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 2022

HIGHLIGHTS

- Total revenue and income was RMB16,883.7 million, decreased by 2.9%, when compared to RMB17,388.7 million recorded in 2021 from continuing operations.
- Loss attributable to equity holders of the Company from continuing operations was RMB224.3 million in 2022, while a loss attributable to equity holders of the Company of RMB638.1 million was recorded in 2021 from continuing operations.
- Adjusted net loss* was approximately RMB128.8 million, while it was RMB83.4 million in the previous year.
- Adjusted EBITDA* was approximately RMB11.7 million, while it was RMB58.8 million in the previous year.
- The loss per share from continuing operations for 2022 was RMB0.1712, while it was RMB0.4871 for the previous year.
- The Board does not recommend payment of final dividend for the Year.

* The adjusted net loss and adjusted EBITDA are non-HKFRS financial measures, for details, please refer to page 41 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 2022 (the "Year") together with the comparative figures for the same period in 2021.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	**2022**	2021
		RMB'000	*RMB'000*
Continuing operations			
Revenue	*3*	**16,779,885**	17,263,898
Interest income from financing services	*3*	**103,796**	124,763
		16,883,681	17,388,661
Cost of revenue		**(16,359,122)**	(16,785,072)
Other income		**10,024**	12,440
Other gains/(losses), net	*4*	**34,581**	(45,115)
Selling and marketing expenses		**(345,385)**	(353,944)
Administrative expenses		**(272,318)**	(299,429)
Impairment losses on goodwill and intangible assets	*9*	**(26,050)**	(483,985)
Net (provision for)/reversal of impairment losses on financial assets		**(105,772)**	25,088
Operating loss		**(180,361)**	(541,356)
Finance cost, net		**(44,719)**	(38,056)
Share of post-tax losses of associates		**(47,843)**	(18,929)
Share of post-tax loss of a joint venture		**–**	(303)
Loss before income tax		**(272,923)**	(598,644)
Income tax credit/(expense)	*5*	**42,807**	(11,437)
Loss from continuing operations		**(230,116)**	(610,081)
Discontinued operations			
Loss from discontinued operations	*6*	**–**	(32,547)
Loss for the year		**(230,116)**	(642,628)
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
Currency translation differences		**(4,299)**	(5,064)
Items that will not be reclassified to profit or loss			
Fair value (loss)/gain on financial assets at fair value through other comprehensive income, net of tax			
– Group		**(36,737)**	(41,128)
– Associate		**–**	2,928
Currency translation differences for financial assets through other comprehensive income		**4,411**	(1,662)
Total comprehensive loss for the year, net of tax		**(266,741)**	(687,554)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	**2022** *RMB'000*	2021 *RMB'000*
Loss for the year attributable to:			
Equity holders of the Company		**(224,306)**	(663,110)
Non-controlling interests		**(5,810)**	20,482
		(230,116)	(642,628)
Loss for the year attributable to the equity holders of the Company arises from:			
Continuing operations		**(224,306)**	(638,061)
Discontinued operations		**–**	(25,049)
		(224,306)	(663,110)
Total comprehensive loss for the year attributable to:			
Equity holders of the Company		**(260,931)**	(708,036)
Non-controlling interests		**(5,810)**	20,482
		(266,741)	(687,554)
Total comprehensive loss for the year attributable to the equity holders of the Company arises from:			
Continuing operations		**(260,931)**	(682,987)
Discontinued operations		**–**	(25,049)
		(260,931)	(708,036)
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*	**(0.1712)**	(0.4871)
Diluted loss per share	*7*	**(0.1712)**	(0.4871)
Loss per share for loss attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	*7*	**(0.1712)**	(0.5062)
Diluted loss per share	*7*	**(0.1712)**	(0.5062)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

		As at 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Property, plant and equipment		**30,767**	33,554
Right-of-use assets		**16,923**	35,285
Investment properties		**24,847**	26,009
Intangible assets	*9*	**1,153,426**	1,296,435
Deferred income tax assets		**67,424**	46,994
Investments accounted for using equity method		**288,458**	322,176
Finance lease receivables		**67,658**	97,390
Financial assets at fair value through other comprehensive income		**402,385**	454,458
Financial assets at fair value through profit or loss		**11,283**	18,219
Loans and interest receivables	*11*	**29,273**	418,032
Long term deposits and prepayments		**5,490**	3,990
Long-term bank deposits		**–**	28,622
Total non-current assets		**2,097,934**	2,781,164
Current assets			
Inventories		**147,058**	186,260
Contract assets		**4,068**	3,878
Trade receivables	*10*	**119,507**	175,837
Deposits, prepayments and other receivables		**2,040,644**	667,107
Loans and interest receivables	*11*	**1,464,169**	1,111,447
Finance lease receivables		**217,873**	204,432
Restricted bank deposit		**122,660**	33,437
Cash and cash equivalents		**312,023**	333,812
		4,428,002	2,716,210
Assets classified as held for sale	*6(a)*	**131,922**	132,397
Total current assets		**4,559,924**	2,848,607
Total assets		**6,657,858**	5,629,771
Equity attributable to equity holders of the Company			
Share capital		**120,977**	120,977
Other reserves		**3,345,393**	3,374,629
Accumulated losses		**(857,252)**	(629,622)
		2,609,118	2,865,984
Non-controlling interests		**669,511**	682,411
Total equity		**3,278,629**	3,548,395

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2022

		As at 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	*13*	**5,000**	512,000
Lease liabilities		**5,424**	17,151
Deferred income tax liabilities		**15,535**	49,860
Financial liabilities at fair value through profit or loss		**6,834**	7,242
Total non-current liabilities		**32,793**	586,253
Current liabilities			
Trade payables	*12*	**182,350**	194,368
Accrued expenses and other payables		**369,772**	320,248
Contract liabilities		**1,629,120**	348,431
Current portion of bank borrowings	*13*	**648,661**	171,114
Other borrowings	*13*	**416,616**	319,416
Lease liabilities		**12,489**	21,158
Income tax payable		**54,861**	60,799
Financial liabilities at fair value through profit or loss		**20,399**	46,946
		3,334,268	1,482,480
Liabilities directly associated with assets classified as held for sale	*6(a)*	**12,168**	12,643
Total current liabilities		**3,346,436**	1,495,123
Total liabilities		**3,379,229**	2,081,376
Total equity and liabilities		**6,657,858**	5,629,771

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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 Company is an investment holding company. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in the following activities in the PRC:

- Sales of goods through its various B2B trading platforms, including “www.ibuychem.com” and “www.unioncotton.com”;
- Provision of advertising and online services and offering comprehensive IT-related products information through its website “www.zol.com.cn”;
- Sales and provision of 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 marketing events, exhibitions and seminars.

Note:

During the year ended 31 December 2021, the Group decided to discontinue the operation of provision of properties leasing in the PRC operated by Tianjin Guokai Ruitou Education Technology Co., Ltd. (“Tianjin Guokai”) and the online garment services operated by Zhejiang Zhongfu Network Technology Co., Ltd. (“Zhongfu”).

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 and Zhongfu and the relevant impairment expenses for the year ended 31 December 2021 were classified as discontinued operations in the Group’s consolidated financial statements.

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 the 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 value.

(iii) New and amended standards and framework adopted by the Group

The Group has applied the following annual improvements 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 2022:

Amendments to HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments
Annual improvements 2018-2020 cycle	Improvements to HKFRSs
Revised Accounting Guideline 5	Merger Accounting for Common Control Combinations

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.

(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 2022 reporting periods and have not been early adopted by the Group.

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 (Continued)

		Effective for accounting periods beginning on or after
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
HKFRS 17	Insurance contracts	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 HKAS 1	Classification of Liabilities as Current or Non-current; Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

None of these standards, amendments or interpretation 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 2022, the Group is organised into the following business segments:

(i) Technology-driven new retail segment, which mainly includes 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 includes B2B trading platforms, provision of anti-counterfeiting products and services, supply chain management services.

(iii) Platform and corporate services segment, which mainly includes the online services, advance marketing services utilising the digital big data and tools, and provision of financing and other services.

Note:

On 5 January 2021, the Group entered into an equity transfer agreement to dispose of its 100% equity interest in Tianjin Guokai which operated properties leasing business. As at 31 December 2022, 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 of its 80.38% equity interest of Zhongfu which operated integrated marketing and advertising services. The disposal was completed on 28 December 2021.

Therefore, the financial results of Tianjin Guokai and Zhongfu for the years ended 31 December 2022 and 2021 were classified as discontinued operations in the Group's consolidated financial information.

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

3 SEGMENT INFORMATION (CONTINUED)

The table below shows the segment information for the year ended 31 December 2022.

	Year ended 31 December 2022							
	Continuing operations				Discontinued operations *(Note)*			
	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	**1,502,786**	**15,198,337**	**78,762**	**16,779,885**	**–**	**–**	**–**	**16,779,885**
Interest income from financing services	**–**	**–**	**103,796**	**103,796**	**–**	**–**	**–**	**103,796**
Total revenue and income	**1,502,786**	**15,198,337**	**182,558**	**16,883,681**	**–**	**–**	**–**	**16,883,681**
Impairment losses on goodwill and intangible assets	**(26,050)**	**–**	**–**	**(26,050)**	**–**	**–**	**–**	**(26,050)**
Segment results	**(117,937)**	**(18,007)**	**(89,022)**	**(224,966)**	**–**	**–**	**–**	**(224,966)**
Other income				**10,024**			**–**	**10,024**
Other gains, net				**34,581**			**–**	**34,581**
Share of post-tax losses of associates				**(47,843)**			**–**	**(47,843)**
Finance income				**10,156**			**–**	**10,156**
Finance cost				**(54,875)**			**–**	**(54,875)**
Loss before income tax				**(272,923)**			**–**	**(272,923)**
Other information:								
Depreciation and amortisation	**114,387**	**11,723**	**12,445**	**138,555**	**–**	**–**	**–**	**138,555**
Share based compensation expense	**–**	**–**	**4,065**	**4,065**	**–**	**–**	**–**	**4,065**
(Reversal of)/provision for impairment on financial assets	**(6,582)**	**27,144**	**85,210**	**105,772**	**–**	**–**	**–**	**105,772**

3 SEGMENT INFORMATION (CONTINUED)

The table below shows the segment information for the year ended 31 December 2021.

	Year ended 31 December 2021							
	Continuing operations				Discontinued operations *(Note)*			
	Technology-driven new retail segment *RMB'000*	Smart industries segment *RMB'000*	Platform and corporate services segment *RMB'000*	Subtotal *RMB'000*	Smart industries segment *RMB'000*	Platform and corporate services segment *RMB'000*	Subtotal *RMB'000*	Total *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	57,340	16,159	19,167	92,666	333	–	333	92,999
Share based compensation expense	–	–	22,683	22,683	–	–	–	22,683
Provision for/(reversal of) impairment on financial assets	1,753	(9,780)	(17,061)	(25,088)	34,230	–	34,230	9,142

	2022 *RMB'000*	2021 *RMB'000*
Revenue from contract with customers:		
Sales of goods through B2B trading platforms	**16,283,904**	16,698,491
Online services and advertisement	**171,357**	217,996
Anti-counterfeiting products and services	**213,098**	223,004
Marketing events, exhibition, seminars and other services	**109,099**	117,285
Others	**2,427**	7,122
	16,779,885	17,263,898
Income from other sources:		
Interest income from financing services	**103,796**	124,763
Total revenue and income	**16,883,681**	17,388,661

4 OTHER GAINS/(LOSSES), NET

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

	2022	2021
	RMB'000	*RMB'000*
Gain on disposal of subsidiaries		
– Zhongfu	**–**	2,692
– Others	**–**	(1,754)
Loss on disposal of partial interest in an associate – Hunan Zhongmoyun Construction Science and Technology Co., Limited* *(note i)*	**–**	(13,743)
Gain/(loss) on deemed disposal of partial interest in an associate – Hunan Zhongmoyun Construction Science and Technology Co., Limited* *(note ii)*	**14,125**	(1,389)
Gain on disposal in an associate – Beijing Huiyase Technology Co., Limited* *(note iii)*	**–**	30,270
Loss on deemed disposal in an associate – Jingu Bank *(note iv)*	**–**	(29,923)
Change in fair value on financial assets at fair value through profit or loss	**(6,935)**	2,835
Change in fair value on financial liabilities at fair value through profit or loss	**26,954**	(8,346)
Impairment loss on investment in associates *(note v)*	**–**	(28,008)
Others	**437**	2,251
	34,581	(45,115)

Note:

(i) The amount represents loss on disposal of 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 gain/(loss) on deemed 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 April and July 2022, Zhongmo issued 80,0000,000 new shares in total to certain independent new investors, which resulted in dilution of equity interest held by the Group and a gain on deemed disposal of partial interest in an associate amounting to RMB14,125,000 was recognised. In May 2021, Zhongmo issued 30,000,000 new shares to new investors which resulted in dilution of the equity interest of the Group and a loss on deemed disposal of partial interest in an associate amounting to RMB1,389,000 was recognised.

(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 its entire interest, which represents 30% equity interest in Huiyase for a cash consideration of RMB33,000,000 and resulted in a gain of disposal of an associate amounting to RMB30,270,000.

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

Note: (Continued)

(iv) On 21 October 2021, the Group's representative had resigned from the board of directors of Jingu Bank and the Group forfeited its legal rights to appoint a director to participate in the board of directors of Jingu Bank, which determine the significant financial and operating decisions 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, as management decided to hold the investment in Jingu Bank as a long-term strategic investment.

Upon the reclassification, the Group recognised deemed disposal loss amounting to RMB29,923,000, which represents the difference between the carrying amount of Jingu Bank amounting to RMB458,989,000, and its fair value as of the deemed disposal date amounting to RMB429,066,000.

(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. The impairment provision mainly resulted from revision of financial or business outlook of the associates and changes in the market environment of the underlying business.

* The names of the associates represent management's translation of the Chinese names of the associates as no English names have been registered.

5 INCOME TAX CREDIT/(EXPENSES)

	2022	2021
	RMB'000	*RMB'000*
Current income tax credit/(expenses)		
– The PRC corporate income tax ("CIT")		
– Current year	**(13,204)**	(28,697)
– Prior year	**–**	362
Deferred income tax credit		
– The PRC corporate income tax	**56,011**	16,898
	42,807	(11,437)
Income tax credit/(expenses) is attributable to:		
– Loss from continuing operations	**42,807**	(11,437)
– Loss from discontinued operations	**–**	–
	42,807	(11,437)

6 LOSS FROM DISCONTINUED OPERATIONS

	2022	2021
	RMB'000	*RMB'000*
		(Restated)
Tianjin Guokai *(note a)*	**–**	8,024
Zhongfu *(note b)*	**–**	(40,571)
	–	(32,547)

(a) Discontinued operation of Tianjin Guokai

On 5 January 2021, the Group entered into an equity transfer agreement (the "agreement") to transfer 100% of the equity interest in Tianjin Guokai to an independent third party and RMB225,000,000 was received by the Group as upfront deposit of transaction. Tianjin Guokai and its subsidiaries (together, the "Tianjin Guokai Group") is principally engaged in the provision of properties leasing in the PRC. Upon completion of the transaction, Tianjin Guokai Group will cease to be a subsidiary of the Group. The financial results of Tianjin Guokai was classified as discontinued operations for the years ended 31 December 2022 and 2021.

As at 31 December 2022, the disposal was not completed. The respective assets and liabilities of Tianjin Guokai were classified as held for sale as at 31 December 2022 and 2021.

(i) Financial performance of Tianjin Guokai Group classified as discontinued operation

The financial performance of Tianjin Guokai Group classified as discontinued operation for the years ended 31 December 2022 and 2021 is as follows:

	2022	2021
	RMB'000	*RMB'000*
Revenue	**–**	12,646
Expenses	**–**	(4,622)
Profit before income tax	**–**	8,024
Income tax expense	**–**	–
Total profit from discontinued operations	**–**	8,024

6 LOSS FROM DISCONTINUED OPERATIONS (CONTINUED)

(a) Discontinued operation of Tianjin Guokai (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 2022 and 31 December 2021:

	2022	2021
	RMB'000	*RMB'000*
Assets classified as held for sale		
Investment properties	**107,177**	107,177
Right-of-use assets	**13,871**	13,871
Trade receivables	**10,874**	11,349
	131,922	132,397
Liabilities directly associated with assets classified as held for sale		
Accrued expenses and other payables	**10,000**	10,000
Other taxes payables	**2,168**	2,643
	12,168	12,643
Net assets classified as held for sale	**119,754**	119,754

(b) Disposal of equity interest in Zhongfu

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 in Zhongfu at a consideration of RMB100,000. Zhongfu 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 are 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 gains/(losses), net" in the consolidated statement of comprehensive income.

(i) Financial performance of Zhongfu

The financial performance presented is for the period from 1 January 2021 to 28 December 2021.

	Period from 1 January 2021 to 28 December 2021
	RMB'000
Revenue	4,528
Expenses	(45,099)
Loss before income tax	(40,571)
Income tax expense	–
Total loss from discontinued operations	(40,571)

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.

	2022	2021
	RMB'000	*RMB'000*
Loss attributable to owners of the Company		
– from continuing operations	**(224,306)**	(638,061)
– from discontinued operations	**–**	(25,049)
	(224,306)	(663,110)
Weighted average number of shares in issue (thousands)	**1,309,931**	1,309,931
Basic loss per share		
From continuing operations (in RMB)	**(0.1712)**	(0.4871)
From discontinued operations (in RMB)	**–**	(0.0191)
Total basic loss per share attributable to the equity holders of the Company (in RMB)	**(0.1712)**	(0.5062)

(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 potential ordinary dilutive shares: share options for the year ended 31 December 2022. 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 (2021: the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration).

During the year ended 31 December 2022, all of these share options had no dilutive effect to the Company and therefore, diluted loss per share is the same as basic loss per share (2021: same).

8 DIVIDENDS

No dividend was paid or declared by the Company during and for the year ended 31 December 2022 (2021: Nil).

9 INTANGIBLE ASSETS

	Goodwill *RMB'000*	Customer relationship *RMB'000*	Trade name and domain name *RMB'000*	License *RMB'000*	Platform *RMB'000*	Patent *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2021								
Cost	1,564,877	346,900	160,199	554,000	112,000	11,100	47,053	2,796,129
Accumulated amortisation and impairment	(58,052)	(177,657)	(102,224)	(554,000)	(31,999)	(8,673)	(36,349)	(968,954)
Net book value	1,506,825	169,243	57,975	–	80,001	2,427	10,704	1,827,175
Year ended 31 December 2021								
Opening net book amount	1,506,825	169,243	57,975	–	80,001	2,427	10,704	1,827,175
Additions	–	–	–	–	12,636	–	1,000	13,636
Impairment								
– from continuing operations	(454,720)	–	–	–	(29,265)	–	–	(483,985)
Amortisation *(note)*								
– from continuing operations	–	(32,031)	(6,151)	–	(18,783)	(1,388)	(2,038)	(60,391)
Closing net book amount	1,052,105	137,212	51,824	–	44,589	1,039	9,666	1,296,435
At 31 December 2021 and 1 January 2022								
Cost	1,526,451	346,900	91,899	554,000	124,636	11,100	46,183	2,701,169
Accumulated amortisation and impairment	(474,346)	(209,688)	(40,075)	(554,000)	(80,047)	(10,061)	(36,517)	(1,404,734)
Net book value	1,052,105	137,212	51,824	–	44,589	1,039	9,666	1,296,435
Year ended 31 December 2022								
Opening net book amount	**1,052,105**	**137,212**	**51,824**	**–**	**44,589**	**1,039**	**9,666**	**1,296,435**
Impairment								
– from continuing operations	**–**	**–**	**–**	**–**	**(26,050)**	**–**	**–**	**(26,050)**
Amortisation *(note)*								
– from continuing operations	**–**	**(96,776)**	**(6,152)**	**–**	**(11,211)**	**(1,039)**	**(1,781)**	**(116,959)**
Closing net book amount	**1,052,105**	**40,436**	**45,672**	**–**	**7,328**	**–**	**7,885**	**1,153,426**
At 31 December 2022								
Cost	**1,052,105**	**346,900**	**91,899**	**554,000**	**124,636**	**11,100**	**38,283**	**2,218,923**
Accumulated amortisation and impairment	**–**	**(306,464)**	**(46,227)**	**(554,000)**	**(117,308)**	**(11,100)**	**(30,398)**	**(1,065,497)**
Net book value	**1,052,105**	**40,436**	**45,672**	**–**	**7,328**	**–**	**7,885**	**1,153,426**

Note: Amortisation of intangible assets is included in administrative expenses in the consolidated statement of comprehensive income.

9 INTANGIBLE ASSETS (CONTINUED)

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			
	2022	**2022**	2021	2021
	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 *(note i)*	**980,247**	**75,133**	980,247	173,885
New technology retails solutions *(note ii)*	**–**	**–**	–	34,735
Smart Industries segment				
Anti-counterfeiting products and services	**50,314**	**10,603**	50,314	15,133
Trading services – cotton industry	**21,544**	**13,399**	21,544	17,881
Other intangible assets	**–**	**2,186**	–	2,696
	1,052,105	**101,321**	1,052,105	244,330

The recoverable amounts of the CGUs are the higher of a CGU's fair value less cost of disposal and its value-in-use. These calculations are performed using cash flow projections based on financial budgets approved by management covering a five-year period. Thereafter, the cash flows are extrapolated using the estimated terminal growth rates. Management estimates the pre-tax discount rate that reflects market assessment of the time value of money and specific risk relating to the industry.

The average revenue growth rates, discount rates and the terminal growth rates for each of the CGUs are set out in note(iii).

As a result of the impairment assessment, impairment for other intangible assets amounting to RMB26,050,000 (2021: impairment for goodwill and other intangible assets amounting to RMB454,720,000 and RMB29,265,000, respectively), for the "New technology retail solutions" CGU were recognised for the year ended 31 December 2022 (note (ii));

For details, refer to the following notes.

9 INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill and other intangible assets (Continued)

Note:

(i) Table below sets out the key assumptions for those CGUs that have significant goodwill and intangible assets allocated:

	2022	2021
Online services – B2B2C business		
Average revenue growth rate	**24%**	20%
Pre-tax discount rate	**17%**	10%
Terminal growth rate	**3%**	3%
Anti-counterfeiting products and services		
Average revenue growth rate	**8%**	7%
Pre-tax discount rate	**9%**	8%
Terminal growth rate	**3%**	3%
Trading services-cotton industry		
Average revenue growth rate	**36%**	25%
Pre-tax discount rate	**9%**	17%
Terminal growth rate	**3%**	3%

The financial budgets covering 5 years period for all CGUs.

(ii) Impairment provision in relation 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. 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.

Zale Inc. and it subsidiaries are principally engaged in the Software as a Service ("SaaS") services in 3C industrial internet and new technology retails in the PRC.

The business model of the Group's SaaS business is a membership-based model, while the key revenue growth driver is the Group's abilities to expand its member store networks by replicating its business model into more low-tier cities in the PRC, penetrating into the towns and villages in the PRC and enhancing the relationship with its users, manufacturers and retailers.

9 INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill and other intangible assets (Continued)

Note: (Continued)

(ii) Impairment provision in relation to "New technology retails solutions" CGU (Continued)

During the year ended 31 December 2021, the business performance of this CGU did not achieve the expected results due to the challenging market competition in the e-commerce industry and the prolonged adverse impacts brought by the COVID-19 prevention and control measures. Together with the evolving regulatory requirements and fast changing market environment on operating e-commerce and service platforms in the PRC, management had performed a reforecast over this business to reflect the latest market situation. Based on the impairment assessment, goodwill and other intangible assets amounting to RMB454,720,000 and RMB29,265,000, respectively, were provided for impairment during the year ended 31 December 2021.

During the year ended 31 December 2022, the uncertainties over the business and operations in the internet industry and online transactions continue to affect the business development. The business performance of this CGU was worse than expected. Management was in doubt whether the business can turn around in the foreseeable future. As such, management has performed a updated assessment, factoring in the latest market conditions. Based on the latest cash flow forecast, remaining balance of the other intangible assets in relation to this CGU amounting to RMB26,050,000, were fully provided for impairment and recognised in the consolidated statement of comprehensive income.

(iii) Impairment assessment on goodwill and other intangible assets in relation to "Online services – B2B2C business" CGU

For the "Online services – B2B2C business" CGU, management has prepared a 5-year business forecast which reflected management's latest development plan over the B2B2C business.

If the pre-tax discount rate applied to the cash flow projections of this CGU had been further increased by 1.2% over management's estimates, it would remove the remaining headroom. In the prior year, there were no reasonably possible changes in any of the key assumptions that would have resulted in an impairment write-down in this CGU.

The directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of these CGUs to exceed its recoverable amount.

10 TRADE RECEIVABLES

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**156,694**	198,258
Less: provision for impairment of trade receivables	**(37,187)**	(22,421)
Trade receivables, net	**119,507**	175,837

The Group generally grants a credit period ranging from 90 to 180 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	
	2022	2021
	RMB'000	*RMB'000*
0 to 90 days	**83,232**	155,681
91 to 180 days	**23,528**	16,727
181 to 270 days	**9,431**	2,295
271 to 365 days	**19,671**	2,692
Over 1 year	**20,832**	20,863
Trade receivables, net	**156,694**	198,258

Note:

Movements in the provision for impairment of trade receivables are as follows:

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**22,421**	52,286
Provision for/(reversal of) impairment of trade receivables		
– from continuing operations	**16,265**	(6,842)
Write off for impaired trade receivables	**(1,499)**	(22,800)
Disposal of Zhongfu	**–**	(223)
At 31 December	**37,187**	22,421

The carrying amounts of trade receivables approximate their fair values.

Balances are denominated in RMB and there is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers nationally dispersed.

The maximum exposure to credit risk at the reporting date is the fair values of trade receivables disclosed above. The Group did not hold any collateral as security.

11 LOANS AND INTEREST RECEIVABLES

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Loans to customers of financing services business *(note (a), (b))*	**1,636,035**	1,584,571
Loans to employees	**3,600**	3,690
Loans to associates and a joint venture	**66,533**	85,733
Interest receivables from financing services business	**9,876**	11,482
Loans and interest receivables, gross	**1,716,044**	1,685,476
Less: impairment allowance on loans to customers of financing services business	**(216,583)**	(149,786)
Less: impairment allowance on loans to employees	**(36)**	(20)
Less: impairment allowance on loans to associates and a joint venture	**(5,880)**	(5,986)
Less: impairment allowance on interest receivables	**(103)**	(205)
Loans and interest receivables, net	**1,493,442**	1,529,479
Less: Non-current portion	**(29,273)**	(418,032)
Current portion	**1,464,169**	1,111,447

Note:

(a) Analysed by nature

The balance comprises loans granted in financing service business:

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Loans to customers of financing services business	**1,636,035**	1,584,571
Less: impairment allowance	**(216,583)**	(149,786)
	1,419,452	1,434,785

(b) Movements in the provision for impairment of loans granted in financing service business are as follows:

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**149,786**	184,149
Provision for/(reversal of) impairment of loans to customers of financing service business – from continuing operations	**83,320**	(31,981)
Write off for impaired loans to customers of financing service business	**(16,523)**	(2,382)
At 31 December	**216,583**	149,786

12 TRADE PAYABLES

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

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
0 to 90 days	**152,908**	133,525
91 to 180 days	**16,266**	38,459
181 to 365 days	**3,708**	2,444
Over 1 year	**9,468**	19,940
	182,350	194,368

13 BORROWINGS

	As at 31 December	
	2022	2021
	RMB'000	*RMB'000*
Non-current portion:		
Bank borrowings *(note i)*	**5,000**	512,000
	5,000	512,000
Current portion:		
Bank borrowings *(note i)*	**648,661**	171,114
Other borrowings *(note ii)*	**416,616**	319,416
	1,065,277	490,530
Total borrowings	**1,070,277**	1,002,530

Note:

(i) Bank borrowings bear average interest rate of 6.43% per annum (31 December 2021: 6.49% per annum), with maturity ranging from 2023 to 2025 (31 December 2021: from 2022 to 2023), part of which amounting to RMB50,000,000 (31 December 2021: RMB90,000,000) are secured by properties and investment properties, with carrying value amounting to RMB18,819,000 and RMB24,847,000 respectively (31 December 2021: secured by properties and investment properties, with carrying value amounting to RMB25,156,000 and RMB26,009,000 respectively), and are also guaranteed by the Executive Directors of the Group and subsidiaries (31 December 2021: same).

The remaining bank borrowings mainly included borrowings of RMB512,000,000 (31 December 2021: RMB524,000,000) provided by Jingu Bank and guaranteed by subsidiaries and associates of the Group (31 December 2021: same).

Borrowings of RMB30,000,000 (31 December 2021: RMB10,000,000) provided by Agricultural Bank of China are guaranteed by subsidiaries of the Group (31 December 2021: same).

13 BORROWINGS (CONTINUED)

(ii) As at 31 December 2022, other borrowings with a total principal amount of RMB230,000,000 (2021: same) were provided by an independent third party with maturity on 31 December 2023. (2021: other borrowings with a total principal amount of RMB230,000,000 were provided by an independent third party matured on 31 December 2021). This other borrowing is interest-free and secured by certain equity shares of a subsidiary (2021: same).

The remaining other borrowings with principal amount of RMB183,620,000 (31 December 2021: RMB89,006,000) are provided by an independent third party and a non-controlling shareholder of a subsidiary (31 December 2021: independent third party and a non-controlling shareholder of a subsidiary) and bear interest rates ranging from 3.85% to 8% per annum (31 December 2021: 3.89% to 10% per annum). Out of these other borrowings, RMB173,020,000 are secured by prepayment of cotton (31 December 2021: RMB86,506,000 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**	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**648,661**	171,114	**416,616**	319,416
Between 1 and 2 years	**–**	512,000	**–**	–
Between 2 and 5 years	**5,000**	–	**–**	–
	653,661	683,114	**416,616**	319,416

As at 31 December 2022, the Group has no undrawn banking facilities (2021: Nil).

14 EVENTS AFTER THE DATE OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

On 6 January 2023, the Group entered into a sales and purchase agreement with two independent third parties (together, the "Purchasers") to transfer the Group's entire equity interests in 浙江慧聰投資有限公司 ("Zhejiang Huicong"), an associated company of the Group, at a consideration of RMB10. The transactions was completed on 17 January 2023. Prior to the transfer, Zhejiang Huicong owed the Group an aggregate amount of RMB103,500,000, and RMB53,500,000 of the loans had been subsequently repaid to the Group.

The transaction is accounted for as a disposal of associate. Gain on disposal of associate of RMB10 will be recognised in the consolidated statement of comprehensive income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the Year, the Group generated a total revenue and income of approximately RMB16,883,681,000 (2021: RMB17,388,661,000) from continuing operations, representing a decrease of approximately 2.9% as compared to that in 2021. The decrease of revenue was mainly due to the decreased sales of chemical raw products and electronic products, which suffered from the fluctuation of global oil prices and the recession in demand; despite increased sales of cotton products in 2022.

For the Group's financial performance in different segments, revenue of approximately RMB1,502,786,000 was achieved from the segment of technology-driven new retail in 2022, and represented an increase of approximately 40.1% from approximately RMB1,072,470,000 in 2021. Revenue from the smart industries segment decreased from approximately RMB16,083,099,000 in 2021 to approximately RMB15,198,337,000 in 2022 which represented a decrease of approximately 5.5%. Revenue and income from the segment of platform and corporate services was approximately RMB182,558,000 in 2022, which represented a decrease of approximately 21.7% from approximately RMB233,092,000 in 2021.

During the Year, operating expenses of continuing operations decreased from approximately RMB653,373,000 in 2021 to approximately RMB617,703,000 which was mainly due to the decrease in marketing expenses and amortisation of share based payment expenses.

During the Year, the net impairment loss on financial assets was approximately RMB105,772,000, while it was a net reversal of approximately RMB25,088,000 in 2021, which was mainly due to the increased provision for overdue loan receivables and trade receivables with long aging.

The loss from discontinued operations in 2021 were mainly derived from Zhejiang Zhongfu Network Technology Co., Ltd. (disposed of on 28 December 2021) and Tianjin Guokai Ruitou Education Technology Co., Ltd. (contracted to be disposed of on 5 January 2021, and the disposal has not been completed as at the date of this announcement). 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 2022 and 2021 were classified as discontinued operations in the Group's consolidated financial statements.

The loss attributable to equity holders of the Company was approximately RMB224.3 million in the Year, while loss attributable to equity holders of the Company of approximately RMB663.1 million was recorded for the year ended 31 December 2021, mainly due to the decrease in impairment for goodwill and other intangible assets of the new technology retail business unit from approximately RMB484.0 million in 2021 to RMB26.1 million in the Year. Principal factors contributing to the loss in the Year include, among other things: the impairment loss on financial assets arising from the overdue loan receivables and accounts receivables and the amortization of intangible assets.

The Group acquired or invested in certain companies and businesses in the past decade. In response 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, discontinuing loss-making businesses and disinvesting from the non-core businesses. 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).

The Board does not recommend the payment of any final dividend for the year ended 31 December 2022 (2021: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and cash equivalent decreased by approximately RMB21,789,000 from approximately RMB333,812,000 as at 31 December 2021 to approximately RMB312,023,000 as at 31 December 2022, approximately 99.8% of which is denominated in RMB.

As at 31 December 2022, the Group had total borrowings of RMB1,070,277,000 (31 December 2021: RMB1,002,530,000), of which RMB653,661,000 (31 December 2021: RMB683,114,000) were bank borrowings which bear an average interest rate of 6.43% per annum (31 December 2021: 6.49% per annum) and maturity ranging from 2023 to 2025, and RMB416,616,000 (31 December 2021: RMB319,416,000) were other borrowings. As at 31 December 2022, the Group has no undrawn banking facilities (31 December 2021: Nil). The other borrowings are provided by independent third parties and bear interest rate ranging from 3.85% to 8.0% per annum (31 December 2021: 3.89% to 10% per annum). The Group's borrowings were mainly made in RMB.

As at 31 December 2022, the Group was in net debt position, whereas the Group's gearing ratio is 17%, which is calculated as net debt, including lease liabilities, divided by total capital. The capital and reserves attributable to equity holders of the Company decreased by approximately RMB256.9 million from approximately RMB2,866.0 million as at 31 December 2021 to approximately RMB2,609.1 million as at 31 December 2022.

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.

BUSINESS REVIEW

In 2022, 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.

In 2022, the Group's revenue was generated from its three business segments, namely, the technology-driven new retail segment (approximately 8.9%), the smart industries segment (approximately 90.0%), and the platform and corporate services segment (approximately 1.1%).

Technology-Driven New Retail Segment

ZOL (zol.com.cn, "ZOL") acts as the main driver of the technology-driven new retail segment of the Group. Focusing on the vertical technology segment for over 20 years, in 2022, ZOL strategically upgraded its brand, making breakthroughs in professional content development and product R&D, enhancing itself with the aim to become a foremost living technology products shopping guide platform to cater for the users' needs and expectations. The platform provides detailed and updated analysis for the living technology products that helps its users to choose and purchase products efficiently and comprehensively. Through product analysis, feedback on products, Q&A on reputation, interfacing with e-commerce, it simplifies the path and makes improvements on product test, evaluation and shopping guide recommendations, depicting a full picture of product performance for users, which facilitates platform users before purchasing and using technology products.

Furthermore, ZOL enhances user loyalty through provision of useful, interesting and in-depth professional content to increase its industry influence. ZOL is also devoted to R&D to accumulate data assets and grow competitive barriers by applying model, parameters and algorithms to user procurement decision-making and difficult scenarios for constant iterations; and further established long-term advantages by taking high-quality and efficient transformation as the core criteria for customer products and services and by conducting big data analysis.

The strategically upgraded ZOL has not only maintained its existing advantage as a technology leading media, it also connects with more than 50,000 small businesses in the home appliances and 3C industry through SaaS (Software as a Service) and access to the core upstream supply chain, upon which it facilitated the completion of transformation towards new retail business for upstream enterprises and helped achieve cost reduction and efficiency enhancement for downstream enterprises, eventually enhancing media value.

With ZOL's devotion in R&D, full coverage of user access end, comprising PC, WAP, App and mini programme, was achieved. Furthermore, it helps users to make decisions with features including technology ranking, word of mouth and enumeration of fine products; and takes high-quality and efficient transformation as the core criteria for customer products and services.

ZOL's self-developed professional product database has been applied an authoritative and influential IT product database. ZOL's standard product database by various search engines, including Baidu, 360 Search, TouTiao.com, sm.cn, Sogou, Tencent and Microsoft Bing, covering different kinds of active and passive scenarios of users, ranks top in the industry in terms of internet coverage. Furthermore, ZOL achieved price comparison across the platform and one click delivery through in-depth cooperation with e-commerce platforms such as JD.com, which strengthened and extended the service capability to users' purchase demand, satisfying the users' needs in the full cycle of procurement from recommendation, selection, price comparison to order placing.

ZOL Huimaimai platform integrates brands, retailers, logistics, finance, SaaS, traffic, content, home appliances. Through the new retail solution of "supply chain + SaaS + localization service", it empowers traditional retailers to upgrade and transform, and helps brand manufacturers achieve their digital channels precipitation, which in turn facilitates easier business operation. ZOL Huimaimai platform strategically cooperates with over 200 brands, over 5,000 selected SKUs, and over 500 offline service teams, covering linked members in 19 provinces across the country and serving over 50,000 active retailers.

With the rise of Internet platform-based self media an the general trend of decentralisation, users habits has changed a lot, making it more difficult to secure users. Closed ecological systems by platforms resulted in sharp declines of traffics from personal computer (PC) devices, but the comprehensive transformation of the media information business from PC devices to mobile devices is comparatively slow. With the ever iteration of pioneers products, the constant extension towards content by channels and platforms, market followers' strategic space for development is being squeezed, urging market followers to take rapid action to follow the track for iteration. Advertisers' requests have also shifted towards requiring the advertisement content to be promotive, commerce-oriented and sales-results oriented, and therefore significantly impacting the original media advertising business negatively. These call for a need for a transformation of business model which is currently focuses on marketing services.

Smart Industries Segment

The smart industries segment mainly comprises: "Shanghai Huijing", a cross-sector supply chain integrated service platform; PanPass, an Internet of Things ("IoT") solutions provider for digital transformation; Union Cotton, a spot trading platform for cotton; and ibuychem.com, which is positioned to provide centralised purchasing and integrated e-business service for chemicals and plastics. "Focus" and "significant verticality" are the Group's important strategies for the smart industries segment.

Shanghai Huijing E-business Co., Limited (上海慧旌電子商務有限公司) ("Shanghai Huijing") is the Group's wholly-owned cross-sector supply chain integrated services platform, which provides comprehensive supply chain integrated services by leveraging on the Group's years of experience in various industry segments and penetrating into various segments of the supply chain, with a transaction size of over RMB2.0 billion in the Year.

Extending the positive momentum in its well performance in 2021, 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) maintains remarkable results despite the challenges in 2022 by accelerating internal improvement and external cooperation for the business development.

Notwithstanding the uncertainties arising from the waves of the pandemic, PanPass conquered the challenges in 2022, developed steadily in different aspects such as advancing advancement of its influence in the industry, brand development and sales performance. PanPass achieved a double "Little Giant" by being listed on the "National Specialised, Sophisticated, Special and New Little Giant Enterprise" and "Beijing Specialised, Sophisticated, Special and New Little Giant Enterprise charts". Specialised, Sophisticated, Special and New "Little Giant" enterprises are required to have excellent performance in terms of long-term focus on market segments, strong innovation capabilities, high market share rate, great brand influence, broad development prospects, gaining key core technologies, and premium quality and efficiency. PanPass stood out and successfully entered the list of "Top 100 Small and Medium-sized Private Enterprises": PanPass has been listed on "Top 100 Small and Medium-sized Private Enterprises in Beijing" for three consecutive years, ranking 8th. This is an important recognition of PanPass, high quality, stable revenue, and strong development.

In terms of optimizing governance and making breakthroughs in innovation, PanPass has also maintained its aggressive determination to achieve better results. New intellectual property rights: PanPass has a total of 21 patents and software copyrights newly obtained, with a total of more than 120 intellectual property rights, and continued technological innovation to lead the industry development. Product Extension: PanPass launched "Win with Code", a promotional augmented product which helps corporations to reduce costs, improve efficiency and control terminal smartly by increasing interactive marketing diversity through empowering the linkage between B-end and C-end enterprise clients. Innovative Award: PanPass was awarded "Innovative Enterprise" again by Beijing Software and Information Service Industry Association. The "General Specification for Anti-counterfeiting Security Thread" group standard drafted by PanPass was officially implemented. PanPass was awarded the "New Material and New Technology Innovation Award" issued by the Anti-counterfeiting Packaging and Product Traceability Committee of the China Packaging Federation. The "Retinal Anti-counterfeiting Label" designed by PanPass won the second prize in the 8th Packaging and Printing Works Grand Prix of the China Packaging Federation. Lean Management: PanPass established a "Customer Success Service Centre", further advanced the optimisation of the customers' experiences, increased user loyalty, intensified the implementation of the "Customer-oriented" value; consolidated Know-how in the industry, improved business system,enhanced training for new-comers, continued to publish industry white book, the "Think Tank Exclusive Interview" series, exploring industry development from different perspectives such as digital industry, industry solutions, upgrade and code-assignment in the industry chain and digital software.

With advanced Internet and AI technologies, leading IoT application concepts, intelligent big data algorithms, efficient trading and supporting services, "Union Cotton" is aiming at the 10-trillion level textile and apparel market. By building a new industrial ecosystem with online trading of cotton, polyester, yarn and other textile raw materials as its core, it can provide both upstream and downstream customers in the industrial chain with digital supply such chain management and supporting services as trading, settlement, storage, logistics, textile supply chain e-assistant, and industrial internet technology. "Union Cotton" is striving to materialize its development vision of constructing a leading global digital supply chain services platform for the textile industry, which, harnessing internet technology and big data, can improve the synergy of the supply chain of the cotton textile industry and create an open, intelligent, efficient and convenient digital industrial internet platform for textile manufacturing.

In 2022, a confluence of events – the aggravation of COVID-19, a round of rate hikes in the Fed's combat against inflation, the grim outlook of global macroenvironment – put a brake on the downstream demand growth in the cotton textile industry. Companies were deep in the red as the raw material prices plunged; the cautious attitude towards purchasing due to insufficient new orders also led to a stasis in the trading activities in the raw material market. Over 100 days of lockdown beginning from mid-August in Xinjiang Province, which accounts for over 90% of cotton production in the country, brought logistics to a halt and cotton trading therefore shrunk materially. The mounting competition from peer internet platforms also contributed to the grim operating and competition environment "Union Cotton" was once confronted with. The removal of the pandemic restrictions in early December was a turnaround for trading – the disrupted supply of raw materials resumed, the downstream orders jumped, and textile mills were all geared up for the run-up to the Spring Festival. Despite the unfavorable operating environment, the operating management team of "Union Cotton" was highly responsive to changes in market trends, and with their insistence on the supply chain services concept of "trading + composite service" platform empowered by digitalization and centered around resources, products, and services, they outperformed the revenue target and maintained the satisfactory market share. As a result, "Union Cotton" reaped an enhanced brand and market influence and commercial credit in the teeth of the difficult macro landscape.

Positioned to provide centralised purchasing and integrated e-business service for upstream and downstream of chemicals material industry chain, ibuychem.com, which originated from the HC chemicals industries segment established by the Group over 20 years ago, has been delivering in-depth services in chemical new materials such as chemical, plastics and coating for 24 years. It focuses on serving the trading of new materials and provides trading service experience in sourcing, cost reduction and efficiency enhancing for up and down stream in the industry chain through PC, APP and WeChat mini-programme.

In 2022, while overcoming the uncertain fluctuations in macro-economic conditions and the adverse impact of the COVID-19 pandemic, combined with characteristics of chemical and new materials industry, ibuychem.com insisted on a service model that combines online and offline operation, cultivating the industry in terms of digitalisation. It was successfully recognised as "Specialised, Sophisticated, Special and New Core Enterprises of 2022", "Guangdong Innovative Small and Medium-sized Enterprises of 2022" and "Guangdong High and New Technology Enterprise", and was awarded "Top 100 Companies in China's Industrial Internet" for thirteen consecutive years. Due to the high volatility of prices for products such as chemicals and plastics during the Year, with a view to avoid risks and reduce losses, ibuychem.com proactively reduced the frequency and volume of transactions, resulting in a significant decline in trading revenue compared to the same period in 2021.

Platform and Corporate Services Segment

The platform and corporate services segment devotes to help SMEs (small and medium-sized enterprises) to connect with merchants and products through applying industrial data chains and business layouts through the B2B e-business platform, internet platform products and traditional industries. The platform and corporate services segment also includes microcredit financing, lease financing and factoring services, which provides financial services to SMEs and business owners.

Historically, the Group operated its e-business platform, hc360.com ("360 Platform"), to provide services for SMEs. The business model of the 360 Platform faced significant challenges and its performance was far from ideal since the outbreak of the COVID-19 pandemic. The 360 Platform was loss making and its revenue represented less than 0.4% of the Group's revenue and income for the Year. To better deploy its resources and focus on businesses with sustainable prospects, during the Year, the Group suspended the operations of Beijing Huicong 360 Technology Co., Ltd. ("Beijing 360", the operator entity of the 360 Platform) and commenced winding-up procedure of Beijing 360. Closing down process of Beijing 360 is expected to be completed in the second half of 2023. Operations and staff of Beijing 360 were relatively independent from the Group's other business segments, and the Company does not expect this business adjustment and procedure to have any material adverse impacts on the Group, or on its business operations and performance as a whole.

As part of its ordinary and usual course of business under its platform and corporate services segment, the Group provides micro-credit loans and finance lease, principally targeting SME and business owners ("financing services business"). Such business is conducted through two of the subsidiaries of the Group (the "Licensed Members") which hold the respective licenses conducting finance lease business and micro-credit financing business in the mainland China. During the Year, the Group recorded interest income of approximately RMB103,796,000 from its financing services business (2021: RMB124,763,000). As of 31 December 2022, the Group's balance of outstanding loans and interest receivables, and net and finance lease receivables from the financing services business amounted to approximately RMB1,493,442,000 and RMB285,531,000, respectively (31 December 2021: RMB1,529,479,000 and RMB301,822,000, respectively).

Micro-credit loan and finance lease arrangements are initiated by salesmen of the Licensed Members, who would firstly perform a study on the creditworthiness of the applicant, as well as the applicants' background, credit history, financial statements, financial conditions (e.g. source of income), purpose of making the arrangements, title documents of collaterals or leased assets and other case specific material (collectively as the "Vetting Material"). Then salesmen would submit proposals along with the Vetting Material to managers and the credit department for further review and verification.

For the micro-credit loan business, the Group enters into loan agreements with its customers using its model loan contracts (and where applicable, model guarantee contracts) setting out the terms of each loan, including: applicable term and floating interest rate (comprising the base interest rate and the margin over the base rate, and adjustment mechanism), arrangements on default and damages, and additional rights of the lender such as right of inspection and right to information. The Group has established relevant mechanisms to cover credit risk in key operational phases of micro-credit financing services business, including pre-lending evaluations, credit approval, and post-lending monitoring. The Group conducts customer acceptance and due diligence by the operating department and risk management department in the pre-lending evaluations. In the credit approval phase, all loan applications are subjected to the assessment and approval of the Department Manager, General Manager and Risk Assessment Committee of the micro-credit company, depending on the amount and nature of the loans. The relevant entity of the Group performs pre-loan investigations to investigate and assess the creditworthiness of the applicant based on guidance and rules established by the Group. The Group focuses on (but without limitation) the following factors in performing its pre-loan investigations: background and continued existence of the applicant, its ownership and management, its credit history, its financial conditions measured by, among other things, its income, assets, sources for repayment, (for corporations) industry in which the borrower operates, (for individuals) occupation and income source, and/or (where applicable) title, value and condition of collateral. Due diligence will be conducted via various means such as enquiry via credit reference center of the People's Bank of China, review of industrial and commercial registration, review of business license, tax registration, industry licenses, constitutional documents, financial statements and business contracts, interview with applicant's management, study of industry-related big-data, and/or on-site visit of applicant's premises, etc.

For the finance leasing business, the Group enters into finance lease agreements with its customers using its model contracts setting out the terms of each finance lease, including: applicable term and floating interest rate (comprising the base interest rate and the margin over the base rate, and adjustment mechanism), arrangement on the title of subject assets, arrangements on default and damages, borrower's option to re-purchase the assets, and additional rights of the lender such as right of inspection and right to information. Prior to the entering into of finance lease arrangement, due diligence will be conducted via various means such as interview, on-site visit of the applicant, review of financial statements, (for collateral being moveable assets) inspection and understanding of the collateral. After receiving proposals as well as the relevant Vetting Material, the credit department would conduct, if deemed necessary, on-site investigation, inspecting underlying material contracts of potential customers, status of major assets and liabilities, and descriptive documents, title documents, and payment records of assets to be leased. The credit department would also interview the management of potential customers on, among others, their qualification, personal credit history, companies' business model and proposed fund use, competitive edge, and product lifecycle. Afterwards, the credit department would perform an integrated assessments of potential customers' ability to make repayments and make adjustments, if applicable, to the proposed terms of finance lease.

The percentage of outstanding loans principal amount attributable to the Group's major customers in financing service business is set out below:

	31 December 2022	31 December 2021
In terms of outstanding loan principal amount		
The total of five largest customers	**30.42%**	29.20%

The following table sets out the outstanding loans to customers of financing services business of the collaterals, securities or guarantees of the relevant loans in the Group's financing services business as of 31 December 2022 and 31 December 2021:

	31 December 2022		31 December 2021	
	RMB'000	*%*	*RMB'000*	*%*
Loans backed by collaterals	**210,120**	**2.75%**	216,090	13.64%
Guaranteed loans	**119,124**	**9.45%**	128,868	8.13%
Unsecured loans	**1,306,791**	**87.80%**	1,239,613	78.23%
Total	**1,636,035**	**100.00%**	1,584,571	100%

The following table sets out the number of loans for the periods indicated by type of security:

	Year ended 31 December 2022		Year ended 31 December 2021	
	Number of loans	***%***	*Number of loans*	*%*
Loans backed by collaterals	**7**	**2.01%**	9	2.34%
Guaranteed loans	**101**	**28.94%**	113	29.43%
Unsecured loans	**241**	**69.05%**	262	68.23%
Total	**349**	**100%**	384	100%

Note: Collaterals comprises mainly of real estate properties, automobiles, stocks of corporations, inventories.

To assess and manage risk arising from loan and interest receivables and finance lease receivables, the Group has established relevant mechanisms to cover credit risk in key operational phases of micro-credit financing and finance leasing business, including pre-lending evaluations, credit approval, and post-lending monitoring.

In accordance with the regulations issued by the local regulatory authority, Chongqing Financial Affairs Office, the Group has established a loan credit risk classification system based on the type of collateral and credit period, and performs credit risk assessment and management based on loan classification in one of five categories. The Group classifies loans into the following five categories: normal, special-mention, substandard, doubtful and loss. Loans classified as substandard, doubtful and loss are regarded as non-performing loans.

Normal: Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.

Special-mention: Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.

Substandard: Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.

Doubtful: Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.

Loss: Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The following table sets out the outstanding loans to customers of financing services business for the periods indicated by the "Five-Tier Principle" category:

	31 December 2022		31 December 2021	
	RMB'000	*%*	*RMB'000*	*%*
Normal	**1,390,185**	**84.97%**	1,374,286	86.73%
Special-mention	**5,860**	**0.36%**	3,495	0.22%
Substandard	**51,901**	**3.17%**	64,775	4.09%
Doubtful	**11,200**	**0.69%**	94,644	5.97%
Loss	**176,889**	**10.81%**	47,371	2.99%
Total	**1,636,035**	**100%**	1,584,571	100%

The Group applies general approach under HKFRS 9 Financial Instruments to measure expected credit losses for all loans and interest receivables and finance lease receivables.

Impairment provision amount of loans to customers of financing service business increased from RMB149,786,000 as at 31 December 2021 to RMB216,583,000 as at 31 December 2022, resulting from the increase of expected credit loss rate mainly driven by the historical actual bad debt losses and the effect of macro economic environment.

The Group has also formulated post-loan management procedures to monitor, inspect, collect, recall and enforce loans granted. Among other procedures established, the Group demands repayment upon the loans falling due. For loans overdue for over 30 days, the Group liaises with borrowers who display willingness and ability to repay. For borrowers who lack willingness or ability to repay, or who fail to repay in accordance with liaised repayment terms, the Group takes legal action. Approximately RMB236.2 million of outstanding balance of the relevant loans are currently subject to legal proceedings.

Prospect

The past year has posted challenges for the Group, including effects of COVID-19, pressure on logistics and global supply chain, energy crisis, and global inflating costs. These challenges have profoundly affected the world, communities, individuals, and the ways of life. These challenges have impacted the Group in 2022, but the Group believes there are opportunities to be grasped in the face of challenges. Digital economy and intellectual economy have become the socio-economic development direction, and the internet industry is now undermining how businesses are being promoted and developed more than ever.

The Group's rich history and experience in the industrial internet industry well positioned the Group in the waves of socio-economic development, and challenges in the past year made us a stronger and more determined group. Going forward, the Group wishes to focus its resources on business and operations aligned to the strategic corporate goal, with sustainable prospects and development bandwidth. To this end, the Group aims to optimize resource utilization by prioritizing its core business components, ZOL and PanPass particularly. As an ongoing process, the Group strives to reduce its indebtedness level, and is prudently assessing the prospects and quality of its other business components and assets, especially those that have underperformed in recent years or shows limitation in growth prospect. The Group wishes to accelerate the flowing of resources to components with profitability prospects step-by-step in this year. Updates will be made to the Shareholders as and when required by the Listing Rules.

Going forward, PanPass will continue its endeavours to be one of the leaders and revolutionists in the field of unique identification digitalization solution and integrating. It has also kick-started its proposed listing on the Beijing Stock Exchange ("BSE") in the first quarter of 2023, which will also be one of PanPass' key goals in this year. See also "— Proposed Listing of PanPass on BSE" below for further details.

ZOL, supported by its over two decades of operating experience in the technology vertical field, will continue its emphasis on becoming the preferred living technology shopping guide platform, through promoting the delivery of good quality contents, R&D, strategic cooperation with brands and suppliers, and promoting global users' acknowledgment of "Made in China" products.

SIGNIFICANT EVENT(S)

Provision of loan to Chongqing Micro-Credit

On 29 June 2022, Beijing Huicong Internet Information Technology Co., Ltd. ("Beijing Huicong", a subsidiary of the Group) agreed to grant to Chongqing Digital China Huicong Micro-Credit Co., Ltd. (a connected subsidiary of the Group, indirectly owned as to 30% by Digital China Holdings Limited) an unsecured loan in the principal amount up to RMB25,000,000, bearing interest at a rate of 8% per annum for a period of one year commencing from the drawdown date. The provision of loan constitutes a connected transaction of the Company. Further details were set out in the Company's announcement dated 29 June 2022.

Disposal of Tianjin Guokai

On 5 January 2021, Beijing Huicong Technology Group Co., Ltd. ("Beijing HC Technology", a subsidiary of the Group), Beijing Little Rhino Horn Technology Co., Ltd. ("Beijing LRH"), Tianjin Guokai Ruitou Education Technology Co., Ltd. ("Tianjin Guokai") and Hong Kong Huicong International Group Limited (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. If the transaction proceeds to completion, Beijing HC Technology will no longer hold any equity interest in Tianjin Guokai and Tianjin Guokai will cease to be a subsidiary of the Group. Further details were set out in the Company's announcement dated 5 January 2021.

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. As of the date of this announcement, an arbitration proceeding has commenced, in which Beijing LRH requested the Group to bear the possible losses arising from the demolition of the properties of Tianjin Guokai's subsidiaries and requested to effect the transfer, and the Group raised its disputes and counterclaim. Having considered the advice from its PRC legal adviser, the Group does not consider Beijing LRH's request reasonable, and has engaged PRC legal advisers to contest the arbitration. No arbitral award has been granted and the disposal has not yet been completed as of the date of this announcement. The Company believes that the outcome of the dispute will not have a material adverse impact on the financial conditions of the Group and its operations.

Change of addresses

With effect from 5 December 2022, the Company's head office and principal place of business in the PRC has been changed to Room B-1, 4 Floor, Building 2, Hangxing Science Park, No. 11, Hepingli East Street, Dongcheng District, Beijing 100013. Please refer to the Company's announcement dated 30 November 2022.

CAPITAL STRUCTURE

The total number of issued Shares was 1,309,931,119 as at 31 December 2022 (2021: 1,309,931,119).

As at 31 December 2022, 58,568,479 options under the share option schemes (if exercised, 58,568,479 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 2022, the Group had 1,028 employees (2021: 1,468).

Remuneration of employees is generally in line with the market trend and commensurate with the rate in the industry. Share options and share awards are granted to employees based on individual performance. Other benefits to the Group's employees include medical insurance, retirement schemes, training programs and educational subsidies. Total staff costs including director's emoluments from continuing operations for the Year amounted to approximately RMB307,005,000 (2021: RMB320,218,000).

CHARGES ON GROUP ASSETS

As at 31 December 2022, the Group's bank borrowings amounting to RMB50,000,000 (31 December 2021: RMB90,000,000) are secured by properties and investment properties, with carrying value amounting to RMB18,819,000 and RMB24,847,000 respectively (31 December 2021: secured by properties and investment properties, with carrying value amounting to RMB25,156,000 and RMB26,009,000 respectively), and are also guaranteed by the Executive Directors of the Group and subsidiaries (31 December 2021: same).

The remaining bank borrowings included borrowings of RMB512,000,000 (31 December 2021: RMB524,000,000) provided by Jingu Bank and guaranteed by subsidiaries and associates of the Group (31 December 2021: guaranteed by an associate of the Group).

As at 31 December 2022, other borrowings with a total principal amount of RMB230,000,000 (31 December 2021: same) were provided by an independent third party, which will mature on 31 December 2023. This other borrowing is interest-free and secured by certain equity shares of a subsidiary (31 December 2021: same).

The other borrowings with principal amount of RMB173,020,000 (31 December 2021: RMB86,506,000) 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 2022, the Group had no contingent liability (2021: Nil).

IMPORTANT EVENT(S) AFTER THE PERIOD

Proposed Listing of PanPass on Beijing Stock Exchange

On 24 February 2023, the Company announced the proposed listing of PanPass Information, on the Beijing Stock Exchange. It is proposed that PanPass Information will issue new shares by way of an initial public offering to unspecified qualified investors (or other methods requested or agreed by the relevant PRC authorities), subject to approvals by relevant PRC regulators. PanPass Information has submitted the counselling materials to the Beijing Supervisory Office of the China Securities Regulatory Commission in January 2023, and is currently at the listing counselling stage. The share allotment by PanPass Information, if materialises, constitutes a major transaction of the Company, and the Company will seek the Shareholders' approval under Chapter 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Further details were set out in the Company's announcement dated 24 February 2023, and a circular will be despatched in due course.

CHANGE OF CEO

With effect from 3 February 2023, Mr. Zhang Yonghong has resigned as the chief executive officer ("CEO") of the Company (and remains as an executive Director) to focus on the business affairs and development of PanPass Information. Mr. Liu Jun (an executive Director and the chairman of the Company) has been appointed as the CEO with effect from the same date.

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 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 2022 and has met with external auditors and discussed the financial matters of the Group that arose during the course of audit for the Year.

CORPORATE GOVERNANCE CODE

During the Year, the Company had complied with the applicable code provisions of the Corporate Governance Code in Part 2 of 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and the Company considers they are 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 2022 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.

RECONCILIATION OF NON-HKFRS MEASURES TO THE NEAREST HKFRS MEASURES

To supplement the Group consolidated results which are prepared and presented in accordance with HKFRS, the Group also used adjusted EBITDA and adjusted net loss as additional financial measures, which are not required by, or presented in accordance with HKFRS. The Company believes 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 management does not consider to be indicative of the Group's 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, the 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 and therefore may not be comparable to similar measures presented by other issuers.

The following table sets forth the reconciliations of our non-HKFRS financial measures for the years ended 31 December 2022 and 2021, to the nearest measures prepared in accordance with HKFRS.

	2022	2021
	RMB'000	*RMB'000*
Loss from continuing operations	**(230,116)**	(610,081)
Share based payment expenses	**4,065**	22,683
Other (gains)/losses, net	**(34,581)**	45,115
Impairment losses on goodwill and intangible assets	**26,050**	483,985
Net provision for/(reversal of) impairment losses on financial assets	**105,772**	(25,088)
Adjusted net loss	**(128,810)**	(83,386)
Adjusted for		
Finance cost, net	**44,719**	38,056
Income tax (credit)/expenses	**(42,807)**	11,437
Depreciation and amortization	**138,555**	92,666
Adjusted EBITDA*	**11,657**	58,773

* Earning before interest, taxes, depreciation and amortisation.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company during the Year.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion 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 2022 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 2023.

By Order of the Board
HC Group Inc.
Liu Jun
Chairman and Chief Executive Officer

Hong Kong, 24 March 2023

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

Mr. Liu Jun *(Executive Director, Chairman and Chief Executive Officer)*
Mr. Zhang Yonghong *(Executive Director)*
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 entities or individuals 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.

Certain figures set out in this announcement are subject to rounding adjustment.