Asia Resources Holdings Limited
亞洲資源控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 899)

SUPPLEMENTAL ANNOUNCEMENT
DISCLOSEABLE TRANSACTION
FORMATION OF JOINT VENTURE INVOLVING
THE ISSUE OF NEW SHARES UNDER GENERAL MANDATE

References are made to the announcement of Asia Resources Holdings Limited (the "**Company**") dated 16 December 2022 regarding the discloseable transaction on formation of joint venture company involving the issue of new shares under general mandate (the "**Announcement**"). Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement unless otherwise specified herein.

The Company would like to provide the following supplemental information on the transaction as follows:

INFORMATION OF FURNITURE MANUFACTURER

The Furniture Manufacturer was established in 2016 with a registered capital of RMB200.0 million and is principally engaged in, inter alia, the research and development, production and sales of intelligence home furniture. Its operation base is located at the Nankang Furniture Industry Park (南康家俱產業園), Nankang District, Ganzhou, the PRC. It has its own research and development team, which enables the Furniture Manufacturer to keep in pace with the latest market trend in furniture styles, designs and demands.

FURTHER DETAILS OF THE JOINT VENTURE

The Joint Venture Company adopts an asset-light business model and will not have its own production facilities. It will act as an exclusive distribution agent of the Furniture Manufacturer. Leveraging on the business networks to be provided by the Group and the Furniture Manufacturer, the Joint Venture Company will offer furniture and related products to the customers and potential customers. It will only procure furniture and related products from the Furniture Manufacturer after actual receipt of orders from the customers. The sales price offered by the Joint Venture Company will be determined on a cost-plus basis, i.e. the price to be charged by the Furniture Manufacturer plus a reasonable margin as profit of the Joint Venture Company. There will be no minimum purchase amount on the part of the Joint Venture Company.

The respective roles and responsibilities of the Company, the Joint Venture Partner and the Furniture Manufacturer are as follows:

- The Company is responsible for provision of the initial financing, decision making, monitoring of daily operation, formulation of overall strategy, promotion of the business of the Joint Venture Company and solicitation of new potential customers.

- The Joint Venture Partner is responsible for the management of daily operation of the Joint Venture Company, the procuring of the Furniture Manufacturer to enter into the distribution agency agreement to grant the Sales Agency Rights to the Joint Venture Company for a period of no less than 10 years and provision of its existing customers list of the Furniture Manufacturer.

- The Furniture Manufacturer will be engaged in the production of the furniture and related products in accordance with the orders of the Joint Venture Company. The Furniture Manufacturer does not directly participate in the business operation of the Joint Venture Company.

The business models of the Joint Venture Company and the Furniture Manufacturer are not the same but are complementary with each other. While Furniture Manufacturer is equipped with the production facilities and engages in production activities, the Joint Venture Company will not have any production facilities but will focus on sales activities. The Joint Venture Company will only place orders with the Furniture Manufacturer after it has secured business from its customers. By adopting such assets-light business model, the operation overheads of the Joint Venture Company could be significantly reduced. Although the business models of the Joint Venture Company and the Furniture Manufacturer are different, it is anticipated that the costs of operation of the Joint Venture Company will be much lower than that of the Furniture Manufacturer. The Group may also provide certain operational supports to the Joint Venture Company.

CAPITAL CONTRIBUTION

The capital contribution (including the shareholder's loans) to the Joint Venture Company was determined based on arm's length negotiations between the Company and the Joint Venture Partner, taking into account, inter alia, the start-up capital, the estimated amount of operating expenses (including staff costs) and the financial resources required to pay as deposit to procure furniture and related products from the Furniture Manufacturer (the "**Procurement Deposit**") during the early stage of operation of the Joint Venture Company (collectively, the "**Relevant Factors**"). It is anticipated that the start-up capital and the operating expenses will be approximately HK$2.0 million. In order to develop the business of the Joint Venture Company as soon as possible and fully utilise the benefits brought by the Sales Agency Rights during the first financial year ending 31 December 2023, a sum of HK$20.0 million shall be made available for payment of Procurement Deposit.

The shareholder's loan is part of the capital commitment of the Company for the joint venture arrangement and is interest-free, which is usual for transaction of similar types.

The amount of the shareholder's loan was determined based on the Relevant Factors. According to the Joint Venture Agreement, the Group will only be required to inject the shareholder's loans within 12 months upon establishment of the Joint Venture Company in accordance with its operating needs, such as the progress of the securing of the Sales Agency Rights and the contracts signed with end customers.

The shareholder's loan will be repayable on demand. Given that the Group will have control over the Joint Venture Company, it will be able to procure the Joint Venture Company to repay the shareholder's loan as soon as sufficient financial resources are available.

The shareholder's loan will allow the Joint Venture Company to immediately commence its business operations in schedule of its estimated operating needs and provides the necessary financial resources required to procure furniture and related products from the Furniture Manufacturer for on-sale to end customers and fully utilise the benefits brought by the Sale Agency Rights. The Group will only be required to inject the shareholder's loans within 12 months upon establishment of the Joint Venture Company in accordance with its operating needs and therefore, the Group will be able to monitor and control the injection of financial resources into the Joint Venture Company but not simply advance a lump sum "upfront" shareholder's loan to the Joint Venture Company. Further, given that the Group will be the controlling shareholder of the Joint Venture Company, the shareholder's loan is only an intra-group loan and does not constitute a loan to third party outside the Group while the Company can maintain the flexibility to procure the Joint Venture Company to repay the shareholder's loan as soon as sufficient financial resources are available (the "**Repayment Flexibility**"). Subject to further discussion with the Furniture Manufacturer, it is expected that the Joint Venture Company will only be required to pay part of the purchase price as deposit upon placing of each order of furniture and related products, and based on the track records of the Furniture Manufacturer, the products will be ready for delivery within 30 – 60 days thereafter. The Group will enter into a distribution agency agreement on normal commercial terms, including, inter alia, reasonable amounts of deposits, credit terms and delivery arrangement acceptable to the Group, etc.

Pursuant to business strategies in the development of the Joint Venture Company, the Joint Venture Company will be able to use its own financial resources to continue and sustain its business in the future.

In determining the amount of capital contribution (including the shareholder's loan), the Company has inspected the customers list and the financial statements of the Furniture Manufacturer during the past three years and nine months in order to assess the capacity of its business operations as well as the potential benefits which may be brought by the Sales Agency Rights procured by the Joint Venture Partner. The Company has also estimated the number of customers which can be referred to, or secured by, the Joint Venture Company, the amount of furniture required to be procured from the Furniture Manufacturer during its early stage of operation and assessed the costs of procuring the furniture and related products from the Furniture Manufacturer. As mentioned above, the Group is not required to advance the shareholder's loan in one go but only advance the same in line with the operation needs of the Joint Venture Company. The shareholder's loan is only an intra-group loan and does not constitute a loan to third party outside the Group while the Company can maintain the Repayment Flexibility. Having considered the aforesaid, the Board considers that the amount of capital contribution (including the shareholder's loan) is fair and reasonable, on normal commercial terms and in the interest of the Company and its shareholders as a whole.

Considering the agreed structure will allow the Group to maintain a controlling interest in the Joint Venture Company, the shareholder's loan was determined as the capital commitment of the Company towards the Joint Venture Company to allow immediate commencement of its business operations in schedule of its operating needs. Further, contribution by way of shareholder's loan will enable the Company to have a higher priority in the distribution of assets of the Joint Venture Company as compared to the equity holders of the Joint Venture Company. Further, the Joint Venture Company will be legally obliged to repay the shareholder's loan to the Group regardless of whether the Joint Venture Company can achieve profit or not in the future. On the contrast, declaration and distribution of dividends by the Joint Venture Company will be subject to more restrictions and will have tax implications.

As disclosed in the Announcement, the Joint Venture Company will become a non-wholly owned subsidiary of the Company and its financial results will be consolidated to the financial statements of the Group. The Company will have control over the Joint Venture Company, including the controlling voting rights at the general meeting of the Joint Venture Company and the controlling power at the board of directors of the Joint Venture Company. The chairman of the board shall also be appointed by the Group. The Company shall have the right to, through its control over the Joint Venture Company, to decide as to whether and when to distribute any profits to itself and the Joint Venture Partner, or retain any profits for further growth of the Joint Venture Company.

TARGET PROFIT FOR BONUS AND PERFORMANCE BONUS

Reasons for granting the performance bonus

Considering that the Joint Venture Partner would no longer recognize the entire profit of the Furniture Manufacturer but only be entitled to share 49% of the profit upon entering into the joint venture arrangement, the performance bonus was commercially agreed after arm's length negotiations as, among other things, (i) as an incentive for the Joint Venture Partner to enter into the arrangement and to take an active role in the contribution to the continuous growth of the Group; (ii) the assistance required from the Joint Venture Partner in commencing all necessary steps in forming a relationship and distribution model from their pre-existing clientele in the first financial year of the Joint Venture Company; (iii) the assistance required from the Joint Venture Partner in securing the target profit of HK$30.0 million for the first financial year of the Joint Venture Company, which could be booked in the financial results of the Company; and (iv) the subsequent profits which may be enjoyed by the Company during the full term of the Sales Agency Rights.

The performance bonus also aims to encourage the Joint Venture Partner to take an active role in the continuous long-term growth of the Company during the term of the Sales Agency Rights, which will be not less than 10 years.

Factors for determining the amount of the Target Profit for Bonus

There is no specific formula for the purposes of determining the Target Profit for Bonus which was agreed after arm's length negotiations.

The Target Profit for Bonus, which is used for calculating the amount of the performance bonus, was determined after inspecting the customer list and financial statements of the Furniture Manufacturer during the past three years and nine months, and taking into account the amount of customers which may be referred to/secured by the Joint Venture Company in 2023.

The Target Profit for Bonus was agreed taking into account the following:

- the Joint Venture Partner agrees to procure the Furniture Manufacturer to undertake in the agreement to be entered into between the Joint Venture Company and the Furniture Manufacturer to the effect that the Furniture Manufacturer shall manufacture and sell the furniture and related products ordered by the Joint Venture Company at a favourable price close to its production cost. Therefore, considering a possible lesser operating costs, the procurement costs to be borne by the Joint Venture Company for each order from the ultimate customers are expected to be minimized such that the profitability of the Joint Venture Company could be maximized;

- the Group will be responsible for the formulation of business strategy of the Joint Venture Company and it has the rights to consider as to whether to accept each orders that come to the Joint Venture Company. It is intended that all orders should be profitable before acceptance of the same;

- according to the financial statements of the Furniture Manufacturer for each of the three years ended 31 December 2021 and the nine months ended 30 September 2022, the average gross profit of the Furniture Manufacturer was approximately RMB33.5 million per annum;

- the Group has also considered (i) the amount of business from those customers which may be provided by the Furniture Manufacturer and the Group to the Joint Venture Company; (ii) the potential profit which could be generated from those businesses; (iii) the pricing of the furniture and related products on a cost-plus basis; (iv) the absence of required minimum purchase amount; and (v) the potential growth in business in the future, in particular during the post-COVID era, etc; and

- based on the abovementioned tentative arrangements which are expected to maximise the profitability of the Joint Venture Company, the parties determined and agreed the Target Profit for Bonus (which is the net profit of the Joint Venture Company for the year ending 31 December 2023) with reference to the average gross profit of RMB33.5 million minus reasonable operation overheads of the Furniture Manufacturer.

After arm's length negotiations between the Company and the Joint Venture Partner, the Target Profit for Bonus was prudently determined at an amount of HK$30.0 million based on the historical performance of the Furniture Manufacturer, with allowance for buffer in relation to currency fluctuations and other minor cost absorption. All extraordinary items will be excluded.

Factors for determining the amount of the performance bonus

There is no specific formula for the purposes of determining the performance bonus and the performance bonus was agreed after arm's length negotiations.

The performance bonus was agreed since:

- with anticipation that the Group can achieve synergies from the Joint Venture Company with its existing property development and property investment businesses of the Group, it cannot be denied that the Group needs to rely on the Joint Venture Partner during the initial start-up stage of the business of the Joint Venture Company, including but not limited to the Joint Venture Partner's expertise in the furniture industry and building up of the initial customer base. The Joint Venture Partner shall procure the Furniture Manufacturer to transfer all its existing customers to the Joint Venture Company. The performance bonus was provided as an incentive to the Joint Venture Partner to accomplish the tasks as soon as possible within the year of 2023;

- the Joint Venture Partner agrees to procure the Furniture Manufacturer to undertake in the agreement to be entered into between the Joint Venture Company and the Furniture Manufacturer to the effect that the Furniture Manufacturer shall manufacture and sell the furniture and related products ordered by the Joint Venture Company at a favourable price close to its production cost. Therefore, it is expected that the profit which could have been enjoyed by the Joint Venture Partner through the Furniture Manufacturer will be minimal;

- without the initial start-up effort to be provided by the Joint Venture Partner, it will be difficult for the Joint Venture Company to develop its business and achieve any significant profit in the near future and both the Group and the Joint Venture Partner will not benefit; and

- once the initial start-up stage is accomplished, it is expected that there will be a growth in the business of the Joint Venture Company in the future, taking into account the business network of the Group.

The amount of performance bonus was determined taking into account, (i) the existing results of operation of the Furniture Manufacturer; (ii) the anticipated size of business based on the number of potential customers made available by the Joint Venture Partner to the Joint Venture Company during its early stage of operation; (iii) the initial term of Sales Agency Right of 10 years (subject to renewal); and (iv) the need for the Joint Venture Company to establish a solid customer base as soon as possible in 2023, etc.

Considering that the average gross profit of the Furniture Manufacturer was approximately RMB33.5 million, and the Company, being the tentative 51% shareholder of the Joint Venture Company following the joint venture arrangement, the amount of gross profit shared by the Group would be approximately RMB17.1 million (equivalent to approximately HK$19.1 million). Considering that the Joint Venture Partner would potentially recognize a lesser of HK$19.1 million upon entering into the joint venture arrangement, after arm's length negotiations between the Company and the Joint Venture Partner, the performance bonus was determined at a maximum amount of HK$19.0 million on a pro-rata basis in order to reduce the risk to be faced by the Company and the Joint Venture Partner during the first financial year upon commencement of its operations, while the subsequent profits would be maximized and enjoyed by the Company during the remaining term of the Sales Agency Rights where no performance bonus would be available to the Joint Venture Partner. In the event that the actual profit to be achieved is higher than the Target Profit for Bonus, the performance bonus will remain at the maximum amount of HK$19.0 million where the Company would maintain at an advantageous position during the term of the joint venture arrangement. In the event that a higher actual profit could be achieved, both the Group and the Joint Venture Partner could benefit.

Factors for determining the allotment and issue of PB Shares

As at 30 September 2022, the Group had cash and cash equivalents of not more than HK$43.4 million. The Directors took into account that, if the performance bonus is paid in cash, this may potentially impose pressures on the Group's liquidity in its operations in the long run. To ensure appropriate funding is made available to the Group for the joint venture arrangement, the Directors have explored, among issue of new shares, other financing alternatives such as debt financing and other equity fund raising.

The Directors considered that debt financing would result in interest burden, and potentially increase the Group's finance costs in the long run. The Group may also be subject to other restrictive covenants imposed by the financial institutions on debt financing. Considering the possibility of lengthy negotiations and unfavourable conditions imposed by financial institutions, the Directors believed that debt financing would be the least preferrable option to the Company and its Shareholders as a whole.

The Directors also considered that while other equity fund raising may allow new and existing investors to participate and maintain their shareholding interest, there was no guarantee that the Group could achieve the appropriate funding required at the time of the joint venture arrangement. In particular, the Group may incur high placing commissions and professional fees in order to achieve the appropriate funding required by the Group. As time was of the essence in commencing the operations of the Joint Venture Company and realizing its benefits in its first and subsequent financial years, any delay in equity fund raising may also result in breach of the Joint Venture Agreement if the Group is unable to raise sufficient fund for the relevant performance bonus.

As the grant of performance bonus by issuance of new shares was determined at HK$0.20 per Share, the Directors believe that this would lessen both the financial and cashflow burden as well as the potential dilution in shareholding interest if other equity fund raising at any discount to its offer price were to occur. As the performance bonus would only be granted on a pro-rata basis that the Joint Venture Company meeting the target profit of HK$30.0 million in its first financial year, the Directors believe that the incentives in the form of performance bonus to the Joint Venture Partner would allow the Group to take advantage of the profitability made available by the Joint Venture Company without inducing any significant negative impacts to the Group's financials. Pursuant to ongoing development strategies, the Directors also believe that the joint venture arrangement would act as one of the first steps in relieving the Group from its loss-making position, and such profitability would allow shareholders to benefit from the potential positive impact in the value of the Shares as a whole.

Considering that (i) the issuance of performance bonus was determined, among all benefits to be enjoyed by the Company, as an incentive to the Joint Venture Partner in entering into the joint venture arrangement and forming a distribution model required for securing the target profit and all subsequent profits during the term of the Sales Agency Rights; (ii) the grant of performance bonus by way of new shares would lessen both the Company's financial impact and potential dilution in shareholding interest in comparison to other fund raising alternatives; (iii) the profitability of the Joint Venture Company would allow Shareholders to benefit from the potential positive impact in the value of the Shares as a whole; and (iv) the maximum consideration of the performance bonus and its dilution impact had been commercially kept minimal in favour of the Company in relation to the value of its equity interest in the Joint Venture Company, the performance bonus was considered fair and reasonable to provide incentive for the Joint Venture Partner to achieve the best return for the Joint Venture Company following its profitable nature, and subject to any unforeseen circumstances where the Target Profit for Bonus could not be met. The Joint Venture Partner shall procure the Joint Venture Company to achieve the Target Profit for Bonus within the year of 2023 and in the event that the Target Profit for Bonus cannot be met, the Joint Venture Partner will only be entitled to pro-rata number of the PB Shares based on the actual profits generated. As such, the performance bonus will provide incentive to the Joint Venture Partner to provide and secure customers for the Joint Venture Company such that the Joint Venture Company can build up its customer base as soon as possible within the year of 2023. After successfully building up its customer base quickly in 2023, the Joint Venture Company will be able to carry out and sustain its furniture business on its own.

SHAREHOLDING STRUCTURE BEFORE AND AFTER ISSUE OF PB SHARES

The shareholding structure of the Company as at the date of the Joint Venture Agreement and immediately after the issue of PB Shares as follows:

Shareholder	As at the date of the Joint Venture Agreement		Immediately after issue and allotment of PB Shares	
	No. of Shares	*Approximately %*	*No. of Shares*	*Approximately %*
Li Yuguo *(Note 1)*	226,800,000	26.34	226,800,000	23.72
Yang Xiaoqiang *(Note 2)*	35,482,000	4.12	35,482,000	3.71
Liu Yan Chee James *(Note 3)*	10,480,000	1.22	10,480,000	1.10
Huang Yilin *(Note 4)*	7,000	0.00	7,000	0.00
Joint Venture Partner	–	0.00	95,000,000	9.93
Other public Shareholders	588,400,000	68.32	588,400,000	61.54
Total	**861,169,000**	**100.00**	**956,169,000**	**100.00**

Notes:

1. Mr. Li Yuguo is an executive Director and the chairman of the Company.

2. Mr. Yang Xiaoqiang is a non-executive Director.

3. Mr. Liu Yan Chee James is an executive Director.

4. Mr. Huang Yilin is a non-executive Director.

By Order of the Board
Asia Resources Holdings Limited
Li Yuguo
Chairman

Hong Kong, 6 March 2023

As at the date of this announcement, the Board consists of four executive Directors, Mr. Li Yuguo, Mr. Liu Yan Chee James, Mr. Yu Jiang and Mr. Li Xiaoming; two non-executive Directors, Mr. Yang Xiaoqiang and Mr. Huang Yilin; and three independent non-executive Directors, Mr. Ba Junyu, Mr. Zhu Xueyi and Mr. Wong Chung Man.