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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)

**POSSIBLE DEEMED DISPOSAL AND MAJOR TRANSACTION
IN RELATION TO THE PROPOSED LISTING OF BEIJING PANPASS
ON BEIJING STOCK EXCHANGE**

It is proposed that Beijing Panpass (an indirect non-wholly owned subsidiary of the Company) will issue new shares on the BSE by way of an initial public offering to unspecified qualified investors, or other methods as requested or agreed by the CSRC, subject to (among other things) approvals by relevant PRC regulators.

Allotment of shares by Beijing Panpass in the Proposal, if materialised, will constitute a deemed disposal of the interest in a subsidiary of the Group under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules based on the expected size of the Deemed Disposal may be higher than 25% but less than 75%, the Deemed Disposal may constitute a major transaction of the Company under Chapter 14 of the Listing Rules. The Company therefore seeks the approval of the Shareholders for the Deemed Disposal under Chapter 14 of the Listing Rules.

A circular containing, among other things, (i) information on the Proposal (including the Deemed Disposal); (ii) other information as required under the Listing Rules; and (iii) a notice of the EGM, is expected to be despatched to the Shareholders on or before 31 March 2023.

Reference is made to the Company's announcement dated 10 January 2023 regarding the submission of listing counselling materials by Beijing Panpass.

THE PROPOSAL

It is proposed that Beijing Panpass will issue new shares on the BSE by way of an initial public offering to unspecified qualified investors, or other methods as requested or agreed by the CSRC, subject to (among other things) approvals by relevant PRC regulators. The actual number of shares to be offered by Beijing Panpass will depend on the market conditions and the relevant rules and regulations of the CSRC as amended from time to time.

Sets out below is a summary of the proposed offering structure of the Proposal:

Issuer:

Beijing Panpass (an indirect non-wholly owned subsidiary of the Company)

Target subscribers:

Qualified investors who have completed and obtained the authorisation for dealing of securities of companies listed on the BSE (except those who are prohibited to subscribe under laws, regulations and regulatory documents).

The subscribers of the Panpass Shares in the Proposal are expected to be Independent Third Parties.

Expected size of the offer:

The number and offer price of Panpass Shares to be offered under the Proposal are not yet determined at this stage. It will be determined between Beijing Panpass and the lead underwriter(s) of the Panpass Listing at a time closer to the allotment, based on the prevailing market conditions, and relevant rules and regulations.

Subject to the approval of the BSE and registration with the CSRC, it is expected that the number of Panpass Shares to be offered will be: (i) not more than 23,575,000 Panpass Shares (without taking into account exercise of any over-allotment option which may be granted); or (ii) not more than 27,111,250 Panpass Shares (assuming full exercise of any over-allotment option which may be granted). Upon completion of the Panpass Listing, at least 25% of the share capital of Panpass shall be held by public shareholders. Beijing Panpass and the lead underwriter(s) will determine whether the over-allotment option is to be exercised based on the actual prevailing circumstances at the time of the allotment.

Based on information currently available, it is expected that the offer price will be not lower than RMB6.5 per Panpass Share. Such minimum offer price is determined with reference to, among other things, the historical operating results and financial performance, its business prospects, growth potential, future plans and capital needs of Beijing Panpass, and the prevailing market conditions. Beijing Panpass may adjust the minimum price if there is substantial change in the market conditions.

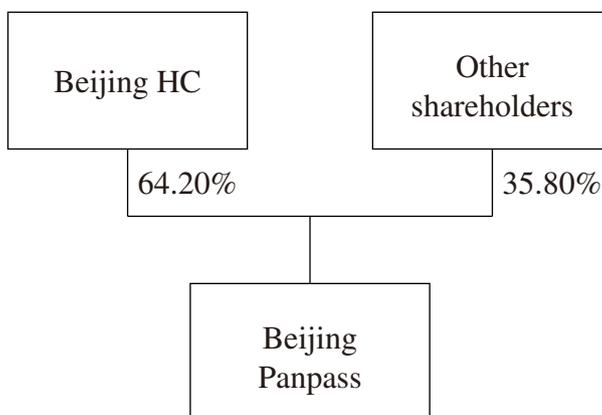
The final offer price will be determined between Beijing Panpass and its lead underwriter(s) through arm's length negotiation based on (among other things) the responses from the online bidding by qualified investors and offline price consultation, and/or other methods recognised by the CSRC and the BSE. In determining the final offer price, Beijing Panpass will take into account the above factors prevailing at that time, the price consultation results, trading multiples of companies listed on the BSE and in similar industries.

The Company will make further announcement(s) as appropriate after the information relating to the final offer price and number of Panpass Shares to be offered is available.

Effect on the Group's shareholding in Beijing Panpass

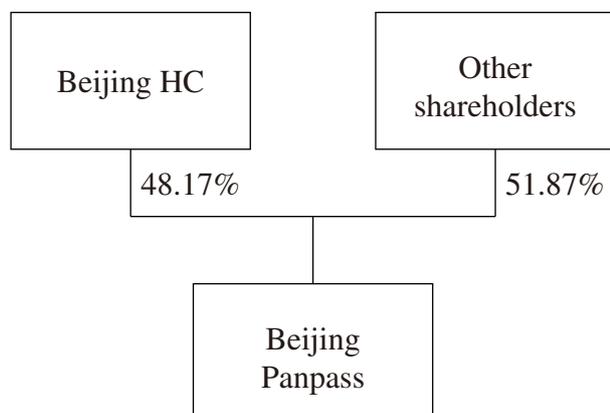
As of the date of this announcement, the Company indirectly holds 45,405,734 Panpass Shares (representing approximately 64.20% of the issued share capital of Beijing Panpass). Set out below are simplified diagrams illustrating the Group's shareholding in Beijing Panpass as of the date of this announcement and upon completion of the Proposal:

As of the date of this announcement:

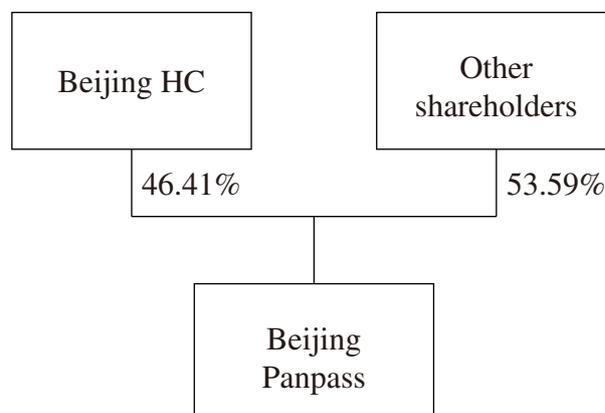


Upon the completion of the Proposal:

*If the over-allotment option (if any)
is not exercised:*



*If the over-allotment option (if any)
is fully exercised:*



Notes:

1. Assuming (a) the maximum number of Panpass Shares under the Proposal will be issued, and (b) except for the Proposal, there being no changes in the shareholding in Beijing Panpass from the date of this announcement up to the completion of the Proposal.
2. Figures are subject to rounding.
3. The Panpass Shares are currently quoted on the NEEQ. So far as the Company is aware of, as of the date of this announcement, other shareholders of Beijing Panpass includes (but not limited to): Beijing Xingshi Investment Management Center (Limited Partnership) (19.80%); Tianjin Juxin Zhongcheng Information Consultation Partnership (Limited Partnership) (“JXZC”) (8.81%); senior management and employees of Beijing Panpass (4.28% in aggregate).

Zhang Yonghong (an executive Director and a senior management of Beijing Panpass) holds 40% partnership interest in JXZC. Other partners holding 59% partnership interest in JXZC are senior management and employees of Beijing Panpass.

Indicative timetable of the Proposal

Beijing Panpass has appointed a sponsor for the Proposal. It has submitted the listing counselling materials to the Beijing Supervisory Office of the CSRC on 10 January 2023. The counselling is expected to be completed in the second quarter of 2023. Beijing Panpass currently intends to convene a general meeting to seek its shareholders’ approval and authorisation regarding the Proposal and related matters (such as amending its articles of association), and expects to submit the application to the BSE in the second quarter of 2023. As at the date of this announcement, no formal application for the Panpass Listing has been filed with the relevant regulatory authorities in the PRC.

The Panpass Shares will cease to be quoted on NEEQ on the first day of listing on the BSE.

Shareholders and potential investors are reminded that the above timetable is estimated by Beijing Panpass for reference only. There is no assurance that the Proposal will complete according to the timetable, or at all.

Conditions of the Proposal

The Proposal will be conditional upon, among other things, the following:

- (a) approval of the Deemed Disposal by the Shareholders at the EGM;
- (b) approval of the Proposal by the board of directors and the shareholders of Beijing Panpass;
- (c) approval and/or registration of the BSE and the CSRC in relation to the Panpass Listing;
- (d) Beijing Panpass having satisfied all applicable listing conditions (including applicable financial performance requirements); and
- (e) any other PRC regulatory approvals required by the relevant laws and regulations.

As at the date of this announcement, the Proposal has been approved by the board of directors of Beijing Panpass. None of the above conditions is waivable. If any one of the conditions is not fulfilled, the Proposal will not proceed.

Lock up and non-competition undertakings

As required by the relevant listing rules of the BSE, Beijing HC (an indirect wholly-owned subsidiary of the Company, and the direct controlling shareholder of Beijing Panpass) will undertake that (among other things):

- (a) for the period commencing from the date on which the Proposal is approved by the shareholders of Beijing Panpass at a general meeting, up to the date on which the Panpass Shares are listed on the BSE (the “**BSE Listing Date**”) (unless the Proposal is terminated earlier), it will not dispose of any Panpass Shares;
- (b) for a period of 12 months commencing from the BSE Listing Date (the “**Lock-up Period**”), it will not reduce its shareholding in Beijing Panpass, it will not entrust other party to manage its Panpass Shares, or dispose of or otherwise affect the rights attached to those Panpass Shares. The Lock-up Period will be automatically extended for a further six-month period if, within six months of the BSE Listing Date, the closing price of the Panpass Shares for 20 consecutive trading days are lower than the offer price;

- (c) for a period of 24 months after the expiry of the Lock-up Period, it will not transfer its Panpass Shares at a price lower than the offer price; and
- (d) it will not directly or indirectly control, invest or engage in any other manner any business or activity which competes or may compete with the business of Beijing Panpass; and it will not produce any products which are the same as (or similar to) those produced by Beijing Panpass.

Other undertakings, documents or agreements required by the relevant listing rules of the BSE, or which are customarily provided by an issuer and/or controlling shareholder of an issuer (as may be applicable) in a transaction of similar nature will also be entered into by the Group as part of the Proposal.

Intended use of proceeds

The net proceeds from the Proposal cannot be determined yet at this stage as the exact offer price and the size of the Proposal are not determined.

Assuming that 27,111,250 Panpass Shares are to be issued at the offer price of RMB6.5 each (being the maximum number of Panpass Shares and the minimum offer price under the Proposal), the gross proceeds to be raised by Beijing Panpass will be approximately RMB176 million. Beijing Panpass currently intends to apply the net proceeds from the Proposal (after deducting related expenses) on, among other things, (i) as to approximately 51%, the project of upgrading its digital management platform for large and medium-sized enterprises, (ii) as to approximately 38%, the project of upgrading its digital identity management SaaS platform for medium and small-sized enterprises, and (iii) as to approximately 11%, the project of upgrading its research center. Residual proceeds, if any, will be applied on the Panpass Group's principal business, or otherwise in compliance with the relevant requirements of the CSRC or the BSE.

INFORMATION OF BEIJING PANPASS

Beijing Panpass is a non-wholly owned subsidiary of the Group. Its shares are currently quoted on the Innovation Tier of the NEEQ (NEEQ stock code: 430073). As of the date of this announcement, Beijing Panpass has a registered capital of RMB70,725,000, divided into 70,725,000 Panpass Shares. Beijing HC (an indirect wholly-owned subsidiary of the Company) holds approximately 64.20% of Beijing Panpass' issued share capital as of the date of this announcement.

Panpass Group is a part of the Group's smart industries segment. It is a unique identification digitalization solution provider. Based on the "product digital identity management technology" in which Beijing Panpass has intellectual property right, Beijing Panpass provides end-consumer products industry with digitalization solutions covering the entire product life cycle, SaaS software and services, and labeling products.

Below summarises selected consolidated financial information of the Beijing Panpass prepared under the PRC Generally Accepted Accounting Principles for the periods/dates indicated:

	Year ended 31 December		Six months
	2020	2021	ended 30 June
	(RMB'000, audited)	(RMB'000, audited)	(RMB'000, unaudited)
Net profit (before taxation and extraordinary items)	4,454	25,562	3,994
Net profit (after taxation and extraordinary items)	4,333	25,466	3,976
Revenue	154,046	224,282	88,640
	As of 31 December		As of 30 June
	2020	2021	2022
	(RMB'000, audited)	(RMB'000, audited)	(RMB'000, unaudited)
Total assets	137,774	253,482	234,166
Net assets	99,407	197,784	181,957

It is expected that Beijing Panpass will continue to be regarded as a subsidiary of the Group and its financial results will continue to be accounted for and consolidated into the financial results of the Group upon completion of the Proposal. It is expected the Deemed Disposal would not result in disposal gain or loss on the Group's consolidated financial results.

INFORMATION OF THE GROUP

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 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.

REASONS FOR AND THE BENEFITS OF THE PROPOSAL AND THE DEEMED DISPOSAL

The Panpass Shares have been quoted on the NEEQ since September 2010. The Group believes that Beijing Panpass' listing on the BSE is commercially beneficial to the Company and Beijing Panpass. The Company believes that the Proposal will strengthen Beijing Panpass' competitiveness and market position in the innovative industry, and contribute to its long-term development. The listing on BSE will enable Beijing Panpass to further enhance its corporate branding and identity, revealing a clearer picture to the public, potential investors and business partners of its business and operations. The Proposal could provide Beijing Panpass a broader and more diversified shareholders base in the long run, and enhance its corporate governance standard, bringing additional value and facilitate the growth of Beijing Panpass.

The Proposal would bring Beijing Panpass proceeds for its development and expansion, provide Beijing Panpass a broader fundraising platform in the capital market, and improve its financial flexibility and resources.

While there will be dilution in the Group's shareholdings in Beijing Panpass as a result of the Proposal, the Group will retain control over Beijing Panpass immediately following the Panpass Listing and the financial results of the Panpass Group will continue to be consolidated into the accounts of the Company. The Group believes that the Proposal will allow the Group (who will remain as Beijing Panpass' controlling shareholder) and the Shareholders to enjoy the enhanced value of Beijing Panpass.

Having considered the benefits of the Proposal, its terms and how the offer size and offer price will be determined, the Directors believe that the terms of the Proposal (including the Deemed Disposal) will be fair and reasonable, and the Proposal (including the Deemed Disposal) is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As part of the Proposal, Beijing Panpass will allot Panpass Shares, which will reduce the Group's shareholding in Beijing Panpass. Such allotment, if materialised, will constitute a deemed disposal of the interest in a subsidiary of the Group under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules based on the expected size of the Deemed Disposal may be higher than 25% but less than 75%, the Deemed Disposal may constitute a major transaction of the Company under Chapter 14 of the Listing Rules and subject to the reporting, announcement and shareholders' approval requirements. The Company therefore seek the approval of the Shareholders for the Deemed Disposal under Chapter 14 of the Listing Rules.

As far as the Directors are aware, none of the Shareholders has a material interest in the Deemed Disposal which is different from those of other Shareholders. As such, no Shareholder is required to abstain from voting in respect of the proposed resolution to approve the Deemed Disposal at the EGM.

To the best of the Directors' knowledge, information and belief, none of the Directors have a material interest in the Proposal (including the Deemed Disposal), and none of them are required to abstain, or has abstained, from voting on the relevant board resolutions to approve the same.

To the best of the knowledge and belief of the Company, the Proposal is not regarded as a "spin-off" under Practice Note 15 of the Listing Rules.

GENERAL

A circular containing, among other things, (i) information on the Proposal (including the Deemed Disposal); (ii) other information as required under the Listing Rules; and (iii) a notice of the EGM. It is expected that the circular will be despatched to the Shareholders on or before 31 March 2023, in light of the time required for preparing and finalising the information to be contained in the circular, including the financial information of the Group.

The Proposal and its structure are subject to, among other things, the approval of relevant authorities (including the BSE and CSRC), market conditions, fulfillment of applicable conditions and listing requirements, and other consideration. Beijing Panpass is currently at the listing counselling stage only, and there is no assurance that the Proposal will take place, and if so, when it will take place. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

Any person who is in doubt about his/her/its position or any action to be taken is recommended to consult his/her/its professional adviser(s).

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
"Beijing HC"	Beijing Huicong Zaichuang Technology Co., Ltd., an indirect wholly-owned subsidiary of the Company, and a shareholder of Beijing Panpass
“Beijing Panpass”	Panpass Information Technology Co., Ltd (北京兆信信息技術股份有限公司), an indirect non-wholly owned subsidiary of the Company
“Board”	the board of Directors
“BSE”	Beijing Stock Exchange
“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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission

“Deemed Disposal”	the reduction of the Group’s shareholding interest in Beijing Panpass as a result of allotment of Panpass Shares in the Proposal
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Deemed Disposal
“Group”	the Company and its subsidiaries
“Independent Third Party(ies)”	third party(ies) who is independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NEEQ”	National Equities Exchange and Quotations
“Panpass Group”	Beijing Panpass and its subsidiaries
“Panpass Listing”	the proposed listing of the Panpass Shares on BSE
“Panpass Share(s)”	ordinary share(s) of Beijing Panpass with a nominal value of RMB1 each
“PRC”	the People’s Republic of China, and for the purposes of this announcement only, excludes the Hong Kong Special Administrative Region of the People’s Republic of China, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposal”	the proposed public offering of shares to unspecified qualified investors and listing on BSE by Beijing Panpass
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company

“Shareholders”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

By order of the Board
HC GROUP INC.
Liu Jun
Chairman and Chief Executive Officer

Hong Kong, 24 February 2023

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

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

In this announcement, certain Chinese names of institutions 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.