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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)

PROPOSED AMENDMENT TO TERMS AND CONDITIONS OF CONVERTIBLE BONDS

On 31 December 2019 (after trading hours), the Company entered into the Amendment Agreement with the Bondholder pursuant to which the Company and the Bondholder have conditionally agreed to amend the conversion price under the Convertible Bonds from the Initial Conversion Price of HK\$6.00 per Conversion Share to the Adjusted Conversion Price of HK\$4.50 per Conversion Share.

As at the date of this announcement, no Conversion Shares have been issued pursuant to the Convertible Bonds. Based on the Adjusted Conversion Price and assuming full conversion of the Convertible Bonds at the Adjusted Conversion Price, the Convertible Bonds will be convertible into 22,222,222 Conversion Shares, representing approximately 1.98% of the issued share capital of the Company as at the date of this announcement and approximately 1.95% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

The Conversion Shares will be allotted and issued pursuant to the General Mandate granted to the Directors at the annual general meeting of the Company held on 24 May 2019 and will rank pari passu in all respects with the existing Shares in issue.

LISTING RULES IMPLICATIONS

Pursuant to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. The Company will apply to the Stock Exchange for its approval of the Proposed Amendment pursuant to the requirements under the Listing Rules.

GENERAL

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Conversion Shares.

The Proposed Amendment is subject to the satisfaction of the conditions precedent under the Amendment Agreement, which may or may not proceed. Shareholders and potential investors are therefore reminded to exercise caution when dealing in the Shares.

BACKGROUND

Reference is made to the announcement of the Company dated 16 November 2018 (the “**Announcement**”) in respect of, among other things, the issue of the Convertible Bonds pursuant to the Investment Agreement. The Convertible Bonds in the principal amount of HK\$100,000,000 had been issued on 3 December 2018.

On 31 December 2019 (after trading hours), the Company entered into the Amendment Agreement with the Bondholder pursuant to which the Company and the Bondholder have conditionally agreed to amend the conversion price under the Convertible Bonds from the Initial Conversion Price to the Adjusted Conversion Price. Details of the Amendment Agreement are set out below:

THE AMENDMENT AGREEMENT

Date

31 December 2019

Parties

Issuer : The Company
Bondholder : Chance Talent Management Limited

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Bondholder and its ultimate beneficial owners are Independent Third Parties and is principally engaged in investment holding.

Proposed Amendment

Pursuant to the Amendment Agreement, the Company and the Bondholder have conditionally agreed to amend the conversion price under the Convertible Bonds from the Initial Conversion Price to the Adjusted Conversion Price. Save and except for the Proposed Amendment, all the terms and conditions of the Bond Instrument shall remain unchanged.

The Adjusted Conversion Price of HK\$4.50 represents:

- (a) a discount of approximately 25% over the Initial Conversion Price of HK\$6.00 per Conversion Share;
- (b) a premium of approximately 94.81% over the closing price of HK\$2.31 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a premium of approximately 92.80% over the average closing price of HK\$2.334 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day; and
- (d) a premium of approximately 84.12% over the average closing price of HK\$2.444 per Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day.

Conditions precedent

The Proposed Amendment is subject to the fulfillment of the following conditions:

- (a) the Stock Exchange having approved the Proposed Amendment under the Amendment Agreement pursuant to the Listing Rules;
- (b) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Conversion Shares to be issued upon a conversion of the Convertible Bonds in accordance with the Bond Instrument as amended and supplemented by the Amendment Agreement;
- (c) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Proposed Amendment having been obtained; and
- (d) the Investor having received all of the conditions precedent documents and evidence set out in the Amendment Agreement.

Security

To secure the obligations of the Company under the Amendment Agreement and the Convertible Bonds, the Guarantors have entered into a pledge agreement to pledge the shares of its Pledged Subsidiary in favour of the Bondholder.

Two of the Subsidiary Guarantors have entered into an agreement with the Bondholder to release the pledge of Shanghai Huifa Information Technology Co., Ltd.* (上海慧發信息技術有限公司) and Zhejiang Huiyase Information Technology Co., Ltd.* (浙江慧亞瑟信息技術有限公司).

GENERAL MANDATE TO ISSUE THE CONVERSION SHARES UPON CONVERSION OF THE CONVERTIBLE BONDS

As at the date of this announcement, no Conversion Shares have been issued pursuant to the Convertible Bonds. Based on the Adjusted Conversion Price and assuming full conversion of the Convertible Bonds at the Adjusted Conversion Price, the Convertible Bonds will be convertible into 22,222,222 Conversion Shares, representing approximately 1.98% of the issued share capital of the Company as at the date of this announcement and approximately 1.95% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.

At the annual general meeting held on 24 May 2019, the Directors were granted authority to issue up to 224,170,442 Shares, representing 20% of the total number of Shares of the Company in issue as at the date of the annual general meeting. The Company has not issued any Shares pursuant to such authority. As the total number of Conversion Shares that may fall to be issued upon the exercise of the Convertible Bonds will fall within the limit of the authority, no Shareholders' approval will be required to approve the issue or the conversion of the Convertible Bonds.

EQUITY FUND RAISING ACTIVITIES OF THE COMPANY IN THE LAST 12 MONTHS

The Company has not carried out any other equity fund raising exercise in the twelve months immediately preceding the date of this announcement.

SHAREHOLDING STRUCTURE OF THE COMPANY

For illustration purpose, the table below sets out the shareholding structure of the Company (a) as at the date of this announcement; and (b) immediately upon full conversion of the Convertible Bonds at the Adjusted Conversion Price; assuming there being no other change in the issued share capital and shareholding structure of the Company since the date of this announcement and none of the other convertible note or warrants has been exercised/converted:

Shareholder	As at the date of this announcement		Assuming full conversion of the Convertible Bonds	
	No. of Shares	% of the issued share capital of the Company (approximately)	No. of Shares	% of the issued share capital of the Company (approximately)
Directors and their associates				
Liu Jun	50,220,000	4.48%	50,220,000	4.39%
Liu Xiaodong (<i>Note 1</i>)	62,273,794	5.56%	62,273,794	5.45%
Guo Fansheng (<i>Note 2</i>)	57,749,015	5.15%	57,749,015	5.05%
Li Jianguang (<i>Note 3</i>)	32,000,384	2.86%	32,000,384	2.80%
Substantial Shareholders:				
Digital China Holdings Limited and its associates (<i>Note 4</i>)	253,671,964	22.64%	253,671,964	22.20%
Bondholder	–	–	22,222,222	1.94%
Public Shareholders	664,637,053	59.31%	664,637,053	58.16%
Total:	1,120,552,210	100%	1,142,774,432	100%

Notes:

- Such interest in the Company is held by Wisdom Limited, a company wholly-owned by Mr. Liu Xiaodong.
- Such interest in the Company comprises: (a) 35,000,000 Shares held by Mr. Guo Fansheng; and (b) 22,749,015 Shares held by a trustee of a trust of which Mr. Guo Fansheng is a beneficiary.
- The references to 32,000,384 Shares relate to the same block of shares of the Company held by Venture Profits Holdings Limited, the entire share capital of which is held by Malvern PTC Limited, a trustee of a trust of which Mr. Li Jianguang is a founder of a discretionary trust who can influence how the trustee exercise his discretion. Accordingly, Mr. Li Jianguang is deemed, or taken to have, interested in the said 32,000,384 Shares pursuant to the Securities and Futures Ordinance.
- Such interest in the Company comprises: (a) 230,263,964 Shares held by Talent Gain Developments Limited and (b) 23,408,000 Shares held by Unique Golden Limited, respectively. Unique Golden Limited is wholly and beneficially owned by Talent Gain Developments Limited, which in turn is wholly and beneficially owned by Digital China (BVI) Limited, which ultimately is wholly and beneficially owned by Digital China Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 00861).

REASONS FOR THE ISSUANCE OF THE CONVERTIBLE BONDS AND USE OF PROCEEDS

The Group endeavours to become the leading industrial internet groups in the PRC. By focusing on and integrating advantageous resources, the Group has upgraded its organizational structure, with its business composed of three segments, namely the business groups of technology-driven new retail, smart industries, and platform and corporate services. The Convertible Bonds represents an opportunity for the Company to raise funds for the development of its operations.

With reference to the prevailing market price of the Shares, the Proposed Amendment was determined after arm's length negotiations between the Company and the Bondholder. The Directors (including the independent non-executive Directors) consider that the Proposed Amendment is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As the Adjusted Conversion Price represents a less premium to the prevailing market price of the Shares when compared to the Initial Conversion Price, the chance of conversion of the Convertible Bonds is less remote. If the Convertible Bonds are converted into Shares, the financial position of the Group will be strengthened with the conversion of debt into equity capital and the pressure on the Company's liquidity and cash flow can be reduced.

LISTING RULES IMPLICATIONS

According to Rule 28.05 of the Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. The Company will apply to the Stock Exchange for its approval of the Proposed Amendment pursuant to the requirements under the Listing Rules.

GENERAL

Application will be made by the Company to the Listing Committee of the Stock Exchange for the grant of the listing of, and permission to deal in, the Conversion Shares.

The Proposed Amendment is subject to the satisfaction of the conditions precedent under the Amendment Agreement, which may or may not proceed. Shareholders and potential investors are therefore reminded to exercise caution when dealing in the Shares.

DEFINITIONS

The following terms have the following meanings in this announcement unless the context otherwise requires:

“Adjusted Conversion Price”	HK\$4.50, being the adjusted price for conversion of the Convertible Bonds pursuant to the Amendment Agreement, which is subject to adjustment pursuant to the terms and conditions of the Bond Instrument
“Amendment Agreement”	the supplemental deed dated 31 December 2019 entered by the Company with the Bondholder in relation to the Proposed Amendment
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholder”	Chance Talent Management Limited (it and its ultimate beneficial owners are Independent Third Parties)
“Bond Instrument”	the instrument constituting the Convertible Bonds
“Company”	HC Group Inc., a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Conversion Shares”	the new Shares to be allotted and issued by the Company upon the exercise of the conversion rights attaching to the Convertible Bonds as amended and supplemented by the Amendment Agreement
“Convertible Bonds”	the 2.85% plus HIBOR guaranteed and secured convertible bonds due 2020 issued by the Company to the Bondholder as disclosed in the Company’s announcements dated 16 November 2018 and 4 December 2018
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 24 May 2019 to allot, issue and deal with up to 20% of the then issued share capital of the Company as at 24 May 2019, being 224,170,442 Shares

“Group”	the Company and its subsidiaries
“Guarantor”	Huide Jiamei Technology Co., Ltd.* (慧德嘉美科技有限公司), an associate of the Company in the PRC
“HIBOR”	the Hong Kong interbank offered rate administered by the Treasury Markets Association for Hong Kong dollars
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	person or company which is independent of and not connected with (within the meaning of the Listing Rules) any of the directors, chief executive and substantial shareholders (within the meaning of the Listing Rules) of the Company, any of its subsidiaries or any of their respective associates
“Initial Conversion Price”	HK\$6.00, being the initial price for conversion of the Convertible Bonds, which is subject to adjustment pursuant to the terms and conditions of the Bond Instrument
“Investment Agreement”	the agreement dated 16 November 2018 between the Company and the Bondholder
“Last Trading Day”	31 December 2019, being the date of the Amendment Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Notes”	the 2.85% guaranteed and secured notes due 2020 issued by the Company
“Pledged Subsidiary”	Guangzhou Huicong Jiadiancheng Investment Limited* (廣東慧聰家電城投資有限公司), an indirect non-wholly owned subsidiary of the Subsidiary Guarantor in the PRC
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macau Administrative Region of the PRC and Taiwan

“Proposed Amendment”	the proposed amendment to the terms and conditions of the Convertible Bonds pursuant to the Amendment Agreement
“Share(s)”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary Guarantors”	five subsidiaries of the Company which have pledged their shares as security for the Notes and the Convertible Bonds
“%”	per cent

By Order of the Board
HC GROUP INC.
Liu Jun
Chairman

Hong Kong, 31 December 2019

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. Li Jianguang (*Non-executive Director*)
Mr. Sun Yang (*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*)

* *For identification purposes only*