Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the annual report (the "**2019 Annual Report**") of Xiezhong International Holdings Limited (the "**Company**", together with its subsidiaries as the "**Group**") for the year ended 31 December 2019 ("**FY2019**"). Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the 2019 Annual Report.

The board (the "**Board**") of directors (the "**Directors**") of the Company would like to provide additional information in respect of the 2019 Annual Report.

FURTHER INFORMATION IN RELATION TO THE LOSS ON FAIR VALUE CHANGES OF FINANCIAL INSTRUMENTS

As set out in the paragraph headed "Management Discussion and Analysis — Financial review — Loss on fair value changes of financial instruments" in the 2019 Annual Report, the Group recorded a RMB64.2 million loss on fair value changes of financial instruments measured at fair value through profit and loss (the "**Financial Instruments Loss**") during FY2019, which was mainly resulted from the change in fair value of the promissory notes issued, convertible bonds issued, commitment to issue convertible bonds and put option held by the Company (the "**Financial Instruments**").

According to the valuer (the "**Valuer**") of the valuations of the Financial Instruments as at 31 December 2018 and 31 December 2019 (the "**Valuations**"), the fair value changes of financial instruments are determined based on the fair value of the Financial Instruments as at the respective valuation dates, and that the loss on fair value changes are mainly due to the difference between the closing price of the shares of the Company as at the respective valuation dates, which was HK$1.41 per share on 31 December 2018 and HK$1.90 per share on 31 December 2019. For the convertible bonds, as the conversion price is the higher of HK$1.50 per conversion share or the average closing price of the shares of the Company as quoted on The Stock Exchange of Hong Kong Limited for the ten days preceding the date of the issue of the convertible bonds (subject to adjustments) (for further details of which, please refer to the circular of the Company dated 11 December 2018), the higher share price as at 31 December 2019 has in turn caused a greater liability for the Company, and hence the relevant loss on fair value changes of financial instruments.

The Valuer has adopted the same valuation basis for the Valuations as at 31 December 2018 and 31 December 2019, except that the variables and the expectations by the management of the Group on the performance guarantee under the convertible bonds were different as at different valuation dates.

FURTHER INFORMATION IN RELATION TO THE IMPAIRMENT LOSS OF GOODWILL

As set out in the paragraph headed "Management Discussion and Analysis — Financial review — Other net (loss)/income — III. Impairment loss of goodwill" in the 2019 Annual Report, an impairment loss of goodwill of RMB45.4 million was recognised during FY2019 (the "**Impairment Loss**").

Background and reasons for the Impairment Loss

As disclosed in the 2019 Annual Report, the Impairment Loss was solely related to the Group's HVAC business.

In 2019, the cool-down in the China automobile industry has led to a more competitive environment for the automotive HVAC systems manufacturers, resulting in further reductions of profitability for such manufacturers. Accordingly, as one of the automotive HVAC systems manufacturers, in FY2019, the revenue and profit of the HVAC business of the Company decreased due to the decrease in demand from automobile manufacturers.

Taking into consideration the factors and circumstances surrounding the industry, and the actual performance of the Company as discussed above and after performing the relevant impairment assessment on the HVAC business, the Impairment Loss was recognised during FY2019.

Valuation on the goodwill in relation to the Impairment Loss

The management of the Group has conducted an internal valuation on the goodwill of the Group for FY2019 based on a value-in-use calculation (the "**Internal Valuation**"). The Internal Valuation uses cash flow projection based on the financial budget prepared by the management of the Group covering a five-year period. Cash flows beyond the five-year period are projected using an estimated weighted average growth rate of 3%, which has been based on the current year-on-year inflation rate in China.

The cash flow projection used in the Internal Valuation has been prepared based on expected future growth rates in revenue of the HVAC business of the Group in the Mainland China, which has been determined based on (i) the future growth rates of the major customers of the Group; (ii) the expected expansion in production capacity of the Group as a result of the expected commencement of operation of the Wuhan plant (the "**Wuhan Plant**") operated by Wuhan Xiezhong Air-Conditioning Co., Ltd.* (武漢協眾汽車空調有限公司), an indirectly wholly-owned subsidiary of the Company, by 2020, coupled with the supply agreements entered into with and purchase plans received from the Group's customers; (iii) the market analyses and information of the China automobile industry in future years; and (iv) the current year-on-year inflation rate in China. The gross profit margin for the HVAC business of the Group in Mainland China is estimated based on the adjusted gross profit margin of FY2019, which has excluded the one-off impacts of (i) the change of estimated useful lives of moulds and development costs; and (ii) write-down of inventories.

The net profit margin for the HVAC business of the Group in Mainland China is expected to increase during the 10 years ending 31 December 2029 due to (i) the expected increase in gross profit margin; (ii) the relatively fixed and lower distribution cost and general and administrative expenses of the Wuhan Plant as a result of cost sharing with other subsidiaries of the Group; and (iii) the cost saving plans devised by the management of the Group.

The pre-tax discount rate has been determined by the management to be at 14% after taking into account the weighted average cost of capital of comparable companies in the automotive electronic components industry, including companies whose shares are listed on the stock exchanges in the People's Republic of China, South Korea, Taiwan and the United States.

The Board considered that the basis for determining the assumptions/inputs of the cash flow projection used in the Internal Valuation is fair and reasonable.

Comparison of inputs used in the internal valuations for FY2019 and the year ended 31 December 2018 ("FY2018")

The five-year financial budget prepared by the management of the Group used in the Internal Valuation of FY2019 is based on the actual results of the Group of FY2019, which shrank by approximately 5% in terms of reportable segment revenue of the HVAC business of the Group as compared to FY2018. The differences in valuation inputs for the valuation performed in FY2018 (the "**FY2018 Valuation**") and valuation performed in FY2019 (the "**FY2019 Valuation**") are as follows:

(1) the expected compound annual growth rate of revenue of the Group for the next five financial years in the FY2019 Valuation dropped by one percentage point from the FY2018 Valuation, which was a result of the drop in revenue of the Group attributable to the HVAC business for the year ended 31 December 2019, in particular the drop in revenue from major customers of the Group and the unfavourable market trend in the China automobile industry, being offset by an expected rebound of the automobile sales in China during the six years ending 31 December 2025 ("**FY2025**") based on the Analysis Report on the Risks of the Automobile Parts Industry issued by Deloitte China in August 2019;

(2) the expected average gross profit margin of the Group for the next five financial years in the FY2019 Valuation dropped by one percentage point from the FY2018 Valuation, due to the intensified competition in HVAC industry mentioned earlier; and

(3) the pre-tax discount rate for the FY2019 Valuation increased by one percentage point as compared to the FY2018 Valuation, where the management of the Group has taken into account the weighted average cost of capital of comparable companies, as stated above, in the automotive electronic components industry in the year 2019 for the FY2019 pre-tax discount rate.

The Board considered the above changes in the expected compound annual growth rate of revenue, the expected average gross profit margin of the Group and the pre-tax discount rate appropriate, fair and reasonable.

The above supplemental information does not affect other information contained in the 2019 Annual Report.

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

Hong Kong, 8 October 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 two independent non-executive Directors, namely Mr. Cheung Man Sang and Mr. Zhang Shulin.

* *for identification purpose only*