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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)

**SUPPLEMENTAL ANNOUNCEMENT
DISCLOSEABLE TRANSACTION IN RELATION TO
(i) THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL
OF ZALE INC.; AND
(ii) ISSUANCE AND ALLOTMENT OF
Z.TECH CONSIDERATION SHARES AND
DEEMED DISPOSAL OF 10.66% OF INTEREST IN Z.TECH**

Reference is made to the announcement of the Company dated 20 December 2018 (the “**Announcement**”) in relation to the Acquisition. Unless the context requires otherwise, capitalised terms used in this announcement shall have the same meaning as those defined in the Announcement.

The Company would like to provide further information in relation to the (i) valuation of Beijing Rongshang at RMB600,000,000 as at 9 December 2018 (the “**Valuation Date**”); and (ii) the reasons for and the benefits of the issuance and allotment of Z.TECH Consideration Shares.

VALUATION OF BEIJING RONGSHANG

(i) Valuation methodology

As stated in the draft valuation report on the fair value of 100% equity interest of Beijing Rongshang as at the Valuation Date prepared by Ravia Global Appraisal Advisory Limited (the “**Valuer**”), an independent qualified valuer, the valuation (the “**Valuation**”) was based on market approach. The market approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. Sale and offering prices are adjusted for differences in location, time of sale, utility, and the terms and conditions of sale between the asset being appraised and the comparable properties.

As stated in the abovementioned report, taking into account the fact that (i) Beijing Rongshang has only a very limited historical financial data; and (ii) the businesses of it involve mostly intangible assets. The Valuer considered the market approach to be the most appropriate valuation approach as it requires fewer subjective assumptions and is more likely to reflect current market expectations over the corresponding industry since the price multiples of the comparable companies were arrived at based on market consensus and capture the future growth potentials of Beijing Rongshang.

As advised by the Valuer, under the market approach, guideline public company method (GCM) was adopted by them in the Valuation. GCM evaluates an asset based on a multiple computed by dividing the enterprise value or market value of the guideline companies by some relevant economic variables of the guideline company observed or derived. The Valuer considered price-to-GMV (“P/GMV”) multiple is the only multiple applicable to its valuation analysis in this case. P/GMV multiple is applicable as the performance of e-commerce companies is commonly measured by GMV which represents monetisation potentials for this type of companies and it enables the comparison between different e-commerce companies regardless the stage of development because it is an integrated key performance indicator which has reflected some business attributes such as brand name, market standing, market share, distribution channel and customer network of e-commerce companies.

P/GMV multiple is calculated using the following formula:

$$\text{P/GMV multiple} = \text{Price/Gross merchandise volume}_{2019}$$

Where

Price = Price of the company

Gross merchandise volume₂₀₁₉ = Forecasted revenue of the company in 2019 multiplied by the average ratio of gross merchandise volume to revenue in 2016 and 2017 of the company sourced from latest available annual report/circular/prospectus

Based on the investigation and analysis stated above, the valuation method adopted, information reviewed and the assumptions adopted (including the guaranteed 2019 GMV), it is the Valuer’s independent opinion that the fair value of 100% equity interest of Beijing Rongshang as at the Valuation Date was approximately RMB600,000,000.

(ii) Valuation assumptions

The Valuer was provided with information on Beijing Rongshang’s products, business operation, financial data, current operation and future development.

Details of principal assumptions as follows:

General Market Assumptions

- There will be no material change in the existing political, legal, fiscal, technological, economic and market conditions in the jurisdiction where Beijing Rongshang is currently or will be situated;
- There will be no material change in the taxation laws and regulations in the jurisdiction where Beijing Rongshang is currently or will be situated, that the tax rates will remain unchanged and that all applicable laws and regulations will be complied with;
- The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;
- The supply and demand, both domestically and internationally, of the products and/or services of Beijing Rongshang or similar products and/or services will not differ materially from those of present or expected;
- The market prices and the relevant costs, both domestically and internationally, of the products and/or services of Beijing Rongshang or similar products and/or services will not differ materially from those of present or expected;
- The products and/or services of Beijing Rongshang or similar products and/or services are marketable and liquid, that there are active markets for the exchange of the products and/or services of Beijing Rongshang or similar products and/or services; and
- The market data, industrial information and statistical figures obtained from Bloomberg and other publicly available sources are true and accurate.

Company-specific Assumptions

- All licenses, permits, certificates and consents issued by any local, provincial or national government or other authorized entity or organization that will affect the operation of Beijing Rongshang have been obtained or can be obtained upon request with an immaterial cost;
- The 2019 guaranteed GMV of RMB1.8 billion made by the vendor of Beijing Rongshang is reasonable reflecting market condition and economic fundamental and will be materialized;
- The core operation of Beijing Rongshang will not differ materially from those of present or expected;
- The financial and operational information in respect of Beijing Rongshang have been prepared on a reasonable basis that have been arrived at after due and careful consideration by the Management of the Company;

- Beijing Rongshang currently has, or will have, adequate human capital and capacity required for the production and/or provision of the products and/or services of Beijing Rongshang, and the required human capital and capacity will be acquired in a timely manner that will not affect the operation of Beijing Rongshang;
- Beijing Rongshang has acquired, or will acquire, adequate financial capital for the investments in projected capital expenditure and working capital from time to time, and any scheduled interest or repayment of loan and payable will be paid on time;
- The management of Beijing Rongshang will implement only those prospective financial and operational strategies that will maximize the efficiency of the operation of Beijing Rongshang;
- The management of Beijing Rongshang has sufficient knowledge and experience in respect of the operation of the Beijing Rongshang Group, and the turnover of any director, management or key person will not affect the operation of the Beijing Rongshang Group;
- The management of Beijing Rongshang has adopted reasonable and appropriate contingency measures against any natural disaster such as fire, flood and hurricane, and the occurrence of any natural disaster will not affect the operation of Beijing Rongshang;
- The management of Beijing Rongshang has adopted reasonable and appropriate contingency measures against any human disruption such as fraud, corruption and strike, and the occurrence of any human disruption will not affect the operation of Beijing Rongshang; and
- There are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of Beijing Rongshang as at the Valuation Date.

In the event actual events do not accord with one or more of the above assumptions, the resulting fair value of Beijing Rongshang may vary substantially from the figure as concluded and set out in the Valuation.

REASONS FOR AND THE BENEFITS OF THE ISSUANCE AND ALLOTMENT OF Z.TECH CONSIDERATION SHARES

The allotment and issue of the Z.TECH Consideration Shares constituted a deemed disposal of the Company. Taking into account that (i) the payment method of the Acquisition consideration by both Z.TECH Consideration Shares and cash was agreed after arm's length negotiation among the Vendors and the Purchaser; (ii) the settlement of a majority of the consideration by Z.TECH Consideration Shares instead of cash could reduce the amount of cash outflow of the Group, thus allowing the Group to retain its financial resources for development of Z.TECH Group or other business; and (iii) the issue of Z.TECH Consideration Shares together with the Performance Target aligns the interest of the Vendors directly to the shareholders of Z.TECH thereby encouraging the Vendors' continuing contribution to the integration of businesses of the enlarged Z.TECH Group, the Directors believe that the payment terms involving the issue of the Z.TECH Consideration Shares are beneficial to the Company and the Shareholders.

On behalf of the Board
HC GROUP INC.
Liu Jun
Chairman

Hong Kong, 7 January 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. Wong Chi Keung (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)