慧聪集团
HC GROUP

HC GROUP INC.
慧聰集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02280)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

HIGHLIGHTS

- Total revenue was approximately RMB17,388.7 million, increased by approximately 20%, when compared to RMB14,515.2 million recorded in 2020 from continuing operations.
- Loss attributable to equity holders of the Company from continuing operations was approximately RMB638.1 million in 2021, while a loss attributable to equity holders of the Company of approximately RMB584.7 million was recorded in 2020 from continuing operations.
- The Group's adjusted net loss* made from continuing operations was approximately RMB83.4 million, while it was RMB12.7 million in previous year.
- The Group's adjusted EBITDA* made from continuing operations was approximately RMB58.8 million, while it was RMB104.4 million in the previous year.
- The loss per share from continuing operations for 2021 was RMB0.4871, while it was RMB0.4720 for the previous year.
- The Board does not recommend payment of final dividend for the year ended 31 December 2021.

* The adjusted net loss and adjusted EBITDA are non-HKFRS financial measures, for details, please refer to page 40 in this 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 2021 (the "Year") together with the comparative figures for the same period in 2020.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	**2021**	2020
		RMB'000	*RMB'000*
			(Restated)
			(Note 1(a))
Continuing operations			
Revenue	*3*	**17,263,898**	14,376,489
Interest income from financing services	*3*	**124,763**	138,754
		17,388,661	14,515,243
Cost of revenue		**(16,785,072)**	(13,740,816)
Other income		**12,440**	15,813
Other (losses)/gains, net	*4*	**(45,115)**	69,781
Selling and marketing expenses		**(353,944)**	(472,501)
Administrative expenses		**(299,429)**	(306,613)
Impairment losses on goodwill and intangible assets	*9*	**(483,985)**	(540,693)
Net reversal of/(provision for) impairment losses on financial assets		**25,088**	(155,569)
Operating loss		**(541,356)**	(615,355)
Finance cost, net		**(38,056)**	(123,700)
Share of post-tax losses of associates	*13*	**(18,929)**	(80,883)
Share of post-tax losses of a joint venture		**(303)**	(1,537)
Loss before income tax		**(598,644)**	(821,475)
Income tax (expenses)/credit	*5*	**(11,437)**	121,756
Loss from continuing operations		**(610,081)**	(699,719)
Discontinued operations			
Loss from discontinued operations	*6*	**(32,547)**	(173,549)
Loss for the year		**(642,628)**	(873,268)
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
Currency translation differences		**(5,064)**	(621)
Items that will not be reclassified to profit or loss			
Fair value (loss)/gain on financial assets at fair value through other comprehensive income			
– Group		**(41,128)**	17,031
– Associate		**2,928**	(9,977)
Currency translation differences for financial assets through other comprehensive income		**(1,662)**	(4,232)
Total comprehensive loss for the year, net of tax		**(687,554)**	(871,067)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
For the year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000 (Restated) (Note 1(a))
Loss for the year attributable to:			
Equity holders of the Company		**(663,110)**	(745,537)
Non-controlling interests		**20,482**	(127,731)
		(642,628)	(873,268)
Loss for the year attributable to the equity holders of the Company arises from:			
Continuing operations		**(638,061)**	(584,738)
Discontinued operations		**(25,049)**	(160,799)
		(663,110)	(745,537)
Total comprehensive loss for the year attributable to:			
Equity holders of the Company		**(708,036)**	(743,336)
Non-controlling interests		**20,482**	(127,731)
		(687,554)	(871,067)
Total comprehensive loss for the year attributable to the equity holders of the Company arises from:			
Continuing operations		**(682,987)**	(582,537)
Discontinued operations		**(25,049)**	(160,799)
		(708,036)	(743,336)
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	*7*	**(0.4871)**	(0.4720)
Diluted loss per share	*7*	**(0.4871)**	(0.4720)
Loss per share for loss attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	*7*	**(0.5062)**	(0.6018)
Diluted loss per share	*7*	**(0.5062)**	(0.6018)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

		As at 31 December	
	Note	**2021**	2020
		RMB'000	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**33,554**	40,808
Right-of-use assets		**35,285**	44,630
Investment properties		**26,009**	134,348
Intangible assets	*9*	**1,296,435**	1,827,175
Deferred income tax assets		**46,994**	50,692
Investments accounted for using equity method		**322,176**	896,390
Finance lease receivables		**97,390**	79,994
Financial assets at fair value through other comprehensive income		**454,458**	80,716
Financial assets at fair value through profit or loss		**18,219**	20,234
Loans and interest receivables	*11*	**418,032**	571,438
Long-term deposits and prepayments		**3,990**	884
Long-term bank deposits		**28,622**	–
Total non-current assets		**2,781,164**	3,747,309
Current assets			
Inventories		**186,260**	153,455
Contract assets		**3,878**	2,802
Trade receivables	*10*	**175,837**	478,284
Deposits, prepayments and other receivables		**667,107**	731,720
Loans and interest receivables	*11*	**1,111,447**	945,377
Finance lease receivables		**204,432**	297,641
Restricted bank deposit		**33,437**	25,848
Cash and cash equivalents		**333,812**	254,301
		2,716,210	2,889,428
Assets classified as held for sale	*6(a)*	**132,397**	–
Total current assets		**2,848,607**	2,889,428
Total assets		**5,629,771**	6,636,737
Equity attributable to equity holders of the Company			
Share capital		**120,977**	120,977
Other reserves		**3,374,629**	3,366,441
(Accumulated losses)/Retained earnings		**(629,622)**	31,404
		2,865,984	3,518,822
Non-controlling interests		**682,411**	506,957
Total equity		**3,548,395**	4,025,779

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 31 December 2021

		As at 31 December	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	*14*	**512,000**	280,228
Lease liabilities		**17,151**	17,599
Deferred income tax liabilities		**49,860**	73,581
Financial liabilities at fair value through profit or loss		**7,242**	–
Total non-current liabilities		**586,253**	371,408
Current liabilities			
Trade payables	*12*	**194,368**	478,940
Accrued expenses and other payables		**316,007**	166,059
Contract liabilities		**348,431**	552,039
Current portion of bank borrowings	*14*	**171,114**	615,080
Current portion of other borrowings	*14*	**319,416**	340,959
Lease liabilities		**21,158**	15,050
Deferred government grants		**–**	1,600
Other taxes payables		**4,241**	2,980
Income tax payables		**60,799**	66,843
Financial liabilities at fair value through profit or loss		**46,946**	–
		1,482,480	2,239,550
Liabilities directly associated with assets classified as held for sale	*6(a)*	**12,643**	–
Total current liabilities		**1,495,123**	2,239,550
Total liabilities		**2,081,376**	2,610,958
Total equity and liabilities		**5,629,771**	6,636,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 GENERAL INFORMATION

HC Group Inc. (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of its registered office is 4th Floor, One Capital Place, P.O. Box 847 George Town, Grand Cayman, Cayman Islands. 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.

Note a:

During the year ended 31 December 2021, the Group decided to discontinue the operation of provision of property leasing, advertisement design, production, publication and agency in PRC operated by Tianjin Guokai Ruitou Education Technology Co., Ltd. and the online garment services operated by Zhejiang Zhongfu Network Technology Co., Ltd. ("Zhong Fu").

In accordance with Hong Kong Financial Reporting Standard ("HKFRS") 5 Non-current Assets Held for Sale and Discontinued Operations, the financial results of Tianjin Guokai Ruitou Education Technology Co., Ltd. and Zhong Fu and the relevant impairment expenses for the years ended 31 December 2021 and 2020 were classified as discontinued operations in the Group's consolidated 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 the Company and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with HKFRS and Hong Kong Companies Ordinance

The consolidated financial statements of the Group have been prepared in accordance with HKFRS and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(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, financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss, which are measured at fair values.

(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 2021:

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendments to HKFRS 16	Covid-19-Related Rent Concessions

The Group also elected to adopt the following amendments early:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 2021

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 2021 reporting periods and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
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 HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	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 HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction	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 operations) based on a measure of loss before income tax. This measurement basis excludes the effects of non-recurring expenditure from operating segments.

As at 31 December 2021, 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.

On 5 January 2021, the Group entered into an equity transfer agreement to dispose its 100% of the equity interest in Tianjin Guokai Ruitou Education Technology Co., Ltd.* which operated leasing business. As at 31 December 2021, the disposal has not yet been completed and parties to the agreement are working on the transitional arrangements.

On 24 December 2021, the Group entered into a sale and purchase agreement to dispose its 80.38% equity interest of Zhong Fu which operated online garment services. The disposal was completed on 28 December 2021.

Therefore, the financial results of Tianjin Guokai Ruitou Education Technology Co., Ltd. and Zhong Fu for the years ended 31 December 2021 and 2020 were classified as discontinued operations in the Group's consolidated financial information.

For details of the discontinued operations, please refer to note 6.

* *English name is for translation purpose only.*

3 SEGMENT INFORMATION (CONTINUED)

The table below shows the segment information of sales and there were no sales or other transactions between the business segments for the year ended 31 December 2021 (2020: Nil).

	Year ended 31 December 2021							
	Continuing operations				Discontinued operations *(Note 1(a))*			
	Technology-driven new retail segment	Smart industries segment	Platform and corporate services segment	Subtotal	Smart industries segment	Platform and corporate services segment	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,072,470**	**16,083,099**	**108,329**	**17,263,898**	**4,528**	**12,646**	**17,174**	**17,281,072**
Interest income from financing services	**–**	**–**	**124,763**	**124,763**	**–**	**–**	**–**	**124,763**
Total revenue and income	**1,072,470**	**16,083,099**	**233,092**	**17,388,661**	**4,528**	**12,646**	**17,174**	**17,405,835**
Impairment losses on goodwill and intangible assets	**(483,985)**	**–**	**–**	**(483,985)**	**–**	**–**	**–**	**(483,985)**
Segment results	**(473,888)**	**26,625**	**(61,418)**	**(508,681)**	**(40,560)**	**8,024**	**(32,536)**	**(541,217)**
Other income				**12,440**			**4**	**12,444**
Other losses, net				**(45,115)**			**–**	**(45,115)**
Share of post-tax losses of associates				**(18,929)**			**–**	**(18,929)**
Share of post-tax losses of a joint venture				**(303)**			**–**	**(303)**
Finance income				**24,701**			**6**	**24,707**
Finance cost				**(62,757)**			**(21)**	**(62,778)**
Loss before income tax				**(598,644)**			**(32,547)**	**(631,191)**
Other information:								
Depreciation and amortisation				**92,666**			**333**	**92,999**
Share based compensation expense				**22,683**			**–**	**22,683**

3 SEGMENT INFORMATION (CONTINUED)

	Year ended 31 December 2020								
	Continuing operations				Discontinued operations *(Note 1(a))*				
	Technology-driven new retail segment	Smart industries segment	Platform and corporate services segment	Subtotal	O2O business exhibition centre	Smart industries segment	Platform and corporate services segment	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,022,760	13,164,243	189,486	14,376,489	10,812	4,289	13,730	28,831	14,405,320
Interest income from financing services	–	–	138,754	138,754	–	–	–	–	138,754
Total revenue and income	1,022,760	13,164,243	328,240	14,515,243	10,812	4,289	13,730	28,831	14,544,074
Impairment loss on goodwill and intangible asset	–	–	(540,693)	(540,693)	–	(37,645)	(47,185)	(84,830)	(625,523)
Segment results	(12,291)	(57,549)	(631,109)	(700,949)	(53,602)	(50,200)	(76,782)	(180,584)	(881,533)
Other income				15,813				62,866	78,679
Other gains, net				69,781				(43,038)	26,743
Share of post-tax profit of associates				(80,883)				(298)	(81,181)
Share of post-tax loss of a joint venture				(1,537)				–	(1,537)
Finance income				15,605				2,946	18,551
Finance cost				(139,305)				(23,456)	(162,761)
Loss before income tax				(821,475)				(181,564)	(1,003,039)
Other information:									
Depreciation and amortisation				115,215				54,018	169,233
Share based compensation expense				60,496				–	60,496

4 OTHER (LOSSES)/GAINS, NET

Other (losses) gains, net, mainly consist of the following:

	2021	2020
	RMB'000	*RMB'000*
		(Restated)
Gain on disposal of subsidiaries		
– Shanghai HuiFa Information Technology Company Limited	**–**	12,011
– JDSJ Group	**–**	65,323
– Zhong Fu	**2,692**	–
Loss on disposal of partial interest in an associate – Hunan Zhongmoyun Construction Science and Technology Co., Limited* *(note i)*	**(13,743)**	(444)
Gain on disposal of interest in an associate – Beijing Huiyase Technology Co., Limited* *(note iii)*	**30,270**	–
Loss on deemed disposal of partial interest in an associate – Hunan Zhongmoyun Construction Science and Technology Co., Limited* *(note ii)*	**(1,389)**	–
Loss on deemed disposal of interest in an associate – Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Ltd* *(note iv)*	**(29,923)**	–
Change in fair value on financial assets at fair value through profit or loss	**2,835**	(8,779)
Change in fair value on financial liabilities at fair value through profit or loss	**(8,346)**	–
Impairment provision on investment in associates *(note v)*	**(28,008)**	–

Note:

(i) The amount represents loss on disposal of partial interest in an associate, Hunan Zhongmoyun Construction Science and Technology Co., Limited* (湖南中模雲建築科技有限公司) ("Zhongmo"). In March 2021, the Group entered into share purchase agreement with two independent third parties, in respect of the disposal of 7.81% equity interest in Zhongmo for a cash consideration of RMB50,000,000 and resulted in a loss on disposal of partial interest in an associate amounted to RMB13,743,000.

(ii) The amount represents loss on deemed disposal of partial interest in an associate, Zhongmo. In May 2021, Zhongmo issued 30,000,000 new shares to new investors which dilute the equity interest of the Group and resulted in a loss on deemed disposal of partial interest in an associate amounted to RMB1,389,000.

(iii) The amount represents gain on disposal of an associate, Beijing Huiyase Technology Co., Limited* (北京慧亞瑟科技有限公司) ("Huiyase"). In March 2021, the Group completed the disposal of entire interest, which represents 30% equity in Huiyase for a cash consideration of RMB33,000,000 and resulted in a gain of disposal of an associate amounted to RMB30,270,000.

4 OTHER (LOSSES)/GAINS, NET (CONTINUED)

Note: (Continued)

(iv) The amount represents loss on deemed disposal of, Inner Mongolia Hohhot Jingu Rural Commercial Bank Company Ltd ("Jingu Bank"). On 21 October 2021, the Group's representative resigned from the board of directors of Jingu Bank and forfeited its legal rights to appoint a director of Jingu Bank. The investment in Jingu Bank was then derecognised as an investment in associate and reclassified as a financial asset at fair value through other comprehensive income. Upon the reclassification, the Group recognised a deemed disposal loss amounting to RMB29,923,000.

(v) The Group recognised the impairment losses of approximately RMB28,008,000 against the carrying amounts of certain investments in associates during the year ended 31 December 2021 (2020: Nil). The impairment provision mainly resulted from revisions of financial or business outlook of the associates and changes in the market environment of the underlying business.

* *English name is for translation purpose only.*

5 INCOME TAX (EXPENSES)/CREDIT

	2021 ***RMB'000***	2020 *RMB'000* (Restated)
Current income tax (expenses)/credit		
– Hong Kong profits tax	**–**	–
– The PRC corporate income tax ("CIT")		
– Current year	**(28,697)**	(44,729)
– Prior year	**362**	2,386
– The PRC land appreciation tax	**–**	(5,680)
Deferred income tax credit		
– The PRC corporate income tax	**16,898**	177,794
	(11,437)	129,771
Income tax (expenses)/credit is attributable to:		
– Loss from continuing operations	**(11,437)**	121,756
– Loss from discontinued operations	**–**	8,015
	(11,437)	129,771

6 LOSS FROM DISCONTINUED OPERATIONS

	2021 *RMB'000*	2020 *RMB'000* (Restated)
Tianjin Guokai Ruitou Education Technology Co., Ltd. *(note a)*	**8,024**	(2,825)
Zhong Fu *(note b)*	**(40,571)**	(44,486)
Huicong (Tianjin) E-commerce Investment Co., Ltd	**–**	(60,229)
Huijia Yuantian Limited	**–**	(66,009)
	(32,547)	(173,549)

(a) Discontinued operation of Tianjin Guokai Ruitou Education Technology Co., Ltd.

On 5 January 2021, the Group entered into the equity transfer agreement (the "Agreement") to transfer 100% equity interest in Tianjin Guokai Ruitou Education Technology Co., Ltd. ("Tianjin Guokai")* to an independent third party for a cash consideration of RMB300,500,000. Tianjin Guokai and its subsidiaries (together, the "Tianjin Guokai Group") are principally engaged in the provision of property leasing, advertisement design, production, publication and agency in PRC. In accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the Group decided to discontinue the operation of Tianjin Guokai from the date of the Agreement. Upon completion of the transaction, Tianjin Guokai Group will cease to be a subsidiary of the Group, and the financial results of Tianjin Guokai will no longer be consolidated into the accounts of the Group.

As at 31 December 2021, the disposal has not yet been completed and parties to the Agreement are working on the transitional arrangements. The respective assets and liabilities of Tianjin Guokai were classified as held for sale as at 31 December 2021.

* *English name is for translation purpose only.*

(i) Financial performance of Tianjin Guokai Group classified as held for sale

The financial performance of Tianjin Guokai Group classified as held for sale presented are for the years ended 31 December 2021 and 2020.

	2021 *RMB'000*	2020 *RMB'000*
Revenue	**12,646**	11,789
Expenses	**(4,622)**	(14,614)
Profit/(loss) before income tax	**8,024**	(2,825)
Income tax expense	**–**	–
Total profit/(loss) from discontinued operations	**8,024**	(2,825)

6 LOSS FROM DISCONTINUED OPERATIONS (CONTINUED)

(a) Discontinued operation of Tianjin Guokai Ruitou Education Technology Co., Ltd. (Continued)

(ii) Assets and liabilities of Tianjin Guokai Group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 December 2021:

	2021
	RMB'000
Assets classified as held for sale	
Investment properties	107,177
Right-of-use assets	13,871
Trade receivables	11,349
	132,397
Liabilities directly associated with assets classified as held for sale	
Accrued expenses and other payables	10,000
Other taxes payables	2,643
	12,643
Net assets classified as held for sale	119,754

6 LOSS FROM DISCONTINUED OPERATIONS (CONTINUED)

(b) Disposal of equity interest of Zhongfu Holdings Limited

On 24 December 2021, the Group entered into a sale and purchase agreement with two independent third parties to dispose of its 80.38% equity interest of Zhong Fu at a consideration of RMB100,000. Zhong Fu and its subsidiaries (together, the "Zhongfu Group") was included in the smart industries segment. The disposal was completed on 28 December 2021. In accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the financial results of Zhongfu Group is reported as a discontinued operation for the years set out below. A disposal gain of Zhongfu Group amounting to RMB2,692,000 was included in "other (losses)/gains, net" in the consolidated statement of comprehensive income.

* *English name is for translation purpose only.*

(i) Financial performance of Zhong Fu

The financial performance presented are for the period ended 1 January 2021 to 28 December 2021 and the year ended 31 December 2020.

	Period from 1 January 2021 to 28 December 2021	2020
	RMB'000	*RMB'000*
Revenue	**4,528**	4,289
Expenses	**(45,099)**	(16,916)
Impairment losses of goodwill and intangible assets	**–**	(37,645)
Loss before income tax	**(40,571)**	(50,272)
Income tax credit	**–**	5,786
Total loss from discontinued operations	**(40,571)**	(44,486)

7 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.

	2021	2020
	RMB'000	*RMB'000*
		(Restated)
		(Note 1(a))
Loss attributable to owners of the Company		
– from continuing operations	**(638,061)**	(584,738)
– from discontinued operations	**(25,049)**	(160,799)
	(663,110)	(745,537)

	2021	2020
	'000	*'000*
Weighted average number of shares in issue	**1,309,931**	1,238,917
Basic loss per share		
From continuing operations (in RMB)	**(0.4871)**	(0.4720)
From discontinued operations (in RMB)	**(0.0191)**	(0.1298)
Total basic loss per share attributable to the equity holders of the Company (in RMB)	**(0.5062)**	(0.6018)

(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 one category of dilutive potential ordinary shares: share options for the year ended 31 December 2021. 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. (2020: 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.)

During the year ended 31 December 2021, all of these share options had anti-dilutive effect to the Company and therefore, diluted loss per share equaled basic loss per share (2020: same).

8 DIVIDENDS

No dividend was paid or declared by the Company during and for the year ended 31 December 2021 (2020: Nil).

9 INTANGIBLE ASSETS

	2021	2020
	RMB'000	*RMB'000*
Goodwill	**1,052,105**	1,506,825
Other intangible assets	**244,330**	320,350
	1,296,435	1,827,175

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").

	As at 31 December			
	2021	**2021**	2020	2020
	Goodwill	**Other intangible assets**	Goodwill	Other intangible assets
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Technology-driven new retail segment				
Online-services-B2B2C business	**980,247**	**173,885**	980,247	207,134
New technology retails solutions *(note i)*	**–**	**34,735**	454,720	80,000
Smart Industries segment				
Anti-counterfeiting products and services	**50,314**	**15,133**	50,314	20,770
Online services – garment industry	**–**	**–**	–	–
Trading services – cotton industry	**21,544**	**17,881**	21,544	10,218
Platform and corporate services segment				
Integrated marketing and advertising services	**–**	**–**	–	–
Financing services	**–**	**917**	–	–
Other intangible assets	**–**	**1,779**	–	2,228
	1,052,105	**244,330**	1,506,825	320,350

The recoverable amount of the CGUs are determined based on value-in-use or fair value less cost of disposal calculations. These calculations use 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. Management estimates the discount rate that reflects market assessment of the time value of money and specific risk relating to the industry.

As a result of the impairment assessment, the Group recognised

– impairment for goodwill and intangible assets for the "new technology retail solutions" CGU amounting to RMB454,720,000 and RMB29,265,000 for the year ended 31 December 2021, respectively (note (i));

– impairment for intangible assets for the "online services-garment industry" CGU amounting to RMB37,645,000 for the year ended 31 December 2020;

9 INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill and other intangible assets (Continued)

- impairment for intangible assets for the "integrated marketing and advertising services" CGU of RMB47,185,000 for the year ended 31 December 2020; and

- impairment for the goodwill and intangible assets for "financing services" CGU amounting to RMB540,693,000 for the year ended 31 December 2020.

Note:

(i) Impairment provision for goodwill and other intangible assets related to "new technology retails solutions" CGU

On 27 December 2018, Z.Tech Holdings Limited ("Z.Tech"), a wholly-owned subsidiary of the Group, completed the acquisition of 100% equity interest in Zale Inc. ("Zale") from Zale Limited, Ruthfly Limited and Fejack Limited (collectively, the "Vendors") for a total consideration of RMB366,500,000, among which RMB100,000,000 to be payable by cash and the remaining part by way of allotment and issuance of 10.66% Z.Tech consideration shares. The Group recognised identifiable intangible assets amounting to RMB112,000,000 and goodwill amounting to RMB454,720,000 in relation to such acquisition and allocated to the "New technology retails solutions" CGU at the acquisition date.

Due to the challenging market competition in the e-commerce industry and the continuing impact brought by the unexpected prolonged COVID-19 pandemic, the Group's Software as a Service ("SaaS") business recorded a loss during the year ended 31 December 2021, and the business performance did not achieve the expected results. The management of the Company considers that the future growth of the Group's SaaS business will be subjected to various uncertainties, including but not limited to the growth prospects in the lower-tier retail market, the Group's ability to upgrade its merchandise and services, and competition within the industry. The evolving regulatory requirements and fast-changing market environment on operating e-commerce and service platforms in the PRC also bring uncertainties over the business and operation in the Internet industry and online transactions sectors in which the Group operates, leading to a downward adjustment of the equity valuation of the Group's SaaS business and the adverse impacts further expanded towards the end of 2021.

The Directors assessed the recoverable amount of the CGU with reference to the valuation performed by an independent professional valuer.

The recoverable amount of this CGU is determined based on a fair value less cost of disposal calculation which uses a revised cash flow projection based on the financial budgets of Zale covering a five-financial years business plan. Management consider the financial budgets prepared is appropriate after considering the revised business development plan, sustainability of business growth, stability of core business developments and achievement of business targets. The financial model states key assumption for the five years period taking into account of long-term gross domestic product growth, inflation rate and other relevant economic factors.

As a result, the management has provided impairment loss on goodwill and intangible assets related to "New technology solutions" CGU amounting to RMB454,720,000 and RMB29,265,000, respectively based on valuation for the year ended 31 December 2021 (2020: Nil).

10 TRADE RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Trade receivables	**198,258**	530,570
Less: provision for impairment of trade receivables	**(22,421)**	(52,286)
Trade receivables, net	**175,837**	478,284

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:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Current to 90 days	**155,681**	454,297
91 to 180 days	**16,727**	31,417
181 to 270 days	**2,295**	6,710
271 to 365 days	**2,692**	5,364
Over 1 year	**20,863**	32,782
	198,258	530,570

11 LOANS AND INTEREST RECEIVABLES

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Loans to customers of financing services business *(note a)*	**1,584,571**	1,601,442
Loans to employees	**3,690**	3,885
Loans to associates	**85,733**	90,721
Interest receivables	**11,482**	10,762
Loans and interest receivables, gross	**1,685,476**	1,706,810
Less: impairment allowance on loans to customers of financing services business	**(149,786)**	(184,149)
Less: impairment allowance on loans to employees	**(20)**	(34)
Less: impairment allowance on loans to associates and joint ventures	**(5,986)**	(5,523)
Less: impairment allowance on interest receivables	**(205)**	(289)
Loans and interest receivables, net	**1,529,479**	1,516,815
Less: Non-current portion	**(418,032)**	(571,438)
Current portion	**1,111,447**	945,377

Note:

(a) Analysed by nature

The balance comprises loans granted in financing services business:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Loans to customers of financing services business	**1,584,571**	1,601,442
Less: impairment allowance	**(149,786)**	(184,149)
	1,434,785	1,417,293

12 TRADE PAYABLES

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

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Current to 90 days	**133,525**	370,081
91 to 180 days	**38,459**	106,296
181 to 365 days	**2,444**	747
Over 1 year	**19,940**	1,816
	194,368	478,940

13. SHARE OF POST-TAX LOSSES OF ASSOCIATES

During the year ended 31 December 2021, the share of post-tax losses of associates is mainly contributed by the share of loss in the Group's investment in associate in Jingu Bank before its deemed disposal amounting to RMB39,909,000 (2020: RMB50,509,000). Please refer to note 4(iv) for details.

14 BORROWINGS

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Non-current portion:		
Bank borrowings	**512,000**	280,228
	512,000	280,228
Current portion:		
Bank borrowings	**171,114**	615,080
Other borrowings	**319,416**	340,959
	490,530	956,039
Total borrowings	**1,002,530**	1,236,267

Bank borrowings bear average interest rate of 6.49% per annum (31 December 2020: 7.00% per annum), mature ranging from 2022 to 2023 (31 December 2020: from 2021 to 2023), part of which amounting to RMB90,000,000 (31 December 2020: RMB130,000,000) are secured by properties and investment properties, with carrying value amounting to RMB25,156,000 and RMB26,009,000 respectively (31 December 2020: secured by properties and investment properties with carrying value amounting to RMB25,905,000 and RMB27,171,000 respectively), and are also guaranteed by the Executive Directors of the Group and subsidiaries (31 December 2020: same).

The remaining bank borrowings included borrowings of RMB524,000,000 (31 December 2020: RMB548,000,000) provided by Jingu Bank and guaranteed by subsidiaries and associates of the Group (31 December 2020: guaranteed by an associate of the Group).

14 BORROWINGS (CONTINUED)

Bank borrowings of RMB35,000,000 (31 December 2020: RMB75,000,000), which were guaranteed by a subsidiary and associates of the Group and also secured by an associate's properties (31 December 2020: same).

As at 31 December 2021, other borrowings with a total principal amount of RMB230,000,000 (31 December 2020: same) were provided by an independent third party will mature on 31 December 2021 and subsequently renewed the borrowing term (31 December 2020: RMB200,000,000 is repayable on demand while the remaining RMB30,000,000 is payable in May 2021). This other borrowing is interest-free and secured by certain equity shares of a subsidiary (31 December 2020: same).

The remaining other borrowings with principal amount of RMB89,006,000 (31 December 2020: RMB94,651,000) are provided by an independent third party and a non-controlling shareholder of a subsidiary (31 December 2020: independent third parties, director of a subsidiary, a non-controlling shareholder of a subsidiary and associate companies) and bear interest rates ranging from 3.89% to 10% per annum (31 December 2020: Nil to 10% per annum). Out of these other borrowings RMB86,506,000 (31 December 2020: RMB88,001,000) are secured by inventories.

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 As at 31 December		**Other borrowings As at 31 December**	
	2021	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**171,114**	615,080	**319,416**	340,959
Between 1 and 2 years	**512,000**	246,857	**–**	–
Between 2 and 5 years	**–**	33,371	**–**	–
	683,114	895,308	**319,416**	340,959

As at 31 December 2021, the Group has no undrawn banking facilities (2020: Nil).

15 EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

On 4 March 2022, a subsidiary of the Group received a statement of claim in respect of a civil proceeding against the Company (the "Proceeding"), being alleged to breach the contract terms of and fiduciary duties under a leasing agreement it entered into with an independent third party. A claim for damages in the amount of RMB38,534,000 is being claimed. The first hearing of the Proceeding has not yet been held as of the date of this announcement.

The directors of the Company, after taking advice from its legal advisors which have considered the information so far available, consider that the prospects of success of such claim depends on the findings of the Court in respect of the legal and factual issues involved in the case, and that the Group has a good chance to defend its position. In this regard, the directors of the Company assessed that there would be no material liabilities arising from this Proceeding up to the date of announcement, and there would be no material impact to the financial statements of the Company and the consolidated financial statements of the Group for the year ended 31 December 2021.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the financial year ended 31 December 2021, the Group generated a total revenue of approximately RMB17,388,661,000 (2020: RMB14,515,243,000) from continuing operations, representing an increase of approximately 19.8% as compared to that in 2020. The increase of revenue was mainly attributable to (i) the continued gradual recovery of the economy from the impact of the coronavirus pandemic; and (ii) the price rising of chemical and cotton products.

For the Group's financial performance in different segments of continuing operations, a total revenue of approximately RMB1,072,470,000 was achieved from the segment of technology-driven new retail in 2021, and represented an increase of approximately 4.9% from approximately RMB1,022,760,000 in 2020. Revenue from the smart industries segment increased from approximately RMB13,164,243,000 in 2020 to approximately RMB16,083,099,000 in 2021 which represented an increase of approximately 22.2%. Revenue derived from platform and corporate services segment was approximately RMB233,092,000 in 2021, which represented a decrease of approximately 29.0% from approximately RMB328,240,000 in 2020.

During the Year, operating expenses of continuing operations decreased from approximately RMB779,114,000 in 2020 to approximately RMB653,373,000 which was mainly due to the decrease of marketing and consultancy expenses and amortization of share based payment.

The net financial cost decreased from approximately RMB123,700,000 in 2020 to approximately RMB38,056,000, which was resulted from the efforts to reduce the interest bearing liabilities.

The loss from discontinued operations were mainly from Zhong Fu, which recorded a loss for years and was disposed on 28 December 2021 and Tianjin Guokai Ruitou Education Technology Co., Ltd. (with respect to which the equity transfer agreement was enter into on 5 January 2021 and the disposal has not been completed as at the date of this announcement). The Group has discontinued the operation of integrated marketing and advertising services operated by Huijia Yuantian Limited and the operation of the O2O business exhibition centre segment in the prior year. In accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the financial results of aforementioned business and the relevant impairment expenses for the years ended 31 December 2021 and 2020 were classified as discontinued operations in the Group's consolidated financial statements.

The loss attributable to equity holders of the Company was approximately RMB663.1 million in the year ended 31 December 2021, while loss attributable to equity holders of the Company of approximately RMB745.5 million was recorded in prior year. 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 RMB484.0 million (2020: RMB540.7 million), (ii) the gross profit declined as a result of the reduction of on-line advertising revenue reduced, (iii) the loss from deemed disposal and impairment provision of associates.

Regarding the disposals, 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 purposes 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, which included 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 wishes to concentrate its resources to further develop its core business (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 cash generating units ("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 increased by approximately RMB79,511,000 from approximately RMB254,301,000 as at 31 December 2020 to approximately RMB333,812,000 as at 31 December 2021, approximately 99.8% of which is denominated in RMB.

As at 31 December 2021, the Group had total borrowings of RMB1,002,530,000 (as at 31 December 2020: RMB1,236,267,000), of which RMB683,114,000 (as at 31 December 2020: RMB895,308,000) were bank borrowings which bear an average interest rate of 6.49% per annum (as at 31 December 2020: 7.00% per annum) and will mature ranging from 2022 to 2023, and RMB319,416,000 (as at 31 December 2020: RMB340,959,000) were other borrowings. As at 31 December 2021, the Group has no undrawn banking facilities (31 December 2020: Nil). The other borrowings are provided by independent third parties and bear interest rates ranging from 3.89% to 10.0% per annum (as at 31 December 2020: Nil to 10% per annum). The Group's borrowings were mainly made in RMB.

As at 31 December 2021, the Group was in net debt position, whereas the Group's gearing ratio was 15%, 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 RMB652.8 million from approximately RMB3,518.8 million as at 31 December 2020 to approximately RMB2,866.0 million as at 31 December 2021.

During the Year, the Group had conservative treasury policies in terms of cash and financial management. The Group does 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 2021 (2020: Nil).

BUSINESS REVIEW

In 2021, 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 2021, approximately 6.2% of the Group's revenue was generated from the technology-driven new retail segment, approximately 92.5% of the Group's revenue was derived from the smart industries segment, approximately 1.3% 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 help small and medium-sized enterprises ("SMEs") to "improve business operation efficiency" by empowering traditional industries with Internet platform products and technologies and constructing industrial data chains and business layouts, which "create value for customers", helping SMEs accurately connect with outstanding merchants and products, 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 "build an efficient business closed-loop" for corporate customers.

In 2021, as digitalization continued to apply in-depth, hc360.com endlessly explores the construction of a new business model based on the industrial internet, reconstructed product models, decision-making mechanisms, organizational structures, and thoroughly upgraded the business capability and digital technology capability. Based on the advantages of a deep understanding of the industry, the control of upstream and downstream resources, technology update and data pool, hc360.com connected the ends of the industry supply and demand, served to form an active market, and deeply empowered the industry. By means of "data + product + platform + technology", it empowers the industrial chain, enhances the competitiveness of enterprises, promotes rapid entry of regions and industries into the digital age, and rapidly drives the transformation and upgrading of the entire vertical industry and the entire manufacturing industry.

In April 2021, hc360.com launched a specific iteration of the additional capabilities of the original b2b.so.com product in view of the increasing demand for mainstream media promotion from SMEs. In April 2021, "outstanding product recommendation of b2b.so.com" was specially launched to complete the placement and blessing of specific keywords for SMEs on the basis of entry services, so as to obtain more prominent brand display, more concentrated traffic acquisition and more prominent effect conversion.

In May 2021, the "Lectures from Famous Procurement Experts of hc360.com", a series of live broadcast events, was launched. It invited well-known lecturers, such as Gong Xunwei, to provide professional content services that integrate purchasing, supply chain management, enterprise digital transformation, bidding and taxation, etc. in one for SMEs on hc360.com all-media platform, created a data flow pool that connected the whole network, and achieved good results in membership building, service expansion and brand communication. In the same month, "hc360.com Gold Medal Finder", a recruitment campaign, was launched.

In September 2021, the “Homepage and Resource Site of hc360.com” completed a new round of upgrades. The core focus of the upgrade was on three areas, namely the layout of resources for key scenes, support for industry zones, and in-depth operation of key scenes. The resources of 24 core competitive industries and nearly 900 core product categories have been increased with this upgrade. It also developed independent regional industry belt resources and supplier thematic scenes. Ultimately, the upgraded hc360.com shows significant improvement in terms of resource integration capability, specialization level and industry belt support capability.

In December 2021, hc360.com continued to extend the in-depth contact cooperation with mainstream Internet media in response to the huge brand promotion and customer acquisition needs of SMEs. b2b.so.com, a product that serves Huishengyi members, entered phase 2.0 development, where Huishengyi members can now gain access to key portals on the main media platforms and business opportunities in the search results of b2b.so.com. Meanwhile, hc360.com has launched a new “pop-up recommendation” service to meet the extremely strong demand of SMEs for keyword placement.

In 2021, hc360.com commenced an in-depth strategic cooperation and communication with industry associations such as China National Hardware Association, China Edible Fungi Association, China Energy Association and China Textile Commerce Association to jointly create a “SMEs Traffic Empowerment and Integrated Marketing Service Solution”. In addition, hc360.com joined hands with well-known brands such as Dentsu, Jin Shi Zun and 茅台醬香酒營銷公司 to launch a series of value-added activities of products and services that empowered SMEs and helped them transform and upgrade.

During 2021, hc360.com received a number of honors: in March, hc360.com became a member of the “China Enterprise Digital Alliance”, obtained the application qualification for “2021 The Collection for Achievements of China Enterprise Reform and Development”, won the “2021 Baidu Marketing Creative/Content Service Provider Award” and “2021 360 Smart Business Best Partner Award”.

In addition, in 2021, hc360.com initiated the research and development of “new SCRM products”. Starting from its own business scenarios, this work completed the iteration of the mid- and back-end product for the sales system and service system, further improved the customer management and service capabilities of the platform which formed a new SCRM product. It also realized the digital upgrade of its own business management system. In 2022, with the enhanced digital capability of its own business management system, the level of customer service and marketing service capability of the platform will be significantly improved.

Technology-driven New Retail Segment

The technology-driven new retail segment takes ZOL (zol.com.cn, "ZOL") as the main body. Its strategic goals are to enlarge its influence in the industry by increasing user loyalty through transforming user behaviour with useful, interesting and in-depth professional content; to accumulate data assets and grow competitive barriers by applying model, parameters and algorithms to user procurement decisions making and difficult scenarios for constant iterations; and to establish long-term advantages by taking high-quality and efficient transformation as the core criteria for customer products and services. The segment also aims at connecting retailers (small b) through guiding C-end consumers, SaaS (Software as a Service) tools, reversed customisation, and supply chain services, as well as enhancing 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 forming a B2b2C business model with solutions that cater to the core needs of various parties along the 3C and home appliances industrial chain.

The technology-driven new retail segment is mainly divided into four sectors, namely "smart marketing", "smart retail", "smart enterprise procurement sector" and "self-owned brand sector". As a shopping guide platform for life technology products, "smart marketing" is a leading vertical portal and gathering place for smart life experience in China. ZOL is committed to delivering the latest technology from an interesting, quality and valuable perspective, building user-oriented "bidirectional lossless communication" between brand manufacturers and consumers, and increasing value for both brand and product. At the same time, with the help of smart life experience officers, consumers are offered with ultimate personalized smart life proposition in full scene including home, travel, office, video and audio entertainment, sports and health. By fully leveraging on the advantages of leading media in technological industry, there are over 50 million registered users, with 200 professional articles published every day, and an average daily exposure of the whole site of 237 million times. UGC users produce 3,500 posts and 230 videos every day, influencing 70 million people in the science and technology industry on average every month. At the same time, the content covers mainstream platforms such as ZOL's main site, Baidu, ByteDance, JD.com, Taobao and Bilibili, making consumption choices easier and more pleasant for users.

Four core service capabilities: the most comprehensive solution for new products and hot products, the most complete content promotion platform on the entire network, the world's largest gathering place for technology enthusiasts, and the only official TP of Baidu's technology applet, make this segment the only full scene solution provider in the technology field. In 2022, it was recognized by the Beijing Municipal Bureau of Economy and Information Technology as one of the first batch of "Specialised, Sophisticated, Special and New (專精特新)" small and medium-sized enterprises in Beijing in 2022.

"Smart Retail" is committed to becoming a national comprehensive service platform for technology industry interconnection with leading technology and efficient operation. Through the new retail solution of "supply chain + SaaS + localization service", it empowers traditional retailers to upgrade and transform, and helps brand manufacturers sink their digital channels, making business operation easier. It has three major business divisions: Member Store Division, E-Commerce Division, and Government and Enterprise Division, and self-develops three smart products, including ZOL Huimai, ZOL Huixiaodian, and ZOL Cloud Shelf. Its business covers 19 provinces across the country, influencing over 30,000+ service retailers.

For “smart enterprise procurement sector”, i.e. ZOL business (http://www.zol.com/), it 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 sector”, the RHT air purification is a national brand self-developed and patented in China, and has been designated as the supplier of air purifier system and fresh air system by Fortune Global 500 companies. With the globally patented core technology, NCCO is the first air purifier brand in Mainland China that obtained the German TUV Rheinland certification. Currently, it is providing services to nearly 100 hospitals in over 18 countries around the world. It obtained the Class I medical disinfection air purification certification from the US Food and Drug Administration (FDA) in 2021. It has served thousands of hospitals in more than 18 countries worldwide (nearly 100 Class III Grade A hospitals in China) and is now the preferred air purification system for European hospitals.

The Group acquired Zale Inc. and its subsidiaries in 2018. Zale Inc and its subsidiaries are principally engaged in SaaS services in 3C industrial internet and new technology retails in the PRC. Due to the challenging market competition in the e-commerce industry and the continuing impact brought by the unexpected prolonged COVID-19 pandemic, the Group’s SaaS business recorded a loss during the Year, and the business performance did not achieve the expected results. The management of the Company considers that the future growth of the Group’s SaaS business will be subject to various uncertainties, including but not limited to the growth prospects in the lower-tier retail market, the Group’s ability to upgrade its merchandise and services, and competition within the industry. The evolving regulatory requirements and fast-changing market environment on operating e-commerce and service platforms in the PRC also bring uncertainties over the business and operation in the Internet industry and online transactions sectors in which the Group operates, leading to a downward adjustment of the equity valuation of the Group’s SaaS business and the adverse impacts further expanded towards the end of 2021, which indicates that impairment provision might be required. The Group engaged professional appraisers to evaluate the value of this part of equity, and based on the evaluation results, about 482 million impairment provisions were made for relevant goodwill and intangible assets.

Smart Industries Segment

The smart industries segment mainly comprises of PanPass, an Internet of Things (“IoT”) solutions provider for digital transformation, Union Cotton, a digital service platform for textile supply chain, 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 the earliest national high-tech enterprise in the industry to research product digital identity management technology and applications. Based on the "One Product, One Code" IoT, PanPass provides a full stack of digital solutions including algorithms, software and hardware products to empower enterprises to realize the transformation and upgrade of production digitization, pipeline digitization, marketing digitization, operation digitization and decision digitization, helping enterprises in improving efficiency, lean management and model innovation, and ultimately attain business growth. As an industry benchmark enterprise, PanPass has a technical research and development team with over 100 staff, more than 100 self-developed intellectual property rights, 6 service platforms covering full scene and the whole chain, 15 most comprehensive and well-established solutions in the industry, 6 industry's original core technology security systems, more than 15 billion codes per year, the industry's most cutting-edge technology framework and evolutionary algorithms and new technology applications, and the industry's highest production line digital correlation accuracy. After nearly 30 years of deep industry cultivation, it has gained the trust and cooperation of more than 5,000 core customers and has the experience of national key projects. PanPass continues to provide professional services to customers with lean management and a team of experts, 8 service centers, 48 marketing channels and strategic partners of the world's top hardware brands.

In January 2021, PanPass shares ushered in a brand strategy upgrade. The new brand logo symbolizes empowerment of traditional industries, industry interoperability and integration, and fully demonstrates the strategic planning in the field of industrial digitalization. The new logo is both visually technological and fashionable. At the same time, to optimize the customer experience, company's website, customer service hotline and process have also been upgraded to fully implement the "customer first" business philosophy.

In February 2021, the "PanPass One-Code SaaS" (兆信一碼通SaaS) product was upgraded to its version 6.0. The new version not only meets the needs of SMEs for rapid transformation of production lines and convenient deployment, but also supports the all-round customised development of functions such as production and warehouse management, channel control, anti-counterfeiting page configuration, logistics control, marketing activities, member management and data statistics. It is a digital enterprise service product platform that covers the entire industry chain developed by PanPass, representing a product of more than 20 year-experience in serving major customers.

In March 2021, following the brand upgrade, PanPass launched its official English website, to show the brand image and business value of PanPass to overseas customers and increase the voice of PanPass in the overseas and international market of anti-counterfeiting traceability and digital upgrade, strengthening the communication with overseas customers.

In May 2021, Mr. Zhang Yonghong, the Chairman of PanPass, was invited by Fosun Group to be the speaker for two sessions of seminar in Shanghai on the theme of "Industrial Internet – Digitalization Engine for Traditional Industries", providing latest information about the Industrial Internet to the audience and sharing the application cases of PanPass in the Industrial Internet. After the seminar, Mr. Zhang Yonghong was appointed as an "expert lecturer and academic advisor" by Fosun University.

In June 2021, the "PanPass One-Code SaaS" (兆信一碼通SaaS) won the "SaaS Product with the Highest Commercial Value" (最具商業價值SaaS產品) award. The SaaS product has been developed and accumulated by PanPass for many years, which integrates brand anti-counterfeiting, digital pipeline, digital marketing and data insight functions. It won this honor by the trust of customers due to its stable performance, user-friendly functions, and successful applications in various industries.

In 2021, PanPass performed well and steadily in customer cooperation, and obtained further in-depth cooperation with existing customers such as Kweichow Moutai, Lang Jiu, Luzhou Laojiao, Lulu (露露), PetroChina, Junlebao, 3M, Tong Ren Tang and Shanghai Volkswagen, etc. At the same time, it has won the trust and cooperation of more industry leaders, such as Yingjia Gongjiu (迎駕貢酒), Diaoyutai State Guest Wine (釣魚台國賓酒業), Qiaqia (洽洽), Nongfu Spring, SDIC Xinjiang Lop Nor Potash (國投新疆羅布泊鉀鹽), China Aluminum Rare Earth, Huishan Dairy (輝山乳業), Huaxi Seed of Xinjiang (華西種業), Li Auto Inc. (理想汽車), etc., which has broadened the solutions and application in the fields of digitalization, UID, RFID and other fields of the whole case industry, accumulating valuable experience and product transformation foundation for the development of enterprises.

2021 is a year of honor and recognition for PanPass: in January, PanPass won the title of 2020 "Beijing Integrity Enterprise" (北京市誠信創建企業), becoming an officially recognized credible brand and industry integrity management advocate; in March, PanPass won the title of "Beijing User Satisfaction Enterprise" (北京市用戶滿意企業). The award was granted by the Beijing Social Enterprise Quality Association (北京社會企業品質協會), and only three companies in each industry could be shortlisted according to evaluation criteria; in September, PanPass won the annual list of "Top 100 Small and Medium-sized Private Enterprises in Beijing". The evaluation index system includes core indicators such as business operation, industry focus, innovation ability, technical level, R&D investment, degree of specialization, and degree of refinement; in October, the "digital holographic anti-counterfeiting technology product" jointly produced by PanPass's "New Material R&D Department" and "Intellectual Property Rights Department" won the "Second prize of anti-counterfeiting Science and Technology" awarded by China Anti-counterfeiting Industry Association by virtue of its technological innovation in the field of product digital identity management. In November, PanPass won the "2021 Best Industrial Internet Service Provider in Manufacturing Industry" award. The award affirmed the service ability of PanPass in the field of "One Product, One Code" full-link digitalization. It has outstanding excavation and innovation in various fields such as enterprise efficiency, innovation, growth, technology and digital transformation. "Thousand Enterprises and Thousands of Faces" created a customized comprehensive digital management system for enterprises, which could continue to provide better services for manufacturing enterprises; in December, PanPass won the "Best Digital Product of 2021" award and the title of "Excellent Brand of Digital Application in 2021". The award commended PanPass's use of product digital identity management technology to improve the level of management intelligence and collaboration, which was around the collection, transmission, processing and use of data, driving the digital transformation of all links in the industrial chain, and helping the manufacturing industry to improve the quality and efficiency of its efforts and contributions.

In 2021, PanPass is also making efforts in many aspects such as talent introduction, personnel training, organizational culture construction, market publicity exposure, and ecological linkage, and has improved in terms of business internal strength, brand influence and customer acquisition ability.

"Union Cotton", a non-wholly-owned subsidiary of the Group, is positioned in the 10 trillion-level textile and apparel market and is an extraordinary digital service platform for the textile supply chain that possesses advanced Internet and AI technology, leading IoT application concept, smart algorithm for big data and efficient transaction and supporting services. Leveraging on constructing an enterprises integrity alliance system for upstream and downstream industrial chain, the Group strives to create a novel industrial chain ecological environment with online trading of cotton, polyester fiber, yarn and other textile raw materials and textile products as the core, which solves the pain points such as difficulties in procurement and financing, high cost and low efficiency for enterprises in the upstream and downstream of the industrial chain, provides customers with digitalized supply chain management and supporting services for the textile industry, such as accurate matching of transactions, commissioned sales and procurement, logistics and distribution, supply chain services, data information and quality inquiries, as well as promotes the in-depth integration and allocation of industrial resources. Through Internet technology and big data, the Group will improve the synergy efficiency of the supply chain of the cotton and textile industry and focus on building an open, smart, efficient and convenient textile manufacturing-based digital textile industry Internet platform through the in-depth implantation of IoT devices.

In April 2021, Union Cotton won the title of 2020 "Shanghai Excellent Enterprise of Industrial Internet" (上海市產業互聯網優秀企業). In the same month, Union Cotton officially launched its polyester staple and yarn categories, and became a multi-category digital service platform for the textile industry chain. In June 2021, Union Cotton won the title of "2021 Top 10 Most Popular Internet Platforms for the Chinese Textile Industry" (2021年十佳中國最受歡迎的紡織工業互聯網平台) jointly granted by China National Textile and Apparel Council (中國紡織工業聯合會), the Department of Industry and Information Technology of Shandong Province (山東省工業和信息化廳), the Internet Industry Working Committee of AIITRE (中信聯互聯網產業工作委員會) and China Wool Industry Association (中國羊毛商會).

In July 2021, Union Cotton fully promoted its strategic transformation and upgrade. Its polyester and yarn segments have an operational scale of over RMB100 million, as Union Cotton emerged from the industry and yielded the initial effect from the strategic upgrading of its service model of developing cotton, polyester fibre and yarn varieties at the same time, which comprehensively enhanced the service capability for enterprises in the cotton textile industry chain.

In August 2021, the Group obtained Series B financing in the amount of RMB150 million from Huizhou Daya Bay Sci-Tech No. 2 Investment Partnership Enterprise (Limited Partnership) (惠州大亞灣區科創二號投資合夥企業(有限合夥)), a fund platform company managed by Huizhou Daya Bay Innovation Investment Management Co., Ltd. (惠州大亞灣創新投資管理有限公司) under the SASAC of Huizhou Daya Bay, and has completed the completion procedure in 2021.

In December 2021, the 8th China Industry Internet Conference (中國產業互聯網大會) announced the "Top 100 Companies in China's Industrial Internet of 2021" (2021中國產業互聯網百強榜). Union Cotton was ranked 59th, up 15 places from 2020, and remained on the top 100 list for six consecutive years. In the same month, Cotton Union's product development advanced to a new stage, as a comprehensive multi-category mall, CRM system support for multiple business segments, customer accounts and customer credit system and a comprehensive risk control system have been set up in the company's trading system.

By the end of 2021, the total turnover of Union Cotton Cloud Platform (棉聯雲平台) exceeded RMB21 billion, with a monthly cumulative transaction amount of over RMB1 billion. The company has 3 patents obtained, 3 patents under application, as well as 22 software copyrights, enjoying industry-leading position in terms of the scale and strength of its research and development and extensive market influence and sound business reputation.

Positioned to provide centralised purchasing and integrated e-business service for upstream and downstream of chemicals material industry chain, ibuychem.com was incubated by the Group as a non-wholly-owned subsidiary in March 2015, and originated from the HC chemicals industries segment established by the Group over 20 years ago. It has developed into a leading B2B platform in the domestic chemical industry. Its services cover over one million enterprises and eight million registered members in the China elementary chemical products, rubber and plastics as well as coating and application industry chain in China.

In 2021, ibuychem.com implemented a strategic transformation and independently spun off two e-commerce platforms that provide information services and trading services. The information service platform-Huizheng News (www.hzeyun.com) focuses contents on business news, financial news and index research, and provides registered users with daily chemical and plastic index analysis, research reports, expert technology, industry news and product information through graphics, videos and other media formats, so as to provide essential intelligence information for business operations. The trading service platform-ibuychem.com (www.ibuychem.com) focuses on spot trading in the upstream and downstream of chemical materials, as well as the digital platform services required for pre-sale, in-sale and after-sale of spot trading.

ibuychem.com attaches importance to industrial Internet service model that combines online and offline operation, holding several offline business activities during 2021 and cooperating with local industry associations in Guangdong, Zhejiang and Jiangsu provinces to realize online digital services in industrial zones. In addition, ibuychem.com actively participated in the construction of Xiong'an New District through hosting online shopping festivals such as Xiong'an New District Industrial Products Online Shopping Festival and Resettlement Area Return Home Decoration Festival. It also gathered domestic and foreign building materials companies to paint Xiong'an nursing homes for public welfare, and donated supplies of over RMB200,000.

ibuychem.com has been listed in the "Top 100 Companies in China's Industrial Internet" for twelve consecutive years. In 2021, ibuychem.com obtaining 9 software copyrights, covering product functions such as e-card, procurement bidding, WeChat quotation, word-of-mouth list and logistics service and obtained "Chemical Industry Deep Work Award" from PR Newswire. ibuychem.com and WZ Group released the "2021 Coat Industry Development and Supply Chain Compliance Report in China" to guide the integrity of enterprises on the building materials industry chain. Entrusted by Guangdong Testing Institute of Product Quality Supervision, we released the "Summary of Questionnaire Survey on the Use of Food Packaging Materials, Plastic Packaging for Daily Products, Plastic Packaging Bags and Plastics for Electrical Appliances" and the "Coating Industry Quality Improvement Technical Service Research Report in Shunde", which were submitted to the local government as practical basis for guiding the transformation and upgrading of enterprises.

PROSPECT

The overall trend of the internet has evolved from consumption internet to an era of industrial internet with a largely completed social ecosystem. In order to meet the challenges, the Group has been engaged in full strategic transformation since October 2017, and is committed to becoming a leading industrial Internet company in China.

With 23 years of operation in the technology vertical field and by fully leveraging its advantages as the leading technology media, ZOL had an average daily exposure of 237 million times, 3,500 daily posts and 230 daily videos from UGC users, and monthly average influence of 70 million crowds of technology. Its content covered mainstream platforms such as ZOL, Baidu, ByteDance-series, JD.com, Taobo and bilibili, allowing users to make simpler and happier choices. Through the "Smart Supply Chain Integration + Saas + Localization Service" model of the sales and purchase platform, ZOL has gathered over 100 home appliance brands, selected over 2,000 SKUs, and empowered over 30,000 traditional retail stores to sell more products and connect more consumers. The SaaS tools and 7+ empowerment systems have increased store influence, which empowered stores to reduce costs, increase efficiency and upgrade transformation, while helping brand manufacturers to connect more traditional retailers and realize the digital precipitation of channel market. In 2022, ZOL was recognized by the Beijing Municipal Bureau of Economy and Information Technology as Small and Medium-sized Enterprises with 'Specialized and New Technology' certification. In the future, the Company will commit to becoming the preferred shopping guide platform for new consumer power of life and technology products, with user first as guidance and helping customers to buy products as its mission to empower the industry.

In 2021, PanPass continued to upgrade industrial digitization, adhering to the strategic positioning of "full chain digital transformation services with one product one code". On one hand, the Company strengthened its core competitive edge by lean management, which gained the trust from and continuous cooperation with its core customers while successfully signing up with new customers in various industries. In the beginning of 2022, the Company successfully engaged a number of strategic customers such as Dong Lai Shun, Yilite and The Commercial Press. On the other hand, PanPass actively researched and developed its own intellectual property in key technologies, and obtained 17 software copyright certificates and 5 invention patents in 2021. In 2022, the Company continued to increase its investment in technology research and development and strengthen the recruitment and cultivation of talents, aiming to strengthen the Company's independent innovation capability, consolidate its industry benchmark position and stand invincible in market competition.

Industrial internet is the process of restoring users' behaviour, understanding their pain points and reviewing industries across multiple industries. Based on such consideration, in the smart industries segment, we will operate the Company in a cooperative model of "joint investment + incubation" with industrial practitioners. In addition, the Group will assist vertical companies to strengthen technology, upgrade products, and connect investment financing and traffic resources. Industrial business logic will serve as the basis to observe the business behaviour of customers step by step, dissect the behaviour of customers in business, identify their pain points and turn them into solutions through the internet, before providing customers with one-stop solutions based on the entire industry chain. One of the commercial values of vertical companies is to enable internet and data capabilities in vertical segments and assist upstream and downstream customers to reduce costs and enhance efficiency.

The Group will continue to actively develop hc360.com. As the Internet industry develops, issues such as low operational efficiency, difficulties in marketing products, long supply chain and imperfect supporting services of B-end enterprises stood out, yet the demand for enquiry, clues and promotion services remains strong. At the industry level, hc360.com has been cultivating the B-end industry for 30 years and has accumulated a large amount of resources for both buyers and sellers, possessing advantages such as deep understanding of vertical industries, the control of upstream and downstream resources, technology updates and data reserves. In addition, we also built a middle-level platform of hc360.com with an open and cooperative mindset, reconstructed the product model and decision-making mechanism, and built a new business model based on industrial internet in terms of commercial capabilities and digital technology capabilities. At the touch point end, hc360.com actively cooperates with Internet traffic giants such as 360 Search and Baidu to enhance its ability to reach precise customers on the basis of fully utilizing the advantages of industry resources. At the same time, the Group has extensive sales system and product development capabilities. hc360.com will continue to focus on "creating value for customers" by upgrading its service tools and methods for marketing, developing traffic resources, acquiring business opportunities for small and medium-sized enterprises, enhancing the core competitiveness of B-end enterprises and contributing to the promotion of the overall transformation and upgrading of the manufacturing industry.

Under the present international situation, the global pandemic is still ongoing, the world's economic recovery lacks momentum and commodity prices fluctuate at high level, making the external environment more complex, severe and uncertain. From a domestic view, economic development is unprecedentedly facing triple pressures from demand contraction, supply impact and weakening expectations, pandemic outbreaks at local level from time to time, the new economic downward pressure stands out and the difficulty of maintaining stable economic growth has increased significantly. In particular, domestic SMEs are facing practical issues such as difficulties in resuming production, high operating costs, insufficient market demand, industrial chain downturn and shrinking financing channels. In the future, hc360.com will continue to empower traditional industries with Internet tools, improve industry efficiency, assist SMEs in transition and adjustment, so as to create value for customers.

SIGNIFICANT EVENTS

Disposal of entire equity interests in Tianjin Guokai

On 5 January 2021, Beijing Huicong Technology Group Co., Ltd. (北京慧聰科技集團有限公司) ("Beijing HC Technology", a subsidiary of the Group), Beijing Little Rhino Horn Technology Co., Ltd. (北京小犀角科技有限公司) ("Beijing LRH"), Tianjin Guokai Ruitou Education Technology Co., Ltd. (天津國開瑞投教育科技有限公司) ("Tianjin Guokai"), and Hong Kong Huicong International Group Limited ((香港慧聰國際集團有限公司), a subsidiary of the Group) entered into an equity transfer agreement, pursuant to which, Beijing HC Technology agreed to transfer the entire equity interest in Tianjin Guokai to Beijing LRH at the consideration of RMB300,500,000. Upon completion, Beijing Huicong Technology will no longer hold any equity interest in Tianjin Guokai and Tianjin Guokai will cease to be a subsidiary of the Company.

The Group has divested the employees, intellectual property rights, assets and liabilities in relation to the business of hc360.com during the transition period in accordance with the commitment under the agreement. Beijing LRH has paid the fourth payment under the agreement and requested to effect the transfer. However, it has issued a notice to the Group, requiring the Group to bear the possible losses arising from the demolition of the properties of Tianjin Guokai's subsidiaries. The Group considers that Beijing LRH's request for the Group to bear the loss of demolition is not well-founded and requires Beijing LRH to settle all payments. Both parties are currently negotiating the delivery and related arrangements, and the transfer under the agreement has not been fully completed as of the date of this announcement.

The equity investment agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company. Please refer to the Company's announcement dated 5 January 2021 for further details.

Change of addresses

During the Year, the Company's principal place of business in Hong Kong has been changed to 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong, and the address of the Company's Cayman Islands Share Registrar has been changed to Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1100, Cayman Islands.

Please refer to the Company's announcements dated 1 March 2021 and 8 March 2021 for further details.

Introduction of investor in Huizhou Union Cotton and Shanghai Union Cotton

On 9 August 2021, the Company, Beijing HC Technology, Tianjin Huicong Technology Co., Limited (天津慧聰科技有限公司) ("Tianjin HC"), Huizhou Union Cotton Cloud Technology Co., Limited (惠州市棉聯雲科技有限公司) ("Huizhou Union Cotton") and Shanghai Mianlian E-Commerce Co., Limited (上海棉聯電子商務有限公司) ("Shanghai Union Cotton") (Beijing HC Technology, Tianjin HC, Huizhou Union Cotton and Shanghai Union Cotton are subsidiaries of the Group) entered into an investment agreement with Huizhou Daya Bay Sci-Tech No. 2 Investment Partnership Enterprise (Limited Partnership) (惠州大亞灣區科創二號投資合夥企業(有限合夥)) ("HDB Sci-Tech") (as the investor), Juekun (Shanghai) Technology Development Co., Limited 覺鵾(上海)科技發展有限公司 and Shanghai Jueshi Network Technology Co., Limited (上海覺獅網路科技有限公司). Pursuant to the agreement, among other things, HDB Sci-Tech conditionally agreed to make an investment of RMB150,000,000 in cash to Huizhou Union Cotton. HDB Sci-Tech has already contributed RMB150 million of the investment amount as of the date of this announcement.

Upon completion of the transaction, Huizhou Union Cotton will be owned as to 5.01298% by Beijing HC Technology, 30.688% by Tianjin HC, and 30% by HDB Sci-Tech, respectively. Huizhou Union Cotton and Shanghai Union Cotton will remain as subsidiaries of the Company following completion, and their financial results will continue to be accounted for and consolidated into the financial results of the Group.

The investment agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company, and transaction with connected persons at subsidiary level of the Company. Please refer to the Company's announcement dated 9 August 2021 for further details.

CAPITAL STRUCTURE

The total number of issued Shares was 1,309,931,119 as at 31 December 2021 (2020: 1,309,931,119).

As at 31 December 2021, 59,814,779 options under the share option schemes (if exercised, 59,814,779 shares may be issued) remain outstanding.

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 2021, the Group had 1,468 employees (31 December 2020: 1,658).

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 directors' emoluments from continuing operations for the Year amounted to approximately RMB320,218,000 (2020: RMB307,976,000).

CHARGES ON GROUP ASSETS

As at 31 December 2021. the Group's bank borrowings amounting to RMB90,000,000 (31 December 2020: RMB130,000,000) are secured by properties and investment properties, with carrying value amounting to RMB25,156,000 and RMB26,009,000 respectively (31 December 2020: secured by properties and investment properties with carrying value amounting to RMB25,905,000 and RMB27,171,000 respectively), and are also guaranteed by the Executive Directors of the Group and subsidiaries (31 December 2020: same).

The remaining bank borrowings included borrowings of RMB524,000,000 (31 December 2020: RMB548,000,000) provided by Jingu Bank and guaranteed by subsidiaries and associates of the Group (31 December 2020: guaranteed by an associate of the Group).

Bank borrowings of RMB35,000,000 (31 December 2020: RMB75,000,000) were guaranteed by a subsidiary and associates of the Group and also secured by an associate's properties.

As at 31 December 2021, other borrowings with a total principal amount of RMB230,000,000 (31 December 2020: same) were provided by an independent third party will mature on 31 December 2021 and subsequently renewed and will mature on 31 December 2022 (31 December 2020: RMB200,000,000 is repayable on demand while the remaining RMB30,000,000 was payable in May 2021). Such other borrowing is interest-free and secured by certain equity shares of a subsidiary (31 December 2020: same).

The remaining other borrowings with principal amount of RMB89,006,000 (31 December 2020: RMB94,651,000) are provided by an independent third party and a non-controlling shareholder of a subsidiary (31 December 2020: independent third parties, director of a subsidiary, a non-controlling shareholder of a subsidiary and associate companies) and bear interest at rates ranging from 3.89% to 10% per annum (31 December 2020: Nil to 10% per annum). Out of these other borrowings, RMB86,506,000 (31 December 2020: RMB88,001,000) are secured by inventories.

EXCHANGE RISK

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

CONTINGENT LIABILITIES

As at 31 December 2021, the Group had no contingent liability (2020: 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, risk management and internal control systems 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 risk management and internal control systems, the annual results of the Company for the year ended 31 December 2021 and has met with external auditors and discussed the financial matters of the Group that arose during the course of audit for the Year. The Audit Committee held 2 meetings during the Year.

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2021, the Company had complied with the applicable code provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules in force at the relevant time.

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 has confirmed that none of them and to the best of their information, their respective close associates (as defined in the Listing Rules), 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 2021.

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 2021 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 LISTED SECURITIES

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 2021.

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 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 2021 and 2020, to the nearest measures prepared in accordance with HKFRS.

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Loss for the year	**(610,081)**	(699,719)
Share based payment expenses	**22,683**	60,496
Other loss/(gains), net	**45,115**	(69,781)
Impairment loss on goodwill and intangible assets	**483,985**	540,693
(Net reversal of)/provision for impairment losses on financial assets	**(25,088)**	155,569
Adjusted net loss	**(83,386)**	(12,742)
Adjusted for		
Finance cost, net	**38,056**	123,700
Income tax expenses/(credit)	**11,437**	(121,756)
Depreciation and amortisation	**92,666**	115,215
Adjusted EBITDA	**58,773**	104,417

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 2021 as set out in this 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 this announcement.

PUBLICATION OF ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.hcgroup.com), and the 2021 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 2022.

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

Hong Kong, 25 March 2022

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)*

Certain Chinese names of institutions, natural persons or other entities have been translated into English and included in this announcement as unofficial translations for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.