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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 IN RELATION TO THE AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Reference is made to the impairment assessment of contract assets, trade and bills receivables as set out in notes 21 and 22 to the consolidated financial statements included in the annual report for the year ended 31 December 2020 (the “**2020 Annual Report**”) of JiaChen Holding Group Limited (the “**Company**”, and together with its subsidiaries, collectively referred to as the “**Group**”) published on 29 April 2021. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as defined in the 2020 Annual Report.

The board of directors (the “**Directors**”) of the Company hereby provides further details with respect to the latest status of subsequent settlements for and impairment assessment of contract assets, trade and bills receivables as at 31 December 2020.

METHODOLOGY, ASSUMPTIONS, AND PARAMETERS USED FOR THE ESTIMATED BAD DEBT RATES FOR LIFETIME ECLs

For better understanding of the impairment assessment of contract assets, trade and bills receivables, disclosures in notes 21 and 22 to the consolidated financial statements included in the 2020 Annual Report should be read together with the accounting policy for the ECLs as set out in note 3(j)(i) to the consolidated financial statements.

Statistical regression model has been adopted to project the estimated lifetime ECL rates on each ageing band of contract assets, trade and bills receivables as at 31 December 2020, based on co-efficient relationship of the actual bad debt rates on each ageing bands of trade and bills receivables and contract assets at each reporting period ended on 31 December 2014, 2015, 2016, 2017 and 2018, and the annual PRC GDP growth rates for the same period. The actual bad debt rates for trade and bills receivables and contract assets at each reporting period end on 31 December 2014, 2015, 2016, 2017 and 2018 had been disclosed in note 22(c) to the consolidated financial statements included in the 2020 Annual Report.

The actual PRC GDP growth rates for the years ended 31 December 2014, 2015, 2016, 2017, 2018 and 2019 were 7.43%, 7.04%, 6.85%, 6.95%, 6.75% and 6.11%, respectively. In addition, the actual PRC GDP growth rate for the year ended 31 December 2020 was 2.30% which reflected the huge negative impacts arising from the outbreak of the COVID-19 pandemic in late January 2020. The expected PRC GDP growth rate for the year ending 31 December 2021, based on official publications around 31 December 2020, would be not less than 6%. For the purpose of estimating the lifetime ECL rates on contract assets, trade and bills receivables as at 31 December 2020, the lowest end of the forecast annual PRC GDP growth rate at 6% for 2021 has been adopted.

Set out below is the analysis of the calculation of the ECL rates on contract assets, trade and bills receivables, using the co-efficient factors between the bad debt loss rates and the annual PRC GDP growth rates which were derived from the statistical regression model:

Per statistical regression analysis							
	*Coefficient of determination (R squared), the proportion of the variance in the ECL rate that is predictable from the PRC GDP growth rate	**Intercept for the linear between the PRC GDP growth rate and actual bad debt loss rates	**Coefficient factor between GDP growth rate and actual bad debt loss rates	Actual PRC GDP growth rate for 2020	Forward looking factor: change in GDP growth rate between 2020 (actual) and 2021 (expected)	Estimated ECL rate at 31 December 2020, based on the regression model	Applied ECL rate on contract assets and trade and bills receivables at 31 December 2020
				which was significantly affected by outbreak of COVID-19 pandemic in late January 2020	D	E = (A + B x C) + (B x D)	
	A	B	C	D	E = (A + B x C) + (B x D)		
Contract assets	0.71	15.43%	-2.11	2.30%	3.70%***	2.78%	2.78%
Trade and bills receivables:							
Current or not past due	0.67	12.48%	-1.61	2.30%	3.70%***	2.85%	2.85%
Past due within:							
– 1 month	0.96	61.24%	-8.35	2.30%	3.70%***	11.12%	11.12%
– 1–3 months	0.99	69.78%	-9.43	2.30%	3.70%***	13.20%	13.20%
– 3–6 months	0.90	86.13%	-11.76	2.30%	3.70%***	15.56%	15.56%
– 6–9 months	0.90	116.89%	-15.97	2.30%	3.70%***	21.10%	17.10%****
– 9–12 months	0.82	81.63%	-10.89	2.30%	3.70%***	16.27%	19.30%****
– 1–2 years	0.69	226.20%	-31.16	2.30%	3.70%***	39.26%	39.26%
– Over 2 years	0.80	243.67%	-31.24	2.30%	3.70%***	56.28%	56.28%

* The coefficient of determination ranges from 0 to 1, representing 0% to 100% of the variation in the ECL rate that can be explained by the PRC GDP growth rate.

** Intercept = $(\sum y)(\sum x^2) - (\sum x)(\sum xy) / n(\sum x^2) - (\sum x)^2$ and Coefficient factor = $n(\sum xy) - (\sum x)(\sum y) / n(\sum x^2) - (\sum x)^2$, where y is the ECL rate for contract assets and trade and bills receivables falling into each of the ageing bands and x is the PRC GDP growth rate.

*** 6% – 2.3% = 3.7% (being change in expected PRC GDP growth rate in 2021 as compared with that of 2020).

**** The management had considered the patterns of the past payment history of and subsequent settlements from the customers under these two ageing bands for trade receivables overdue 6–9 months and 9–12 months up to 19 March 2021 and accordingly, further forward looking adjustments were made on these estimated ECL rates, which resulted in aggregate additional allowance for ECLs of approximately RMB754,000 being recognised as at 31 December 2020.

SUBSEQUENT SETTLEMENTS ANALYSIS AND FOLLOW-UP ACTIONS

The following table provides information about the Group's exposures to credit risk and ECLs for contract assets, trade and bills receivables as at 31 December 2020 and subsequent settlements received from the customers during the period from 1 January to 3 June 2021:

	Number of customers	Gross carrying amount as at 31/12/2020 (before net of allowance for ECLs) RMB'000	Allowance for ECLs RMB'000	Net carrying amount as at 31 December 2020 RMB'000	Subsequent settlements received from 1 January 2021 to 3 June 2021 RMB'000
Contract assets	165	80,193	2,230	77,963	31,609
Trade and bills receivables (see below)	339	146,375	26,994	119,381	60,473
	504	226,568	29,224	197,344	92,082
Trade and bills receivables:					
Not yet due or current	87*	37,977	1,082	36,895	23,527
Past due					
Within 1 month	21*	4,910	546	4,364	2,281
1 to 3 months	19*	7,282	961	6,321	4,567
3 to 6 months	45*	5,432	845	4,587	2,732
6 to 9 months	43*	16,888	2,888	14,000	6,179
9 to 12 months	71*	46,939	9,059	37,880	10,054
1 to 2 years	109*	20,876	8,196	12,680	8,428
Over 2 years	68*	6,071	3,417	2,654	2,705
		146,375	26,994	119,381	60,473

* Number of customers within each ageing band do not add up to the total number of customers of the trade and bills receivables as the same customers would have different amounts included in the respective ageing bands.

Management of the Group has been closely monitoring the status of accounts owing by its customers during and after the year ended 31 December 2020. Close contact with customers has been maintained so as to ensure there is no major issue arising from the payment process. Consideration would be given to the issuance of pre-action letters and the institution of legal proceedings against the relevant customers to recover outstanding amounts as well as penalty, liquidated damages and other expenses as permitted under the laws of the PRC, and furthermore, consideration would also be given to the negotiations of new repayment schedules to recover the outstanding debts if necessary.

IMPACT OF THE IMPAIRMENT LOSS TO THE FINANCIAL STATEMENTS AND BUSINESS OPERATIONS

As a result of the impairment assessment on the balances of contract assets, trade and bills receivables performed by the management of the Group, it was reported that an impairment loss of approximately RMB15.5 million (the “**2020 Impairment Loss**”) was recognized in the year ended 31 December 2020 as compared to that of approximately RMB5.8 million recognized in the year ended 31 December 2019, which was mainly attributable to the outbreak of COVID-19 pandemic in late January 2020. The 2020 Impairment Loss, in fact, represented a heavy blow to the performance of the Group in respect of the year ended 31 December 2020 and was in fact one of the major attributes to the significant reduction in the net profit of the group for the year ended 31 December 2020. However, as more vaccines becoming available to contain the widespread infection of COVID-19 pandemic so as to allow for a gradual economic recovery for both the domestic and global markets, and the conscientious effort taken by the management of the Group in following up long outstanding receivables, it is expected the magnitude of the impairment loss would be reduced to an acceptable level in the financial year ending 31 December 2021.

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

Changzhou, the People’s Republic of China, 30 June 2021

As at the date of this announcement, the executive Directors are Mr. SHEN Min (Chairman), Mr. CHEN Shiping (Chief Executive Officer), Mr. SHEN Minghui and Ms. LIU Hui; and the independent non-executive Directors are Mr. MA Ving Lung, Ms. SHI Dongying and Mr. YU Chun Kau.