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JiaChen Holding Group Limited

佳辰控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1937)

SUPPLEMENTAL ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS THE AGENCY CO-OPERATION AGREEMENTS AND THE INTRODUCTION OF INVESTORS CO-OPERATION AGREEMENTS

Reference is made to the announcement of the Company dated 31 December 2021 (the “**CCT Announcement**”) in relation to the continuing connected transactions regarding the Agency Co-operation Agreements and the Introduction of Investors Co-operation Agreements. Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the CCT Announcement.

Further to the information disclosed in the CCT Announcement, the Company wishes to provide the Shareholders and the public with the additional information regarding the (i) basis of pricing of the Agency Co-operation Agreements and the price list (the “**Price List**”) prescribed by Yunhong Environmental from time to time; (ii) basis of pricing of the Introduction of Investors Co-operation Agreements and methods and procedures adopted by the Company to determine the basis of pricing; and (iii) the Board’s assessment on how the Agency Co-operation Agreements and the Introduction of Investors Co-operation Agreements are in the interests of the Company and the Shareholders.

Basis of pricing of the Agency Co-operation Agreements

As disclosed in the CCT Announcement, both Jiachen Carbon Neutral and Yunhong Low Carbon Environmental shall purchase the Products from Yunhong Environmental in accordance with the Price List. The Price List represents the purchase cost of the Products payable by both Jiachen Carbon Neutral and Yunhong Low Carbon Environmental. Both Jiachen Carbon Neutral and Yunhong Low Carbon Environmental shall determine the selling price of the Products to the external customers at their own discretion after considering the associated costs involved and the commercially acceptable profit margins.

Both Jiachen Carbon Neutral and Yunhong Low Carbon Environmental will not receive any commission from Yunhong Environmental under the Agency Co-operation Agreements as profit will be generated from the sale of the Products to external customers. Their roles under the Agency Co-operation Agreements are procurement of the Products to external customers.

Both Jiachen Carbon Neutral and Yunhong Low Carbon Environmental will only place purchase orders with Yunhong Environmental when they receive the same volume of purchase orders for the Products from external customers. They will not place orders with Yunhong Environmental until they receive deposits from these external customers and will not deliver the Products to them until all sale proceeds have been received. It is also a term of the purchase order that once orders are placed by these external customers and they have paid the deposits, they are under no circumstances to return the Products unless there are quality issues on the Products. Both Jiachen Carbon Neutral and Yunhong Low Carbon Environmental will not maintain inventory for the Products. As such, they will not bear the inventory risks associated with the Products or liquidity risks exposed by the Group.

Board's assessments of the Agency Co-operation Agreements

As disclosed in the Announcement and the CCT Announcement, the Board anticipates that there is a market demand for the Products in view of the national strategic objectives of “carbon emissions peak” and “carbon neutrality”. The Group is able to leverage on its existing sales, marketing team and the network to reach out existing customers at a considerably insignificant capital investment. Even though the procurement of the Products is irrelevant to the Company's principal business, i.e. the manufacturing and sales of access flooring products and the provision of related installation services, the Board anticipates that the Agency Co-operation Agreements would assist in the generation of an additional income stream to the Group with the collaboration of Mr. Li and the companies controlled by him having considered his industry experience, thereby can diversity the business risks of the Group. In addition, the Group will not bear inventory risk as purchase orders will only be placed with Yunhong Environmental when the Group receives the same volume of purchase orders from external customers. The procurement of the Products arrangement will not have material impact on the cashflow of the Group.

In reaching the terms of the Agency Co-operation Agreements, the Board reviewed and discussed with Yunhong Environmental on the basis of preparation for the Price List and assessed the reasonableness of the prices of the Products based on the considerations in the preparation of the Price List. It is understood that Yunhong Environmental has taken into account the following factors in the preparation of the Price List, including but not limited to (i) cost of production of the Products; (ii) administrative expenses involved; (iii) an anticipated commercially acceptable profit margin to Yunhong Environmental; and (iv) a sustainable retail price. The Company enquired and obtained basic information from Yunhong Environmental on the pricing of the Products to evaluate and consider whether the price of the Products listed out in the Price List are reasonable. The Board also checked with Yunhong Environmental to ensure that the prices of the Products as shown on the Price List are no less favourable than those available to other sales agents appointed by Yunhong Environmental.

There is also a clause in the Agency Co-operation Agreements that Yunhong Environmental shall undertake to compensate Jiachen Carbon Neutral and Yunhong Low Carbon Environmental for the shortfall in prices if the prices offered to other sales agents appointed by Yunhong Environmental are more favourable than those offered to Jiachen Carbon Neutral and Yunhong Low Carbon Environmental.

Having considered (i) the anticipated market demand of the Products; (ii) no inventory risks or liquidity risks will be borne by the Group; and (iii) the basis of the pricing of the Products in the Price List, the Board (including the independent non-executive Directors) consider that terms of the Agency Co-operation Agreements, including the basis of pricing, are determined after arm's length negotiations and are in the interests of the Company and the Shareholders as a whole.

Basis of pricing of the Introduction of Investors Co-operation Agreements

As disclosed in the CCT Announcement, the percentage of commission was determined after arm's length negotiations between the parties and taking into account factors including industry practice, the commission payable by companies providing similar services and estimated efforts and time involved. As Yunhong Environmental has not engaged any other parties to identify potential investors before, the Board could only obtain references from service providers providing similar services. As such, the Board obtained the percentage of placing commission payable to placing agents for placing on best efforts basis (the "**Placing Commission Percentage**") in relation to placing of new shares for companies listed on the Stock Exchange during the period from July to December 2021 and the current percentage of commission payable to intermediaries (the "**Intermediaries Commission Percentage**") which assist in arranging financing in the PRC for comparison and reference. It is noted that the Placing Commission Percentage ranges from approximately less than 0.2% to 5%, depending largely on the size of funds raised while the Intermediaries Commission Percentage ranges from 3% to 5%. The Board considers that the commission percentage of 5% to 8% under the Introduction of Investors Agreement is acceptable as it is relatively higher than the Placing Commission Percentage and the Intermediaries Commission Percentage, and is therefore not less favourable than those offered in the market.

The actual percentage of commission to be paid to Jiachen Carbon Neutral and Yunhong Low Carbon Environmental is subject to arm's length negotiations between the parties after an investor is identified, taking into account, in particular, the following factors:

- (i) background of the investor – an investor with strong financial background with sizeable operations entails a higher percentage of commission;
- (ii) investment amount – higher investment amount justifies lower percentage of commission

- (iii) investment terms – if investment terms offered by the investor are favourable and commercially acceptable, it justifies a higher percentage of commission.

In addition to the above, the parties to the Introduction of Investors Co-operation Agreement also have a mutual understanding that the following indicative percentage of commission with reference to the investment amount will be followed:

- (i) investment amount equal to or less than RMB10 million – 8%
- (ii) investment amount between RMB10 million to RMB20 million – within the range of 5% to 8%
- (iii) investment amount of RMB20 million or above – 5%

The above lists of factors are not exhaustive. Other relevant factors may be considered when determining the actual percentage of commission and the actual percentage of commission will be determined on a case-by-case basis.

In addition, the Group procured Yunhong Environmental to execute an undertaking that the percentage of commission to be offered to the other service providers under any other introduction of investors agreements shall not in any event be higher than the commission offered under the Introduction of Investors Agreements and that Yunhong Environmental is required to compensate the shortfall in the amount of commission to Jiachen Carbon Neutral and Yunhong Low Carbon Environmental if the percentage of commissions payable under other introduction of investors agreements by Yunhong Environmental is higher than those offered to Jiachen Carbon Neutral and Yunhong Low Carbon Environmental.

Board's assessments of the Introduction of Investors Co-operation Agreements

The Group is able to utilise its existing network to reach out potential customers and no capital injection is required for identifying potential investors for Yunhong Environmental. In addition, the percentage of commission payable by Yunhong Environmental is relatively comparable to those offered in the marketplace after considering the market references.

Based on the above, the Board (including the independent non-executive Directors) considers that terms of the Introduction of Investors Agreements, including the basis of pricing, are determined after arm's length negotiations. The written undertaking given by Yunhong Environmental can ensure that the commission payable by Yunhong Environmental will not be more favourable than the commission payable by other independent customers of the Company. The Board considers that the transactions contemplated under the Introduction of Investors Agreements are in the interests of the Company and the Shareholders as a whole.

Save as disclosed above, all other information and content set out in the CCT Announcement remain unchanged and shall continue to be valid for all purposes. This supplemental announcement is supplemental to and should be read in conjunction with the CCT Announcement.

By Order of the Board
JiaChen Holding Group Limited
SHEN Min
Executive Director and Chairman

Changzhou, the People's Republic of China, 15 February 2022

As at the date of this announcement, the executive Directors are Mr. SHEN Min (Chairman), Mr. SHEN Minghui, Mr. CHEN Shiping (Chief Executive Officer) and Ms. LIU Hui; and the independent non-executive Directors are Mr. Xie Xing, Mr. Wang Li and Ms. Long Mei.