THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in HC Group Inc. (the "**Company**"), you should at once hand this circular, together with the proxy form, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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)

MAJOR TRANSACTION
PROPOSED DISPOSAL OF HUICONG HULIAN
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

SOMERLEY CAPITAL LIMITED

Capitalised terms used in this cover page shall bear the same meanings as those defined in the section headed "Definitions" in this circular.

The notice convening the EGM to be held on Friday, 23 February 2024 at 4:00 p.m. at Room B-1, 4th Floor, Building 2, Hangxing Science Park, No. 11, Hepingli East Street, Dongcheng District, Beijing, PRC is set out on pages EGM-1 to EGM-3 of this circular.

A proxy form for use at the EGM is published on the HKEXnews website (www.hkexnews.hk) and the Company's website (www.hcgroup.com). Whether or not you are able to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions printed thereon to the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish. In such event, the proxy form shall be deemed to be revoked.

30 January 2024

CONTENTS

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

"2023-1H"	six months ended 30 June 2023
"Board"	the board of Directors
"Chongqing Micro-credit"	Chongqing Digital China Huicong Micro-credit Co., Ltd. (重慶神州數碼慧聰小額貸款有限公司), a company established in the PRC with limited liability
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"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 Disposal
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration for the Disposal
"Director(s)"	director(s) of the Company
"Disposal"	the proposed sale of the Sale Interests pursuant to the terms and conditions of the Disposal Agreement
"Disposal Agreement"	the equity transfer agreement regarding Huicong Hulian dated 28 November 2023 entered into among ZC Technology, the Purchaser, the Guarantor and Huicong Hulian
"EGM"	the extraordinary general meeting of the Company to be held on Friday, 23 February 2024 to consider and, if thought fit, to approve the Disposal, or any adjournment thereof

"FY2021"	financial year ended 31 December 2021
"FY2022"	financial year ended 31 December 2022
"FY2023"	financial year ended 31 December 2023
"Group"	the Company and its subsidiaries
"Guarantor"	Beijing Huajianyu Trading Co., Ltd. (北京花間語商貿有限公司), a company incorporated in the PRC with limited liability
"HK Huicong"	Hong Kong Huicong International Group Limited, a company established in the British Virgin Islands, and a wholly-owned subsidiary of the Company
"Huicong Hulian" or "Target Company"	Beijing Huicong Hulian Information Technology Co., Ltd. (北京慧聰互聯信息技術有限公司), a company incorporated in the PRC with limited liability
"Huijing"	Huijing (Huizhou) E-commerce Co., Ltd. (慧旌(惠州)電子商務有限公司), a company established in the PRC with limited liability
"Huixiang Network"	Beijing Huixiang Network Technology Co., Ltd. (北京慧翔網絡技術有限公司), a company established in the PRC with limited liability
"Jingu Bank"	Inner Mongolia Hohhot Jingu Rural Commercial Bank Co., Ltd. (內蒙古呼和浩特金谷農村商業銀行股份有限公司), a company established in the PRC with limited liability
"Latest Practicable Date"	29 January 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"P/B ratio"	price-to-book ratio
"PRC" or "China"	the People's Republic of China, and for the purposes of this circular 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
"Purchaser"	Beijing Zhongli Jinyuan Technology Co., Ltd. (北京中利金源科技有限公司), a company incorporated in the PRC with limited liability
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interests"	100% equity interests in Huicong Hulian
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Group"	Huicong Hulian and its subsidiaries
"Tianjin Leasing"	Tianjin Huicong Leasing Co. Ltd. (天津慧聰租賃有限公司), a company established in the PRC with limited liability
"Valuation Date"	31 October 2023
"Valuation Report"	the valuation report prepared by the Valuer, as set out in appendix II to this circular
"Valuer"	Asia-Pacific Consulting and Appraisal Limited, an independent valuer

"ZC Technology"	Beijing Huicong Zaichuang Technology Co., Ltd. (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
"Zhongzai Huicai"	Inner Mongolia Zhongzai Huicai E-commerce Co., Ltd. (內蒙古中在慧採電子商務有限公司), a company established in the PRC with limited liability
"%"	per cent.

HC GROUP INC.
慧聰集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02280)

Executive Directors:
Mr. Liu Jun
Mr. Zhang Yonghong
Mr. Liu Xiaodong

Non-executive Directors:
Mr. Guo Fansheng
Mr. Sun Yang
Mr. Lin Dewei

Independent Non-executive Directors:
Mr. Zhang Ke
Mr. Zhang Tim Tianwei
Ms. Qi Yan

Registered Office:
4th Floor, One Capital Place
P.O. Box 847 George Town
Grand Cayman, Cayman Islands

Head Office and Principal Place of Business:
Room B-1, 4th Floor, Building 2
Hangxing Science Park
No. 11, Hepingli East Street
Dongcheng District, Beijing, PRC

30 January 2024

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION
PROPOSED DISPOSAL OF HUICONG HULIAN

INTRODUCTION

Reference is made to the announcement of the Company dated 28 November 2023. ZC Technology (an indirect wholly-owned subsidiary of the Company) entered into the Disposal Agreement on 28 November 2023 regarding the sale of 100% equity interests in Huicong Hulian. The purpose of this circular is to provide you with information on the Disposal, and to give you notice of the EGM.

THE DISPOSAL

Set out below is a summary of the key terms of the Disposal Agreement:

Date:

28 November 2023

Parties:

(1) ZC Technology (the transferor)

(2) the Purchaser (the transferee)

(3) the Guarantor (the Purchaser's guarantor)

(4) Huicong Hulian (the Target Company)

Assets to be disposed of:

The Sale Interests (being 100% equity interests in the Target Company), free from encumbrance.

Consideration:

Consideration of RMB5 million in cash.

Pursuant to the Disposal Agreement, the Purchaser shall pay the Consideration to ZC Technology in the following manners:

(a) RMB1 million shall be paid within five business days after the date of the Disposal Agreement; and

(b) RMB4 million shall be paid within five business days after the Disposal Agreement having been approved by the Board and (if required under applicable laws, rules and regulatory requirements applicable to the Company as a listed company on the Stock Exchange (including the Listing Rules)) by the Shareholders at a general meeting.

The Consideration was determined after arm's length negotiations between ZC Technology and the Purchaser. In determining the Consideration, the Group's consideration is primarily based on the results of an independent valuation of the Sale Interests. Other factors including the financial performance and prospects of the Target Group (including Chongqing Micro-credit), and the Group's business strategy have also been taken into account. These factors are further discussed below.

The Sale Interests was valued at approximately RMB4.85 million as at 31 October 2023 (i.e. the Valuation Date) as set out in the Valuation Report. In reaching the valuation result, key factors which have been taken into account by the Valuer include (among other matters):

(a) the financial status of the Target Group and Chongqing Micro-credit, including their assets and liabilities as at the Valuation Date;

(b) the outlook for the members of the Target Group and Chongqing Micro-credit (including the status of Tianjin Leasing, who has ceased to take up new business since mid-2023);

(c) the estimated market value for Jingu Bank, with reference to analysis of P/B ratio of 0.528 taking into account listed comparable rural commercial banks operating in China (similar to Jingu Bank) globally. Ten comparable companies whose shares are publicly listed on the Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange were selected based on the criteria further detailed on page II-11 of the Valuation Report;

(d) the estimated market value for Chongqing Micro-credit, with reference to analysis of P/B ratio of 0.319 taking into account listed comparable companies engaged in micro-finance business with over 90% of their revenues from such industry in China (similar to Chongqing Micro-credit) globally. Three comparable companies whose shares are publicly listed on the Stock Exchange were selected based on the criteria further detailed on page II-19 of the Valuation Report;

(e) the discount for lack of marketability;

(f) the financial and business risks of the Target Group (including Chongqing Micro-credit);

(g) the economic outlook in general; and

(h) other general considerations including the micro and macro economy affecting the businesses in which the Target Group and Chongqing Micro-credit operate, and other operational and market information relating to such businesses (for examples, the

Group's internal operational data, the Group's observations of the business trend and projections from daily operations, information and expectation from communication with other players in the industries, market and industry news and studies, etc.).

Below sets out a summary of key calculation and factors considered by the Valuer:

	Market value of the Target Group as of the Valuation Date *(RMB'000)*
Bank balances and cash *(Note 1)*	2,809
Trade receivables *(Note 1)*	4,708
Financial assets at fair value through profit or loss *(Note 2)*	
— 9.2189% equity interest in Jingu Bank	284,464
Prepayments *(Note 1)*	1,056
Other receivables *(Note 1)*	5,280
Current assets	**298,317**
Long term equity investment *(Note 3)*	
— 30% equity interest in Chongqing Micro-credit	77,191
Finance lease receivables *(Note 4)*	154,056
Property, plant and equipment *(Note 5)*	1,623
Non-current assets	**232,870**
Total assets	**531,187**
Trade and other payables *(Note 1)*	342
Other payables *(Note 1)*	6,428
Accrued salaries and staff benefits *(Note 1)*	31,867
Tax payable *(Note 1)*	703
Current liabilities	**39,340**
Bank borrowings *(Note 1)*	487,000
Non-current liabilities	**487,000**
Total net assets	**4,848**

Notes:

1. The Valuer considered the Target Group's combined assets and liabilities based on its unaudited book values.

2. This represents the Valuer's appraisal of the market value for Jingu Bank, with reference to analysis of P/B ratio of 0.528 considering ten comparable rural commercial banks operating in China (similar to Jingu Bank) and whose shares are publicly listed on the Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange.

3. This represents the Valuer's appraisal of the market value for 30% equity interest in Chongqing Micro-credit, with reference to analysis of P/B ratio of 0.319 considering three comparable companies engaged in micro-finance business with over 90% of their revenues from China (similar to Chongqing Micro-credit) and whose shares are publicly listed on the Stock Exchange.

   Please refer to the Valuation Report for more information about the comparable companies selected and the selection criteria in the appraisal of market value of Jingu Bank and Chongqing Micro-credit.

4. The Valuer assessed the finance lease receivables of the Target Group based on unaudited book value. The Target Group applies general approach under Hong Kong Financial Reporting Standards Financial Instruments to measure the expected credit losses for the finance lease receivables.

5. The property, plant and equipment of the Target Group includes mainly vehicles. The Valuer adopted the market comparison approach where an active secondary market exists. Having communicated with the Valuer, the Company understands that such approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised vehicles relative to the market comparative.

6. The above table is a summary only, and should be read together with the full text of the Valuation Report as set out in appendix II to this circular.

The Target Company is a holding company. The Valuer adopted the asset-based approach in its valuation exercise, which measures the value of a business and asset by reference to the value of individual assets and liability. When determining the valuation method for individual assets and liabilities of the Target Company, income approach, market approach, asset-based approach shall be applied when it is applicable.

The Company has consulted with the Valuer in the course of the valuation exercise, and understands that the Valuer considered the individual method it considered appropriate for each entity, among other things:

- The Valuer considered that there are substantial limitations for the income approach and the market approach in valuing the Target Company, Tianjin Leasing and Huixiang Network, because valuation result by applying the income approach would be more dependent on long term financial forecast internally prepared by the management. Given that (i) the Target Company is a holding company with no substantive operation, it is not expected to generate any income; (ii) Tianjin Leasing is not expected to conduct any new business; and (iii) Huixiang Network and its two wholly-owned subsidiaries (i.e. Zhongzai Huicai and Huijing) do not have any substantive business operation, financial forecast for these entities is therefore not available or not meaningful. In light of the current nature and status of the Target Company, Tianjin Leasing and Huixiang Network, there are no comparable public companies and transactions as of the Valuation Date. Thus, the market approach is considered as inappropriate in this exercise.

For reasons further detailed on page 19 of this Letter from the Board, Tianjin Leasing has ceased from developing new business in mid-2023. Its current operation is limited to existing finance leases (which comprised several leasing loans secured by specific assets granted previously to manufacturers in Tianjin Leasing's ordinary and usual course of business). Given that Tianjin Leasing will not conduct new business and these leasing loans are the only assets representing the major value of Tianjin Leasing, its valuation as of the Valuation Date was mainly determined by these lease receivables. By applying the asset-based approach, the Valuer assessed these leasing loans and their recoverability individually. The Company concurs with the Valuer's that the approach adopted is reasonable and appropriate.

In light of the current nature and status of the Target Company, Tianjin Leasing and Huixiang Network as set out above, the Valuer considered appropriate to apply asset-based approach to determine their market value, under which the Valuer measured the value of these entities by reference to the value of individual assets and liabilities based on their balance sheet. Below sets out the unaudited book value and market value of assets and liabilities belonged to the Target Company, Tianjin Leasing and Huixiang Network and its subsidiaries as of the Valuation Date:

	Book value	**Market value**	**Difference**
	RMB'000	*RMB'000*	*RMB'000*
	Unaudited		
Bank balances and cash	2,809	2,809	—
Trade receivables	4,708	4,708	—
Prepayments	1,056	1,056	—
Other receivables	5,280	5,280	—
Current assets	**13,853**	**13,853**	**—**
Finance lease receivables	154,056	154,056	—
Property, plant and equipment	689	1,623*(Note 1)*	934
Non-current assets	**154,745**	**155,679**	**934**

	Book value *RMB'000* *Unaudited*	Market value *RMB'000*	Difference *RMB'000*
Trade and other payables	342	342	—
Other payables	6,428	6,428	—
Accrued salaries and staff benefits	31,867	31,867	—
Tax payable	703	703	—
Current liabilities	**39,340**	**39,340**	**—**
Bank borrowings	487,000	487,000	—
Non-current liabilities	**487,000**	**487,000**	**—**

Notes:

1. The property, plant and equipment are mainly vehicles, where an active secondary market exists, the market comparison approach was adopted. The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised vehicles relative to the market comparative.

2. The above chart should be read together with the full text of the Valuation Report.

- Chongqing Micro-credit (in which the Target Company has an equity interest of 30%) and Jingu Bank (in which the Target Company has an equity interest of approximately 9.22%) are classified as financial assets in the Target Group's accounts. The Valuer considered that the market approach is suitable in valuing the Target Company's equity interest in Chongqing Micro-credit and Jingu Bank, because of the objectivity incorporated in the market approach. In applying the market approach, the Valuer applied data available from public sources (including data published by listed comparable companies in similar industry, published financial data and market multiples). It considered prices recently paid for similar assets in the public market, with adjustment made to such market prices to reflect the individual condition and utility of Chongqing Micro-credit and Jingu Bank relative to the market comparatives. The exercise incorporated objectivity in the course, while also took into account the individual circumstances of Chongqing Micro-credit and Jingu Bank. Having considered other generally accepted approaches in equity valuation (namely, income approach and asset-based approach), it was noted that (i) the results of the income approach would be more dependent on long term financial forecast internally prepared by the management, which involves forecasts and assumptions (for examples, projection of future income, the industry environment and the circumstances of micro-and macro-economy). These forecasts and assumptions, with respect to a business with on-going operations, could inevitably by nature to be unobservable and subjective, and (ii) the asset-based approach does not directly incorporate information about the economic benefits contributed by the subject business.

In applying the market approach, the Valuer also considered that the adoption of the P/B multiple to be suitable for Jingu Bank and Chongqing Micro-credit and is typical for operating financial institutions because (a) the P/B ratio directly reflects the value of the assets of financial institution, whose core operations is management of assets (i.e. loans) and liability (i.e. deposits); (b) income and profit of financial institution could fluctuate due to various factors (such as interest rates, provision for problemed loans); (c) the P/B ratio is a more stable indicator which better reflects the valuation of banks and micro-credit institutions due to (i) their business model, which derive profits from interest income (rather than sales of products and services); and (ii) their ability to comply with business-specific regulatory requirements such as capital adequacy ratio could be reflected; and (d) it could more accurately reflect quality of assets, financial condition and profitability of a financial institution.

Notwithstanding that both Chongqing Micro-credit and Tianjin Leasing could be grossly classified as companies engaging in the financing service business, the business characteristics and the status of their business are different. In particular: (i) Tianjin Leasing has ceased taking up new business and therefore it is not appropriate for its valuation to be assessed on the basis of continuing operations; on the other hand, Chongqing Micro-credit is in active operation as a going concern; (ii) in contrast with the major assets composition of Tianjin Leasing (i.e. several comparatively larger loans secured by specific assets), Chongqing Miro-credit, given the nature of micro-credit business, provides comparatively smaller scale of loans to a larger number of SMEs and individuals, with a substantial portions of these loans being credit loans. The nature of these loans, being the key component of Chongqing Micro-credit's operating assets, has a higher inherent uncertainty as to the recoverability of loans and is more difficult to make individual assessment of each loan for the purpose of a valuation, especially under the basis of continuing operations. With the going concern assumptions, the Valuer considered that market participants' view of micro-financing operators' current and future operating income are reflected by market multiples, and the P/B ratio is considered by the Valuer as the most appropriate indicator in the assessment of the value of Chongqing Micro-credit. The Board (other than Mr. Sun) concurs with the Valuer's view, and considers that applying market approach in appraising the value of Chongqing Micro-credit (as opposed to applying asset-based approach in the valuation of Tianjin Leasing) to be appropriate and reasonable.

The Target Group contains major components of the Group's financing services business and assets. Based on the unaudited combined financial information of the Target Group, the Target Group's revenue represented less than 9% and 0.3% of the Group's revenue in FY2022 and 2023-1H, and the interests income from Chongqing Micro-credit represented less than 0.5% in each of FY2022 and 2023-1H, respectively. Notwithstanding the Target Group recorded revenue of approximately RMB2,110 million and RMB1,499 million in the respective FY2021 and FY2022, it recorded net loss of approximately RMB126 million and RMB106 million, with cost of operation and relevant income tax amounted to approximately RMB2,059 million and RMB1,466 million in the respective FY2021 and FY2022. The business nature of financing services business requires capital, and the Group has been providing ongoing financing support to its financing services business by (among others) external borrowings. The Target Group has interest-bearing borrowing with a principal amount of approximately RMB487.0 million from Jingu Bank as of the Latest Practicable Date. The Group incurred annual interests expenses of approximately RMB38 million and RMB36 million in FY2021 and FY2022 respectively (with a principal amount of borrowing of RMB524 million and RMB512 million respectively), with respect to such borrowing. The Group also incurred legal costs for taking action against borrowers who lack willingness or ability to repay, or who fail to repay in accordance with liaised repayment terms. As of 30 June 2023, approximately RMB243 million of outstanding balance of the relevant loans are subject to legal proceedings. The operation of the business of the Target Group (including Chongqing Micro-credit) also involves substantial non-financial resources and risks such as the management time and attention required for post-loan management procedures including negotiation with non-repaying customers, default risks, time and attention required managing legal and regulatory compliance risks, time and attention required in maintaining and monitoring internal control and risk management system. All these factors impose a heavy and continuing burden on the Group, which negatively impacted the Group's performance and financial position in the past years while also restricting the Group's resources allocation for developing its other businesses.

Despite the enormous efforts and resources placed by the Group, the financing services business and assets have been loss-making. Among others, Chongqing Micro-credit's total comprehensive income of approximately RMB82 million in FY2021 turned into a total comprehensive loss of approximately RMB16 million in FY2022, which was further worsen in 2023 (with an unaudited total comprehensive loss of over RMB226 million for the first ten months of 2023). The loss in the first ten months of 2023 was partly resulted from substantial impairment losses on financial assets of approximately RMB167.6 million in 2023-1H with respect to the Group's micro-credit financing business. Such impairment provision 2023-1H was primarily attributable to certain loans granted to certain independent third-party customers in prior years in Chongqing Micro-credit's ordinary and usual course of business according to its credit approval mechanism, but who failed to repay the loan in 2023. As set out in the Company's announcement dated 22 January 2024, based on the unaudited management account and other information available as of the Latest Practicable Date, impairment loss of approximately RMB240 million on loan and interest receivables is expected to be made for FY2023. The financing services business in mainland China, particularly micro-credit loan activities, is also facing an alarming prospect. According to statistics relating to micro-credit companies from the People's Bank of China, there has been a continued downward trend in micro-credit loan activities in the PRC (for more details about such statistic, please refer to the section headed "Reasons for and the benefits of the Disposal" below).

Taking into account the above, the Group could not foresee a realistic prospect of gross improvement of the performance of the Target Group (including Chongqing Micro-credit) in near future. With the Group's overall financial performance and continued loss in recent years, there are urging need for the Group to seek ways for a more sustainable operation, to be more focused on its core business with profitability prospects, and to reduce its costs. The Company considers that the Disposal could allow the Group to reduce its risk exposures from the financing services business, reducing its financial liabilities and burden on financial costs (through disposing bank borrowings of RMB487 million of the Target Group). However, with the disappointing historical performance of the Target Group and Chongqing Micro-credit, the on-going operating costs required, impairments made in successive reporting periods and the market and regulatory atmosphere of the financing services business in China in general, it has not been easy for the Group in the identification of willing and capable purchaser(s) from previous efforts.

Mr. Sun Yang, a non-executive Director, holds dissenting opinion on the Disposal. Mr. Sun is concerned on the difference between the book value and appraised value of the Target Group. He noted that there is a substantial deficit of close to 80% of the appraisal value of Chongqing Micro-credit, when compared to its book value, and holds a dissenting opinion on the determination of the Consideration.

With respect to Mr. Sun Yang's dissenting opinion, in particular, his concerns over the gap between the book value and appraisal value of the Target Group, the Company noted that the gap is primarily attributable to the differences between the book value and appraisal value of the 30% equity interests of Chongqing Micro-credit within the Target Group as of the Valuation Date. Below sets out a summary of key components showing the difference between the book value of the Target Group and the appraisal results of the Valuer as at the Valuation Date:

	Book value *(RMB million, unaudited)*	**Appraisal value** *(RMB million)*	**Differences** *(+increase/ -decrease) (RMB million)*
Tianjin Leasing	129.26	130.19	0.93
30% equity interests in Chongqing Micro-credit	331.19	77.19	-254.00
9.22% equity interests in Jingu Bank	276.38	284.46	8.08
Huixiang Network and its subsidiaries	-487.00	-487.00	—

Note: The above chart is a summary only, and should be read together with the full text of the Valuation Report.

The Board (other than Mr. Sun Yang) considers that the approaches adopted by the Valuer and the basis for deriving the appraisal value of the Target Group to be fair and reasonable, because of the following principal considerations:

- The Company's understanding of the market environment, and the market condition and future prospects of the business of the Target Group and Chongqing Micro-credit mentioned above and in the section headed "Reasons for and the benefits of the Disposal" below. The Group has explored the possibility of selling all or part of the business or assets of the Target Group (including equity interests in Chongqing Micro-credit). Efforts have been made to identify willing and capable purchaser/investors in the past years. In particular, since around late 2020, the Group had engaged in discussions with third parties with a purpose to dispose of such businesses or assets. Actions taken by the Group includes sourcing potential purchasers or interested parties through introduction via the Group's internal personnel and external third parties (including parties engaged in the banking business or investment fields), engaging agent(s) in identifying interested parties, engaging in preliminary negotiation, discussions with potential purchasers and responding to due diligence requests and proposals, and proposing indicative selling price. However, notwithstanding these efforts made, the Group was unable to identify any potential buyer who is willing to proceed to formal negotiation at a purchase price proximate to the book value.

- Regarding the P/B ratios applied in reaching the appraisal value of Chongqing Micro-credit and Jingu Bank, the Company has consulted with the Valuer to understand the approaches adopted, the selection of comparable companies, the sources of data applied (which are all based on public market data), the considerations of the Valuer in reaching the appraisal results, the rationale of application of median P/B ratio as a common practice to exclude extreme deviants (if any), the market practices from the Valuer's experiences in general, and the Valuer's experiences in handling similar matters.

  It was noted that the appraised value of 30% equity interests of Chongqing Micro-credit is at a substantial discount to its net asset value. In recent years, multiple impairment losses were made on the Group's micro-credit financing business operated through Chongqing Micro-credit. Such impairment losses, as determined by the financial reporting standards adopted by the Company (i.e. HKFRS), essentially reflect the Company's accounting estimates of credit risks, and impairment provisions over the loan and interest receivables balance of Chongqing Micro-credit is a reflection of potential credit losses based on accounting estimates. On the other hand, in performing the valuation exercise, the Valuer considered market-based factors and the expectations of market participants to establish the fair value of the equity interests. The valuation takes into account the perspectives of market participants on a micro-credit entity's future prospects, the outstanding loans' collecting cycle, collecting cost and discounting, the loans recoverability under continuous operating, micro-financing industry risk, etc. which are factors beyond the historical accounting records stipulated by HKFRS. The discount on book value of listed comparable companies implies the difference between the market value of equity interest and their book value for companies in micro-credit industry, which Chongqing Micro-credit is principally engaged in.

  The Board (other than Mr. Sun Yang) concurs that the basis and approaches adopted by the Valuer to be reasonable.

Please also refer to the paragraphs headed "Information of the Target Group" and "Reasons for and the benefits of the Disposal" in this Letter from the Board for more information about the financial performance of the Target Group and Chongqing Micro-credit, and the Group's strategy in disposing the financing services business.

The financing services business in mainland China, particularly micro-credit loan activities, is facing an alarming prospect as described in the section headed "Reasons for and the benefits of the Disposal" in this circular. Chongqing Micro-credit has been showing a declining trend in its performance as further detailed above (with also the expected impairment loss of approximately RMB240 million arising from significant overdue loans from the micro-credit business of the Group for FY2023, representing an increase of approximately RMB134.3 million comparing to the impairment loss of approximately RMB105.7 million for FY2022).

With the Group overall financial performance and continued loss in recent years, there are urging need for the Group to seek ways for a more sustainable operation, to be more focused on its core business with profitability prospects, and to reduce its costs. The Disposal, which includes 30% equity interest in Chongqing Micro-credit, is expected to result in a loss of approximately RMB583.5 million (of which approximately RMB338.7 million is the deemed disposal loss resulting from the deconsolidation of the 40% equity interest retained in Chongqing Micro-credit) for the Group, but it allows the Group to lower its risk exposures from the financing services business, and to reduce its interest-bearing borrowings significantly by RMB487 million upon Completion and future cash burden on financial costs of approximately RMB29 million annually.

Notwithstanding efforts made by the Group, it was unable to identify any potential buyer who is willing to proceed to formal negotiation at a purchase price proximate to the book value. The Disposal represented a realistic opportunity to alleviate the Group from the costs, expenses and burden from operating the Target Group's business (including business of Chongqing Micro-credit), and to redirect and focus on its other business with better prospects in line with the Group's business strategies. The valuation expresses as an independent opinion on the fair value of the Sale Interests and given the Company concurs with the Valuer that the approach adopted is reasonable and appropriate, the valuation serves as a fair basis for the parties of the Disposal Agreement to determine the Consideration.

Having considered the above factors, the Board (other than Mr. Sun Yang who dissented from the approval of the Disposal) considers the terms of the Disposal (including the Consideration primarily based on the results of the independent valuation) which was arrived at after arm's length negotiation with the Purchaser, are fair and reasonable, and the Disposal is in the interest of the Company and the Shareholders as a whole.

Completion and conditions precedent:

Completion is conditional upon:

(a) the Company having obtained necessary or appropriate approval pursuant to the requirements of applicable laws, rules and regulations and comments from relevant regulatory authorities applicable to it as a company listed on the Stock Exchange (including the approval from the Board and from the Shareholders (if required)) with respect to the Disposal Agreement; and

(b) there being no breach of the Disposal Agreement by the Purchaser and/or the Guarantor (including, the Purchaser having paid RMB5 million of the Consideration according to items (a) and (b) under the section headed "Consideration" in this Letter from the Board above).

ZC Technology may, in whole or in part, waive condition (b) above at its absolute discretion. The Disposal Agreement will be discharged if the Company cannot obtain the approval from the Shareholders (if required) within six months from the date of the Disposal Agreement (or such later date as ZC Technology and the Purchaser may agree). Completion will take place when the Sale Interests are registered under the Purchaser's name by the relevant corporate registration authority in the PRC.

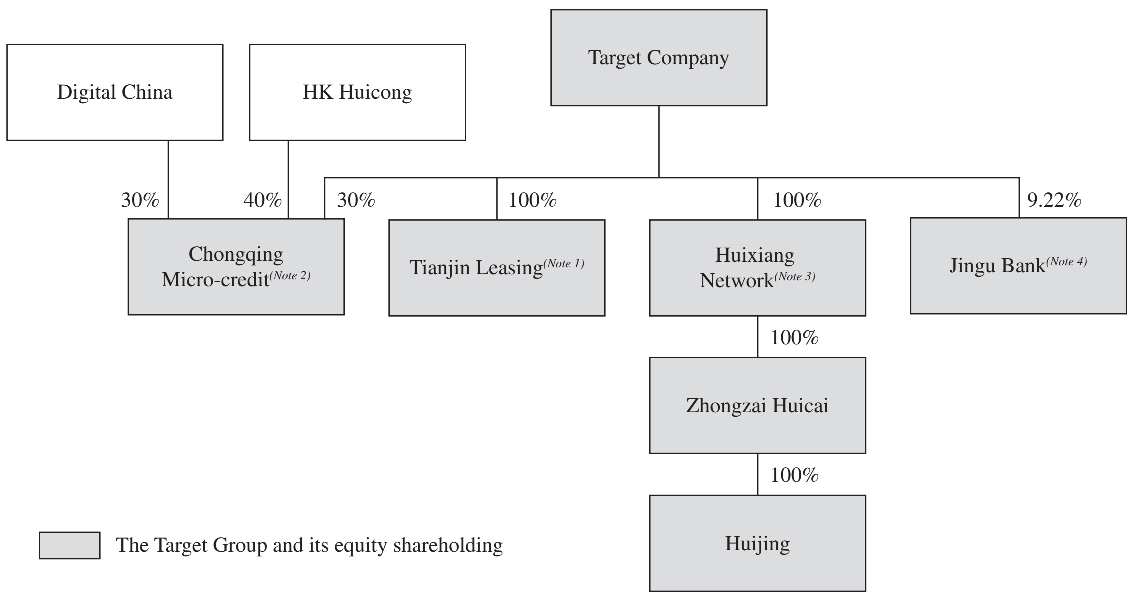
The Company will require the approval of the Board and from the Shareholders with respect to the Disposal Agreement. As at the Latest Practicable Date, the Disposal Agreement has been approved by the Board. The Company will convene the EGM to seek the Shareholders' approval pursuant to condition (a).

The Guarantor has guaranteed to ZC Technology that the Purchaser will duly perform its duties under the Disposal Agreement.

INFORMATION OF THE TARGET GROUP

The Target Company was established in the PRC. As of the Latest Practicable Date, the Target Company has a registered capital of RMB800 million, and ZC Technology is its sole shareholder.

The Target Group mainly operates financial related business and holds the Group's investment in commercial bank and financial sector. Below sets out a structure chart showing the subsidiaries and equity shareholding of the Target Company as of the Latest Practicable Date:



Notes:

1. Tianjin Leasing is principally engaged in the finance lease business in the PRC. Tianjin Leasing recorded continued net loss in the amount of approximately RMB1.91 million and RMB30.67 million for FY2021 and FY2022, respectively. In light of the lack of prospects for the business to turn into profitability, the increasing difficulties in sourcing new creditable clients, and the costs and risks (including credit risk from finance lease granted and compliance risk) in operating such business, Tianjin Leasing has ceased from developing new business in mid-2023. Its current operation is limited to existing outstanding finance leases.

2. Chongqing Micro-credit principally engages in the provision of loan in the PRC. Its remaining shareholders are Digital China Holdings Limited ("**Digital China**", a substantial shareholder of the Company interested in approximately 19.37% of the issued Shares through its controlled corporations) (as to 30%) and HK Huicong (as to 40%) as of the Latest Practicable Date. Taking into account the Group's aggregate equity interests, Chongqing Micro-credit is a subsidiary of the Company prior to Completion. Upon Completion, the Group will retain 40% equity interest in Chongqing Micro-credit through HK Huicong, and there is currently no immediate plan to dispose of the Group's remaining 40% shareholding in Chongqing Micro-credit after Completion.

   Mr. Sun Yang, a non-executive Director, is a senior vice-president of Digital China and the chairman of Digital China Software Limited.

3. Huixiang Network, Zhongzai Huicai and Huijing do not have any substantive business operations as of the Latest Practicable Date. As of the Latest Practicable Date, these entities owed interest-bearing borrowings in an aggregate principal amount of approximately RMB487.0 million.

4. Jingu Bank principally engages in the provision of products and services on bank deposits, loans and advances in the PRC and other business approved by the China Banking Regulatory Commission. The Group invested in Jingu Bank as a strategic investment in the past, and the Group's interests in Jingu Bank is classified as a financial asset at fair value in the Group's account.

Below summarises certain unaudited selected combined financial information of the Target Group for the periods/as of the dates indicated:

	Year ended 31 December		**Ten months ended 31 October**
	2021	**2022**	**2023**
	(RMB'000, unaudited)	*(RMB'000, unaudited)*	*(RMB'000, unaudited)*
Revenue	2,110,060	1,498,846	21,642
Net loss (before taxation and extraordinary items)	126,467	105,948	293,976
Net loss (after taxation and extraordinary items)	126,498	105,966	293,976

	As of 31 December		**As of 31 October**
	2021	**2022**	**2023**
	(RMB'000, unaudited)	*(RMB'000, unaudited)*	*(RMB'000, unaudited)*
Total assets	1,206,316	1,109,313	776,173
Total liabilities	556,541	565,504	526,340
Net assets	649,775	543,809	249,833

Below summarises certain financial information of Chongqing Micro-credit for the periods/as of the dates indicated:

	As at 31 December 2021 *(RMB'000, audited)*	As at 31 December 2022 *(RMB'000, audited)*	As at 31 October 2023 *(RMB'000, unaudited)*
Total assets	1,401,527	1,381,858	1,139,031
Total liabilities	47,980	44,582	35,064
Net assets	1,353,547	1,337,276	1,103,967

	For the year ended 31 December 2021 *(RMB'000, audited)*	For the year ended 31 December 2022 *(RMB'000, audited)*	For the ten months ended 31 October 2023 *(RMB'000, unaudited)*
Interest income	96,560	82,377	61,925
Total comprehensive income/(loss)	82,189	(16,271)	(225,678)

The micro-credit business has experienced a downward trend in its performance from FY2020 to FY2023, driven by a combination of stricter regulatory requirements and the worsening economic conditions in China. The issuance of the "Notice on Strengthening the Supervision and Management of Micro-lending Companies" by the The General Office of China Banking and Insurance Regulation Commission ("**CBIRC**") in 2020 has significantly impacted the micro-lending industry, leading to challenges in compliance and business operations.

Additionally, the adverse macro-environmental conditions resulting from the COVID-19 pandemic have exacerbated the situation. The economic downturn has increased the risk of loan defaults as borrowers face difficulties in repayment, prompting the micro-credit company to allocate higher provisions for potential credit losses.

In this challenging landscape, the micro-credit company has witnessed a decrease in interest income, an increase in loss provisions, and an overall decrease in net profit. These trends reflect the combined impact of stricter regulations, economic instability, and the need for conservative lending practices.

The Company, through the Target Group, holds approximately 9.22% of the equity interests in Jingu Bank. It is classified as financial assets at fair value through other comprehensive income ("**FVOCI**"). Below set out the FVOCI as of the dates indicated:

	As at 31 December 2021 *(RMB'000, audited)*	As at 31 December 2022 *(RMB'000, audited)*	As at 31 October 2023 *(RMB'000, unaudited)*
Financial assets at fair value through other comprehensive income *(Note)*	392,686	357,326	284,464

Note:

On 21 October 2021, the Group's board representative has resigned from the board of directors of Jingu Bank and forfeited the Group's legal rights to appoint a director to participate in the board of directors of Jingu Bank, which determines the significant financial and operating decisions of Jingu Bank. The investment in Jingu Bank was then derecognised as an investment in associate and reclassified as a FVOCI, as the Group's management decided to hold the investment in Jingu Bank as a long-term strategic investment. As of 31 December 2021 and 31 December 2022, Jingu Bank was recognized in the financial statements solely as a FVOCI. The Group did not have any control over Jingu Bank, and no separate disclosure of the Jingu Bank's total assets, total liabilities, net assets, or profit and loss has been disclosed in the Company's financial statements for these periods.

The Group holds its interests in Jingu Bank as investment. Jingu Bank did not declare any dividend for FY2021, FY2022 and the ten months ended 31 October 2023. Accordingly, the shareholding in Jingu Bank did not generate any dividend income or other income for the Group during these periods.

FINANCIAL EFFECT OF THE DISPOSAL ON THE GROUP

Upon Completion, the Group will no longer hold equity interest in the Target Group, except retaining a 40% equity interest in Chongqing Micro-credit through HK Huicong.

As a result, the Target Group will cease to be subsidiaries of the Group and will not be consolidated in the Group's consolidated financial statements, except for the 40% equity interest in Chongqing Micro-credit. As the Group retains 40% equity interest in Chongqing Micro-credit (before Completion, the Group holds 70% in aggregate), the 40% equity interest will be accounted for as the Group's investment in associate company under equity method in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"), considering the Group will have significant influence over Chongqing Micro-credit.

Earnings

Upon Completion, assuming the transaction completed on 31 October 2023, the Group is expected to record a total loss of RMB583.5 million resulting from the deconsolidation of the Target Group. The total loss mainly includes:

(i) A loss on disposal amounting to RMB244.8 million, which is calculated as the cash consideration of RMB5 million minus the carrying amount of the net assets disposed of the Target Group, which was RMB249.8 million as of the Valuation Date.

(ii) A deemed disposal loss of RMB338.7 million. Upon Completion, Chongqing Micro-credit will no longer be a subsidiary of the Group but will be accounted for as an investment in an associate. This expected loss is calculated based on the fair value of the 40% equity interest retained in Chongqing Micro-credit amounting to RMB102.9 million minus the book value of approximately RMB441.6 million as of the Valuation Date.

During FY2022, the Target Group and Chongqing Micro-credit generated an aggregate revenue and income of approximately RMB1,581 million, and a pre-tax net operating loss of approximately RMB127 million. Upon the Completion, the Group expects a decrease in annual finance costs of approximately RMB29 million, attributable to a reduction in interest-bearing borrowings.

Assets and liabilities

Assuming the transaction completed on 31 October 2023, and excluding any impact of transaction costs to be incurred, the unaudited pro forma consolidated total assets and total liabilities of the Group is expected to be decreased by approximately RMB776 million and RMB526 million correspondingly, being the total assets and total liabilities of the Target Group as at 31 October 2023.

Shareholders and potential investors should note that the financial effects of the Disposal set out in this circular are for illustrative purpose only. The final figure to be recorded by the Group is subject to the Company's status as of the date of the Completion and audited results which will be assessed after the Completion, and eventually be recognised in the consolidated financial statements of the Company upon the Completion.

INFORMATION OF THE GROUP

As of the Latest Practicable Date, the Group's business composed of three segments, namely (1) the technology-driven new retail segment, which mainly provides online advertising and marketing services for 3C and living technology products in mainland China through the operation of the ZOL website (zol.com.cn), (2) the smart industries segment, which mainly includes B2B trading platform, provision of anti-counterfeiting products and services, and supply chains management services, and (3) the platform and corporate services, which mainly includes the online services, advance marketing services utilizing digital big data and tools and provision of financing and other services. ZC Technology is an indirect wholly-owned subsidiary of the Company, and it is principally engaged in investment holdings.

INFORMATION OF THE PURCHASER AND THE GUARANTOR

The Purchaser is a company established in the PRC with a registered capital of RMB10 million. Its business scope includes, among other things, technology development and consultation, technology services, corporate management consultation, information consultation services, etc.

The Guarantor is the sole shareholder of the Purchaser. Established in the PRC, the Guarantor has a paid-up registered capital of RMB124 million as of the Latest Practicable Date. Based on the information made available to the Company, the shareholders of the Guarantor are (1) Beijing Jiu Yuan Zhong Sheng Technology Co., Ltd. (北京玖源中盛科技有限公司) (as to approximately 60.2%; it is owned as to 70% by Lu Jin Hua (蘆金花) and 30% by Guo Bu Cai (郭補財)), (2) Beijing Zhong Cai Xin Yu Technology Co., Ltd. (北京中財新宇科技有限公司) (as to approximately 19.9%; it is owned as to 60% by Liu Er Zhu (劉二柱) and 40% by Wang Hai Zhen (王海珍)), and (3) Beijing Xi Xian Technology Co., Ltd. (北京西弦科技有限公司) (as to approximately 19.9%; it is owned as to 50% by each of Mao Shi Ping (毛士平) and Lu Da Ru (呂大如)). Based on the information made available to the Company, the Guarantor is principally engaged in the design and sales of handicrafts and gifts, and it participates in investment of assets and equity of entities in the financing service and investment business.

The Group and the Purchaser became acquainted in mid-2023 through a former employee of Chongqing Micro-credit. Such former employee left the Group in 2020, and is working at a subsidiary (a company involving in pawn business in the PRC) of the Guarantor. He learned that the Group intends to reform its business and corporate structure from a current management staff of Chongqing Micro-credit. Knowing from his current employment that the Guarantor is strategically expanding its financial services business and seeking acquisition opportunities, this former employee connected the Company and the Guarantor.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries (other than Mr. Sun Yang, who did not provide an opinion in light of his dissenting view on the Disposal): the Purchaser, the Guarantor and their ultimate beneficial owners are third parties independent of and not connected with the Company or its connected persons, and there is (and in the past twelve months, there has been) no material loan arrangement between (a) the Purchaser, the Guarantor, their directors, legal representatives and ultimate beneficial owners on the one hand, and (b) the Company's connected person at the Company's level and/or connected person at the subsidiary level (to the extent that such subsidiary(ies) is(are) involved in the Disposal).

REASONS FOR AND THE BENEFITS OF THE DISPOSAL

The Group has been actively reviewing its portfolios and development strategy in face of the recent challenging years. The Group would substantively dispose its financing services business and assets through the Disposal. In the past years, the Group placed huge effort on trying to preserve the value of the Target Group (including Chongqing Micro-credit). However, these efforts were not paid-off principally due to the following reasons: (1) Macro-economic downturn in recent years has made business operations of enterprises (including the Group's financing services business customers) challenging, intensifying the bad debt risks. For example, non-performing outstanding loans (being outstanding loan classified as sub-standard, doubtful or loss under the five-tier classification) remained high, representing 13.05% (RMB207 million) and 14.67% (RMB240 million) in the FY2021 and FY2022, respectively; and (2) The overall financial environment, in particular the reduction of borrowing interests rate in the PRC, provides high-quality clients with better financing options at lower costs. It makes it more difficult for micro-credit and finance leasing company like the Target Group (including Chongqing Micro-credit) to secure high-quality client.

The harshness of the operating environment could be reflected by the significant decrease of the number of micro-credit entities operating in the PRC. According to the data with respect to micro-credit companies' statistics from the People's Bank of China (中國人民銀行), as of 31 December 2021, there were 6,453 micro-credit companies operating in China. As of 31 December 2022, the number of micro-credit companies decreased to 5,958, representing a decrease of approximately 8%. The number further decreased to 5,688 as of 30 June 2023, representing a decrease of approximately 4.5%. The nationwide outstanding loan balance of micro-credit also demonstrated a declining trend. As of 31 December 2021, the outstanding loan balance was approximately RMB 941.5 billion. As of 31 December 2022, the outstanding loan balance decreased to RMB 908.6 billion, representing a decrease of approximately 3.5%. As of 30 June 2023, the outstanding loan balance further decreased to RMB 827 billion, representing a decrease of approximately 9%, highlighting a continued downward trend in micro-credit loan activity.

The Group participated in the micro-credit financing services business as an extension of, and supplemental to, its B2B e-business platform business historically. In recent years, the regulatory and operating environment of micro-credit financing services business has gone through huge changes. New measures and atmosphere of micro-credit companies have become increasingly intense in control of the financial risks in mainland China. Operating in such highly regulated business demands substantive operating resources, financing and compliance costs out of its market participants. The General Office of CBIRC issued the "Notice on Strengthening the Supervision and Management of Micro-credit Companies" in 2020 (the "**CBIRC Notice**"). The CBIRC Notice (among other measures) (i) imposes substantially enhanced and additional requirements on the capital requirement, business scopes, financing ratios of micro-credit institutions (such as ceiling or capital adequacy ratio based on net assets of the institution); (ii) imposes substantially enhanced and additional requirements on management on making new loans and post-loan management (such as requirements on background and lending ability of borrowers, the regulation of five-tier classification of loans, regulations on means of loan recovery, requirements on ongoing supervision on purpose and usage of loans); and (iii) strengthens the supervisory power of and level of enforcement or penalty of the regulatory authorities. Local financial supervisory authorities in the PRC have also issued further regulations and measures to implement the CBIRC Notice. These local regulations contain more detailed and specific requirements (such as minimum capital ratio or capital requirements, prohibited acts on loan recovery, specific reporting requirements by a micro-credit company to the authorities, regulatory power to conduct on-site checks). These measures significantly increase the capital requirements (such as costs to maintain/ increase its registered capital, costs to maintain its net assets to meeting capital adequacy ratios) and operating costs (such as costs on conducting due diligence, risks and post-loan management, particularly in light of customers seeking micro-credit loans are mostly individual or small to medium size enterprises whose financial creditability or background render it more difficult or not practicable for them to obtain loans from registered banks), while limiting the business scale (number of qualified borrower and amount of loans which could be made) and profitability (interests and interests rate) of micro-credit financing institutions.

As part of the Group's development strategy, during 2022, the Group suspended the operation of one of its e-business platform (hc360.com) under the platform and corporate services segment. This allows the Group to redirect its resources and focus on its core business under the technology-driven new retail segment and the smart industries segment, which in aggregate contributed approximately 99% of the Group's revenue for FY2022 and 2023-1H. The Group aims to shift to a more focused approach in terms of using its resources, and a more sustainable operations in the long run. As part of these steps, the Group is striving to prioritize its core business components with a focus of businesses with better prospects and rate of return (including ZOL, Panpass and Union Cotton. For more information about these business, please refer to the paragraph headed "Financial and Trading Prospects of the Group" in appendix I to this circular), to take a better balance of finance and other costs and risks associated with its operations. With a view to exit the businesses of the Target Group (including Chongqing Micro-credit), the Group considered the alternative to fading out of the business by not engaging in new business. The management however does not consider this route to be in the best interests of the Company taking into account (among other things): (a) the extended period of time required in light of the current business status, in particular the amount of overdue loan in the micro-credit business operated by Chongqing Micro-credit, (b) the assessment as at the Latest Practicable Date that the Target Group (including Chongqing Micro-credit) is unlikely to achieve improvement in its financial results during such extended period in light of the costs (particularly the running interest expenses of over RMB35 million per year from the borrowings for the financing services business) and expenses (particularly annual interests payment) required in support of the Target Group (including Chongqing Micro-credit), and (c) various risks involved in operating the businesses, in particular, the risk of further impairment, inability to recover outstanding loans granted and compliance risks. With the harshness of the operating environment of the Target Group (including Chongqing Micro-credit), its disappointing financial performance and the lack of foreseeable improvement prospect, the Company does not consider it justified to support the ongoing costs and expenses on the Target Group (including Chongqing Micro-credit). The significant time and efforts demanded of the management, heavy costs (including the interests expenses) accumulating from the daily operation of the Target Group (including Chongqing Micro-credit) and continued depreciation further render a swift solution for the Group to break off from the business of the Target Group (including Chongqing Micro-credit) to be urging. The Company is of the view that the Disposal could more effectively allow the Group to exit the business, and re-position its business and resources timely.

As shown in further detailed in the sections headed “Consideration” and “Information of the Target Group” above, both the Target Group’s revenue and the income derived from Chongqing Micro-credit represented only a small portion of the Group’s total revenue. On the other hand, continued loss was recorded in FY2022 and 2023-1H with no realistic prospect of substantive improvement. The Company considers the Disposal to be an opportunity for the Group to expediate its structural reform and to dispose of underperforming non-core business with low operating efficiency. This will be in line with the Company’s business strategy of developing a more sustainable business operation focusing on “Industrial Internet” in China with better operating efficiency and profitability prospects. The Disposal is expected to recognize one-off loss, including the one-off deemed loss resulted from the deconsolidation of Chongqing Micro-credit (see “Financial Effect of the Disposal on the Group — Earnings” above for more information). On the other hand, the financial liabilities position of the Group could be improved significantly by bringing down the level of total liabilities by approximately RMB526 million from around RMB1,870 million as of 31 October 2023 to RMB1,344 million which also lessen the burden and pressure on the Group’s cashflow created by interest payment arising from such liabilities (including interest payment to Jingu Bank amounted to RMB38 million and RMB36 million in

FY2021 and FY2022, respectively). The Disposal would also reduce the Group's exposure to its financing services business which recorded continued loss with limited prospect in near future, and the continuous costs and risks exposure from non-performing loan from such business.

As part of the assets of the Target Group, the equity interests in Jingu Bank is held as equity investment. However, such investment has not generated any dividend or income since 2020. Valuation of agricultural and commercial banks in the PRC also showed a decreasing trend in general. The fair value of the Group's interests in Jingu Bank suffered continued decrease, from around RMB393 million in as of 31 December 2021 to RMB284 million as of 31 October 2023. The Company believes that the Disposal could improve the Group's financial outlook.

The Group intends to apply the net proceeds from the Disposal (currently estimated to be approximately RMB3.4 million after deducting related expenses) for general working capital of the Group.

Having considered the above, in particular, the continued deterioration of the financial results of the Target Group (including Chongqing Micro-credit) in recent years, the limited prospects, ongoing pressure and risks derived from the businesses of the Target Group (including Chongqing Micro-credit), and the reasons and benefits of the Disposal mentioned above, the Board (other than Mr. Sun Yang who dissented from the approval of the Disposal) believes that the terms of the Disposal Agreement to be fair and reasonable, and the Disposal and the transactions contemplated thereunder (which is in line with the Group's development strategies) are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal is higher than 25% but less than 75%, the Disposal constitutes a major transaction of the Company and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. It is proposed that the EGM will be convened and held for the purpose of seeking Shareholders' approval on the Disposal.

So far as the Company is aware of, none of the Shareholders has a material interest in the 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 Disposal at the EGM.

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

EGM

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Disposal. A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular.

Pursuant to Rule 13.39(4) of the Listing Rules, all resolution(s) will be put to vote by way of poll at the EGM. As far as the Company is aware, none of the Shareholders has a material interest in the 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(s) to approve the Disposal at the EGM.

A proxy form for use at the EGM is published on the HKEXnews website (www.hkexnews.hk) and the Company's website. Whether or not you are able to attend the EGM, you are requested to complete and return the proxy form in accordance with the instructions thereon to the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish. In such event, the proxy form shall be deemed to be revoked.

The record date for determining the entitlement of the shareholders of the Company to attend and vote at the Meeting will be 21 February 2024 (Wednesday). In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 21 February 2024 (Wednesday).

RECOMMENDATION

The Board (other than Mr. Sun Yang, who dissented from the approval of the Disposal) considers that the Disposal is fair and reasonable, in the interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of the resolution set out in the notice of the EGM.

GENERAL

The Disposal is conditional upon satisfaction of conditions precedent under the Disposal Agreement. There is no assurance that Completion 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).

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of the EGM.

Yours faithfully,
For and on behalf of the Board
HC GROUP INC.
Liu Jun
Chairman and Chief Executive Officer

1. FINANCIAL INFORMATION OF THE GROUP

The consolidated financial statements of the Company for each of the years ended 31 December 2020, 2021, 2022 and for the six months ended 30 June 2023 were disclosed in the following documents which are available on the Stock Exchange's website:

(1) Audited consolidated financial statements for the year ended 31 December 2020: Pages 123 to 312 of the Company's 2020 annual report (**https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0419/2021041901102.pdf**), which was posted on 19 April 2021.

(2) Audited consolidated financial statements for the year ended 31 December 2021: Pages 125 to 316 of the Company's 2021 annual report (**https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042501415.pdf**), which was posted on 25 April 2022.

(3) Audited consolidated financial statements for the year ended 31 December 2022: Pages 127 to 304 of the Company's 2022 annual report (**https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0427/2023042704448.pdf**), which was posted on 27 April 2023.

(4) Unaudited consolidated financial statements for the six months ended 30 June 2023: Pages 14 to 60 of the Company's 2023 interim report (**https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0921/2023092100798.pdf**), which was posted on 21 September 2023.

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 November 2023 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the Group had:

(a) bank borrowings of approximate RMB633,040,000 of which, the current portion of RMB146,040,000 will mature in next twelve months, and the remaining of RMB487,000,000 will mature between two to three years. Out of the total balances, the followings bank borrowings were secured by certain properties as disclosed as follows:

(i) bank borrowing of RMB487,000,000, which was guaranteed by subsidiaries and independent third parties of the Group and secured by certain properties held by such independent third parties; and

(ii) bank borrowing of RMB10,000,000, which was guaranteed by a subsidiary of the Group and secured by certain properties held by the Group.

The remaining bank borrowings were unsecured and mainly included:

(i) bank borrowings of RMB72,990,000, which were guaranteed by subsidiaries of the Group;

(ii) bank borrowings of RMB5,000,000, which were guaranteed by an independent third party of the Group;

(iii) bank borrowings of RMB10,000,000, which were guaranteed by an Executive Director of the Group;

(iv) bank borrowings of RMB36,550,000, which were guaranteed by certain key management personnel of subsidiaries; and

(v) bank borrowings of RMB11,500,000, which were unguaranteed.

(b) Other borrowings of approximate RMB238,600,000, out of which, will mature in next twelve months.

(i) Out of the total balances, other borrowing of RMB230,000,000 provided by an independent third party was secured by certain equity interest of a subsidiary of the Group and guaranteed by a subsidiary of the Group.

The remaining other borrowings were unsecured and unguaranteed, which mainly included:

(i) other borrowings of RMB2,600,000 provided by a non-controlling shareholder and certain key management personnels of subsidiaries of the Group; and

(ii) other borrowing of RMB6,000,000 provided by an independent third party.

(c) lease liabilities of approximately RMB4,716,000 for the remainder of the relevant lease terms amounting in aggregate, all of which were unsecured and unguaranteed.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 30 November 2023, the Group did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans of other borrowings, indebtedness in the nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to the Group, including both internally generated cash flows from operations and available financial resources during the projection period, the Group will have sufficient working capital to satisfy its requirement, finance its operation and to meet its financial obligations for not less than next twelve months from the date of this circular in the absence of unforeseen circumstances.

The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The global economy has experienced challenging years, with the unprecedented disruption due to the COVID-19 pandemic. As the COVID-19 situation improved, the stringent prevention measures and restrictions were progressively adjusted. The general momentum of the global economy is yet to be fully recovered.

The Group continued to work on its vision of becoming a leading group for "Industrial Internet" in China by leveraging internet thinking, instruments and methods to ramp up industrial efficiency, empower supply chains and industrial chains, and establish a win-win ecosystem to serve customers. For FY2022 and 2023-1H, the Group's revenue generated from the technology-driven new retail segment and the smart industries segment in aggregate accounted for approximately 99% of the Group's total revenue. Following the Disposal, the Group will continue to focus on developing the key businesses under these two segments such as the operation of the ZOL website (zol.com.cn, "**ZOL**"), Beijing PanPass Information Technology Co., Ltd. (NEEQ stock code: 430073) ("**PanPass**") and "Union Cotton".

ZOL provides online advertising and marketing services for 3C and living technology products in China and is a main revenue contributor to the Group's technology-driven new retail segment (which accounted for approximately 11.6% of the Group's revenue in 2023-1H). Factors such as lowered profit margin and impediment of ZOL's plan in expanding its user-base by its customers' cautious budgeting in advertising activities affected the segment's financial performance. In light of this and lack of certainty for ZOL to reach the original business outlook expected of it (when compared to the expectation at the time of the Group's investment in ZOL), an impairment for goodwill relating to this segment of approximately RMB719.4 million was recognised in 2023-1H.

ZOL, supported by its over two decades of operating experience in the technology vertical field, will continue its emphasis on becoming the preferred living technology shopping guide platform, through promoting the delivery of good quality contents, R&D, strategic cooperation with brands and suppliers, and promoting global users' acknowledgment of "Made in China" products. ZOL has been placing efforts to enhance its core capabilities to seek a better survival and development opportunities. Steps taken by ZOL includes enhancing its core capabilities by expanding its information pool with more comprehensive and higher quality content, by increasing the use of AI technology to provide more relevant information to users; enhancing its marketing capabilities by building an image of it as an authoritative and professional platform by collaborating with KOL and other branding crossover promotions.

PanPass, an Internet of Things ("**IoT**") solutions provider for digital transformation, is part of the Group's smart industries segment (which accounted for approximately 87.7% of the Group's revenue in 2023-1H). PanPass' achieved a stable growth in terms of its revenue, profit and number of customers in 2023-1H when compared to the corresponding period in 2022. In terms of product and market influence, PanPass has launched the SaaS version 6.0 and professional version 3.0 of All-In-One Code, and upgraded its nationwide regional operation centers in Wuhan, Chengdu and Shanghai. It is also proceeding with the proposed listing on the Beijing Stock Exchange. The Company believes that a successful BSE listing will strengthen PanPass' competitiveness and market position in the innovation industry, and contribute to its long-term development.

Union Cotton, a spot trading platform for cotton, is a principal contributor to the Group's revenue. It is also the principal driver of the Group's increase in total revenue in 2023-1H. The cotton textile industry was relatively stable in 2023, with moderate rise in prices of textile raw materials, and a recovery of demand. In this background, "Union Cotton" continues to focus on its customer-focused approach, and implements various operational strategies (for example, an increased comprehensive platform promotion efforts, adjustment in its business selection policies) to improve its market share among end customers and expanding supplier resource channels in 2023. Union Cotton's scale of operations has expanded with a rise of approximately 173% in its revenue to approximately RMB7,068 million during 2023-1H (first half of 2022: RMB2,591 million), attributable to the post-pandemic resumption of production and transportation of cotton products, and increase in demand from downstream textile enterprises.

As further detailed in the Company's 2023 interim report, the Company recorded a loss attributable to equity holders of the Company of approximately RMB810.3 million for 2023-1H, mainly attributable to, among other things: (i) approximately RMB719.4 million goodwill impairment was recorded with respect to ZOL; and (ii) approximately RMB167.6 million impairment provision was made for certain significant overdue loans in the Group's micro-credit loan business. The Company expects that further impairment provisions might be made for goodwill and intangible assets whose financial performances could not meet the original expectation for FY2023 (including, a further impairment for goodwill and intangible assets of in light of ZOL recording a significant decline in its volume of advertising spending in the second half of 2023), and for overdue loans in the micro-credit business. In addition, in light of the expected loss from the Disposal as further detailed in the paragraph headed "Financial Effect of the Disposal on the Group" in the Letter from the Board in this circular, the Company expects that one-off impairment provision might be made associated with the Disposal for FY2023. In light of the above impairments losses expected to be made, the Group expects to record a substantial loss attributable to equity holders of the Company for FY2023, further details of which is set out in the announcement of the Company dated 22 January 2024.

Notwithstanding the challenges impacted the Group in the past year, the Group believes there are opportunities to be grasped. Digital economy and intellectual economy have become the socio-economic development direction, and the internet industry is now undermining how businesses are being promoted and developed more than ever. The Group's rich history and experience in the industrial internet industry well positioned the Group in the waves of socio-economic development. The Company is actively reviewing its portfolios and development strategy. Strategically, the Company aims at creating a more sustainable business and a growth in shareholder value in the long term. In face of the recent challenging years, the Company is seeking to progressively enhance its operation and corporate structure, and shift to a more focused approach in terms of use of resources. As part of these steps, the Company strives to prioritize its core business components, focus principally on businesses with better prospects and return rate with a balance over costs and risks associated with its operations, and to reduce our indebtedness level, in the short to medium term. The Disposal is an important step towards this goal.

The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from Asia-Pacific Consulting and Appraisal Limited, an independent valuer, in connection with their opinion of the value of the Sale Interests as at 31 October 2023.

CONSULTING & APPRAISAL
亚太評估

Asia-Pacific Consulting and Appraisal Limited
Flat/RM A 12/F Kiu Fu Commercial Bldg,
300 Lockhart Road,
Wan Chai, Hong Kong

30 January 2024

The Board of Directors
HC Group Inc.
Room B-1, 4th Floor, Building 2,
Hangxing Science Park,
No. 11, Hepingli East Street,
Dongcheng District,
Beijing 100013, China

Dear Sirs,

In accordance with the instructions received from HC Group Inc. ("**HC Group**" or the "**Group**"), we have undertaken a valuation exercise which requires Asia-Pacific Consulting and Appraisal Limited ("**APA**") to express an independent opinion on the market value of 100% equity interest of Beijing Huicong Hulian Information Technology Co., Ltd. ("**Huicong Hulian**" or the "**Target Company**"), and its subsidiaries and investments (collectively, the "**Target Group**") as at 31 October 2023 (the "**Valuation Date**").

The purpose of this valuation is for circular reference of the Group.

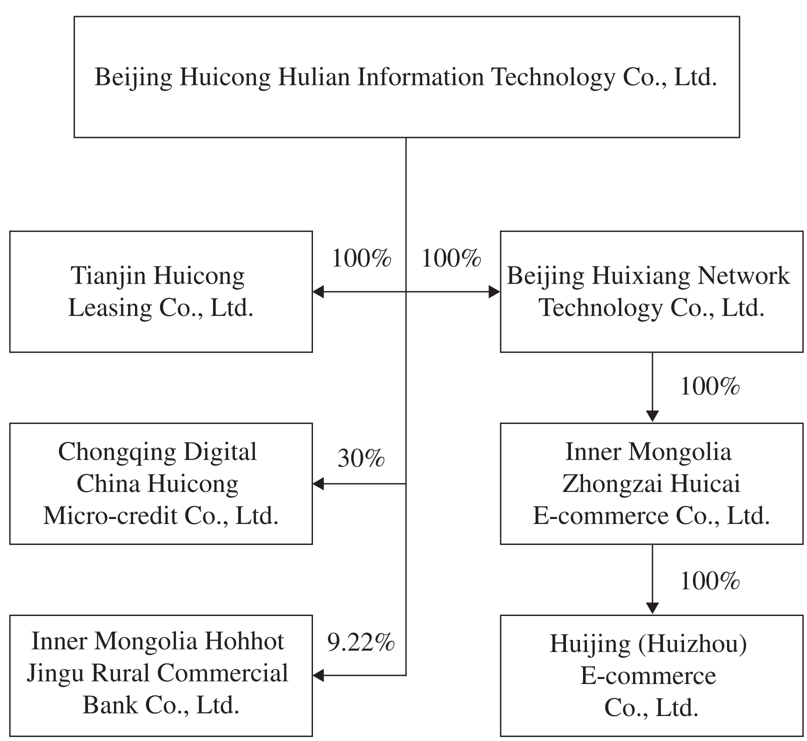
Our valuation was carried out on a market value basis which is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion".

INTRODUCTION

APA understands that the Group entered into a disposal agreement (the "**Disposal Agreement**") by and between a purchaser (the "**Purchaser**"), a guarantor (the "**Guarantor**") and the Group. Pursuant to the Disposal Agreement, the Purchaser will acquire 100% equity interest in the Target Group from the Group for a Consideration of RMB5 million in cash (the "**Disposal**"). The Group would substantively dispose its financing services business and assets through the Disposal.

The Purchaser is a company established in the PRC with a register capital of RMB10 million. Its business scope includes, among other things, technology development and consultation, technology services, corporate management consultation, information consultation services, etc. The Guarantor is the sole shareholder of the Purchaser. Established in the PRC, the Guarantor has a registered capital of RMB124 million as of the Valuation Date.

The Target Group mainly operates financial related business and holds the Group's investments in commercial bank and financial sector. As at the Valuation Date, the Target Group has a registered capital of RMB800 million, and Beijing Huicong Zaichuang Technology Co., Ltd. ("**ZC Technology**") is its sole shareholder. The shareholding structure of the Target Group as at the Valuation Date is listed as below:



The Target Group currently holds 100% equity interest in Tianjin Huicong Leasing Co., Ltd. ("**Tianjin Leasing**"), which mainly operated financing leasing business. According to the business plan of the management, Tianjin Leasing no longer develops new business as of the Valuation Date, with its current operation limited to existing finance leases.

The Target Group holds the number of 137,101,000 shares of Inner Mongolia Hohhot Jingu Rural Commercial Bank Co., Ltd. ("**Jingu Bank**"), representing approximately 9.22% equity interest in Jingu Bank. Founded in 2014 and headquartered in Hohhot, Jingu Bank provides various commercial banking products and services to individuals, business clients, agricultural customers, rural areas, and farmers in China. The Group invested in Jingu Bank as a strategic investment in the past, and the Group's interests in Jingu Bank are classified as a financial asset at fair value in the Group's account.

The Target Group holds 30% equity interest in Chongqing Digital China Huicong Micro-credit Co., Ltd. ("**Chongqing Micro-credit**"). Founded in 2013, Chongqing Micro-credit develops and operates micro-credit internet financing business and offers micro-finance products, such as trade finance, personal credit, and guaranteed loans in China. Chongqing Micro-credit became a subsidiary of the Group, holding 70% equity interest in Chongqing Micro-credit, as at 28 November 2017. Its remaining shareholder is Digital China Holdings Limited (as of 30%) as of the Valuation Date.

The Target Group holds 100% equity interest in Beijing Huixiang Network Technology Co., Ltd. ("**Huixiang Network**"), Inner Mongolia Zhongzai Huicai E-commerce Co., Ltd. ("**Zhongzai Huicai**") and Huijing (Huizhou) E-commerce Co., Ltd. ("**Huijing**"). As of the Valuation Date, Huixiang Network, Zhongzai Huicai and Huijing do not have any substantive business operations and solely have interest-bearing loans in an aggregate amount of approximately RMB487 million from Jingu Bank.

According to the financial statement, the Target Group reported a book value of the total assets of RMB776.17 million, and the book value of net assets was RMB249.83 million as at the Valuation Date.

As at the Valuation Date, the total assets, total liabilities and net assets of the Target Group are as follows:

	Book Value
	RMB'000
	Unaudited
Bank balances and cash	2,809
Trade receivables	4,708
Financial assets at fair value through profit or loss	
— 9.2189% equity interest in Jingu Bank	276,383
Prepayments	1,056
Other receivables	5,280
Current assets	**290,236**
Long term equity investment	
— 30% equity interest in Chongqing Micro-credit	331,192
Finance lease receivables	154,056
Property, plant and equipment	689
Non-current assets	**485,937**
Trade and other payables	342
Other payables	6,428
Accrued salaries and staff benefits	31,867
Tax payable	703
Current liabilities	**39,340**
Bank borrowings	487,000
Non-current liabilities	**487,000**
Total Net Assets	**249,833**

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, asset-based approach and income approach.

Market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect the condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Asset-based approach refers to the valuation methodology to determine the value of the subject on a reasonable basis by valuating an enterprise's value contribution to the overall on-balance-sheet and off-balance-sheet assets and liabilities, based on the balance sheet of the subject as at the valuation date. The asset-based approach is a hybrid valuation method, this method requires us to conduct valuations for each individual assets and liabilities of the subject entity. The asset-based approach is commonly adopted in the area of share investment portfolio situation or there are substantial limitations on using market approach and income approach.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

According to the equity shareholding structure of the Target Group, the Target Company is a holding company that holds: i) 100% equity interest in Tianjin Leasing; ii) 100% equity interest in Huixiang Network; iii) 30% equity interest in Chongqing Micro-credit; and iv) about 9.22% equity interest in Jingu Bank. Chongqing Micro-credit and Jingu Bank are financial assets recorded in the Target Group's account. Each entity of the Target Group involves different business sector, that we applied the asset-based approach, under which, we considered appropriate valuation method for each entity based on their different situations. The valuation method and characteristic for each entity are shown below:

Entity	**Business sector**	**Operating status**	**Valuation method**
The Target Company	Holding company	Non-operating	The asset-based approach
Tianjin Leasing	Financial lease	Not expected to conduct new business	The asset-based approach

Entity	Business sector	Operating status	Valuation method
Huixiang Network	Bank borrowing holder	Non-operating	The asset-based approach
Jingu Bank	Commercial Banking	Operating	The market approach
Chongqing Micro-credit	Microfinance	Operating	The market approach

For valuation of the Target Company, Tianjin Leasing and Huixiang Network, the asset-based approach is more appropriate than the income approach and the market approach, because: (a) income approach result would be more dependent on long term financial forecast internally prepared by the management, which is unavailable under current situation that Tianjin Leasing is not expected to conduct any new business in the future; the Target Company and Huixiang Network do not have any substantive business operations as at the Valuation Date, and (b) in light of the current nature and status of the Target Company, Tianjin Leasing and Huixiang Network, there are no comparable public companies and transactions available as of the Valuation date. Thus, the asset-based approach was applied in this exercise to determine the market value of the equity interest of the Target Company, Tianjin Leasing and Huixiang Network. This method requires us to conduct a valuation of individual assets and liabilities, based on the balance sheet of the Target Company, Tianjin Leasing and Huixiang Network.

In this report, we had considered the type of assets and liabilities and their conditions when determining their market values and adopted appropriate valuation methodology for depending on the type of assets and liabilities belonging to the Target Company, Tianjin Leasing and Huixiang Network. The details are summarized as follows:

Cash at bank and on hand

Based on unaudited book values checking with bank statements.

Property, plant and equipment

The fixed assets are mainly vehicles, where an active secondary market exists, the market comparison approach was adopted. The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect the condition and utility of the appraised vehicles relative to the market comparative.

Finance lease receivables

We assessed the finance lease receivables based on unaudited book value and the Target Group applied general approach under Hong Kong Financial Reporting Standards No.9- Financial Instruments ("**HKFRS 9**") to measure the expected credit losses for all finance lease receivables.

Other assets and liabilities

We valued other assets and liabilities based on unaudited book values, together with checking and verifying, by inquiry and confirmation, calculation and rechecking the relevant account books, and original documents, etc.

Valuation method for equity interest in Jingu Bank and Chongqing Micro-credit

Given the characteristics of Jingu Bank and Chongqing Micro-credit, there are substantial limitations to the income approach and the asset-based approach for valuing the underlying asset. Firstly, income approach result would be more dependent on long-term financial forecast internally prepared by the management, which is unobservable input and requires subjective assumptions. Secondly, the asset-based approach does not directly incorporate information about the economic benefits contributed by the subject business.

In view of the above, we have adopted the market approach for the valuation of Jingu Bank and Chongqing Micro-credit. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect the condition and utility of the appraised assets relative to the market comparable.

Financial companies tend to have very small capital expenditures and depreciation, plus not all typical working capital accounts are present. The assets and liabilities of financial companies are typical financial assets with certain liquidity. In practice, price-to-book (P/B) ratio is widely used to value the equity interest of financial companies.

Jingu Bank and Chongqing Micro-credit, as financial institutions, typically use P/B multiple rather than other market multiples for market valuation, reasons are as follows:

i) Importance of assets: The core of banking operations is asset and liability management. A bank's main assets are its loans, while its liabilities are primarily customer deposits. The P/B ratio directly reflects the value of a bank's assets.

ii) Profit volatility: A bank or micro-credit institution's profits are influenced by various factors such as interest rate fluctuations, loan loss provisions, and changes in investment portfolios. These factors can lead to significant profit volatility, making the P/E ratio, which is based on profits, potentially unstable compared to the more stable P/B ratio.

iii) Regulatory requirements: Banks or micro-credit institutions are highly regulated entities, and indicators such as capital adequacy ratios are crucial to their operations. The P/B ratio better reflects a bank or micro-credit institution's ability to comply with regulatory requirements.

iv) Business model: The business model of banks or micro-credit institutions differs from that of general companies, with their main profits coming from interest income and service fees, rather than product sales or services. The P/B ratio more accurately reflects the value of this business model.

v) Asset quality issues: The quality of a bank or micro-credit institution's assets directly affects its financial condition and profitability. The P/B ratio can better reflect the quality of assets.

Despite the reasons mentioned above, we have considered price-to-sales ("**P/S**") and price-to-earnings ("**P/E**") in our valuation.

The P/S multiple is commonly used in the valuation of start-up enterprises. However, it ignores the cost structure of a company and hence the profitability of a company, in this case, the asset quality as well, which is critical in reflecting the market value of Jingu Bank and Chongqing Micro-credit. Hence, we are of the view that it is not appropriate to adopt the P/S multiple to assess the market value of Jingu Bank and Chongqing Micro-credit.

The P/E ratio, using a company's market capitalization as the numerator and a company's earnings as the denominator. Given the industry characteristics of Jingu Bank mentioned above, the profit volatility, regulatory requirements and asset quality issue will undermine the comparability of Jingu Bank's earnings with its comparable companies' that P/E multiple is inappropriate for valuation of Jingu Bank. Since Chongqing Micro-credit is loss making from fiscal year 2022 up to the Valuation Date, that P/E multiple is inappropriate for valuation of Chongqing Micro-credit.

In this valuation exercise, the market values of 9.2189% equity interest in Jingu Bank and 30% equity interest in Chongqing Micro-credit were developed through the application of the market approach technique known as the guideline public company method. This method requires the research of comparable companies' benchmark multiples and the proper selection of a suitable multiple to derive the market value of the subjects.

Given the characteristics of Jingu Bank and Chongqing Micro-credit, the suitable multiple in this valuation is the P/B ratio ("**P/B Ratio**"). The P/B Ratio uses the market capitalization of a company divided by its net book value. Net book value is an appropriate measure of net asset value for companies that primarily hold liquid assets. Examples include finance, investment, insurance, and banking firms.

Considering the availability of the latest financial performance of Jingu Bank and the comparable companies, it is considered that the P/B Ratio for Jingu Bank, which is calculated by using comparable companies' market capitalization and the available net book value as at 30 September 2023 determines the market value of 9.2189% equity interest in Jingu Bank and then taken into account of market liquidity discount as the appropriate adjustment.

Considering the availability of the latest financial performance of Chongqing Micro-credit and the comparable companies, it is considered that the P/B Ratio for Chongqing Micro-credit, which is calculated by using comparable companies' market capitalization and the available net book value as at 30 June 2023 determines the market value of 30% equity interest in Chongqing Micro-credit and then taken into account of market liquidity discount as the appropriate adjustment.

BASIS OF OPINION

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. The valuation procedures employed include a review of the legal status and financial condition of the Target Group and an assessment of key assumptions, estimates, and representations made by the proprietor. All matters essential to the proper understanding of the valuation are disclosed in this report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The unaudited financial statement for the year ended 31 December 2021 and 31 December 2022, the unaudited financial statement for the nine months ended 30 September 2023 and the unaudited financial statement for the ten months ended 31 October 2023 of the Target Group;
- Financial and business risk of the Target Group;
- Consideration and analysis of the micro and macro economy affecting the subject business; and
- Other operational and market information in relation to the Target Group's business.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Target Group.

VALUATION ASSUMPTIONS

In determining the market value of the equity interest in the Target Group, we make the following key assumptions:

- Tianjin Leasing no longer develops new business, with its current operation limited to existing finance leases, as of the Valuation Date;
- Huixiang Network, Zhongzai Huicai and Huijing do not have any substantive business operations as of the Valuation Date;
- There will be no major change in the political, legal, economic and social environment in which the Target Group operates or intends to operate;
- We have assumed the accuracy of the financial and operational information provided to us by the Group and the Target Group and relied to a considerable extent on such information in arriving at our opinion of value; and
- We have assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

MARKET MULTIPLE

Jingu Bank

In determining the P/B Ratio for Jingu Bank, we selected the listed comparable companies globally, including the Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange, NASDAQ Stock Exchange and etc. The ten comparable companies are selected based on the selection criteria below:

- the comparable companies are publicly listed;
- the comparable companies are rural commercial banks operating in China, which share the similarity with Jingu Bank;
- the comparable companies recorded positive net book values, the net book values as at 30 September 2023 and the P/B Ratio of the comparable companies are available, as at the Valuation Date.

As sourced from Capital IQ, a reliable third-party database service provider designed by Standard & Poor's (S&P), an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis and the description of these comparable companies are shown below:

Company Name and Stock Code	Company Description	FY 2022 Revenue % derived from banking industry
Chongqing Rural Commercial Bank Co., Ltd. (SEHK:3618)	Chongqing Rural Commercial Bank Co., Ltd., together with its subsidiaries, provides banking services in the People's Republic of China. It operates in three segments: Corporate Banking, Personal Banking, and Financial Market Business. It operates branches, including the head office and the business department, branches, first-class sub-branches, second-class sub-branches, community sub-branches, and branch offices, as well as self-service 24-hour banking centers. Chongqing Rural Commercial Bank Co., Ltd. was founded in 1951 and is headquartered in Chongqing, China.	approximately 100%

Company Name and Stock Code	Company Description	FY 2022 Revenue % derived from banking industry
Jiangsu Changshu Rural Commercial Bank Co., Ltd. (SHSE:601128)	Jiangsu Changshu Rural Commercial Bank Co., Ltd. provides rural financial services in China. The company offers personal savings, debit and credit cards, payment services, financial management services, private banking services, and insurance and third-party depository services, as well as microfinance products. It also provides business, mortgage, home, consumer, salary, village, agricultural construction, rural, grain, fishing, farm, and shed reform loans; corporate finance products; cash management, settlement, and agency services; and foreign exchange trading and international settlement services, as well as international trade finance products. Jiangsu Changshu Rural Commercial Bank Co., Ltd. was founded in 2001 and is headquartered in Changshu, China.	approximately 100%
Jiangsu Jiangyin Rural Commercial Bank Co., Ltd. (SZSE:002807)	Jiangsu Jiangyin Rural Commercial Bank Co., Ltd. provides various personal and corporate banking products and services in China. Its personal finance products include personal deposit, such as demand, time, call, smart deposits, and certificate of deposits; financing, which include business loans, personal consumption loans, and mortgage loans; bank cards; foreign exchange services; wealth management products; and agency services. In addition, the company offers small and micro finance products; and online and mobile banking, payment, convenience, and other services. Jiangsu Jiangyin Rural Commercial Bank Co., Ltd. was founded in 2001 and is headquartered in Jiangyin, China.	approximately 100%

Company Name and Stock Code	Company Description	FY 2022 Revenue % derived from banking industry
Jiangsu Suzhou Rural Commercial Bank Co., Ltd. (SHSE:603323)	Jiangsu Suzhou Rural Commercial Bank Co., Ltd. provides various banking products and services in China. It offers savings and demand, fixed, call, and agreement deposits, as well as certificates of deposits; personal consumption, business, mortgage, and other loans; and financial and intermediate services. The company also provides corporate finance, such as institutional customized, current, and regular financial management; specialty loans; and settlement and SME financing services, as well as debit, credit, and citizen cards. Further, the company provides personal and corporate internet banking, mobile banking, and SMS banking services. The company was formerly known as Jiangsu Wujiang Rural Commercial Bank Co., Ltd. and changed its name to Jiangsu Suzhou Rural Commercial Bank Co., Ltd. in March 2019. The company was founded in 2004 and is headquartered in Suzhou, China.	approximately 100%
Jiangsu Zhangjiagang Rural Commercial Bank Co., Ltd. (SZSE:002839)	Jiangsu Zhangjiagang Rural Commercial Bank Co., Ltd. provides banking products and services in China. It offers deposit products, such as demand, time, notice, and fixed-life, agreement, and smart notification deposits; personal large deposit certificates; wealth management services, including financial management, investment funds, gold fixed investments, life insurance products, and monetary funds; and personal foreign exchange services, as well as collection and payment of water fees, electricity bills, digital TV viewing fees, telecommunication and intercom charges, mobile payment, and gas payment. Jiangsu Zhangjiagang Rural Commercial Bank Co., Ltd. founded in 2001 and is based in Zhangjiagang, China.	approximately 100%

Company Name and Stock Code	Company Description	FY 2022 Revenue % derived from banking industry
Jiangsu Zijin Rural Commercial Bank Co., Ltd. (SHSE:601860)	Jiangsu Zijin Rural Commercial Bank Co., Ltd. provides various banking products and services to personal and business customers. The company offers deposits; loans; foreign currency deposits, international settlement, trade finance, and treasury services; and financial industry and investment banking services. It also offers debit and credit cards; and mobile and Internet banking services, as well as ATMs. The company was founded in 2011 and is based in Nanjing, China.	approximately 100%
Qingdao Rural Commercial Bank Co., Ltd. (SZSE:002958)	Qingdao Rural Commercial Bank Co., Ltd. provides various banking products and services in China. The company offers foreign exchange account; import and export collection; inward and outward remittance; letter of guarantee; financing; and export invoice financing services, as well as package and foreign exchange loans and certificates of deposit. The company was founded in 1951 and is headquartered in Qingdao, China.	approximately 100%

Company Name and Stock Code	Company Description	FY 2022 Revenue % derived from banking industry
Shanghai Rural Commercial Bank Co., Ltd. (SHSE:601825)	Shanghai Rural Commercial Bank Co., Ltd. provides a range of banking products and services to individual and corporate customers in China. The company offers deposits, including current, term, call, and fixed deposits, as well as certificates of deposit and agreement deposits; and housing, consumer, business, farmer, and entrusted loans. It also provides credit and debit cards; wealth management services; insurance and treasure bond brokerage services; open-ended funds; settlement, financial advisory, and treasury services; electronic and telephone banking services; safe keeping boxes; and SME finance services. The company was formerly known as Shanghai Rural Credit Co-operatives Union and changed its name to Shanghai Rural Commercial Bank Co., Ltd. in August 2005. Shanghai Rural Commercial Bank Co., Ltd. was incorporated in 2005 and is headquartered in Shanghai, China.	approximately 100%
Wuxi Rural Commercial Bank Co., Ltd. (SHSE:600908)	Wuxi Rural Commercial Bank Co., Ltd. provides various personal and corporate banking products and services. It offers financial management, funds, insurance, account management, microfinance, forex trading, foreign currency exchange, trade settlement and finance business, remittance and letter of credit, and card and online banking services. The company was founded in 2005 and is headquartered in Wuxi, China.	approximately 100%

Company Name and Stock Code	Company Description	FY 2022 Revenue % derived from banking industry
Zhejiang Shaoxing RuiFeng Rural Commercial Bank Co., Ltd. (SHSE:601528)	Zhejiang Shaoxing RuiFeng Rural Commercial Bank Co., Ltd. provides commercial banking products and services in China. It offers personal wealth products and services that cover financial products, precious metals, funds, insurance products, and asset management products; savings, demand, time, structured, and notice deposit products, as well as certificate of deposit; personal, business, consumer, mortgage, operating, and e-flash loans; credit and debit cards, gold and platinum cards, and cards with VIP privileges; and mobile and online banking services. The company was founded in 1987 and is based in Shaoxing, China.	approximately 100%

Source: Capital IQ and annual reports of the comparable companies;

Detailed financial information and characteristics of each of the ten comparable companies of Jingu Bank are shown as follows:

Stock Code	Last twelve months ("LTM") Revenue up to 30 September 2023	Return on Total Assets up to 30 September 2023	Return on Total Equity up to 30 September 2023	Business sector and business Location
	in Million RMB	%	%	
SEHK:3618	22,281.54	0.81	9.43	Reginal Banks, the PRC
SHSE:601128	7,729.84	1.11	13.65	Reginal Banks, the PRC
SZSE:002807	2,839.00	1.08	12.67	Reginal Banks, the PRC
SHSE:603323	3,238.49	0.91	11.36	Reginal Banks, the PRC
SZSE:002839	3,543.70	0.95	11.45	Reginal Banks, the PRC
SHSE:601860	3,745.17	0.71	9.54	Reginal Banks, the PRC
SZSE:002958	5,068.29	0.58	6.83	Reginal Banks, the PRC
SHSE:601825	23,061.94	0.98	11.72	Reginal Banks, the PRC
SHSE:600908	3,879.98	1.01	11.86	Reginal Banks, the PRC
SHSE:601528	2,880.20	0.99	11.14	Reginal Banks, the PRC
Jingu Bank	908.56	0.31	3.07	Reginal Banks, the PRC

Source: Capital IQ and annual reports of the comparable companies;

Based on the abovementioned selection criteria, the list of ten comparable companies shown above was identified and we are of the opinion that each of them is considered as a fair and representative sample. Further details of these ten comparable companies with available P/B Ratios as at the Valuation Date are shown as follows:

Stock Code	**Market Capitalization as at the Valuation Date**	**Net Book Value as at 30 September 2023**	**P/B Ratio as at the Valuation Date**
	RMB MM	*RMB MM*	
SEHK:3618	44,541	114,975	0.387
SHSE:601128	20,173	24,520	0.823
SZSE:002807	7,971	14,966	0.533
SHSE:603323	7,681	15,421	0.498
SZSE:002839	9,134	14,617	0.625
SHSE:601860	9,519	18,164	0.524
SZSE:002958	15,056	33,506	0.449
SHSE:601825	57,481	109,940	0.523
SHSE:600908	10,949	18,671	0.586
SHSE:601528	10,380	16,048	0.647
Median			0.528
Average			0.560

Source: Capital IQ

Checked the data of the comparable companies, there is not a significant correlation between the size of the company and its market multiples (SZSE 002839 with the smallest net book value, P/B multiple is in the upper percentile of multiples range; SHSE 601128 with the highest P/B multiple, the net book value is in the upper percentile of comparable list). Therefore, even though Jingu Bank and the comparable companies share different net book value size, in perspective of business sector, they are comparable to Jingu Bank in the point of view in valuation. Their P/B multiple reflected the industry level to derive the market value of Jingu Bank.

The median is the middle-most value in a given set of numbers. The median is less affected by the presence of extreme values or outliers in a data set than the mean and can provide an accurate, unfluctuating representation of a data set. In this case, we adopted the median P/B Ratio of 0.528 to calculate the equity value of Jingu Bank.

Chongqing Micro-credit

In determining the P/B Ratio for Chongqing Micro-credit, we selected the listed comparable companies globally, including the Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange, NASDAQ Stock Exchange and etc. The three comparable companies are selected based on the selection criteria below:

- the comparable companies are publicly listed;
- the comparable companies are engaged in microfinance business and derive over ninety percent of their revenues from such industry in China, which share the similarity with Chongqing Micro-credit;
- the comparable companies recorded positive net book value, the net book values as at 30 June 2023 and the P/B Ratio of the comparable companies are available, as at the Valuation Date.

As sourced from Capital IQ, an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis and the details of these comparable companies are shown below:

Company Name and Stock Code	**Company Description**	**FY 2022 Revenue % derived from microfinance business**
Zuoli Kechuang Micro-finance Company Limited (SEHK:6866)	Zuoli Kechuang Micro-finance Company Limited operates as a microfinance company in the People's Republic of China. It offers unsecured, guaranteed, collateralized, and pledged loans; enterprise loans, including agriculture loans and technology enterprises credit loans, as well as loans for other small and medium-sized enterprises and microenterprises; individual business, start-up, and other loans; supply chain and green loans; and Internet micro-loans.	approximately 100%

Company Name and Stock Code	Company Description	FY 2022 Revenue % derived from microfinance business
Quanzhou Huixin Micro-credit Co., Ltd. (SEHK:1577)	Quanzhou Huixin Micro-credit Co., Ltd., a microfinance company, provides various short-term financing solutions in the People's Republic of China. It offers revolving credit facilities, joint-guaranteed loans, targeted payment loans, bridge loans, and collateralized quick-access loans. The company serves entrepreneurial individuals, small and medium-sized enterprises, and microenterprises. The company was incorporated in 2010 and is headquartered in Quanzhou, the People's Republic of China.	approximately 100%
Yangzhou Guangling District Taihe Rural Micro-finance Company Limited (SEHK:1915)	Yangzhou Guangling District Taihe Rural Micro-finance Company Limited grants loans to agriculture, rural areas, and farmers in the People's Republic of China. The company also provides financial guarantees, and internet and related services; and acts as an agent for automotive services and others. It serves small and medium-sized enterprises, microenterprises, and individual proprietors. Yangzhou Guangling District Taihe Rural Micro-finance Company Limited was incorporated in 2008 and is headquartered in Yangzhou, the People's Republic of China.	approximately 100%

Source: Capital IQ and annual reports of the comparable companies;

The three comparable companies are namely (i) Zuoli Kechuang Micro-finance Company Limited ("**Zuoli Kechuang**"), a company listed on the Stock Exchange (SEHK:6866) engaged in offering unsecured, guaranteed, collateralized and pledged loans to small and median-sized enterprises ("**SMEs**"), individual and startup business and etc. in China; (ii) Quanzhou Huixin Micro-credit Co., Ltd. ("**Quanzhou Huixin**"), a company listed on the Stock Exchange (SEHK: 1577) engaged in offering revolving credit facilities, joint-guaranteed loans, targeted payment loans, bridge loans, and collateralized quick-access loans to SMEs, individuals and etc. in China; (iii) Yangzhou Guangling District Taihe Rural Micro-finance Company Limited ("**Yangzhou Guangling**"), a company listed on the Stock Exchange (SEHK: 1915) engaged in granting loans and related services to SMEs and individual proprietors in agriculture, rural areas in China.

Detailed financial information and characteristics of each of the three comparable companies of Chongqing Micro-credit are shown as follows:

Stock Code	LTM Revenue up to 30 June 2023 *RMB MM*	LTM Net Profit margin up to 30 June 2023	Business Sector	Business Location
SEHK:6866	206.84	45.41%	Provide microfinance services	the PRC
SEHK:1577	127.17	57.30%	Provide microfinance services	the PRC
SEHK:1915	39.92	-48.02%	Provide microfinance services	the PRC
Chongqing Micro-credit	79.84	-188.66%	Provide microfinance services	the PRC

We believe the selection criteria is fair and reasonable and each of the comparable companies (namely Zuoli Kechuang, Quanzhou Huixin and Yangzhou Guangling) is principally engaged in the same business as Chongqing Micro-credit. Thus, we are in the view of that three comparable companies represent a comparable group of companies from the perspective of the market (being companies mainly engaged in providing microfinance services in China) and would be assessed under similar light by the market. Further details of these three comparable companies with available P/B Ratios as at the Valuation Date are shown as follows:

Stock Code	Market Capitalization as at the Valuation Date *RMB'000*	Net Book Value as at 30 June 2023 *RMB'000*	P/B Ratio as at the Valuation Date
SEHK:6866	383,500	1,908,028	0.201
SEHK:1577	360,400	1,129,107	0.319
SEHK:1915	336,000	865,662	0.388
Median			0.319
Average			0.303

Source: Capital IQ

Chongqing Micro-credit' net book value of RMB1,197 million is in range of the comparable companies. In addition, in perspective of business sector, they are comparable to Chongqing Micro-credit in the point of view in valuation. Their P/B multiple reflected the industry level to derive the market value of Chongqing Micro-credit.

The median is the middle-most value in a given set of numbers. The median is less affected by the presence of extreme values or outliers in a data set than the mean and can provide an accurate, unfluctuating representation of a data set. In this case, we adopted the median P/B Ratio of 0.319 to calculate the equity value of Chongqing Micro-credit.

DISCOUNT FOR LACK OF MARKETABILITY ("DLOM")

The level of a company value can be described as: the marketable minority interest value which refers to the price quoted in public market less the DLOM equals to the non-marketable minority interest value representing the non-controlling shareholder of a private company.

A factor to be considered in valuing closely held companies is the marketability of an interest in such businesses. Marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists.

Most of the businesses or financial interests that we are valuing do not enjoy immediate liquidity. We thus face the task of making an adjustment from the value we have estimated from the transactions observed in the market approach to account for the lack of marketability of the business or business interest that we are valuing. That adjustment is what we refer to as the discount for lack of marketability.

We have assessed the DLOM of this investment using put option method. With reference to a study "Option Pricing as a Proxy for Discount for Lack of Marketability in Private Company Valuations" by David B. H. Chaffee, Chaffee related the cost to purchase a European put option to the DLOM. The rationale is that "if one holds restricted or nonmarketable stock and purchases an option to sell those shares at the free market price, the holder has, in effect, purchased marketability for the shares. The price of that put is the discount for lack of marketability".

Therefore, we have adopted Black-Scholes option pricing model with the following parameters to estimate the DLOM:

Parameter	Value for Jingu Bank	Value for Chongqing Micro-credit	Remarks
Spot Price ("**S**")	1.00	1.00	As we are calculating a percentage for the DLOM, for simplicity, we set the spot price to be 1.00 in the valuation.
Exercise Price ("**K**")	1.00	1.00	According to the study, the put option is at-the-money, such that the exercise price should equal the spot price.
Risk Free Rate ("**r**")	2.43%	2.43%	Annual yield rate on 3-year China Government Bond.
Volatility ("σ")	22.66%	56.31%*(Note 1)*	With reference to median volatility of the comparable companies which are same as the comparable companies for determining the P/B Ratio, as sourced from Capital IQ.
Maturity ("**t**")	3 years	3 years	It is an approximation of holding period that assuming a market participant who owns a business entity would dispose of that business entity. The management of the Group is satisfied that 3 years would be a reasonable assumption.

Note 1:

The volatility is calculated based on the daily closing prices of the comparable companies, the public market data. The volatility of 56.31% is calculated using the median of the three-year historical stock price volatility of three comparable companies, as follows. Based on our understanding, higher stock price volatility usually reflects larger fluctuations in the stock price during the observed period. This reflects the market investors' perception of higher overall risk expectations for the microfinance industry and its companies, due to operational risks, policy risks, the impact of future macroeconomic factors and etc..

Stock Code	**Volatility**
SEHK:6866	53.32%
SEHK:1577	56.31%
SEHK:1915	92.49%
Average	67.37%
Median	56.31%

By using the Black-Scholes model and based on the above assumptions, the estimated DLOM for Jingu Bank and Chongqing Micro-credit are 11.7 percent and 32.7 percent respectively.

Based on the above analysis, we apply 11.7 percent DLOM for Jingu Bank and apply 32.7 percent DLOM for Chongqing Micro-credit.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies, sourced from Capital IQ, as at the Valuation Date and we have taken into account of DLOM of Jingu Bank and Chongqing Micro-credit.

The calculation of the market value of 9.2189% equity interest in Jingu Bank as at the Valuation Date is as follows:

	As at 31 October 2023
Applied P/B Ratio	0.528
Net book value as at 30 September 2023 of Jingu Bank *(RMB'000)*	6,614,343
100% Equity Value before DLOM *(RMB'000)*	3,494,521
Adjusted for DLOM at 11.7%	(1-11.7%)
100% Equity Value of Jingu Bank *(RMB'000)*	3,085,662
9.2189% Equity Value of Jingu Bank *(RMB'000)*	284,464

The calculation of the market value of 30% equity interest in Chongqing Micro-credit as at the Valuation Date is as follows:

	As at 31 October 2023
Applied P/B Ratio	0.319
Net book value as at 30 June 2023 of Chongqing Micro-credit *(RMB'000)*	1,197,485
100% Equity Value before DLOM *(RMB'000)*	382,226
Adjusted for DLOM at 32.7%	(1-32.7%)
100% Equity Value of Chongqing Micro-credit *(RMB'000)*	257,305
40% Equity Value of Chongqing Micro-credit *(RMB'000)*	102,922
30% Equity Value of Chongqing Micro-credit *(RMB'000)*	77,191

Under the asset-based approach, the calculation of the market value of 100% equity value in the Target Group as at the Valuation Date is as follows:

	Market Value
	RMB'000
Bank balances and cash	2,809
Trade receivables	4,708
Financial assets at fair value through profit or loss	
— 9.2189% equity interest in Jingu Bank	284,464
Prepayments	1,056
Other receivables	5,280
Current assets	**298,317**
Long term equity investment	
— 30% equity interest in Chongqing Micro-credit	77,191
Finance lease receivables *(Note 1)*	154,056
Property, plant and equipment	1,623
Non-current assets	**232,870**
Total assets	**531,187**
Trade and other payables	342
Other payables	6,428
Accrued salaries and staff benefits	31,867
Tax payable	703
Current liabilities	**39,340**
Bank borrowings	487,000
Non-current liabilities	**487,000**
Total Net Assets	**4,848**

Note 1: We assessed the finance lease receivables based on unaudited book value and understood that the Target Group applied general approach under HKFRS to measure the expected credit losses for all finance lease receivables. Under the general approach, as at 31 October 2023, the amount of RMB31,800,000 with an impairment provision amount of RMB700,000 was classified under stage 1; the amount of RMB123,400,000 with an impairment provision amount of RMB444,000 was classified under stage 2 due to interest default records; and the amount of RMB113,754,802 classified under stage 3, for overdue about 6 months to 3 years with defaulted interest unpaid, with impairment provision amount of RMB113,754,802.

Note 2: The book value of Tianjin Leasing as of the Valuation Date is RMB129,258,072, the market value of Tianjin Leasing as of the Valuation Date is RMB130,192,037.

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Group, the Group and Asia-Pacific Consulting and Appraisal Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Group over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

OPINION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that the market value of 100% equity interest of the Target Group as at the Valuation Date is reasonably stated approximately at the amount of **RMB4,848,000 (RENMINBI FOUR MILLION EIGHT HUNDRED AND FORTY-EIGHT THOUSAND YUAN ONLY).**

Yours faithfully,
for and on behalf of
Asia-Pacific Consulting and Appraisal Limited
Jack W. J. Li
CFA, MRICS, MBA
Partner

Note: Jack W. J. Li is a Chartered Surveyor who has more than 15 years' experience in the valuation of assets in the PRC, Hong Kong and the Asia-Pacific region.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTEREST IN SECURITIES

Directors' interest in securities

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to Section 352 of the SFO, or which have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers (the "**Model Code**") in Appendix 10 to the Listing Rules, were as follows:

Long position in Shares

Name	**Capacity**	**Number of Shares interested**	**% of Shares in issue** *(approximate)*
Liu Jun *(Note 1)*	Beneficial owner	79,252,100	6.05%
Zhang Yonghong *(Note 2)*	Beneficial owner	13,600,000	1.04%
Liu Xiaodong *(Note 3)*	Beneficial owner and interest of controlled corporation	67,441,879	5.15%
Guo Fansheng *(Note 4)*	Beneficial owner	57,749,015	4.41%

Notes:

(1) Such interests in the Company comprise: (i) 50,220,000 Shares and (ii) 29,032,100 underlying Shares derived from the share options ("**Options**") held by Mr. Liu Jun under the share option scheme of the Company.

(2) Such interests in the Company comprise: (i) 100,000 Shares; (ii) 4,000,000 underlying Shares derived from the awarded shares granted to Mr. Zhang Yonghong under the employees' share award scheme adopted on 17 November 2011 and (iii) 9,500,000 underlying Shares derived from the Options held by Mr. Zhang Yonghong.

(3) Such interests in the Company comprise: (i) 3,168,085 underlying Shares from the Options held by Mr. Liu Xiaodong; (ii) 2,000,000 underlying Shares derived from the awarded shares granted to Mr. Liu Xiaodong under the employees' share award scheme adopted on 17 November 2011 and (iii) 62,273,794 Shares held by Wisdom Limited (a company wholly and beneficially owned by Mr. Liu Xiaodong). Mr. Liu Xiaodong is deemed, or taken to have, interested in all the Shares held by Wisdom Limited pursuant to the SFO.

(4) Such interests in the Company comprise: (i) 2,088,000 Shares held by Mr. Guo Fansheng; and (ii) 55,661,015 Shares held by a trustee of a trust of which Mr. Guo Fansheng is a founder of a discretionary trust who can influence how the trustee exercises his discretion.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial shareholders and other persons interest in securities

As at the Latest Practicable Date, as far as the Directors are aware of, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long position in Shares

Name	Capacity	Number of Shares interested	% of Shares in issue *(approximate)*
Substantial shareholders			
Talent Gain Developments Limited *(Note 5)*	Beneficial owner and interest in controlled corporation	253,671,964	19.37%
Digital China (BVI) Limited *(Note 5)*	Interest in controlled corporation	253,671,964	19.37%
Digital China Holdings Limited *(Note 5)*	Interest in controlled corporation	253,671,964	19.37%
Other person			
Ideal South Limited *(Note 6)*	Beneficial owner	80,000,000	6.11%
Wong Luen Hei *(Note 6)*	Interest of controlled corporation and founder of a discretionary trust who can influence how the trustee exercises his discretion	129,705,000	9.90%

Name	Capacity	Number of Shares interested	% of Shares in issue *(approximate)*
Fortune Value Investment Holdings Limited *(Note 7)*	Beneficial owner	104,562,000	7.98%
Zhu Lemin *(Note 7)*	Interest of controlled corporation	104,562,000	7.98%

Notes:

So far as the Directors were aware of, as of the Latest Practicable Date:

5. Such interests in the Company comprise: (i) 230,263,964 Shares held by Talent Gain Developments Limited and (ii) 23,408,000 Shares held by Unique Golden Limited (which was 100% controlled by Talent Gain Developments Limited). Talent Gain Developments Limited was wholly and beneficially owned by Digital China (BVI) Limited and indirectly wholly and beneficially owned by Digital China Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 861). Therefore, Talent Gain Developments Limited was deemed to be interested in the Shares held by Unique Golden Limited, and each of Digital China (BVI) Limited and Digital China Holdings Limited was deemed to be interested in the Shares held by Talent Gain Developments Limited and Unique Golden Limited.

6. Ideal South Limited was 100% controlled by Mr. Wong Luen Hei.

7. Fortune Value Investment Holdings Limited is 100% controlled by Mr. Zhu Lemin.

Mr. Sun Yang, a non-executive Director, is a senior vice president of Digital China Holdings Limited and the chairman of Digital China Software Limited. Save as the above, as of the Latest Practicable Date, none of the Directors have any directorship or other position in Talent Gain Developments Limited, Digital China (BVI) Limited, Digital China Holdings Limited, Ideal South Limited or Fortune Value Investment Holdings Limited.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which was not expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors and their respective close associates had any interest in a business which competes or is likely to compete with the businesses of the Group as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were treated as a controlling shareholder.

5. DIRECTORS' INTERESTS IN THE ASSETS AND CONTRACTS

As at the Latest Practicable Date, (i) none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022 (being the date to which the latest published audited financial statements of the Company were made up); and (ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting and which was significant in relation to the businesses of the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by members of the Group within the two years immediately preceding the date of this circular and which are or may be material to the Group:

(1) the Disposal Agreement; and

(2) a loan agreement dated 29 June 2022 between the Target Company (as lender) and Chongqing Micro-credit (as borrower), pursuant to which the lender agreed to grant the borrower an unsecured loan in the principal amount up to RMB25,000,000, bearing interest at a rate of 8% per annum.

7. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware of, no litigation or claim of material importance is pending or threatened against any member of the Group.

8. EXPERT

The following are the qualifications of the expert who has given opinions or advice, which are contained or referred to in this circular:

Name	Qualifications
Asia-Pacific Consulting and Appraisal Limited	Independent valuer

The above expert has confirmed that, as of the Latest Practicable Date, it: (i) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) had no interests, direct or indirect, in any assets which had been, since 31 December 2022 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to any of member of the Group, or are proposed to be acquired or disposed of by or leased to any of member of the Group.

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter or report (as the case may be) and reference to its name in the form and context in which they respectively appear.

9. GENERAL

(1) The company secretary of the Company is Ms. Kwong Yin Ping Yvonne. She is a Fellow of the Chartered Governance Institute of Hong Kong (*HKFCG)*.

(2) The Company's registered office is at 4th Floor, One Capital Place, P.O. Box 847 George Town, Grand Cayman, Cayman Islands.

The Company's head office and principal place of business in the PRC is at Room B-1, 4th Floor, Building 2, Hangxing Science Park, No. 11, Hepingli East Street, Dongcheng District, Beijing, the PRC.

(3) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The Cayman Islands share registrar of the Company is Suntera (Cayman) Limited at Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1100, Cayman Islands.

(4) In this circular, certain Chinese names of institutions or other entities have been translated into English and included as unofficial translations for identification purpose only, the Chinese names shall prevail in the event of inconsistency.

(5) The English text of this circular, the notice of EGM and the proxy form shall prevail over the Chinese text in case of inconsistency, unless stipulated otherwise.

(6) Certain figures included in this circular have been subject to rounding.

(7) This circular contains forward-looking statements that reflect the Company's plans or expectations for the future. These statements are based on a number of assumptions, current estimates and projections and are therefore subject to risks, uncertainties or other factors that may or may not be beyond the Company's control. The actual results may differ materially and/or adversely. These statements shall not be relied upon as any assurance or representation as to the future or as a representation or warranty otherwise. Neither the Company nor its Directors, officers, agents, advisers or representatives assume any responsibility to update, modify or correct these statements or to provide supplemental information in relation thereto.

10. DOCUMENTS ON DISPLAY

The following documents will be published on the website of the Company and the website of the Stock Exchange (www.hkexnews.hk) for a period of not less than 14 days from the date of this circular (inclusive):

(1) the Disposal Agreement;

(2) the Valuation Report, the text of which is set out in appendix II to this circular; and

(3) the written consent referred to in the paragraph headed "Expert" in this appendix.

HC GROUP INC.
慧聰集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02280)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of HC Group Inc. (the "**Company**") will be held on Friday, 23 February 2024 at 4:00 p.m. at Room B-1, 4th Floor, Building 2, Hangxing Science Park, No. 11, Hepingli East Street, Dongcheng District, Beijing, the People's Republic of China (the "**PRC**") for considering and, if thought fit, passing, with or without amendments, the following resolution:

ORDINARY RESOLUTION

"**THAT:**

(a) the equity transfer agreement dated 28 November 2023 entered into among Beijing Huicong Zaichuang Technology Co., Ltd. (北京慧聰再創科技有限公司), Beijing Zhongli Jinyuan Technology Co., Ltd. (北京中利金源科技有限公司), Beijing Huajianyu Trading Co., Ltd. (北京花間語商貿有限公司) and Beijing Huicong Hulian Information Technology Co., Ltd. (北京慧聰互聯信息技術有限公司) (a copy of which is marked "A" and initialed by the chairman of the Meeting for identification purpose has been tabled at the Meeting) and the transactions contemplated thereunder (together, the "**Disposal**") be approved, confirmed and ratified; and

(b) any one director of the Company be and is hereby authorised, for and on behalf of the Company, to do all acts and things as he/she considers to be necessary, appropriate or expedient in connection with and to implement or give effect to the Disposal, and to do all such acts and things, including but not limited to the execution of all documents (and where required, to affix the common seal thereon) deemed by him/her to be necessary, appropriate or desirable to implement and give effect to the Disposal or in connection with the Disposal, and to attend to any necessary registration and/or filing for and on behalf of the Company."

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

Hong Kong, 30 January 2024

Notes:

1. A proxy form for use at the EGM is published on the HKEXnews website (www.hkexnews.hk) and the Company's website (www.hcgroup.com). Any member of the Company entitled to attend, speak and vote at the Meeting shall be entitled to appoint another person as his/her proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.

2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

3. To be valid, the instrument appointing a proxy and (if required by the board of directors of the Company (the "**Board**")) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

4. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at the Meeting or any adjournment thereof in cases where the Meeting was originally held within 12 months from such date.

5. Where there are joint holders of any shares, any one of such joint holder may vote at the Meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

6. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending, speaking and voting in person at the Meeting if the member so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

7. The record date for determining the entitlement of the shareholders of the Company to attend and vote at the Meeting will be 21 February 2024 (Wednesday). In order to be eligible to attend and vote at the Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 21 February 2024 (Wednesday).

8. The Meeting is a physical meeting. If any shareholder chooses not to attend the Meeting in person but has any question about any resolution or about the Company, or has any matter for communication with the Board of the Company, it is welcome to send such question or matter to the Company's email at ir@hcgroup.com.

9. References to time and dates in this notice are to Hong Kong time and dates.

10. The Company may change the arrangements of the Meeting subject to the public health requirements or guidelines of regulatory authorities, extreme weather conditions or where the situation requires. The Company may announce updates on the arrangement of the Meeting on its website as and when appropriate.