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**HC GROUP INC.**

**慧聪集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 02280)**

**DISCLOSEABLE TRANSACTION AND TRANSACTION WITH  
CONNECTED PERSONS AT SUBSIDIARY LEVEL  
INVESTMENT AGREEMENT  
AND DEEMED DISPOSAL OF INTERESTS IN  
HUIZHOU UNION COTTON AND SHANGHAI UNION COTTON**

**THE INVESTMENT AGREEMENT**

The Board is pleased to announce that on 9 August 2021 (after trading hours), the Company and certain members of the Group entered into the Investment Agreement with HDB Sci-Tech (as the investor) and the remaining Parties. Pursuant to the Investment Agreement, among other things, HDB Sci-Tech has conditionally agreed to make an investment of RMB150,000,000 in cash to Huizhou Union Cotton.

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

## **LISTING RULES IMPLICATIONS**

### **The Transaction**

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Transaction exceeds 5% but all of the percentage ratios are less than 25%, the Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements, but exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

### **The Repurchase Option**

Given that the maximum consideration payable is expected to be approximately RMB246 million in accordance with the formula set out for the Repurchase Option, the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Repurchase Option thereunder exceeds 5% but all of the percentage ratios are less than 25%, the grant of the Repurchase Option constitutes a disclosable transaction for the Company and is subject to the reporting and announcement requirements, but exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

### **Transaction with connected person at the subsidiary level**

As at the date of this announcement, Shanghai Jueshi owns 44.2250% of the equity interests in each of Shanghai Union Cotton and Huizhou Union Cotton (both of which are non-wholly-owned subsidiaries of the Company). Gong Wenlong, which owns 44.45243% equity interests in Shanghai Jueshi, also owns 95% equity interests in Juekun Shanghai. Hence, Shanghai Jueshi and Juekun Shanghai are connected persons of the Company at the subsidiary level. The Investment Agreement constitute a connected transaction of the Company with its connected persons at the subsidiary level. The Investment Agreement has been approved by the Board. The independent non-executive Directors have confirmed that the terms of the Investment Agreement are fair and reasonable, the transaction contemplated thereunder is on normal commercial terms or better and in the interests of the Company and its shareholders as a whole; the Investment Agreement is not part of the ordinary and usual course of business of the Group. Accordingly, the Investment Agreement is subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

**Shareholders and potential investors of the Company should be aware that the transactions contemplated under the Investment Agreement is conditional upon the satisfaction of the conditions precedent set out in the Investment Agreement and may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.**

Principal terms of the Investment Agreement are summarised as follows:

## **THE INVESTMENT AGREEMENT**

### **Date**

9 August 2021

### **Parties to the Investment Agreement**

The subject entity:	Huizhou Union Cotton (an indirect non-wholly owned subsidiary of the Company)
Existing shareholders of the subject entity:	Beijing HC Technology (an indirect wholly-owned subsidiary of the Company)
	Tianjin HC (an indirect wholly-owned subsidiary of the Company)
	Juekun Shanghai
	Shanghai Jueshi
Entity to be transferred:	Shanghai Union Cotton (an indirect non-wholly owned subsidiary of the Company)
Investor:	HDB Sci-Tech
Guarantor:	the Company

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, HDB Sci-Tech and their respective ultimate beneficial owners are Independent Third Parties. Shanghai Jueshi is a substantial shareholder of Shanghai Union Cotton and Huizhou Union Cotton, and hence a connected person of the Company at the subsidiary level. Gong Wenlong, who owns 44.45243% equity interests in Shanghai Jueshi, also owns 95% equity interests in Juekun Shanghai as of the date of this announcement.

## Subject matters

### (1) *Reorganisation of Huizhou Union Cotton and Shanghai Union Cotton*

Beijing HC Technology, Tianjin HC, Juekun Shanghai and Shanghai Jueshi (being the Existing Shareholders) have agreed to transfer their respective equity interests in Shanghai Union Cotton (being 7.1614%, 43.8400%, 4.7736% and 44.2250% equity interests in Shanghai Union Cotton, respectively) to Huizhou Union Cotton; and Huizhou Union Cotton will enlarge its registered capital to RMB350,000,000, which will be owned as to 7.1614% by Beijing HC Technology, 43.8400% by Tianjin HC, 4.7736% by Juekun Shanghai and 44.2250% by Shanghai Jueshi, respectively.

Pursuant to the Investment Agreement, the Existing Shareholders shall contribute its equity interest in Shanghai Union Cotton to Huizhou Union Cotton within 15 business days after the signing of the Investment Agreement and the Company having obtained all required approval and consent in accordance with the Listing Rules and other requirements applicable to the Company as a company listed on the main board of the Stock Exchange (if any); The Existing Shareholders shall apply to the relevant office of the State Administration for Market Regulation for the registration of the change of the registered capital.

### (2) *Investment by HDB Sci-Tech*

HDB Sci-Tech has conditionally agreed to make an investment of RMB150,000,000 in Huizhou Union Cotton. Upon Completion, Huizhou Union Cotton's registered capital will be increased to RMB500,000,000, and it will be owned as to 5.01298% by Beijing HC Technology, 30.688% by Tianjin HC, 3.34152% by Juekun Shanghai, 30.9575% by Shanghai Jueshi and 30% by HDB Sci-Tech, respectively.

Pursuant to the Investment Agreement, HDB Sci-Tech shall contribute the first instalment of the investment amount of RMB100,000,000 in cash to Huizhou Union Cotton within 10 business days following the Existing Shareholders having completed the registration of the change of registered capital of Huizhou Union Cotton described above. The Existing Shareholders and HDB Sci-Tech shall complete ancillary procedures including (without limitation) amendment of articles of association of Huizhou Union Cotton; and shall apply to the relevant office of the State Administration for Market Regulation for the registration of the change of the registered capital, director(s) and equity interests of Huizhou Union Cotton within 30 business days after the receipt of the first instalment of the investment amount.

Pursuant to the Investment Agreement, HDB Sci-Tech shall contribute the second instalment of the investment amount of RMB50,000,000 in cash to Huizhou Union Cotton following (a) HDB Sci-Tech having been registered as a shareholder of Huizhou Union Cotton; (b) the Company having provided and announced its guarantee under the Investment Agreement; and (c) Huizhou Union Cotton having achieved operating revenue of not less than RMB500,000,000 (tax inclusive) in Huizhou.

Huizhou Union Cotton shall apply for the registration of changes with relevant office of the State Administration for Market Regulation within the stipulated timeframe under the Investment Agreement, or HDB Sci-Tech shall have the right to terminate the Investment Agreement and claim for refund of investment fund and liquidated damages.

The consideration of the Transaction (including the reorganisation and the investment) was arrived at after arm's length negotiation among the Parties with reference to, among other things, the Parties' agreed valuation of Shanghai Union Cotton of RMB350 million, taking into account: (i) Shanghai Union Cotton's assets and liabilities (with its net assets of approximately RMB93 million as of 31 December 2020), (ii) its latest business and development, (iii) its potential prospects and growth momentum, including, the targets over Huizhou Union Cotton's performance provided under the Investment Agreement, and the compensation mechanism by way of Repurchase Option provided to HDB Sci-Tech in the event if, among others, Huizhou Union Cotton fails to achieve stipulated performance targets as further detailed in the paragraph headed "Performance targets and Repurchase Option" below, and (iv) the benefits expected to be brought to Huizhou Union Cotton and Shanghai Union Cotton by introducing HDB Sci-Tech as an investor.

The equity holding structure of Huizhou Union Cotton and Shanghai Union Cotton (i) as of the date of this announcement, (ii) after the reorganisation and before the investment, and (iii) immediately after Completion, respectively (without regard to the Repurchase Option), are as follows:

	As of the date of this announcement	After the reorganisation and before the investment	Immediately after Completion
<i>Shareholders of Huizhou Union Cotton</i>			
Beijing HC Technology	7.1614%	7.1614%	5.01298%
Tianjin HC	43.8400%	43.8400%	30.688%
Juekun Shanghai	4.7736%	4.7736%	3.34152%
Shanghai Jueshi	44.2250%	44.2250%	30.9575%
HDB Sci-Tech	–	–	30%
<i>Total percentage (and registered capital)</i>	100% (RMB10,000)	100% (RMB350,000,000)	100% (RMB500,000,000)

*Shareholders of Shanghai Union Cotton*

Beijing HC Technology	7.1614%	–	–
Tianjin HC	43.8400%	–	–
Juekun Shanghai	4.7736%	–	–
Shanghai Jueshi	44.2250%	–	–
Huizhou Union Cotton	–	100%	100%
<i>Total percentage (and registered capital)</i>	100% (RMB63,505,000)	100% (RMB63,505,000)	100% (RMB63,505,000)

Tianjin HC and Shanghai Jueshi are expected to enter into an acting in concert agreement with respect to their shareholdings and voting rights in Huizhou Union Cotton, pursuant to which, among other things, Tianjin HC and Shanghai Jueshi will agree to reach a consensus before exercising their voting rights; and if no consensus could be reached through consultation, the decision made by Tianjin HC prevails.

Huizhou Union Cotton and Shanghai Union Cotton will remain as subsidiaries of the Company following Completion, and their financial results will continue to be accounted for and consolidated into the financial results of the Group.

It is expected that the Transaction would not have significant impact on the Group's consolidated financial results.

### **Conditions precedent**

Completion of the investment is conditional upon, among other things:

- (i) the warranties of the Existing Shareholders, Huizhou Union Cotton, Shanghai Union Cotton and the Company under the Investment Agreement remaining true, complete, accurate and not misleading up to the date of payment by HDB Sci-Tech;
- (ii) the Existing Shareholders, Huizhou Union Cotton, Shanghai Union Cotton and the Company having performed and complied with their respective obligations and undertakings under the Investment Agreement up to the date of payment by HDB Sci-Tech;
- (iii) there is no material adverse changes in the business, operations, assets, financial conditions, litigations, prospects or conditions of Huizhou Union Cotton and Shanghai Union Cotton up to the date of payment by HDB Sci-Tech;
- (iv) there is no equity charge, assets pledge, guarantee, legal proceedings such as litigations, arbitrations, administrative penalties, administrative reconsiderations, claims, etc., or material adverse risks of such potential changes;
- (v) Huizhou Union Cotton and Shanghai Union Cotton having discharged its debts due as disclosed to HDB Sci-Tech, and there is no undisclosed debts, up to the date of payment by HDB Sci-Tech;
- (vi) HDB Sci-Tech having completed the approval procedures with the State-owned Assets Management Center of Daya Bay, and the registration procedures with the Asset Management Association of China with respect to its investment under the Investment Agreement;
- (vii) the Parties having completed all necessary internal approval and authorisation procedures, and the necessary resolutions of the shareholders or board of directors of the Parties on the investment under the Investment Agreement having been approved; and

(viii) Huizhou Union Cotton having been registered as the owner of the entire equity interest in Shanghai Union Cotton, and Shanghai Union Cotton having become a wholly-owned subsidiary of Huizhou Union Cotton.

### **Use of investment fund**

The investment fund shall be used for supplementing the working capital of Huizhou Union Cotton. The Existing Shareholders, Huizhou Union Cotton, etc. shall ensure that the investment funds will be used in the daily operations of Huizhou Union Cotton (unless with the unanimous approval of the shareholders of Huizhou Union Cotton).

### **Transfer during Investment Performance Period**

During the Investment Performance Period, HDB Sci-Tech will be entitled to exit its investment in Huizhou Union Cotton, partially or entirely, by transferring its equity interests in Huizhou Union Cotton to a third party (not being an existing shareholder of Huizhou Union Cotton). The Existing Shareholders and Huizhou Union Cotton shall cooperate with and support HDB Sci-Tech.

If Huizhou Union Cotton introduces any third party investor to facilitate its business strategy and development or its need for initial public offering, and the new investor(s) intends to acquire equity interests from existing shareholder(s) of Huizhou Union Cotton, then HDB Sci-Tech shall have a priority to sell its equity interests to such new investor(s). The quantity of equity interests to be transferred and the transfer price shall be negotiated and agreed between HDB Sci-Tech and such new investor(s), but the price should not be lower than the latest post-money valuation of Huizhou Union Cotton following its latest fund-raising in principle.

During the Investment Performance Period, if Huizhou Union Cotton is being acquired by a third party at a price lower than the sum of (i) the principal investment amount by HDB Sci-Tech and (ii) the return on investment calculated at an annualised rate of return of 8%, the Existing Shareholders shall compensate HDB Sci-Tech of the differences in cash.

Based on the above formula, the maximum of compensation that may be payable by the Existing Shareholders will be approximately RMB60 million if the acquisition take place on the last date of the Investment Performance Period.

### **Performance targets and Repurchase Option**

Huizhou Union Cotton undertakes to HDB Sci-Tech that:

- (i) in the first 3 years of the Investment Performance Period, Huizhou Union Cotton's consolidated operating revenue (tax inclusive) will be not less than RMB10 billion per year in average (out of which not less than 50% (i.e. RMB5 billion per year in average) shall be taxable revenue in Huizhou), and the aggregated operating revenue (tax inclusive) in such 3-year period will exceed RMB30 billion;

- (ii) in the 5 years of the Investment Performance Period, Huizhou Union Cotton’s consolidated operating revenue (tax inclusive) will be not less than RMB12 billion per year in average, and the aggregated operating revenue (tax inclusive) in such 5-year period will exceed RMB60 billion;
- (iii) the eligibility for an initial public offering onshore or offshore will basically be satisfied in the Investment Performance Period; its consolidated operating revenue will breakthrough RMB100 billion in a year within 10 years; Huizhou Union Cotton will endeavour to become a Chinese “textile and chemical internet” listed company with a market capitalization of RMB100 billion; and
- (iv) Huizhou Union Cotton’s net profit (being net profit attributable to the shareholders of Huizhou Union Cotton before or after (whichever is lower) deducting non-recurring gains and losses) will be RMB16,670,000 per year in average in the first 3 years of the Investment Performance Period (that is, RMB50,000,000 in such 3-year period in aggregate); and RMB20,000,000 per year in average in the 5 years of the Investment Performance Period (that is, RMB100,000,000 in such 5-year period in aggregate).

HDB Sci-Tech has the right to request the Existing Shareholders to repurchase the equity interests held by HDB Sci-Tech at the Repurchase Price if Huizhou Union Cotton fails to achieve any one of the following undertakings:

- (i) in the first 3 years in the Investment Performance Period, Huizhou Union Cotton’s aggregate consolidated operating revenue (tax inclusive) will be at least 70% of RMB30 billion (i.e. RMB21 billion), out of which at least 50% (i.e. RMB10.5 billion) shall be taxable revenue in Huizhou;
- (ii) in the 5 years in the Investment Performance Period, Huizhou Union Cotton’s aggregate consolidated operating revenue (tax inclusive) will be at least 70% of RMB60 billion (i.e. RMB42 billion), out of which at least 50% (i.e. RMB21 billion) shall be taxable revenue in Huizhou;
- (iii) Huizhou Union Cotton consolidated net profit (being net profit attributable to the shareholders of Huizhou Union Cotton before or after (whichever is lower) deducting non-recurring gains and losses) will be RMB11,670,000 per year in average in the first 3 years of the Investment Performance Period (that is, RMB35,000,000 in such 3-year period in aggregate); and RMB14,000,000 per year in average in the 5 years of the Investment Performance Period (that is, RMB70,000,000 in such 5-year period in aggregate) (for the purpose of such assessment, net profit exceeding the undertaken amount in a year may be carried forward and be counted as net profit of the next year).

The Repurchase Price shall be calculated as follows:

$$\text{Repurchase Price} = \frac{\text{Investment amount by HDB Sci-Tech}}{\text{Investment Period/365}} \times (1 + 8\% \times \text{Investment Period/365}) - \text{Dividend received by HDB Sci-Tech before the repurchase (if any)}$$



*“Investment Period”*: The actual number of days between (i) the date on which Huizhou Union Cotton having received the first investment amount from HDB Sci-Tech (including that day), and (ii) the date on which HDB Sci-Tech having received the entire Repurchase Price from Huizhou Union Cotton (excluding that day).

HDB Sci-Tech has the right to terminate the Investment Agreement and request the Existing Shareholders to pay the Repurchase Price (together with a default interest at the rate of 0.03%) in the event of default to settle the Repurchase Price by Huizhou Union Cotton.

The Repurchase Price was arrived at after arm’s length negotiation among the Parties with reference to HDB Sci-Tech’s cost of investment in Huizhou Union Cotton, together with a reasonable return calculated based on the length of its investment in the event of Huizhou Union Cotton’s performance not meeting the targeted amount. Based on the above formula, the maximum Repurchase Price will be approximately RMB210 million on the basis that the repurchase takes place by the expiry of the Investment Performance Period.

### **Joint liability with Huizhou Union Cotton**

The Company and Shanghai Jueshi agreed to be liable for any failure in performance by Huizhou Union Cotton of its obligation to repurchase the equity interests.

If Huizhou Union Cotton is unable to obtain the approval from relevant governmental regulatory authority(ies) for a spin-off listing due to the Company, rendering Huizhou Union Cotton unable to complete an usual initial public offering, and thereby causing HDB Sci-Tech unable to exit normally (and where HDB Sci-Tech need to exit in the 3 years after the Investment Performance Period), then the Existing Shareholders and the Company shall be obligated to repurchase HDB Sci-Tech’s equity interests, or to facilitate HDB Sci-Tech’s exit of its investment through introduction of third party investor or other manners. If the Existing Shareholders and the Company are unable to facilitate the completion of exit within 60 days following the issue of an exit notice by HDB Sci-Tech, HDB Sci-Tech shall be entitled to request the Existing Shareholders and the Company to undertakes the repurchase obligation.

Based on the formula referred to above, the maximum Repurchase Price will be approximately RMB246 million if such a repurchase is requested by HDB Sci-Tech on the last date of such further 3-year period after the expiry of the Investment Performance Period.

### **Shareholders’ rights**

#### *Board composition*

The board of directors of Huizhou Union Cotton will comprise of 7 directors, out of which 4 directors will be nominated by Beijing HC Technology and Tianjin HC, 2 directors will be nominated by Juekun Shanghai and Shanghai Jueshi, and 1 director will be nominated by HDB Sci-Tech. The chairman of the board of directors of Huizhou Union Cotton will be nominated by the Existing Shareholders.

The board of supervisors of Huizhou Union Cotton will comprise of 3 supervisors, out of which 2 supervisors (including the chairman of the board of supervisors) will be nominated by the Existing Shareholders, and 1 supervisor will be nominated by HDB Sci-Tech.

*Preferential right to subscribe for new registered capital*

After HDB Sci-Tech having been registered as a shareholder of Huizhou Union Cotton, (i) any increase in registered capital of Huizhou Union Cotton shall be approved by all shareholders (including HDB Sci-Tech and the Existing Shareholders), and (ii) each of HDB Sci-Tech and the Existing Shareholders shall have a preferential right to subscribe for new registered capital in proportion to their respective equity interests in any subsequent increase in registered capital. The Existing Shareholders shall not dilute HDB Sci-Tech's equity interests in Huizhou Union Cotton by reason of enlargement of registered capital except in specified circumstances set out in the Investment Agreement and where shareholders' approval having been obtained.

*Preferential rights in transfer of equity interest by an Existing Shareholder*

An Existing Shareholder shall seek HDB Sci-Tech's prior written consent if it intends to transfer a part of its equity interests in Huizhou Union Cotton (other than transfer of equity interests internally or to members of the team as share incentive), and shall obtain the unanimous consent of all shareholders of Huizhou Union Cotton (including HDB Sci-Tech and the other Existing Shareholders). It shall also ensure that such transfer will not contravene arrangements with respect to core team member service period and non-competition under the Investment Agreement. HDB Sci-Tech and the other shareholders of Huizhou Union Cotton will have the preferential right to acquire the equity interests to be sold on the same terms and conditions.

If an Existing Shareholder intends to transfer its equity interests in Huizhou Union Cotton, HDB Sci-Tech shall have the right to sell its equity interests on the same terms and conditions to such transferee, in preference to the Existing Shareholder. The Existing Shareholders shall not transfer its equity interests in Huizhou Union Cotton if such third party transferee refuses to acquire the equity interest from HDB Sci-Tech.

*Anti-dilution right and preferential right to subscribe*

If Huizhou Union Cotton introduces other third party investor(s), the Existing Shareholders and Huizhou Union Cotton shall ensure that the investment price of such new investor(s) will not be lower than that of HDB Sci-Tech under the Investment Agreement, and value of the equity interests held by HDB Sci-Tech shall have an annualised growth rate equals to or more than 20% on the sum of (i) the valuation prior to HDB Sci-Tech's investment and (ii) HDB Sci-Tech's investment amount under the Investment Agreement. HDB Sci-Tech has the right to request (i) the Existing Shareholders and Huizhou Union Cotton to compensate HDB Sci-Tech of the differences (if any) in cash or (ii) the Existing Shareholders to transfer their corresponding equity interests to HDB Sci-Tech.

After HDB Sci-Tech having completed its investment under the Investment Agreement, it has the preferential right to subscribe on the same price, terms and conditions if Huizhou Union Cotton introduce any new investor or if Huizhou Union Cotton issue new equity interests or securities convertible into equity interests of Huizhou Union Cotton in any manner.

## Non-competition

The Existing Shareholders, Huizhou Union Cotton and Shanghai Union Cotton have undertaken to procure the core team (being its founding team members or senior management team) of Huizhou Union Cotton and Shanghai Union Cotton will not cease their services with Huizhou Union Cotton and Shanghai Union Cotton during the Investment Performance Period, and to ensure members of the core team and Huizhou Union Cotton or Shanghai Union Cotton will enter into service agreement reflecting the above service term and incorporating non-competition undertakings, failure of which will entitle HDB Sci-Tech to require the Existing Shareholders to pay a liquidated damages equivalent to 20% of the post-investment valuation multiplied by the corresponding shareholding percentage of such departing core team member.

The Existing Shareholders have also agreed to provide certain non-competition undertakings while HDB Sci-Tech remains a shareholder of Huizhou Union Cotton under the Investment Agreement, a breach of which will entitle HDB Sci-Tech to request the Existing Shareholders to purchase HDB Sci-Tech's equity interests in Huizhou Union Cotton at the purchase price being the investment amount already paid by HDB Sci-Tech with an investment return calculated at an annualised rate of return of 8%.

## INFORMATION OF HUIZHOU UNION COTTON AND SHANGHAI UNION COTTON

Huizhou Union Cotton was established in the PRC with limited liability on 21 May 2021. It has not commenced any substantial operations before the Transaction. As of the date of this announcement and immediately before the Transaction, it has a registered capital of RMB10,000, with a business scope of: information technology services.

Shanghai Union Cotton was established in the PRC with limited liability on 25 June 2015. As of the date of this announcement and immediately before the Transaction, it has a registered capital of RMB63,505,000. Shanghai Union Cotton and its subsidiaries principal business scopes are: provides integrated B2B e-business service for spot cotton through online platforms, including self-operated online shopping stores, supply-chain financial service and warehouse receipt pledge.

Set out below are the consolidated financial results of Shanghai Union Cotton, prepared in accordance with the PRC accounting standards, for the years ended 31 December 2019 and 2020, respectively:

	<b>For the year ended 31 December 2019</b>	<b>For the year ended 31 December 2020</b>
	<i>(RMB, audited)</i>	<i>(RMB, audited)</i>
Profit before tax	21,023,718.10	10,621,095.69
Profit after tax	20,400,246.23	10,373,398.94

	<b>As of 31 December 2019</b> <i>(RMB, audited)</i>	<b>As of 31 December 2020</b> <i>(RMB, audited)</i>
Total assets	764,861,948.35	893,847,556.06

## INFORMATION OF THE GROUP

The Group endeavours to become the leading industrial internet group in the PRC. By focusing on and integrating advantageous resources, the Group has upgraded its organisational structure, with its business composed of three segments, namely the business groups of technology-driven new retail, smart industries, and platform and corporate services.

Beijing HC Technology is an indirect wholly owned subsidiary of the Company and is principally engaged in innovative technology development, software development and providing business consultation services.

Tianjin HC is an indirect wholly owned subsidiary of the Company and is principally engaged in innovative technology development, software development and providing business consultation services.

## INFORMATION OF OTHER PARTIES

HDB Sci-Tech is a limited partnership established in the PRC with a business scope of: investment activities with its self-owned funds. To the best knowledge of the Company, HDB Sci-Tech is owned as to 50.997% by its limited partner Huizhou Daya Bay Sci-Tech Group Co., Ltd. (惠州大亞灣科創集團有限公司) (“**HDB ST Group**”), as to 48.997% by its limited partner Huizhou Daya Bay Petrochemical Industrial Park Investment Co., Ltd. (惠州大亞灣石化工業區投資有限公司) (“**HDB PII**”), and as to 0.006% by its general partner Huizhou Daya Bay Innovation Investment Management Co., Ltd. (惠州大亞灣創新投資管理有限公司) which is in turns owned by HDB ST Group and HDB PII); The State-owned Assets Management Center of Huizhou Daya Bay Economic and Technological Development Zone (惠州大亞灣經濟技術開發區國有資產管理中心) is the ultimate controller of HDB ST Group and HDB PII.

Both Juekun Shanghai and Shanghai Jueshi are existing shareholders of Huizhou Union Cotton and Shanghai Union Cotton. To the best knowledge of the Company:

- (i) Juekun Shanghai is a company established in the PRC with limited liability, and its equity interests is owned as to 95% by Gong Wenlong and 5% by Gong Chen (who is an Independent Third Party). It is an investment holding company with no other substantive business operation as of the date of this announcement; and
- (ii) Shanghai Jueshi is a company established in the PRC with limited liability; other than Gong Wenlong (who owns 44.45243% equity interests in Shanghai Jueshi), Xiao Shiguo (who owns 11.35% equity interests in Shanghai Jueshi) and Hua Yong (who owns 10% equity interests in Shanghai Jueshi), each of the remaining shareholders of Shanghai Jueshi owns less than 10% equity interest in Shanghai Jueshi (and each of them are Independent Third Parties). It is an investment holding company with no other substantive business operation as of the date of this announcement.

## **REASONS FOR AND BENEFITS OF THE INVESTMENT AGREEMENT**

In October 2020, Shanghai Union Cotton extended its product line and brand strategy. In addition to cotton products, its product line is extended horizontally to cover also polyester fibers and chemical raw materials, and vertically to cover also yarns and grey clothes. At the same time, there is a brand renewal from “Union Cotton” (棉聯) to “Union Cotton Cloud” (棉聯雲), and extension of its key business target area from eastern and northern China to cover the Peal River Delta region additionally, thereby fully embrace the national development strategy of the Guangdong-Hong Kong-Macao Greater Bay Area. This highly fits the starting point of promoting the chemical raw materials business in Daya Bay district of Huizhou, the PRC, and facilitating the growth of local economy.

Huizhou Union Cotton and Shanghai Union Cotton are, and will remain upon Completion, subsidiaries of the Company. The investment fund to be injected into Huizhou Union Cotton by HDB Sci-Tech (being the proceeds from the Transaction) will bring additional working capital to support the daily operations of Huizhou Union Cotton (including without limitation, for its research and development, procurement, production, promotion and marketing, and external investment in support of its business need). This will alleviate the financial pressure brought by the business development of Huizhou Union Cotton, enhance their risks resistance ability and their market competitiveness, and is expected to be beneficial to the business development, capital demand and future plans of Huizhou Union Cotton. The Directors are of the view that the Transaction is beneficial to Huizhou Union Cotton, the Company and its shareholders’ taken as a whole.

Pursuant to the Investment Agreement, the Existing Shareholders will undertake the obligations of the Repurchase Option under certain stipulated scenarios. As Huizhou Union Cotton and Shanghai Union Cotton will remain subsidiaries of the Group following Completion, the Group will continue to control and lead the development of Huizhou Union Cotton and Shanghai Union Cotton. HDB Sci-Tech will provide support for the future development of Huizhou Union Cotton, and is expected to assist Huizhou Union Cotton to develop, and generate greater return for the Group in the future.

Considering: (i) the maximum Repurchase Price of approximately RMB246 million as further described in the paragraph headed “Joint liability with Huizhou Union Cotton” above), and (ii) the benefits expected to be brought by the Transaction and the introduction of HDB Sci-Tech expected as an investor of Huizhou Union Cotton as illustrated above, the Directors are of the view that the risk associated with the Repurchase Option is within its capacity and such risk is fair and reasonable in light of the potential benefits and the future development opportunities.

Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Investment Agreement are on normal commercial terms, fair and reasonable, and the Investment Agreement and the transactions contemplated thereunder (including the Transaction and the Repurchase Option) are in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

### **The Transaction**

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Transaction exceeds 5% but all of the percentage ratios are less than 25%, the Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements, but exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

### **The Repurchase Option**

The exercise right of the Repurchase Option is vested with HDB Sci-Tech. The Repurchase Option will be treated as if exercised at the time of its grant pursuant to Rule 14.74(1) of the Listing Rules. Given that the maximum consideration payable is expected to be approximately RMB246 million in accordance with the formula set out for the Repurchase Option, the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Repurchase Option thereunder exceeds 5% but all of the percentage ratios are less than 25%, the grant of the Repurchase Option constitutes a disclosable transaction for the Company and is subject to the reporting and announcement requirements, but exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

### **Transaction with connected person at the subsidiary level**

As at the date of this announcement, Shanghai Jueshi owns 44.2250% of the equity interests in each of Shanghai Union Cotton and Huizhou Union Cotton (both of which are non-wholly-owned subsidiaries of the Company). Gong Wenlong, which owns 44.45243% equity interests in Shanghai Jueshi, also owns 95% equity interests in Juekun Shanghai. Hence, Shanghai Jueshi and Juekun Shanghai are connected persons of the Company at the subsidiary level. The Investment Agreement constitute a connected transaction of the Company with its connected persons at the subsidiary level. The Investment Agreement has been approved by the Board. The independent non-executive Directors have confirmed that the terms of the Investment Agreement are fair and reasonable, the transactions contemplated thereunder are on normal commercial terms or better and in the interests of the Company and its shareholders as a whole; the Investment Agreement is not part of the ordinary and usual course of business of the Group. Accordingly, the Investment Agreement is subject to the reporting and announcement requirements but are exempt from the circular, independent financial advice and shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

As none of the Directors is regarded as having a material interest in the transactions contemplated under the Investment Agreement (including the Transaction and the Repurchase Option), none of the Directors is required to abstain from voting on the Board resolutions approving the transactions contemplated under the Investment Agreement.

**Shareholders and potential investors of the Company should be aware that the transactions contemplated under the Investment Agreement is conditional upon the satisfaction of the conditions precedent set out in the Investment Agreement and may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.**

## DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“Beijing HC Technology”	Beijing Huicong Zaichuang Technology Co., Limited (北京慧聰再創科技有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Board”	the board of directors of the Company
“Company”	HC Group Inc., a company incorporated with limited liability under the laws of the Cayman Islands, the Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Transaction pursuant to the terms of the Investment Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	director(s) of the Company
“Existing Shareholders”	the existing shareholders of Huizhou Union Cotton and of Shanghai Union Cotton as of the date of this announcement and immediately before the Transaction, namely, Beijing HC Technology, Tianjin HC, Juekun Shanghai and Shanghai Jueshi
“Group”	the Company and its subsidiaries as at the date of this announcement
“HDB Sci-Tech”	Huizhou Daya Bay Sci-Tech No. 2 Investment Partnership Enterprise (Limited Partnership) (惠州大亞灣區科創二號投資合夥企業(有限合夥)), a limited partnership established in the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Huizhou Union Cotton”	Huizhou Union Cotton Cloud Technology Co., Limited (惠州市棉聯雲科技有限公司), a limited liability company established in the PRC and an indirect non-wholly owned subsidiary of the Company

“Independent Third Party(ies)”	third party independent of and not connected with the Company and its connected persons
“Investment Agreement”	the investment agreement in relation to Huizhou Union Cotton entered into among the Parties dated 9 August 2021
“Investment Performance Period”	a period of 5 years commencing from the beginning of the next calendar month after HDB Sci-Tech having fully paid the entire investment fund
“Juekun Shanghai”	Juekun (Shanghai) Technology Development Co., Limited (覺鵬(上海)科技發展有限公司), a limited liability company established in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parties”	the Existing Shareholders, Huizhou Union Cotton, Shanghai Union Cotton, the Company and HDB Sci-Tech, being parties to the Investment Agreement
“PRC”	the People’s Republic of China which, for the purposes of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Repurchase Price”	the repurchase price to be paid upon the exercise of the Repurchase Option pursuant to the Investment Agreement
“Repurchase Option”	the rights of HDB Sci-Tech to require the repurchase of its equity interests in Huizhou Union Cotton pursuant to the Investment Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Jueshi”	Shanghai Jueshi Network Technology Co., Limited (上海覺獅網路科技有限公司), a limited liability company established in the PRC
“Shanghai Union Cotton”	Shanghai Mianlian E-Commerce Co., Limited (上海棉聯電子商務有限公司), a limited liability company established in the PRC and an indirect non-wholly owned subsidiary of the Company
“Share(s)”	the share(s) of the Company
“Shareholder(s)”	holder(s) of Share(s)



“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianjin HC”	Tianjin Huicong Technology Co., Limited (天津慧聰科技有 限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
“Transaction”	the reorganisation of Huizhou Union Cotton and Shanghai Union Cotton, and the investment by HDB Sci-Tech in Huizhou Union Cotton contemplated under the Investment Agreement

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

By order of the Board  
**HC GROUP INC.**  
**Liu Jun**  
*Chairman*

Beijing, PRC, 9 August 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*)