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## **Xiezhong International Holdings Limited**

**協眾國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 3663)**

### **DISCLOSEABLE TRANSACTION FINANCE LEASE TRANSACTION**

#### **FINANCE LEASE AGREEMENT**

On 22 September 2020, Xiezhong Nanjing (as the Lessee) entered into the Finance Lease Agreement with Zhongguancun Leasing (as the Lessor), pursuant to which (i) the Lessee would sell its own assets namely, the Leased Assets, to the Lessor, at the Transfer Consideration of RMB45,000,000; and (ii) the Lessor would lease back the Leased Assets to the Lessee for a term of 36 months with a total lease payment of RMB50,476,061, which under the Finance Lease Agreement shall include a finance lease principal of RMB45,000,000 and a finance lease interest (inclusive of VAT) of RMB5,476,061.

#### **LISTING RULES IMPLICATIONS**

Pursuant to FAQ No. 052-2018 issued by the Stock Exchange, whilst the transactions contemplated under the Finance Lease Agreement will be accounted for as a financing arrangement by the Group according to IFRS 16, the transfer of the legal ownership of the Leased Assets, namely, the Disposal, constitutes a disposal of the Company under the Listing Rules.

As one or more of the applicable percentage ratio(s) (as defined under the Listing Rules) in respect of the transactions contemplated under the Finance Lease Agreement exceed(s) 5% but is/are less than 25%, the Finance Lease Agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company and is thus subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

## BACKGROUND

The Board hereby announces that on 22 September 2020, Xiezhong Nanjing (as the Lessee) entered into the Finance Lease Agreement with Zhongguancun Leasing (as the Lessor), pursuant to which (i) the Lessee would sell its own assets namely, the Leased Assets, to the Lessor, at the Transfer Consideration of RMB45,000,000 (the “**Disposal**”); and (ii) the Lessor would lease back the Leased Assets to the Lessee for a term of 36 months with a total lease payment of RMB50,476,061, which under the Finance Lease Agreement shall include a finance lease principal of RMB45,000,000 and a finance lease interest (inclusive of VAT) of RMB5,476,061 (the “**Finance Lease**”).

The table below sets out the details of the Finance Lease Agreement:

Date of the Finance Lease Agreement	: 22 September 2020
Expiry date of the Financial Lease Agreement	: 21 September 2023
Finance lease principal amount	: RMB45,000,000
Finance lease interest (inclusive of VAT)	: RMB5,476,061
Security deposits	: RMB3,600,000
Total lease payment	: RMB50,476,061
Unaudited net book value of the Leased Assets as at 30 June 2020 as extracted from the management accounts of the Lessee	: Approximately RMB57,952,718

## FINANCE LEASE AGREEMENT

Principal terms of the Finance Lease Agreement are as follows:

### Parties

Lessor	: Zhongguancun Leasing
Lessee	: Xiezhong Nanjing

To the best of the Directors’ knowledge, information and belief after having made all reasonable enquiries, each of the Lessor and its ultimate controlling beneficial owners is an Independent Third Party.

## **Leased Assets**

The Leased Assets are production equipment of automobile air conditioning system located in Jiangsu Province, the PRC, with an unaudited net book value of approximately RMB57,952,718 as at 30 June 2020 as extracted from the management accounts of the Lessee. The Lessee does not separately calculate the profits before and after tax of the Leased Assets.

## **Sale and Leaseback of the Leased Assets and the Lease Period**

The Lessee will sell and the Lessor will purchase the Leased Assets at the Transfer Consideration of RMB45,000,000 and the Lessor shall then lease back the Leased Assets to the Lessee for a lease period of 36 months commencing from the date on which the first drawdown of the Transfer Consideration is made to the Lessee.

The Transfer Consideration is arrived at after arm's length negotiation between the Lessee and the Lessor. Taking the transactions contemplated under the Finance Lease Agreement as a whole, the Transfer Consideration is in effect the principal amount of the Finance Lease to be advanced by the Lessor to the Lessee.

## **Lease Payment and Method of Payment**

Pursuant to the Finance Lease Agreement, the lease payment comprises finance lease principal and finance lease interest (inclusive of VAT). The finance lease principal is RMB45,000,000, the finance lease interest (inclusive of VAT) is RMB5,476,061 (calculated based on the interest rate of 7.30% per annum), the total lease payment is RMB50,476,061, the Lessee shall pay the lease payment to the Lessor at the end of each quarter in instalments in accordance with the Finance Lease Agreement during the lease period.

The terms of the Finance Lease Agreement, including the Transfer Consideration, finance lease principal, finance lease interest and other expenses under the Finance Lease Agreement, were determined upon arm's length negotiation between the Lessee and the Lessor with reference to net book value of the Leased Assets and prevailing market prices of the same category of finance lease products in the PRC.

## **Security Deposits**

The Lessee agreed to pay the security deposit for the Finance Lease Agreement of RMB3,600,000 (bearing nil interests). The security deposit is payable in cash and funded by the internal resources of the Lessee. As at the date of this announcement, the security deposit has been paid by the Lessee.

At the last lease payment of the Finance Lease Agreement, the lease payment and other payables under the final payment will automatically be deducted from the security deposit, and the Lessor will refund the Lessee the remaining amount (if any).

## **Ownership of the Leased Assets**

During the lease period, the ownership of the Leased Assets shall be vested in the Lessor. If the Lessee has properly and fully performed all of its obligations under the Finance Lease Agreement, upon the expiry of the Finance Lease Agreement, the Lessor will transfer the Leased Assets to the Lessee at a nominal consideration of RMB100.

## **Guarantee**

The guarantee arrangements for the Finance Lease Agreement are set out below:

- (1) the legal representative of the Lessee provides joint and several liabilities guarantee for the debts of the Lessee under the Finance Lease Agreement;
- (2) a connected company, with the same legal representative of the Lessee, namely, Xiezhong Ruidong, provides joint and several liabilities guarantee for the debts of the Lessee under the Finance Lease Agreement (the “**Guarantee**”); and
- (3) a total of 100% equity interest of a connected company, with the same legal representative of the Lessee, namely, Xiezhong Ruidong, will be and has been pledged by all shareholders of Xiezhong Ruidong to the Lessor, respectively (the “**Pledge**”).

## **FINANCIAL EFFECTS AND USE OF PROCEEDS**

According to IFRS 16, the transactions contemplated under the Finance Lease Agreement will be accounted for as a financing arrangement by the Group and therefore would not give rise to any gain or loss, or reduction in value of the Leased Assets. Pursuant to FAQ No. 052-2018 issued by the Stock Exchange, the transfer of the legal ownership of the Leased Assets, namely, the Disposal, constitutes a disposal of assets by the Lessee under the relevant Listing Rules.

Taking the transactions under the Finance Lease Agreement as a whole, the Transfer Consideration is in effect the principal amount of the Finance Lease to be advanced by the Lessor to the Lessee. The Transfer Consideration will be used for general working capital of the Lessee.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCE LEASE AGREEMENT**

The Directors are of the view that the Finance Lease Agreement provides the Group with financial resources, whilst the Group will continue to utilise the Leased Assets as required for its operations, for the development of the Group's automotive HVAC business. The Group can purchase the Leased Assets at a nominal consideration upon the expiry of the lease period pursuant to the terms of the Finance Lease Agreement. Since the Finance Lease Agreement was entered into under normal commercial terms, the Directors are of the view that the terms under the Finance Lease Agreement are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

## **INFORMATION OF THE PARTIES TO THE FINANCE LEASE AGREEMENT**

### **The Company and the Lessee**

The Company is an investment holding company which through its subsidiaries is principally engaged in the development, production and sales of automotive HVAC systems and a range of automotive HVAC components, provide technical testing and related services and operate 4S dealership stores in the PRC.

The Lessee, Xiezhong Nanjing, is a limited liability company established in the PRC, which is principally engaged in production and sales of automobile air conditioning and radiators.

### **Xiezhong Ruidong**

Xiezhong Ruidong is a limited liability company established in the PRC, which is owned as to 80% by Xiezhong Automobile and 20% by Mr. Chen.

The main businesses of Xiezhong Ruidong are sales of automobiles under the FAW-Volkswagen brand, sales of automobiles components and supplies, second-hand automobiles brokering, automobiles leasing, automobiles maintenance, automobiles decoration and detailing services, exhibition services, motor automobiles insurance agency services and automobiles business consultation services.

### **The Lessor**

Zhongguancun Leasing is a pioneer and a dedicated finance lease company in serving technology and new economy companies in China. As the sole finance lease platform under Zhongguancun Development Group Co., Ltd.\* (中關村發展集團股份有限公司), Zhongguancun Leasing offers efficient finance lease solutions and a variety of advisory services to satisfy technology and new economy companies' needs for financial services.

## LISTING RULES IMPLICATIONS

Pursuant to FAQ No. 052–2018 issued by the Stock Exchange, whilst the transactions contemplated under the Finance Lease Agreement will be accounted for as a financing arrangement by the Group according to IFRS 16, the transfer of the legal ownership of the Leased Assets, namely, the Disposal, constitutes a disposal of the Company under the Listing Rules.

As one or more of the applicable percentage ratio(s) (as defined under the Listing Rules) in respect of the transactions contemplated under the Finance Lease Agreement exceed(s) 5% but is/are less than 25%, the Finance Lease Agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company and is thus subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Since Mr. Chen is an executive Director and Xiezhong Ruidong is controlled by Mr. Chen, each of Mr. Chen and Xiezhong Ruidong is a connected person of the Company under the Listing Rules. The provision of the Guarantee and the Pledge by Mr. Chen and Xiezhong Ruidong (as the case may be) in favour of the Lessee under the Finance Lease Agreement constitutes a financial assistance provided by a connected person for the benefit of the Group. As such provision of the Guarantee and the Pledge is conducted on normal commercial terms or better and no security over the assets of the Group is required, the provision of the Guarantee and the Pledge under the Finance Lease Agreement is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following expression shall have the following meanings:

“Board”	the board of Directors
“Company”	Xiezhong International Holdings Limited (協眾國際控股有限公司), a company incorporated in the Cayman Islands with limited liability, whose ordinary shares are listed on the Main Board of the Stock Exchange (stock code: 3663)
“Director(s)”	the director(s) of the Company
“Disposal”	has the meaning as defined in the paragraph headed “Background” in this announcement

“Finance Lease”	has the meaning as defined in the paragraph headed “Background” in this announcement
“Finance Lease Agreement”	the finance lease agreement entered into between the Lessor and the Lessee on 22 September 2020
“Group”	the Company and its subsidiaries, from time to time
“Guarantee”	has the meaning as defined in the paragraph headed “Finance Lease Agreement — Guarantee” in this announcement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HVAC”	heating, ventilation and air-conditioning
“IFRS”	International Financial Reporting Standards issued by the International Accounting Standards Board
“Independent Third Party(ies)”	a party(ies) and, if applicable, the ultimate beneficial owner(s) of the party(ies) who is not or are not the Group’s connected person(s) within the meaning ascribed under the Listing Rules
“Leased Assets”	the production equipment of automobile air conditioning system located in Jiangsu Province, the PRC, with an unaudited net book value of approximately RMB57,952,718 as at 30 June 2020 as extracted from the management accounts of the Lessee under the Finance Lease Agreement
“Lessee”	Xiezhong Nanjing
“Lessor”	Zhongguancun Leasing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chen”	Mr. Chen Cunyou, the chairman of the Board and an executive Director
“Pledge”	has the meaning as defined in the paragraph headed “Finance Lease Agreement — Guarantee” in this announcement

“PRC” or “China”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transfer Consideration”	RMB45,000,000, the consideration to be paid by the Lessor to the Lessee for the transfer of the ownership of the Leased Assets from the Lessee to the Lessor under the Finance Lease Agreement
“VAT”	value-added tax
“Xiezhong Automobile”	Jiangsu Xiezhong Automobile (Group) Company Limited* (江蘇協眾汽車集團有限公司), a limited liability company established in the PRC, which is owned as to 50% by Mr. Chen, 30% by Mr. Chen Hao, the son of Mr. Chen, and 20% by Ms. Ni Xianglian, the spouse of Mr. Chen as at the date of this announcement
“Xiezhong Nanjing”	Nanjing Xiezhong Auto-Airconditioner (Group) Ltd.* (南京協眾汽車空調集團有限公司), a limited liability company established in the PRC, which is principally engaged in production and sales of automobile air conditioning and radiators, and an indirect wholly-owned subsidiary of the Company
“Xiezhong Ruidong”	Nanjing Xiezhong Ruidong Automobile Co., Ltd.* (南京協眾瑞東汽車有限公司), a limited liability company established in the PRC, which is owned as to 80% by Xiezhong Automobile and 20% by Mr. Chen as at the date of this announcement



“Zhongguancun Leasing”

Zhongguancun Science-Tech Leasing Co., Ltd. (中關村科技租賃股份有限公司), a joint stock company established in the PRC with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange (stock code: 1601)

By order of the Board  
**Xiezhong International Holdings Limited**  
**Chen Cunyou**  
*Chairman*

Hong Kong, 28 September 2020

*As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Chen Cunyou, Mr. Ge Hongbing, Ms. Chen Xiaoting and Mr. Shen Jun; one non-executive Director, namely Mr. Guo Zhenjun; and three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Cheung Man Sang and Mr. Zhang Shulin.*

\* *for identification purpose only*