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 2023

HIGHLIGHTS

*For the year ended 31 December 2023 (the "**Year**")*

- Total revenue from continuing operations was approximately RMB18,448 million, increased by approximately 9.9% when compared to RMB16,780 million recorded in 2022 from continuing operations.
- Loss attributable to equity holders of the Company from continuing operations was approximately RMB1,129 million, loss attributable to equity holders of the Company from continuing operations for 2022 was approximately RMB158 million.
- The Group's adjusted net loss* (non-HKFRS*) was approximately RMB87 million, while it was RMB138 million in 2022.
- The Group's adjusted LBITDA* (non-HKFRS*) was approximately RMB19 million, while it was RMB32 million in 2022.
- The loss per share from continuing operations was RMB0.8621, while it was RMB0.1208 for 2022.
- The Board does not recommend payment of final dividend for the Year.

The board ("**Board**") of directors (the "**Directors**") of HC Group Inc. (the "**Company**") announces the audited results of the Company and its subsidiaries (the "**Group**" or "**HC**") for the Year, together with the comparative figures for the same period in 2022.

* These are non-HKFRS financial measures. See page 37 of this announcement for more information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	**2023**	2022
		RMB'000	*RMB'000*
			Represented Note 1.1
Continuing operations			
Revenue	*3*	**18,447,807**	16,779,398
Interest income from financing services	*3*	**256**	558
		18,448,063	16,779,956
Cost of revenue		**(18,050,204)**	(16,359,055)
Other income		**16,999**	9,727
Other gains, net	*4*	**26,876**	34,581
Selling and marketing expenses		**(267,708)**	(341,333)
Administrative expenses		**(227,247)**	(211,718)
Impairment losses on goodwill and intangible assets	*9*	**(1,019,680)**	(26,050)
Net provision for impairment losses on financial assets		**(19,301)**	(20,259)
Operating loss		**(1,092,202)**	(134,151)
Finance cost, net		**(1,366)**	(9,633)
Share of post-tax losses of associates		**(11,678)**	(47,843)
Loss before income tax		**(1,105,246)**	(191,627)
Income tax (expenses)/credit	*5*	**(10,769)**	37,948
Loss from continuing operations		**(1,116,015)**	(153,679)
Discontinued operations			
Loss from discontinued operations	*6*	**(774,490)**	(76,437)
Loss for the year		**(1,890,505)**	(230,116)
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
Currency translation differences		**8,287**	(4,299)
Items that will not be reclassified to profit or loss			
Fair value loss on financial assets at fair value through other comprehensive income, net of tax — Group		**(78,471)**	(36,737)
Currency translation differences for financial assets through other comprehensive income		**221**	4,411
Total comprehensive loss for the year, net of tax		**(1,960,468)**	(266,741)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 RMB'000	2022 RMB'000 Represented Note 1.1
Loss for the year attributable to:			
Equity holders of the Company		**(1,829,540)**	(224,306)
Non-controlling interests		**(60,965)**	(5,810)
		(1,890,505)	(230,116)
Loss for the year attributable to the equity holders of the Company arising from:			
Continuing operations		**(1,129,319)**	(158,299)
Discontinued operations		**(700,221)**	(66,007)
		(1,829,540)	(224,306)
Total comprehensive loss for the year attributable to:			
Equity holders of the Company		**(1,899,503)**	(260,931)
Non-controlling interests		**(60,965)**	(5,810)
		(1,960,468)	(266,741)
Total comprehensive loss for the year attributable to the equity holders of the Company arising from:			
Continuing operations		**(1,199,282)**	(194,924)
Discontinued operations		**(700,221)**	(66,007)
		(1,899,503)	(260,931)
Loss per share from continuing operations attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	*7*	**(0.8621)**	(0.1208)
Diluted loss per share	*7*	**(0.8621)**	(0.1208)
Loss per share attributable to the equity holders of the Company (expressed in RMB per share)			
Basic loss per share	*7*	**(1.3967)**	(0.1712)
Diluted loss per share	*7*	**(1.3967)**	(0.1712)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	Note	**2023** **RMB'000**	2022 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**20,045**	30,767
Right-of-use assets		**4,247**	16,923
Investment properties		**23,685**	24,847
Intangible assets	*9*	**91,522**	1,153,426
Deferred income tax assets		**3,969**	67,424
Investments accounted for using equity method		**262,705**	288,458
Finance lease receivables		**—**	67,658
Financial assets at fair value through other comprehensive income		**21,546**	402,385
Financial assets at fair value through profit or loss		**3,426**	11,283
Loans and interest receivables		**—**	29,273
Long term deposits and prepayments		**13,225**	5,490
Total non-current assets		**444,370**	2,097,934
Current assets			
Inventories		**123,919**	147,058
Contract assets		**2,687**	4,068
Trade receivables	*10*	**107,610**	119,507
Deposits, prepayments and other receivables		**770,198**	2,040,644
Loans and interest receivables		**53,203**	1,464,169
Finance lease receivables		**—**	217,873
Restricted bank deposit		**234,868**	122,660
Cash and cash equivalents		**365,682**	312,023
		1,658,167	4,428,002
Assets classified as held for sale	*6*	**974,508**	131,922
Total current assets		**2,632,675**	4,559,924
Total assets		**3,077,045**	6,657,858
Equity attributable to equity holders of the Company			
Share capital		**120,977**	120,977
Other reserves		**3,147,855**	3,345,393
Accumulated losses		**(2,708,422)**	(857,252)
		560,410	2,609,118
Non-controlling interests		**624,866**	669,511
Total equity		**1,185,276**	3,278,629

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2023

	Note	**2023** *RMB'000*	2022 *RMB'000*
Liabilities			
Non-current liabilities			
Non-current portion of bank borrowings	*12*	**—**	5,000
Lease liabilities		**537**	5,424
Deferred income tax liabilities		**1,253**	15,535
Other financial liabilities		**—**	6,834
Total non-current liabilities		**1,790**	32,793
Current liabilities			
Trade and bill payables	*11*	**292,924**	182,350
Accrued expenses and other payables		**139,198**	369,772
Contract liabilities		**298,733**	1,629,120
Current portion of bank borrowings	*12*	**150,852**	648,661
Other borrowings	*12*	**255,621**	416,616
Lease liabilities		**4,075**	12,489
Income tax payable		**20,400**	54,861
Other financial liabilities		**165,644**	20,399
		1,327,447	3,334,268
Liabilities directly associated with assets classified as held for sale	*6*	**562,532**	12,168
Total current liabilities		**1,889,979**	3,346,436
Total liabilities		**1,891,769**	3,379,229
Total equity and liabilities		**3,077,045**	6,657,858

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

HC Group Inc. (the "**Company**") is a company with limited liability 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, KY1-1103, 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 during the year ended 31 December 2023:

- 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.

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

1.1 Discontinued operations

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**"). The disposal was completed on 15 September 2023.

On 28 November 2023, the Group announced that it agreed to sell its equity interests in Beijing Huicong Hulian Information Technology Co., Ltd. (北京慧聰互聯信息技術有限公司) ("**Huicong Hulian**"), its 100% owned subsidiary mainly operated in financial related business and held the Group's investment in commercial bank and financial sector in the Mainland China, to an independent third party. The transaction was subsequently completed on 27 February 2024 and Huicong Hulian ceased to be a subsidiary of the Group thereafter.

Tianjin Guokai and Huicong Hulian were previously grouped under the "Platform and corporate services segment". 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 Huicong Hulian and the relevant gains or losses for the year ended 31 December 2023 and 2022 were classified as discontinued operations in the Group's consolidated financial statements. Certain comparative figures have been represented to conform with current year presentation.

Financial information relating to the discontinued operations is set out in Note 6.

2 SUMMARY OF ACCOUNTING POLICIES INFORMATION

This note provides a list of the accounting policies adopted in the preparation of these consolidated financial statements.

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 followings:

— Certain financial assets and financial liabilities, which are measured at fair value or their present value of expected redemption amounts, and;

— Assets held for sale – measured at the lower of carrying amount and fair value less costs to sell.

(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 2023:

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction
Amendments to HKAS 12	International Tax Reform-Pillar Two Model Rules
HKFRS 17	Insurance Contracts

The amended standards 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 period.

2 SUMMARY OF ACCOUNTING POLICIES INFORMATION (CONTINUED)

2.1 Basis of preparation (Continued)

(iv) New and amended standards, interpretation and accounting guidance issued but not yet effective

Certain new standards and amendments to standards have been issued but are not yet effective for the year beginning on 1 January 2023 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1	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 2024
Amendments to HKAS 7 and HKFRS 7	Supplier finance arrangements	1 January 2024
Amendments to HKAS 21	Lack of Exchangeability	1 January 2025
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Company's directors have performed an assessment on these amendments to standards and have concluded on a preliminary basis that the adoption of these amendments to standards is not expected to have a significant impact on the Group's financial performance and position.

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.

3 SEGMENT INFORMATION (CONTINUED)

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 2023, 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 chains 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:

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. The disposal was completed on 15 September 2023.

On 28 November 2023, the Group announced that it agreed to sell its equity interests in Beijing Huicong Hulian, its 100% owned subsidiary which was mainly operates financial related business and holds the Group’s investment in commercial bank and financial sector in the Mainland China, to an independent third party. The shareholders of the Company approved the disposal at the extraordinary general meeting held on 23 February 2024, and the disposal was subsequently completed on 27 February 2024. Upon completion of the transaction, Huicong Hulian ceased to be a subsidiary of the Group thereafter.

In accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, the financial results of Tianjin Guokai and Huicong Hulian and the relevant impairment expenses for the year ended 31 December 2023 were classified as discontinued operations in the Group’s consolidated financial statements.

Financial information relating to the discontinued operations is set out in Note 6

3 SEGMENT INFORMATION (CONTINUED)

The table below shows the segment information for the year ended 31 December 2023.

	Year ended 31 December 2023						
	Continuing operations				Discontinued operations *(Note)*		
	Technology-driven new retail segment	Smart industries segment	Platform and corporate services segment	Subtotal	Platform and corporate services segment	Subtotal	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,209,833	17,225,282	12,692	18,447,807	—	—	18,447,807
Interest income from financing services	—	—	256	256	87,374	87,374	87,630
Total revenue and income	1,209,833	17,225,282	12,948	18,448,063	87,374	87,374	18,535,437
Impairment losses on goodwill and intangible assets	(1,019,680)	—	—	(1,019,680)	—	—	(1,019,680)
Segment results	(1,087,800)	(5,821)	(42,456)	(1,136,077)	(335,635)	(335,635)	(1,471,712)
Impairment losses on discontinued operations				—		(586,302)	(586,302)
Other income				16,999		407	17,406
Other gains, net				26,876		180,746	207,622
Share of post-tax losses of associates				(11,678)		—	(11,678)
Finance income				7,651		245	7,896
Finance cost				(9,017)		(33,905)	(42,922)
Loss before income tax				(1,105,246)		(774,444)	(1,879,690)
Other information:							
Depreciation and amortisation	41,995	9,270	4,067	55,332	532	532	55,864
Share based compensation expense	17,045	—	—	17,045	—	—	17,045
(Reversal of)/provision for impairment losses on financial assets	(480)	17,946	1,835	19,301	401,064	401,064	420,365

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 *RMB'000*	Smart industries segment *RMB'000*	Platform and corporate services segment *RMB'000*	Subtotal *RMB'000*	Platform and corporate services segment *RMB'000*	Subtotal *RMB'000*	Total *RMB'000*
Revenue	1,502,786	15,198,337	78,275	16,779,398	487	487	16,779,885
Interest income from financing services	—	—	558	558	103,238	103,238	103,796
Total revenue and income	1,502,786	15,198,337	78,833	16,779,956	103,725	103,725	16,883,681
Impairment losses on goodwill and intangible assets	(26,050)	—	—	(26,050)	—	—	(26,050)
Segment results	(117,937)	(12,935)	(47,587)	(178,459)	(46,507)	(46,507)	(224,966)
Other income				9,727		297	10,024
Other gains, net				34,581		—	34,581
Share of post-tax losses of associates				(47,843)		—	(47,843)
Finance income				8,074		2,082	10,156
Finance cost				(17,707)		(37,168)	(54,875)
Loss before income tax				(191,627)		(81,296)	(272,923)
Other information:							
Depreciation and amortisation	114,387	11,723	7,930	134,040	4,515	4,515	138,555
Share based compensation expense	—	—	4,065	4,065	—	—	4,065
(Reversal of)/provision for impairment losses on financial assets	(6,582)	27,147	(306)	20,259	85,513	85,513	105,772

	2023 **RMB'000**	2022 *RMB'000* Represented *Note 1.1*
Revenue from contract with customers:		
Sales of goods through B2B and B2B2C trading platforms	**18,078,701**	16,283,905
Online services and advertisement	**121,516**	170,869
Anti-counterfeiting products and services	**165,928**	213,098
Marketing events, exhibition, seminars and other services	**78,121**	109,097
Others	**3,541**	2,429
	18,447,807	16,779,398
Income from other sources:		
Interest income from financing services	**256**	558
Total revenue and income	**18,448,063**	16,779,956

4 OTHER GAINS, NET

Other gains, net, mainly consist of the following:

	2023	2022
	RMB'000	*RMB'000*
		Represented
		Note 1.1
Change in fair value on financial assets at fair value through profit or loss	**1,643**	(6,936)
Change in fair value on financial liabilities at fair value through profit or loss	**—**	26,955
Gain on deemed disposal of partial interest in an associate Guangdong Zhongmoyun — Construction Science and Technology Co., Limited*	**—**	14,125
Gain/(loss) on disposal of subsidiaries		
– Guangzhou Huicong 360 Network Technology Co., Ltd *(Note i)*	**8,041**	—
– Shanghai Xingou Chemical Co., Limited *(Note ii)*	**17,310**	—
– Other	**(477)**	—
Net gain on disposal on associates	**3,939**	—
Provision for impairment for investment in associates	**(3,894)**	—
Others	**314**	437
	26,876	34,581

Note:

(i) The amount represents gain on disposal of a wholly-owned subsidiary, Guangzhou Huicong 360 Network Technology Co., Ltd (廣州慧聰叁陸零網絡科技有限公司) ("**Guangzhou Huicong 360**"), which engaged in online search engine business. On 17 April 2023, the Group entered into an agreement with four independent third parties and disposed of its entire interest in Guangzhou Huicong 360 for a cash consideration of RMB4. Net liabilities of Guangzhou Huicong 360 as at the disposal date amounted to approximately RMB8,041,000. This resulted in a gain on disposal of a subsidiary amounting to approximately RMB8,041,000.

(ii) The amount represents gain on disposal of a wholly-owned subsidiary, Shanghai Xingou Chemical Co., Limited (上海行歐化工有限公司) ("**Shanghai Xingou**"), which engaged in chemical trading business. On 25 May 2023, the Group entered into an agreement with an associate of the Company, (who, to the best knowledge and beliefs of the Company's management, is not a connected person of the Company) in respect of the disposal of its entire interest in Shanghai Xingou at a cash consideration of RMB5,000,000. Net liabilities of Shanghai Xingou as at the disposal date amounted to approximately RMB12,310,000. This resulted in a gain on disposal of a subsidiary amounting to approximately RMB17,310,000.

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

5 INCOME TAX (EXPENSES)/CREDIT

	2023	2022
	RMB'000	*RMB'000*
		Represented
		Note 1.1
Current income tax expenses		
— The PRC corporate income tax ("**CIT**")		
— Current year	**(1,037)**	(13,204)
Deferred income tax (expenses)/credit		
— The PRC corporate income tax	**(9,778)**	56,011
	(10,815)	42,807
Income tax (expenses)/credit is attributable to:		
— Loss from continuing operations	**(10,769)**	37,948
— Loss from discontinued operations	**(46)**	4,859
	(10,815)	42,807

6 PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS

	2023	2022
	RMB'000	*RMB'000*
Tianjin Guokai *(Note a)*	**180,746**	—
Beijing Huicong Hulian Information Technology Co., Ltd ("**Huicong Hulian**") *(Note b)*	**(955,236)**	(76,437)
	(774,490)	(76,437)

(a) Discontinued operation of Tianjin Guokai Group

On 5 January 2021, the Group entered into the equity transfer agreement (the "**agreement**") to dispose 100% of the equity interest in Tianjin Guokai at the consideration of RMB300,500,000. Tianjin Guokai Group is principally engaged in the provision of properties leasing in the PRC. Tianjin Guokai was in the progress of civil proceeding with the tenant. No rental income and other related cost are recognised since then as there is uncertainty regarding the collectability of the rental income.

The disposal was completed on 15 September 2023 (the "**Disposal Date**") and a disposal gain of Tianjin Guokai Group amounting to RMB170,746,000 was recognised. The financial results and related gain on disposal of Tianjin Guokai Group are reported as a discontinued operation in the consolidated statement of comprehensive income.

6 PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (CONTINUED)

(a) Discontinued operation of Tianjin Guokai Group (Continued)

(i) Financial performance and cash flow information of Tianjin Guokai Group classified as held for sale

The financial performance of Tianjin Guokai Group presented for the period ended 15 September 2023 and the year ended 31 December 2022 are as follows:

	For the period ended 15 September 2023 *RMB'000*	For the year ended 31 December 2022 *RMB'000*
Revenue	—	—
Other gains	10,000	—
Profit before income tax	10,000	—
Income tax expense	—	—
Profit after tax from discontinued operations	10,000	—
Gain on disposal of Tianjin Guokai Group *(Note a(ii))*	170,746	—
Profit from discontinued operation	180,746	—
Net cash used in operating activities	—	—
Net cash used in investing activities	—	—
Net cash used in financing activities	—	—
	—	—

(ii) Details of the disposal of Tianjin Guokai Group

	For the period ended 15 September 2023 *RMB'000*
Total cash consideration from disposal	**300,500**
Carrying amount of net assets sold as at Disposal date	**(129,754)**
Gain on disposal of Tianjin Guokai Group	**170,746**

6 PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (CONTINUED)

(b) Discontinued operation of Huicong Hulian Disposal Group classified as held for sale

On 28 November 2023, the Group entered into a conditional equity transfer agreement to transfer 100% equity interest in Huicong Hulian for a cash consideration of RMB5,000,000. Huicong Hulian, its subsidiaries, associate and directly owned investment (together, the "**Huicong Hulian Disposal Group**") was included in the platform and corporate services segment. Huicong Hulian Disposal Group mainly operates financial related business and holds the Group's investment in commercial bank and financial sector.

(i) Financial performance and cash flow information of Huicong Hulian Disposal Group classified as held for sale

The financial performance and cash flow information of Huicong Hulian Disposal Group classified as held for sale for the years ended 31 December 2023 and 2022 is as follows:

	2023	2022
	RMB'000	*RMB'000*
Interest income from financing services	**87,374**	103,238
Revenue	**—**	487
Expenses, net	**(55,198)**	(99,508)
Net provision for impairment losses on financial assets	**(401,064)**	(85,513)
Loss before income tax	**(368,888)**	(81,296)
Income tax (expense)/credit	**(46)**	4,859
Loss after income tax from discontinued operation	**(368,934)**	(76,437)
Loss recognised on the remeasurement to fair value less costs to sell	**(586,302)**	—
Total loss from discontinued operations	**(955,236)**	(76,437)
Net cash generated from/(used in) operating activities	**21,987**	(648)
Net cash used in investing activities	**—**	—
Net cash used in financing activities	**(18,000)**	—
Total net cash inflow/(outflow)	**3,987**	(648)

6 PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (CONTINUED)

(b) Discontinued operation of Huicong Hulian Disposal Group classified as held for sale (Continued)

(ii) Assets and liabilities of Huicong Hulian Disposal 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 2023:

	2023
	RMB'000
Assets classified as held for sale	
Property, plant and equipment	**663**
Right-of-use assets	**145**
Intangible assets	**717**
Deferred income tax assets	**40,674**
Finance lease receivables	**147,648**
Financial assets at fair value through other comprehensive income	**271,773**
Loan and interest receivables	**1,077,353**
Trade and other receivables	**15,872**
Bank balances and cash	**5,965**
	1,560,810
Less: Loss recognised on the remeasurement to fair value less costs to sell	**(586,302)**
Assets classified as held for sale	**974,508**
Liabilities classified as held for sale	
Trade and other payables	**57,016**
Bank borrowings	**487,882**
Lease liabilities	**154**
Other tax payables	**1,145**
Income tax payable	**16,335**
Liabilities classified as held for sale	**562,532**

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.

	2023	2022
	RMB'000	*RMB'000*
		Represented
		Note 1.1
Loss attributable to owners of the Company		
— from continuing operations	**(1,129,319)**	(158,299)
— from discontinued operations	**(700,221)**	(66,007)
	(1,829,540)	(224,306)

	2023	2022
Weighted average number of shares in issue (thousands)	**1,309,931**	1,309,931
Basic loss per share		
From continuing operations (in RMB)	**(0.8621)**	(0.1208)
From discontinued operations (in RMB)	**(0.5346)**	(0.0504)
Total basic loss per share attributable to the equity holders of the Company (in RMB)	**(1.3967)**	(0.1712)

(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 dilutive ordinary shares: share options for the year ended 31 December 2023. 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 (2022: same).

During the year ended 31 December 2023, all of these share options had no dilutive effect to the Company and therefore, diluted loss per share equaled basic loss per share (2022: same).

8 DIVIDENDS

No dividend was paid or declared by the Company during and for the year ended 31 December 2023 (2022: Nil).

9 INTANGIBLE ASSETS

	2023	2022
	RMB'000	*RMB'000*
Goodwill	**71,858**	1,052,105
Other intangible assets	**19,664**	101,321
	91,522	1,153,426

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**").

	2023		2022	
	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)*	**—**	**—**	980,247	75,133
Smart industries segment				
Anti-counterfeiting products and services	**50,314**	**9,391**	50,314	10,603
Trading services — cotton industry	**21,544**	**9,316**	21,544	13,399
Other intangible assets	**—**	**957**	—	2,186
	71,858	**19,664**	1,052,105	101,321

The recoverable amounts of the CGUs are determined by value-in-use calculations based on cash flow projections 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.

As a result of the impairment assessment, impairment for goodwill and other intangible assets amounting to RMB980,247,000 and RMB39,433,000 for the "Online services — B2B2C business" CGU (2022: impairment for intangible assets amounting to RMB26,050,000 for the "New technology retail solutions" CGU) were recognised for the year ended 31 December 2023 (Note).

9 INTANGIBLE ASSETS (CONTINUED)

Impairment test for goodwill and other intangible assets (Continued)

For details, refer to the following note.

Note:

Impairment assessment on goodwill and other intangible assets in relation to "Online services — B2B2C business" CGU

On 3 July 2015, the Group completed the acquisition of 100% of equity interests of Orange Triangle Inc. ("**Orange Triangle**") which was satisfied by a total consideration of approximately RMB1,307,000,000. The Group recognised identifiable intangible assets amounting to RMB399,000,000 and goodwill amounting to RMB980,247,000 arising from the acquisition and allocated to the "Online services — B2B2C business" CGU at the acquisition date.

The business of Orange Triangle provides online advertising and marketing services for 3C and living technology products through its platform zol.com.cn in mainland China ("**ZOL**").

Management has been regularly reviewing the business operations and the evolving industry landscape, with a particular focus on how post-pandemic shifts in content consumption and the rapid rise of artificial intelligence, including the widespread adoption of generative AI tools, are reshaping the industry landscape.

In the determination of impairment amount, the Group followed the requirement of HKAS 36 "Impairment of Assets" by comparing the relevant CGU's carrying amount with its recoverable amount. The recoverable amount is the higher of a CGU's fair value less costs of disposal and value-in-use. In this impairment assessment, the Group engaged an independent external valuer, Ravia Global Appraisal Advisory Limited, to determine the recoverable amount. The discounted cashflow method was adopted in the valuation performed, which was considered to be the most appropriate valuation approach in this valuation as it takes the projection growth and firm-specific issues of the CGUs into consideration. It is noted that the CGU's value-in-use would be higher or approximate to fair value less cost of disposal. Thus the recoverable amount is determined based on the value-in-use model.

Despite the Group and was optimistic towards the post-pandemic economic recovery in 2023 and the Group implemented different measures to transform the products offerings and streamline its operation costs, overall economic rebound was disapointing. The financial results did not meet the targets set out in prior year, as the increment in advertising income fell short of expectations.

The emergence of AI tools in the latter half of FY2023 have greatly accelerated the content creation process, lowered the market entrance barriers and sparking a surge in competition that has led to compressed profit margins. ZOL's IT content portal used to be one of the leaders in the market, largely because it possessed a skilled team of editors and content creators. Since the introduction of AI tools, its competitive advantages diminished. The impact of AI and market changes has reduced the reliance on and the value of specialized editorial roles and further affect the profitability of ZOL's business.

In the course of preparing the consolidated financial statements for the year ended 31 December 2023, the management performed an update assessment, factoring in the latest market conditions. Based on the result of impairment assessment, an impairment provision of RMB980,247,000 and RMB39,433,000 was made for the goodwill and other intangible assets of the "Online Services — B2B2C business CGU".

10 TRADE RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**123,392**	156,694
Less: provision for impairment of trade receivables	**(15,782)**	(37,187)
Trade receivables, net	**107,610**	119,507

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:

	2023	2022
	RMB'000	*RMB'000*
0 to 90 days	**73,774**	83,232
91 to 180 days	**23,768**	23,528
181 to 270 days	**9,271**	9,431
271 to 365 days	**2,720**	19,671
Over 1 year	**13,859**	20,832
	123,392	156,694

11 TRADE AND BILL PAYABLES

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

	2023	2022
	RMB'000	*RMB'000*
0 to 90 days	**238,717**	152,908
91 to 180 days	**40,949**	16,266
181 to 365 days	**218**	3,708
Over 1 year	**13,040**	9,468
	292,924	182,350

12 BORROWINGS

	2023	2022
	RMB'000	*RMB'000*
Non-current portion:		
Bank borrowings	**—**	5,000
	—	5,000
Current portion:		
Bank borrowings	**150,852**	648,661
Other borrowings	**255,621**	416,616
	406,473	1,065,277
Total borrowings	**406,473**	1,070,277

The above balances include both principal and interest portion of the borrowings, and are all denominated in RMB (2022: same).

Note:

Bank borrowings bear average interest rate of 4.15% per annum (2022: 6.43% per annum), and are payable in 2024 (2022: from 2023 to 2025).

The table below summarises the maturity analysis of bank and other borrowings based on agreed scheduled repayments set out in the loan agreements.

	Bank borrowings		**Other borrowings**	
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**150,852**	**648,661**	255,621	416,616
Between 1 and 2 years	**—**	**—**	—	—
Between 2 and 5 years	**—**	**5,000**	—	—
	150,852	**653,661**	255,621	416,616

As at 31 December 2023, the Group has undrawn banking facilities of RMB12,000,000 (2022: Nil).

13 EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

On November 28, 2023, the Group entered into an agreement to sell its 100% equity interest in the Huicong Hulian Disposal Group to an independent third party for RMB5,000,000. The transaction was completed on February 27, 2024 ("**the Completion Date**"). Prior to the transfer, the Group held a 70% equity interest in Chongqing Micro-Credit, of which 30% held by Huicong Hulian.

After the transfer, the Huicong Hulian Group ceased to be subsidiaries of the Group and are no longer consolidated within the Group's financial statements, except for the 40% equity interest in Chongqing Micro-Credit. Given that the Group will retain significant influence over Chongqing Micro-Credit, the remaining 40% equity interest will be accounted for using the equity method as an investment in an associate company.The fair value of 40% equity interest in Chongqing Micro Credit becomes the cost of investment in an associate. Any excess of the Group's share of the net fair value of Chongqing Mircro-credit's identifiable assets and liabilities over the cost of the investment will be included as income in the period in which the investment is recognised.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the Year, the Group generated a total revenue of approximately RMB18,448,063,000 (2022: RMB16,779,956,000) from continuing operations, representing an increase of approximately 9.9% as compared to that in 2022. The increase of revenue was mainly from the transaction of cotton products generated by Union Cotton in the smart industry segment.

For the Group's financial performance in different segments of continuing operations, the technology-driven new retail segment recorded a total revenue of approximately RMB1,209,833,000, and represented a decrease of approximately 19.5% from approximately RMB1,502,786,000 in 2022. Revenue from the smart industries segment increased from approximately RMB15,198,337,000 in 2022 to approximately RMB17,225,282,000 in 2023 which represented an increase of approximately 13.3%. Revenue derived from the platform and corporate services segment decreased from approximately RMB78,833,000 in 2022 to approximately RMB12,948,000 in 2023.

During the Year, operating expenses of continuing operation decreased from approximately RMB553,051,000 in 2022 to approximately RMB494,955,000, which was mainly attributable to the decrease of employee expenses and amortization of intangible assets.

During the Year, the impairment loss on the goodwill and intangible assets was approximately RMB1,019,680,000 (2022: approximately RMB26,050,000). The impairment loss (including impairment for goodwill of approximately RMB719 million for this segment for the six months ended 30 June 2023) relates principally to ZOL (under the technology-driven new retain segment), whose financial results could not reach its original expectation. See also "Business Review — Technology-Driven New Retail Segment" below.

The loss from discontinued operations of the Company was approximately RMB774,490,000 in the Year (2022: loss of approximately RMB76,437,000). The loss was mainly associated with the Group's finance services business under the platform and corporate services segment (such business was agreed to be disposed of in November 2023 through the disposal of Huicong Hulian Information Technology Co., Ltd. ("**Huicong Hulian**"). The disposal was completed after the end of the Year, in February 2024). The Group recorded a total loss of approximately RMB586,302,000 resulting from the transaction and the difference between the book value and fair value of the assets held for sales. Impairment loss on financial assets of approximately RMB401,064,000 (2022: RMB85,513,000) was also recognised arising from certain overdue loans receivables, finance lease receivables and accounts receivables from the ordinary and usual course of finance services business prior to its disposal. On the other hand, the effect of the above is partially offset by an other gain of approximately RMB180,746,000 recorded with the completion of the disposal of Tianjin Guokai during the Year.

In accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, the financial results of aforementioned businesses and the relevant impairment expenses for the years ended 31 December 2023 and 2022 were classified as discontinued operations in the Group’s consolidated financial statements.

The loss attributable to equity holders of the Company was approximately RMB1,829,540,000 in the Year (2022: loss attributable to equity holders of the Company of approximately RMB224,306,000). Such increase in loss in the Year was mainly attributable to, among other things: (i) the impairment loss for the goodwill and intangible assets relates to the new technology business and (ii) the loss from discontinued operations (including the amortization of assets from the disposal, and the impairment loss on loan and interest receivables), further discussed above.

With the Group’s determination to re-focus its resources for its core businesses, the Group disposed or discontinued certain parts of its business or historical investment made in the past decades, which lack profitability prospects in recent years. The management believes that such transformation, coupled with the Group’s other measures to lower its gearing ratio, integrating and optimising its resources will better equipped the Group in face of challenges imposed by the macro-economy, and are in line with the long-term strategic goal of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group’s cash and cash equivalent increased by approximately RMB53,659,000 from approximately RMB312,023,000 as at 31 December 2022 to approximately RMB365,682,000 as at 31 December 2023 (out of which approximately 99.6% was denominated in RMB).

As at 31 December 2023, the Group had total external borrowings of approximately RMB406,473,000 (as at 31 December 2022: approximately RMB1,070,277,000), of which approximately RMB150,852,000 (as at 31 December 2022: approximately RMB653,661,000) were bank borrowings, which bore an average interest rate of 4.15% per annum (as at 31 December 2022: 6.43% per annum) and mature in 2024, and approximately RMB255,621,000 (as at 31 December 2022: approximately RMB416,616,000) were other borrowings. In addition, a bank borrowing of approximately RMB487,882,000, which was guaranteed by Group’s subsidiaries and independent third parties of the Group and secured by certain properties held by such independent third parties, was classified as liabilities held for sale. As at 31 December 2023, the Group had undrawn banking facilities of RMB12,000,000 (2022: Nil). Other borrowings as of 31 December 2023 were provided by independent third parties with interest at rates ranging from 3.85% to 12.59% per annum (as at 31 December 2022: 3.85% to 8.0% per annum). The Group’s borrowings were mainly denominated in RMB.

As at 31 December 2023, the Group's bank borrowings of RMB10,000,000 were guaranteed by a subsidiary of the Group and secured by certain properties held by the Group (31 December 2022: RMB50,000,000); and bank borrowings of RMB10,000,000 were guaranteed by certain independent third parties of the Group and secured by an executive director of the Group (31 December 2022: RMB22,000,000).

As at 31 December 2023, other borrowings with a total principal amount of RMB230,000,000 (31 December 2022: same) were provided by an independent third party and with a maturity date on 31 December 2024. This other borrowing is interest-free and secured by certain equity shares of a subsidiary (31 December 2022: same); and other borrowings of RMB10,000,000 provided by an independent third party were guaranteed by a director of a subsidiary of the Group (31 December 2022: Nil).

As at 31 December 2023, the Group was in net asset position, whereas the Group's negative gearing ratio is -19% (calculated as net asset/net debt divided by total capital, net debt is calculated as total borrowings, lease liabilities and other financial liabilities less cash and cash equivalents (including restricted bank deposits) from continuing operations; and total capital is calculated as "equity" as shown in consolidated statement of financial position plus net asset/net debt). The capital and reserves attributable to equity holders of the Company decreased by approximately RMB2,048,708,000 from approximately RMB2,509,118,000 as at 31 December 2022 to approximately RMB560,410,000 as at 31 December 2023.

The Group applies 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 (2022: Nil).

BUSINESS REVIEW

The Group aims to be a leader for "Industrial Internet" in China and it works on this vision 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 the Year, the Group's revenue was generated from its three business segments, namely, the technology-driven new retail segment (approximately 6.6%), the smart industries segment (approximately 93.3%), and the platform and corporate services segment (approximately 0.1%).

Technology-Driven New Retail Segment

The technology-driven new retail segment mainly generates its revenue through the operation of the ZOL website (zol.com.cn, "**ZOL**"), which provides online advertising and marketing services for 3C and living technology products in mainland China.

With the economic downturn, rapid penetration of AI (artificial intelligence) applications and changes in the upstream and downstream ecosystems, ZOL's traditional media business has been significantly impacted. User preferences for communication have quickly shifted from traditional media to short videos and self-media. Customers, especially contract customers, have drastically reduced their advertising budgets for traditional media. AI technology is lowing the barrier to content production, intensifying competition and lowering profitability, which brings the barriers to content production, which in turn intensified competition and unprecedented challenges to traditional media business. During the Year, ZOL struggled in upgrading its services and products, and in exploring new stream of users-base for the website. However, ZOL's plan to draw new customers to its advertising platform and to capitalise on the post-pandemic economic recovery could not meet its original expectations in the second half of the Year, as customers were cautious in making advertising spending. In light of the latest business performance and outlook of ZOL, and a lack of certainty for turning around ZOL's business in the foreseeable future, an impairment for goodwill and other intangible assets relating to the "Online services — B2B2C business" CGU (cash generating unit) of an aggregate of approximately RMB1,019,680,000 (including approximately RMB719 million for the six months ended 30 June 2023) was recognised for the Year to reflect a lower valuation of the equity interests of ZOL. See note 9 to the condensed consolidated annual financial information included in this announcement for more information.

To seek better survival and development opportunities, ZOL will continue to focus on improving the following areas:

— Enhance core capabilities: pursue the development of AIGC with a focus on professional content and building exclusive AI capabilities to achieve both quantity and quality improvements in content production; actively expand the brand operation business of its video platform to help brands reduce their trial-and-error costs and efficiently enter mainstream platforms; optimise APP monetisation capabilities, develop diverse ecosystem cooperation models, and explore customers' needs while accurately and effectively assisting in the decision-making of users.

— Enhance marketing capabilities: provide brands with one-stop, custody offline and online services, helping brands efficiently reach various demographics and amplify brand product visibility; collaborate with industry authorities and social media influencers for joint endorsements, swiftly bolstering brand product credibility; assist brands in customising annual marketing strategies, creating "full business scenario + surprise breakout opportunities".

— Enhance content: a more comprehensive content pool that exponentially expands the decision-making information pool related to purchases of consumer electronic products through processes of writing, gathering, analysing and compiling; generate a combination of content across the whole network matrix, professionally conveying product information, endorsing brands while facilitating the conversion of the target customers' consumption decisions; create viral topics and seek crossover of industry resources to reach a broader range of consumer groups, empowering the breakthrough in brand growth.

Smart Industries Segment

With "Focus" and "Significant verticality" as its operating strategies, the smart industries segment mainly comprises: (i) Shanghai Huijing, a cross-sector supply chain integrated service platform; (ii) PanPass, an Internet of Things ("**IoT**") solutions provider for digital transformation; (iii) Union Cotton, a spot trading platform for cotton; and (iv) ibuychem.com, a centralised purchasing and integrated e-business service provider for chemicals and plastics.

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. It 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.

Beijing PanPass Information Technology Co., Ltd. (北京兆信信息技術股份有限公司) ("**PanPass**") (NEEQ stock code: 430073) is committed to becoming a leading provider of digital identity technology and solution services in China. Based on the "product digital identity management technology" in which PanPass has intellectual property right, PanPass continues to integrate technologies (such as cloud computing, IoT, micro-services, big data and AI) into its comprehensive digital solutions that are closed-loop and converging whole cycle, chains and scenarios from M (materials), F (manufacturing), W (warehouse), B (distributor), b (store) to C (consumer). This has facilitated brand enterprises in achieving digital management services featuring full industry chain traceability, agile supply chain, precise channel control, digital marketing, big data anti-counterfeiting, data insights and decision making. Its products include IoT identification, digital solutions, SaaS services and ancillary products.

During the Year, PanPass showed significant development in its key performance indicators in terms of revenue and net profit. In terms of product and market influence, PanPass has launched the SaaS version 6.0 and professional version 3.0 of All-In-One Code, and upgraded its nationwide regional operation centers in Wuhan, Chengdu and Shanghai. In recognition of its outstanding contributions in food safety traceability, PanPass was awarded four honors at the China Food Safety Conference, including the "Top 50 Food Traceability Service Providers for 2022", "Excellent Food Traceability Supplier for 2022–2023", "Member Enterprise of China Food Circulation Association", and "Participating Unit in the Drafting of Evaluation Method Standards for Food Traceability Information Systems".

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.

Union Cotton has been making timely adjustments to its overall business strategy to focus on the management of its customer base and transaction portfolios since late 2022 in preparation of the intensifying market competition, challenging macro-economic environment and constraints. Efforts were made to attract customers with its transaction portfolios, retain customers through transactions, create value for customers through services, and generate overall operational profits through the scale of transactions. Focusing on "textile industry internet and industry digitalisation", Union Cotton adheres to its digitalised and platform-based supply chain service philosophy of "transaction + comprehensive services", which is centred around the three major pillars of "resources, products, services". With the joint efforts of its staff, Union Cotton was able to solidify its market volume of cotton trading varieties, expand new trading category of polyester fibers, and integrate its procurement resources. These contributes to a significant increase in revenue for the Year. Capitalising on scale and brand advantages to maintain stable sourcing and pricing of cotton and polyester fibres, Union Cotton was able to stabilise its existing customer base, and increased in market share in the Year. In addition, with the brand influence of "Union Cotton" and "Union Cotton Cloud" has enabled Union Cotton to further enhance its influence and business reputation in the cotton textile industry and the industrial internet sector.

"ibuychem.com" is the Group's platform in provision of centralised purchasing and integrated e-business service for upstream and downstream of chemicals materials (such as chemical, plastics and coating). Through the new materials database — YouLiaoKu and the digital marketing tool — Smart Store, we are constructing a multidimensional digital "Trade + Supply Chain Service" new materials marketplace, as well as the professional media information platform — Huizheng Information's integrated media system, and the ibuychem.com Research Institute market index decision system among other value-added services to empower business development.

Platform and Corporate Services Segment

The segment included the financing services business and the business with respect to the e-business platform, hc360.com ("**360 Platform**"), which have been discontinued and/or suspended as of the date of this announcement.

The Group suspended the operation of the 360 Platform in 2022. Closing down of the related entity is in progress during the Year, and is expected to complete by the end of 2024.

During the Year, the Group (through two subsidiaries holding respective licenses) conducted financing services business as part of its ordinary and usual course of business through the provision of micro-credit loans and finance lease in mainland China, principally targeted at SMEs (small and medium-size enterprises and business owner.

In light of the Group's strategy to shift to a more focused approached in terms of using its resources, the difficult operating environment of financing services businesses and the operating costs involved, the Group decided to dispose of the financing services business during the Year. The disposal was completed in February 2024. See also the paragraph headed "Disposal of Huicong Hulian" in this announcement below. The financing services business contributed less than 9% and 0.1% of the Group's revenue in the year ended 31 December 2022 and 2023, respectively and the disposal is not expected to have any material adverse effect to the Group's business operation as a whole.

As of 31 December 2023, the Group's gross balance of outstanding loans receivables to customers from financing services, and finance lease receivables amounted to approximately RMB1,636,085,000 and RMB147,648,000, respectively.

Below sets out an ageing analysis of outstanding gross balance of loans receivables to customers from financing services as of 31 December 2023 and 2022:

	Not overdue	Overdue <90 days	Overdue 91–365	Overdue >365	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2023					
Unsecured loans	985,086	135,750	208,180	66,782	1,395,798
Guaranteed loans	—	—	—	110,559	110,559
Collateralised loans	56,400	—	15,000	58,328	129,728
	1,041,486	135,750	223,180	235,669	1,636,085
At 31 December 2022					
Unsecured loans	1,240,185	4,000	43,250	19,356	1,306,791
Guaranteed loans	—	—	5,000	114,124	119,124
Collateralised loans	150,000	—	—	60,120	210,120
	1,390,185	4,000	48,250	193,600	1,636,035

As of 31 December 2023, approximately 85.31% of the relevant loans in the Group financing services business were unsecured (approximately RMB1,395,798,000); loans backed by collaterals and guaranteed loans represented approximately 7.93% and 6.76%, respectively.

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 following table sets out the outstanding loans to customers of financing services business as of the below dates, indicated by the "Five-Tier Principle" category:

	31 December 2023		31 December 2022	
	RMB'000	***%***	*RMB'000*	*%*
Normal	**1,033,487**	**63.17%**	1,390,185	84.97%
Special-mention	**143,750**	**8.79%**	5,860	0.36%
Substandard	**—**	**0%**	51,901	3.17%
Doubtful	**—**	**0%**	11,200	0.69%
Loss	**458,848**	**28.04%**	176,889	10.81%
Total	**1,636,085**	**100%**	1,636,035	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 RMB216,583,000 as at 31 December 2022 to RMB518,955,000 as at 31 December 2023, 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.

More information about the Group's finance services business (including the business models, loan portfolios and classification, and impairments) will be set out in the Company's 2023 Annual Report to be published in due course.

PROSPECT

The COVID-19 pandemic has brought unprecedented disruption and challenging years for the global economy. Despite the removal of prevention measures and the gradual resumptions of daily life, the general momentum of the global economy is yet to be fully recovered.

Despite facing many challenges, the Group remains optimistic about capturing opportunities. In recent years, the Group has been reviewing its portfolios and development strategy and making adjustment to its business, operating and costs structure. The completion of disposal of Huicong Hulian (which held the Group's financial-related business) evidenced the Group's determination in implementing such strategy, and is an important step towards the Group's goal. To create sustainable business and growth in shareholder value in the long term, the Group is progressively enhancing its operation and corporate structure, and shifting to a more focused approach in terms of use of resources. As part of these steps, we strive to prioritize our core business components, including ZOL, Panpass and Union Cotton with a balance over costs and risks associated with its operations, and to reduce our indebtedness level, in the short to medium term.

SIGNIFICANT EVENT(S)

Proposed Listing of Panpass on Beijing Stock Exchange

On 24 February 2023, the Company announced the proposed listing of PanPass on the Beijing Stock Exchange. It is proposed that PanPass 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. The share allotment by PanPass, if materialises, will constitute a major transaction of the Company. The proposal has been approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 15 May 2023.

PanPass' application for the public offering and listing has been formally accepted by the Beijing Stock Exchange. The application is currently under review of the Beijing Stock Exchange. The proposal is subject to, among other things, approvals from relevant authorities and market conditions, and its terms have not been fixed. The Company will publish further announcement(s) on the proposal as and when appropriate. See also the Company's circular dated 28 April 2023, and its announcements dated 17, 18, 22 and 30 May 2023, 5 September 2023 and 24 November 2023, respectively, for more information.

Change of Chief Executive Officer

Mr. Zhang Yonghong has resigned as the chief executive officer ("**CEO**") of the Company (and remains as an executive Director) with effect from 3 February 2023 to focus on PanPass' business affairs and development. Mr. Liu Jun has been appointed as the CEO with effect from the same date. See also the Company's announcement dated 3 February 2023 for more information.

Amendments of constitutional documents

The Company's memorandum of association and articles of association (the "**Articles**") was amended with effect from 2 June 2023, with the approval of the shareholders by way of a special resolution. The amendments were made with an intent to (among others) conform with the latest Shareholder Protection Standards under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the applicable laws of the Cayman Islands. See also the Company's circular dated 28 April 2023 for more information.

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 a transfer price of RMB300,500,000, payable in five instalments. Further details were set out in the Company's announcement dated 5 January 2021. As disclosed in 2022 Annual Report, Beijing LRH and the Group were in an arbitration proceeding with respect to disputes over the costs associated with the demolition of the properties of Tianjin Guokai's subsidiaries. A ruling was made during the Year for the Group to pay compensation and arbitral expenses of approximately RMB12.6 million. On 15 September 2023, the entire equity interest of Tianjin Guokai was transferred to and registered in the name of Beijing LRH. As Beijing LRH failed to pay the final instalment of the acquisition price as stipulated in the equity transfer agreement, the Group has filed an arbitration claim with the Beijing Arbitration Commission, demanding the payment of the final instalment of RMB75.50 million. The Group, taking into account the advice of its legal advisers, believes that the Beijing Arbitration Commission is likely to rule in favour of the Group in respect of such claim.

Disposal of Huicong Hulian

The Group disposed of its 100% equity interests in Huicong Hulian, pursuant to an equity transfer agreement dated 28 November 2023 entered into among Beijing Huicong Zaichuang Technology Co., Ltd. (a member of the Group, as the transferor), Beijing Zhongli Jinyuan Technology Co., Ltd. (as the purchaser), Huicong Hulian (as the target company) and Beijing Huajianyu Trading Co., Ltd. (as the guarantor of the purchaser) at a cash consideration of RMB5 million. The disposal constituted a major transaction of the Company under Chapter 14 of the Listing Rules, and was approved by the shareholders at the extraordinary general meeting held on 23 February 2024. With the completion of the disposal in February 2024, the Group has substantively ceased its engagement in the financing services business (including its investment in commercial bank). See the Company's circular dated 30 January 2024 for more information.

CAPITAL STRUCTURE

The total number of issued Shares was 1,309,931,119 as at 31 December 2023 (31 December 2022: 1,309,931,119).

As at 31 December 2023, 54,485,706 options under the Company's employees' share option schemes (if exercised, 54,485,706 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 2023, the Group had 764 employees (31 December 2022: 1,028).

Remuneration of employees is generally in line with the market trend and commensurate with the rate in the industry. Other elements of staff remunerations includes incentive-based bonus and other benefits (such as medical insurance, retirement schemes, training programs and educational subsidies, and where suitable, share incentives through share scheme operated by the Company). Total staff costs including director's emoluments from continuing operations for the Year amounted to approximately RMB208,612,000 (2022: RMB273,422,000).

CHARGES ON GROUP ASSETS

As at 31 December 2023, the Group's bank borrowings amounting to RMB10,000,000 were guaranteed by a subsidiary of the Group and secured by certain properties held by the Group (31 December 2022: RMB50,000,000).

Bank borrowings of RMB10,000,000 were guaranteed by certain independent third parties of the Group and secured by an Executive Director of the Group (31 December 2022: RMB22,000,000).

As at 31 December 2023, other borrowings with a total principal amount of RMB230,000,000 (31 December 2022: same) were provided by an independent third party with a maturity date on 31 December 2024. This other borrowing was interest-free and secured by certain equity shares of a subsidiary (31 December 2022: same).

Other borrowings of RMB10,000,000 provided by an independent third party were guaranteed by a director of a subsidiary of the Group (31 December 2022: Nil).

EXCHANGE RATE RISK

The Group's operations are principally in the PRC and majority of the assets and liabilities of the Group are denominated in RMB, the Company believes that the Group is not subject to significant exchange rate risk.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2023 (2022: Nil).

IMPORTANT EVENT(S) AFTER THE PERIOD

Change in Board composition

With effect from 20 March 2024, Mr. Sun Yang (孫洋) resigned as a non-executive Director and as a member of the remuneration committee of the Board. See the Company's announcement dated 20 March 2024 for more information.

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 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 Part 2 of the Corporate Governance Code in Appendix C1 to the Listing Rules in force at the relevant time except for the below.

With effect from 3 February 2023, Mr. Liu Jun (the chairman and an executive Director) has been appointed and acting as the CEO of the Company. Code Provision C.2.1 in Part 2 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Mr. Liu has been overseeing the Group's strategic development, he has extensive experience in the industry and the experience of acting as the CEO. The Company believes that with Mr. Liu acting as the CEO could allow the Group to maintain its efficient planning and implementation of business decisions and strategies under consistent leadership of the current management team without compromising the balance of power and authority. The arrangement could also facilitate a division of work among key management members of the Company by allowing other key management members to devote on key development directions of the Group, and is beneficial to the Group as a whole.

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/her 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, 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 Year 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, 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 LBITDA* 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 2023 and 2022, to the nearest measures prepared in accordance with HKFRS.

	2023	2022
	RMB'000	*RMB'000*
		Represented
Loss from continuing operations	**(1,116,015)**	(153,679)
Share based payment expenses	**17,045**	4,065
Other gains, net	**(26,876)**	(34,581)
Impairment losses on goodwill and intangible assets	**1,019,680**	26,050
Net provision for impairment losses on financial assets	**19,301**	20,259
Adjusted net loss	**(86,865)**	(137,886)
Adjusted for		
Finance cost, net	**1,366**	9,633
Income tax expenses/(credit)	**10,769**	(37,948)
Depreciation and amortisation	**55,332**	134,040
Adjusted LBITDA*	**(19,398)**	(32,161)

* Loss before interest, taxes, depreciation and amortisation from continuing operations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

REVIEW OF FINANCIAL STATEMENTS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary 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 the preliminary announcement.

ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.hcgroup.com). The 2023 Annual Report containing information required by the Listing Rules will be published on the above websites in April 2024.

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

Hong Kong, 26 March 2024

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. 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.

This announcement contains forward-looking statements that reflect the Company's beliefs, plans or expectations. These statements are based on a number of assumptions, current estimates and projections, and subject to inherent risks, uncertainties and other factors which may be beyond the Company's control. The actual outcomes may differ. These statements is not, and shall not be, relied upon as assurance, representation or warranty otherwise. Neither the Company nor its directors, staff, agents, advisers or representatives assume any responsibility to update, supplement, correct these statements or adapt them to future events.