慧聪集团
HC GROUP

HC GROUP INC.
慧聰集團有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 02280)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE 2020 ANNUAL REPORT

Reference is made to the annual report of HC Group Inc. (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2020 (the "**2020 Annual Report**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meaning as defined in the 2020 Annual Report. The Company would like to provide additional information as follows:

As mentioned in the 2020 Annual Report, the Company recognised impairment for goodwill and other intangible assets for the year ended 31 December 2020 over (i) "financing services" cash generating unit (CGU), (ii) "online services – garment industry" CGU, and (iii) "integrated marketing and advertising services" CGU.

The Company tests goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired, and tests impairment for other intangible assets when there are impairment indicators.

Impairment for goodwill and other intangible assets for the year ended 31 December 2020 over financial services CGU

The Company wishes to clarify that Chongqing Digital China Huicong Micro-Credit Co. Ltd (重慶神州數碼慧聰小額貸款有限公司 (the "**Micro-credit company**"), in which the Group held 70% of its equity interests as of 31 December 2020 and as of the date of this announcement) is a non-wholly-owned subsidiary of the Group that is principally engaged in developing and carrying out various types of lending business across the PRC.

As disclosed in the 2020 Annual Report, the impairment provision over the financing services CGU was mainly triggered by the change of circumstance of regulatory requirement for operating micro-lending in PRC in the second half of 2020, particularly, the "Notice on Strengthening the Supervision and Management of Micro-lending Companies" issued by the China Banking and Insurance Regulatory Commission in September 2020 and the change of the regulatory requirement for operating micro-lending business in PRC. The Company considered the revenue projection of the Group company engaging in the micro-credit business (i.e., the Micro-credit company) was adversely affected as its business scale is highly driven by the size of working capital available which in turn is dependent on the shareholder loan provided by the Company from headquarter level and the Micro-credit company's profitability is limited as the Group cannot achieve the high gearing leverage as planned. Adverse change in the macro-environment due to COVID-19 has caused the Group to tighten its risk policies in its micro-credit financing business. As a result, the Company has accordingly downward adjusted the annual revenue growth assumption, particularly the shareholder loan injection amount and the interest rate of the loan products, to reflect the restriction imposed by the regulations.

In the determination of impairment amount, the Company followed the requirement of HKAS 36 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 Company engaged an independent external valuer, Ravia Global Appraisal Advisory Limited, to determine the recoverable amount of this CGU for the year ended 31 December 2020. The discounted cash flow 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 (which is also based on discounted cash flow and need to consider the cost of disposal). Thus, the recoverable amount is determined based on the value-in-use model. In the valuation performed, the assumed annual revenue growth for the ten-financial-year budget has been adjusted from approximately 23% on average (as adopted in the previous valuation in the financial year ended 31 December 2019) to approximately 17% and lower shareholder loan injection from RMB2,200 million to RMB700 million in the ten-year forecast period. Free cash flow was mainly projected by assuming an interest return to total available fund of approximately 13% on average (as compared to approximately 15% on average in the valuation for the financial year ended 31 December 2019) during such ten-financial-year forecast period. A terminal growth rate of approximately 3% was assumed in the discounted cashflow model based on annual inflation rate of approximately 3% as sourced from public data. The cost of equity has been adopted as a basic discount rate for the CGU, which is determined by adopting the Capital Asset Pricing Model ("**CAPM**"). CAPM describes the relationship between the risk associated with certain asset, its market price, and the expected return an investor requires for compensation of taking additional risk.

Other than the downward adjustment of revenue projection and the smaller size of shareholder loan injection mentioned above, and the adjustment of the pre-tax discount rate from approximately 16% for the financial year ended 31 December 2019 to approximately 15% for the financial year ended 31 December 2020 (mainly due to decrease in risk-free rate and market risk premium as sourced from market data), there has been no significant change in the value of inputs or assumptions from those previously adopted by the Company.

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

Hong Kong, 24 September 2021

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

Mr. Liu Jun *(Executive Director and Chairman)*
Mr. Zhang Yonghong *(Executive Director and Chief Executive Officer)*
Mr. Liu Xiaodong *(Executive Director and President)*
Mr. Guo Fansheng *(Non-executive Director)*
Mr. Sun Yang *(Non-executive Director)*
Mr. Lin Dewei *(Non-executive Director)*
Mr. Zhang Ke *(Independent non-executive Director)*
Mr. Zhang Tim Tianwei *(Independent non-executive Director)*
Ms. Qi Yan *(Independent non-executive Director)*