership)), at RMB22,500,000. Upon completion, Beijing Huicong owned 20% of the equity interest in Home Electronic Appliances World, Home Electronic Appliances World together with its subsidiaries had ceased to be the subsidiaries of the Company. The said transfers constituted a discloseable transaction of the Company under the Listing Rules.

For further details, please refer to the announcement of the Company dated 27 August 2020.

Discloseable Transaction Disposal of 60% of Equity Interest in Huicong Tianjin

On 23 November 2020, Beijing Huicong, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with 廣東豐明物業管理有限公司 (Guangdong Fengming Property Management Co., Ltd.) and 慧聰 (天津) 電子商務產業投資有限公司 (Huicong (Tianjin) E-commerce Investment Co., Ltd.) (“Huicong Tianjin”), pursuant to which Beijing Huicong agreed to transfer 60% of the equity interest in Huicong Tianjin to 廣東豐明物業管理有限公司 (Guangdong Fengming Property Management Co., Ltd.) at a consideration of RMB16,000,000. Upon completion, Beijing Huicong no longer held any equity interest in Huicong Tianjin and Huicong Tianjin ceased to be a subsidiary of the Company. The said disposal constituted a discloseable transaction of the Company under the Listing Rules. For further details, please refer to the announcement of the Company dated 23 November 2020.

Disclosable Transaction Share Subscription Agreement Deemed Disposal of Equity Interest in Panpass Information

On 1 December 2020, PanPass Information, an indirect non-wholly owned subsidiary of the Company, and 北京星實投資管理中心 (有限合夥) (Beijing Xingshi Investment Management Center (Limited Partnership)), Mr. Shi Zhenyi (石振毅) and Ms. Sun Dongxia (孫東霞) (the “Investors”) entered into a share subscription agreement, pursuant to which, among other things, PanPass Information agreed to issue and the Investors agreed to subscribe for 14,145,000 new ordinary shares of PanPass Information, representing 20% of the enlarged issued ordinary shares of PanPass Information, at an aggregate capital contribution of RMB87,416,100 in cash (equivalent to approximately RMB6.18 per share). Upon completion, the registered capital of PanPass Information increased from RMB56,580,000 to RMB70,725,000 and held as to approximately 64.20% by 北京慧聰再創科技有限公司 (Beijing Huicong Zaichuang Technology Co., Ltd), an indirect wholly-owned subsidiary of the Company, 20% by the Investors, and approximately 15.80% by other shareholders.

As the percentage of shareholding of 北京慧聰再創科技有限公司 (Beijing Huicong Zaichuang Technology Co., Ltd) in PanPass Information would be reduced from 80.25% to 64.20% after the completion, the said subscription constituted a deemed disposal of equity interest in PanPass Information under Rule 14.29 of the Listing Rules and was a disclosable transaction of the Company under the Listing Rules.

Pursuant to a shareholders agreement, the Investors shall have the right (but not obligation) to require the initial shareholders (one or more) to purchase all of the shares of PanPass Information held by the Investors if any one of the events stipulated in the shareholders agreement occurs (the “Repurchase Option”).

The exercise right of the Repurchase Option is vested with the Investors. The Repurchase Option would be treated as if exercised at the time of its grant pursuant to Rule 14.74(1) of the Listing Rules. The maximum consideration payable for the shares of PanPass Information held by the Investors was expected to be approximately RMB121,961,170.45 and the grant of the Repurchase Option constituted a disclosable transaction for the Company under the Listing Rules.

For further details, please refer to the announcement of the Company dated 1 December 2020.

Connected Transaction in Relation to Provision of Loan to Chongqing Micro-Credit

On 2 December 2020, Beijing Huicong, a wholly-owned subsidiary of the Company, entered into a loan agreement with 重慶神州數碼慧聰小額貸款有限公司 (Chongqing Digital China Huicong Micro-Credit Co., Ltd.) (“Chongqing Micro-Credit”), a non-wholly owned subsidiary of the Company, pursuant to which Beijing Huicong agreed to grant to Chongqing Micro-Credit an unsecured loan in the principal amount up to RMB50,000,000, bearing interest at a rate of 8% per annum for a period of one year commencing from the drawdown date. Chongqing Micro-Credit is indirectly owned by Digital China Holdings as to 30%. As at the date of the said loan agreement, Digital China Holdings and its associates held approximately 19.37% of the total issued shares of the Company. Digital China Holdings is thus a substantial shareholder and a connected person of the Company at the issuer level. Therefore, Chongqing Micro-Credit is a connected subsidiary of the Company under the Listing Rules, and the transaction contemplated under the said loan agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) (other than the profits ratio) was more than 0.1% but less than 5%, the said loan agreement was subject to the reporting and announcement requirements but was exempt from the circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

For further details, please refer to the announcement of the Company dated 2 December 2020.

IMPORTANT EVENT(S) AFTER THE PERIOD

Discloseable Transaction Disposal Of The Entire Equity Interest In Tianjin Guokai

On 5 January 2021, 北京慧聰科技集團有限公司 (Beijing Huicong Technology Group Co., Ltd.) (“Beijing Huicong Technology”), an indirect wholly-owned subsidiary of the Company, 北京小犀角科技有限公司 (Beijing Little Rhino Horn Technology Co., Ltd.) (“Beijing Little Rhino Horn Technology”), 天津國開瑞投教育科技有限公司 (Tianjin Guokai Ruitou Education Technology Co., Ltd.) (“Tianjin Guokai”) and Hong Kong Huicong International Group Limited (香港慧聰國際集團有限公司) entered into an equity transfer agreement, pursuant to which, Beijing Huicong Technology had agreed to transfer the entire equity interest in Tianjin Guokai to Beijing Little Rhino Horn Technology at a consideration of RMB300,500,000. The Disposal constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Tianjin Guokai will cease to be a subsidiary of the Company upon completion of the disposal.

For further details, please refer to the announcement of the Company dated 5 January 2021.

CAPITAL STRUCTURE

During the year ended 31 December 2020, 288,000 Shares were issued upon the exercise of share options under the share option scheme of the Company, and 10,909,091 Shares were repurchased and cancelled pursuant to the Huijia Buy-back.

The total number of issued shares of the Company was 1,309,931,119 as at 31 December 2020 (2019: 1,120,552,210).

STAFF AND REMUNERATION

The business development and results of the Group relies on the skills, motivation and commitment of its staff. As at 31 December 2020, the Group had 1,658 employees (2019: 2,043).

Remuneration of employees is generally in line with the market trend and commensurate with the rate in the industry. Share options and share awards are granted to employees based on individual performance. Other benefits to the Group’s employees include medical insurance, retirement schemes, training programs and educational subsidies. Total staff costs including director’s emoluments from continuing operations for the year ended 31 December 2020 amounted to approximately RMB337,077,060 (2019: RMB505,200,000).

CHARGES ON GROUP ASSETS

As at 31 December 2020, the Group’s bank borrowings amounting to RMB130,000,000 (2019: RMB730,000,000) are secured by properties, investment properties and right-of-use assets with carrying value of RMB174,125,000 (2019: RMB979,310,000). No bank borrowings (2019: RMB248,500,000) was secured by restricted bank deposit (2019: RMB282,171,000).

As at 31 December 2019, other borrowings of RMB27,816,000 were provided by a non-controlling shareholder of a subsidiary, in which 25% of its equity interest was formally owned 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 (2019: 6.34% per annum). This other borrowing was fully settled in October 2020, and the corresponding interest expense during the year ended 31 December 2020 was RMB1,469,000 (2019: RMB1,763,000).

The remaining other borrowings were provided by independent third parties, director of a subsidiary, a non-controlling shareholder of a subsidiary and associates (2019: independent third parties) and bear interest rate ranging from Nil to 10% per annum (2019: Nil to 14.3% per annum). Out of these other borrowings, RMB334,163,000 (2019: RMB442,218,000) are either guaranteed by the Group (2019: Executive Directors and Non-Executive Directors of the Group) or secured by certain inventories and the equity of certain subsidiaries (2019: certain inventories, right-of-use assets, listed equity shares held by the Group and the equity of certain subsidiaries).

EXCHANGE RISK

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

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no contingent liability (2019: Nil).

AUDIT COMMITTEE

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

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises two independent non-executive Directors, Mr. Zhang Ke and Ms. Qi Yan and a non-executive Director, Mr. Guo Fansheng. Mr. Zhang Ke is the chairman of the Audit Committee.

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, the internal control procedures, the annual results of the Company for the year ended 31 December 2020 and has met with external auditors and discussed the financial matters of the Group that arose during the course of audit for the year ended 31 December 2020. The Audit Committee held 3 meetings during the year.

REVIEW OF FINANCIAL STATEMENTS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary result announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary result announcement.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2020, the Company had complied with the code provisions of the Code.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Directors and their respective close associates (as defined in the Listing Rules) has confirmed that none of them had any business or interest in any company that materially competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group during the year ended 31 December 2020.

RECONCILIATION OF NON-HKFRS MEASURES TO THE NEAREST HKFRS MEASURES

To supplement our consolidated results which are prepared and presented in accordance with HKFRS, we also use adjusted EBITDA and adjusted net profit/(loss) as additional financial measures, which are not required by, or presented in accordance with HKFRS. We believe that these non-HKFRS measures facilitate comparisons of operating performance from year to year and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and certain impact of investment transactions. The use of these non-HKFRS measures have limitations as an analytical tool, and one should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under HKFRS. In addition, these non-HKFRS financial measures may be defined differently from similar terms used by other companies.

The following tables set forth the reconciliations of our non-HKFRS financial measures for the years ended 31 December 2020 and 2019, to the nearest measures prepared in accordance with HKFRS.

	Year ended 31 December	
	2020	2019
Loss before tax	(873,268)	(459,765)
Share based payment expense	(60,496)	(80,685)
Fair value loss/(gains) on financial assets at fair value through profit or loss	(8,779)	25,765
Fair value (gains) on deemed disposal of Zhongmo Group	–	246,797
Gain of disposal of subsidiaries	12,664	–
Gain of partial disposal of JDSJ Group	65,323	–
Impairment loss on goodwill and intangible assets	(625,523)	(296,639)
Net impairment losses on financial assets	(160,691)	(71,683)
Impairment loss recognised in respect of investment in associate	–	(2,735)
Adjusted net loss	(95,766)	(280,585)
Adjusted for		
Finance cost, net	(123,532)	(129,661)
Income tax (credit)/expense	126,238	(10,069)
Depreciation and amortisation	(169,233)	(263,652)
Adjusted EBITDA	70,761	122,797

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PERMITTED INDEMNITY

Pursuant to Article 167 of the Articles of Association of the Company, the Directors and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices. This indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Such provisions were in force during the financial year ended 31 December 2020 and remained in force as of the date of this announcement. The Company has also arranged appropriate directors and officers liability insurance in respect of potential legal action against Directors and other officers.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the Huijia Buy-back and as disclosed in this announcement, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the shares of the Company during the year ended 31 December 2020.

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 2020 Annual Report containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in April 2021.

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

Hong Kong, 25 March 2021

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. Sun Yang (*Non-executive Director*)
Mr. Lin Dewei (*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*)