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Zhong Jia Guo Xin Holdings Company Limited

中加國信控股股份有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 899)

ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2024 SUPPLEMENTAL ANNOUNCEMENT

Reference is made to the annual report of the Company for the year ended 31 March 2024 (the “**Annual Report**”) and the announcement of the Company dated 23 May 2017 (the “**2017 Announcement**”). Unless otherwise defined, capitalized terms used in the Annual Report and the 2017 Announcement shall have the same meanings in this announcement.

WATER MINING – PRODUCTION VOLUME GUARANTEE

The Agreement

As disclosed in the 2017 Announcement:

1. on 23 May 2017, the Group entered into the Agreement with the Vendor, pursuant to which the Vendor has agreed to sell, and the Group has agreed to purchase, 67% of the equity interest in the Target Company;
2. the Vendor has provided production volume guarantee in the Agreement, pursuant to which the production volume of spring water shall not be less than (i) 50,000 cubic metres in 2019 and (ii) 100,000 cubic metres for each calendar year from 2020 to 2028 (the “**Production Volume Guarantee**”);

3. if the Target Group fails to satisfy the aforesaid production volume, the Vendor, i.e. Mr. Lam Chun Ho, shall be required to pay monetary compensation to the Group with reference to the difference between:
- (i) the reasonably estimated amount of profit of the Target Group during the relevant year as if the Production Volume Guarantee can be achieved, taking into account the market prices of the water products during the relevant year (the “**Estimated Profit(s)**”); and
 - (ii) the actual amount of profit of the Target Group during the relevant year (the “**Actual Profit(s)**”)
- (the “**Compensation Provision**”).

The performance guarantee under the Agreement is only related to production volume (but not the profit nor other financial performance of the Target Company). In case the Compensation Provision is triggered, it is necessary for the Group to make a reasonable estimate of the amount of the Estimated Profits.

There is no exact formula in the Agreement for the determination of the Estimated Profits and the calculation of the compensation. The Vendor and the Group will need to mutually agree on the exact calculation method and the amount of compensation thereof. Based on the interpretation of the relevant contract terms of the Agreement as a whole taking into account the purpose of the Compensation Provision, in the event that the Target Group is at a loss position, the Actual Profit(s) should be treated as nil (but not negative profit).

Subsequent change of shareholders of the Target Company

The Vendor has subsequently transferred his equity interest in the Target Company to a third party, Quan Feng Li Yun Company Limited (泉豐利運有限公司) (the “**Minority Shareholder**”) in 2021. The Minority Shareholder is ultimately and beneficially owned by a businessman, Mr. Wang Meng Lin (王夢林). The Minority Shareholder agreed to take up the liabilities under the Production Volume Guarantee. At the material time, one of the major issues faced by the Vendor and the Minority Shareholder before the transfer could be proceeded was that they had to agree on the amount of compensation payable under the Agreement for the years 2019 and 2020 because the amount of compensation would affect the consideration of the transfer. When the Agreement (which contains the Compensation Provision) was entered into in 2017, it was assumed that water factory could commence

operation in 2019 and therefore adequate actual operation data would be available for the estimate of the Estimated Profits in case the Compensation Provision is triggered. The Production Volume Guarantee was also agreed based on the said assumption. However, the water factory did not commence operation in 2019 or 2020 and no actual operation data was available for the estimate of the Estimated Profits for the years 2019 and 2020. Therefore, the parties had to agree on alternative method of estimating the Estimated Profits for each of the years 2019 and 2020. Upon discussion, the parties eventually agreed to rely on publicly available market data from market comparables which satisfy the following criteria: (i) engaged in the same industry, (ii) target at the same market (i.e. the consumer market in the PRC), (iii) manufacture similar products as that of the Group and (iv) sell its products to all major area of the PRC in general but not only single city or province in the PRC (and this is also the business plan of the Company) (the “**Relevant Criteria**”) in order to make a reasonable estimate on the Estimated Profits for the years 2019 and 2020.

It was agreed among the Vendor, the Minority Shareholder and the Group to make reference to the average of the net profit margin (the “**Average Margin**”) of two market comparables which fall within the Relevant Criteria, including Nongfu Spring Co., Ltd. (stock code: 9633) (“**Nongfu Spring**”) and Tibet Water Resources Ltd. (stock code: 1115) (“**Tibet Water**”) (Nongfu Spring and Tibet Water are collectively referred to as the “**Market Comparables**”) as disclosed in their respective prospectus/annual reports for the relevant financial years, each has the weighting of 50% (the “**Agreed Benchmark**”). The Market Comparables do not represent an exhaustive list of comparables in the market. Nevertheless, given the market reputations of the Market Comparables, the parties have chosen the same as references. Nongfu Spring is mainly engaged in the production and sale of packaged water and beverage. Nongfu Spring has five business segments: water products segment, ready-to-drink tea products segment, functional drinks products segment, juice beverage products segment and other products segment. Given that those products are more consistent with those products or potential products of the Target Group, the entire financial results of Nongfu Spring has been taken into account. Tibet Water is mainly engaged in the manufacture, marketing and brand management of packaged drinking water. Tibet Water has two business segments: water business segment and beer business segment. Given that beer products are not consistent with those products or potential products of the Target Group, only the financial results in respect of the water business segment of Tibet Water have been taken into account. The aforesaid parties have also tried to locate other possible listed companies which fall within the Relevant Criteria and noted that, although some of the other listed companies are also engaged in the

manufacture and sale of water products, water products are only a minor part of their businesses and are not clearly categorized into a separate business segment and their profit margin may be distorted by other businesses being engaged by those companies. Therefore, those companies were not adopted as market comparables. The parties have also tried to locate other private unlisted companies which fall within the Relevant Criteria. However, the parties could not find any suitable comparables. Nevertheless, even any information on private companies could be obtained, there is fundamental uncertainties as to whether the same is reliable or not.

The Vendor, the Minority Shareholder and the Group were able to agree on the estimated amount of the compensation for the years 2019 and 2020 in the total of approximately RMB21,936,000 (equivalent to HK\$26,338,000), taking into account the fact that the Target Group was at a loss position during the years 2019 and 2020 and hence the Actual Profits were treated as HK\$nil. Such treatment follows the overriding spirit of the original terms of the Compensation Provision. The transfer of the equity interest in the Target Company was completed. The Minority Shareholder has paid a substantial portion of the compensation as agreed, with only RMB2,500,000 remaining outstanding.

Supplemental Agreement with the Minority Shareholder

On 28 March 2024, the Group and the Minority Shareholder entered into a supplemental agreement (the “**Supplemental Agreement**”), pursuant to which:

- (a) the Minority Shareholder agrees to pay the sum of RMB2,500,000 (the “**Outstanding Compensation**”) within one year from the date of the Supplemental Agreement, i.e. on or before 27 March 2025;
- (b) interest will accrue on the Outstanding Compensation at the rate of 5% per annum on a daily basis; and
- (c) in the event that the Minority Shareholder is in default of the above payment provision, a penalty interest at the rate of 10% per annum will be accrued on the Outstanding Compensation and unpaid interest accrued thereon.

Failure to fulfil Production Volume Guarantee

Due to the outbreak of COVID-19 which resulted in delay in construction of the water factory, the Target Group only started to generate spring water since March 2024. Therefore, the production volume of the Target Group was nil before March 2024 and the Target Group has failed to fulfil the Production Volume Guarantee for the years from 2019 to 2023 and the shortfall was 50,000 cubic metres for the year 2019, and 100,000 cubic metres for each of the years 2020, 2021, 2022 and 2023. The Board considered that the Vendor (subsequently the Minority Shareholder) failed to fulfil the Production Volume Guarantee and the compensation obligations thereof.

There was no option under the Agreement, pursuant to which the Group is entitled to sell the Target Group back to the Vendor (subsequently the Minority Shareholder).

Solely for reference purpose, if based on the Compensation Provision and similar calculation method as those for the years 2019 and 2020, the amount of the compensation payable by the Minority Shareholder to the Group, which is calculated by the Estimated Profit based on Market Comparables of the relevant year minus the Actual Profit of the relevant year (which is HK\$nil) for the years 2021, 2022 and 2023 shall be approximately RMB11.4 million, nil and nil respectively. However, the Company stresses that the computation of the amount of compensation for the years 2021, 2022 and 2023 are still subject to further negotiations between the Group and the Minority Shareholder.

Prolonged negotiations with the Minority Shareholder on the compensation and the reasons thereof

Through the communications with the Minority Shareholder, the Company considers that the Minority Shareholder is optimistic and enthusiastic about the water mining business of the Target Group and its long-term development and the Company is also of the view that the Minority Shareholder is a good business partner to work with in the long run. The ultimate beneficial owner of the Minority Shareholder is a businessman with an extensive investment portfolio. His investments include, inter alia, mining factory, logistics centre and catering businesses. The Company is confident that the experiences of the Minority Shareholder and its ultimate beneficial owner will provide insights to the business of the Target Group and contribute to the future success of the Target Group.

When the Agreement was entered into in 2017, the Production Volume Guarantee of the Agreement was agreed based on the assumption that the market functioned as usual. However, the business of the Target Group was seriously affected and interrupted by the unexpected outbreak of COVID-19 in 2021 and 2022, which could not be controlled nor foreseen by both parties beforehand. The various stringent precautionary measures during the pandemic and the work arrangement of the workers (including but not limited to suspension of works which resulted in dismissal of workers) have seriously affected the construction progress of the water factory. At the material time, the circumstance was ever-changing from time to time and it could not be predicted with certainty as to how the pandemic would evolve. It was infeasible for the Group and the Minority Shareholder to assess the situation, nor formulate any concrete business plan during the pandemic period. The outbreak of COVID-19 constituted a quasi-force majeure event and it would be totally unfair to mechanically enforce the guarantee provision of the Agreement and the Compensation Provision or take legal action against the Minority Shareholder. For the compensation in connection with the Production Volume Guarantee of the years 2021, 2022 and 2023, the Company and the Minority Shareholder in general adopted the same method to calculate the amount of compensation as that of the years 2019 and 2020, save and except the method of determination of the amount of Estimated Profit(s) followed the original intended method (i.e. based on actual operation data of the Target Group but not Market Comparables). It must be stressed that, estimate of the Estimated Profit based on actual operation data is also a method preferred by the Group as compared with the estimate based on Market Comparables. The availability of actual operation data can help to avoid potential disputes between the Group and the Minority Shareholder and ensure fairness between the parties. Given that the Group and the Minority Shareholder are now joint venture partners and it is expected that the Minority Shareholder will have positive contribution to the long-term business development of the Target Group, the management of the Company is of the view that any dispute between the Group and the Minority Shareholders will not be in the interest of the Group and its shareholders. It cannot be denied that the Minority Shareholder has requested the Group to give certain concession on the Production Volume Guarantee for the years 2021, 2022 and 2023. The Group has been considering the various possible arrangements on the Production Volume Guarantee for the years 2021, 2022 and 2023 in order to strike a balance between duly and properly safeguarding its assets and ensuring a sustainable business of the Target Group in the long run. As at the date of this announcement, there is not yet any details of the possible arrangement concluded by the Company. According to the Agreement, in the event that the Vendor (and subsequently the Minority Shareholder) and the Group cannot agree on the estimated profit and the compensation, they may jointly appoint independent accountant, valuer and market research consultant to determine the same. The results determined by the aforesaid professionals/consultants shall be final and conclusive.

The construction of water factory was completed in 2023. The Target Group started to generate spring water since March 2024 and the Group was able to start to collect actual operating data of the spring water mine, the water factory and the Target Group since then. Before March 2024, the production volume and revenue of the water factory were simply nil. Both the Company and the Minority Shareholder wish to see the actual production volume of the Target Group for the first year of operation up to 31 March 2025 and the amount of sales and other operating data thereof, in order to assess the profitability of the water factory such that the Estimated Profit could be determined more accurately. Without the aforesaid actual operating data, it is highly likely that the Estimated Profits determined by the Company and the Minority Shareholder may deviate from the actual results, which are not fair to both parties and may lead to disputes. Therefore, such timeline is mutually beneficial to both parties but not the Minority Shareholder alone. It is expected that the compensation package could be finalized before 30 June 2025 and the same shall be settled on or before 31 December 2025. In the event that the Minority Shareholder eventually still fails to pay the compensation, the Group may consider seriously taking legal actions against it.

Despite the above, it must be stressed that there is not yet any agreed material change to the terms of the Production Volume Guarantee for the years 2021, 2022 and 2023. The required production volume (i.e. 100,000 tonnes for each of the years 2021, 2022 and 2023) remain unchanged. There is no provision in the Agreement governing the timing of the compensation. At this stage, the Company and the Minority Shareholder only need more time to conclude the same. The Company will publish an announcement in accordance with the requirements under the Listing Rules in the event that any material change to the Production Volume Guarantee is agreed and confirmed.

Considering that (i) the Minority Shareholder is now holding 33% of the equity interest in the Target Group and may be used to settle the compensation to the Group by transferring such equity interest (or the relevant part thereof) to the Group in case necessary, (ii) the Minority Shareholder has indeed paid a substantial amount of compensation for the Production Volume Guarantee for the years 2019 and 2020, which demonstrates its financial strength and commitment to the business of the Target Group, and (iii) it would be beneficial to the Group to maintain the long-term and sustainable business relationship with the Minority Shareholder, the Directors are of the view that the assets of the Group are fairly safeguarded and the above arrangement is fair and reasonable and in the interests of the Shareholders as a whole.

PLACING OF SHARES ON 3 AUGUST 2018

As disclosed on page 50 of the Annual Report, the unutilized net proceeds as at 31 March 2024 of approximately HK\$21.9 million (the “**Unutilized Proceeds**”) are expected to be utilised by the first quarter of 2031 for the expansion of production facilities of Target Group, which is determined by a financial forecast of the Target Group conducted by the Group. Due to the unexpected outbreak of the COVID-19 pandemic and the slower-than-expected economic recovery after the pandemic, the upward trend of the PRC economy have been obstructed. Since it may take time for the economy and the market sentiment of the PRC to recover, the Target Group has tuned down the production scale from the original plan.

The Company adopts a prudent approach towards the business development of the Target Group, in particular the expansion of its production scale. The production capacity of the existing production facilities of the Target Group was not yet fully utilized as at the date hereof. It is expected that, following the growth in the water business of the Group, the production capacity will gradually reach saturation and additional production facilities will be required. Under such circumstance, the Target Group will need to expand its production facilities. It cannot be ascertained as to when the Target Group will actually need to proceed to expand its production facilities and the first quarter of 2031 is only the latest possible time at which the Unutilized Proceeds are expected to be utilized. The Group may, taking into account the actual economic and market conditions in the PRC and the business progress of the Target Group, utilize the Unutilized Proceeds as capital expenditure on the production facilities of the Target Group earlier as and when appropriate.

By order of the Board

Zhong Jia Guo Xin Holdings Company Limited

Ouyang Yanling

Chairman

Hong Kong, 13 January 2025

As at the date of this announcement, the Board consists of five executive directors, Ms. Ouyang Yanling, Mr. Li Yuguo, Mr. Liu Yan Chee James, Mr. Li Xiaoming and Ms. Wen Junyi; three non-executive directors, Mr. Chen DongYao, Mr. Yang Xiaoqiang and Mr. Huang Yilin; and four independent non-executive directors, Mr. Ba Junyu, Mr. So Ting Kong, Mr. Wong Sung and Mr. Xu Xingge