兴 达

XINGDA INTERNATIONAL HOLDINGS LIMITED
興達國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1899)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Reference is made to the announcement of the Xingda International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 15 April 2021 in relation to the annual results for the year ended 31 December 2020 (the "**2020 Annual Results Announcement**") and the annual report of the Company for the year ended 31 December 2020 (the "**2020 Annual Report**"). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2020 Annual Report.

In addition to the information provided in the 2020 Annual Results Announcement and the 2020 Annual Report in relation to, among other things, (i) certain adjustments in the consolidated financial statements of prior years (the "**Prior Year Adjustments**"), details of which are disclosed in note 3.1 to the consolidated financial statements as set out in the 2020 Annual Report; and (ii) share-based payment of Jiangsu Xingda (the "**Share-based Payments**"), details of which are disclosed in note 34 to the consolidated financial statements as set out in the 2020 Annual Report, the board of directors of the Company (the "**Board**") would like to provide further information in relation to the Prior Year Adjustments and Share-based Payments.

PRIOR YEAR ADJUSTMENTS

As disclosed in note 3.1 to the consolidated financial statements as set out in the 2020 Annual Report, the Prior Year Adjustments are to adjust (i) recognition of revenue from contracts with customers in proper accounting period; and (ii) accrual of goods transportation expenses in proper accounting period (collectively, the "**Misstatements**").

Overseas sales of the Group has been increasing steadily in recent years. In the past, most of the Group's overseas sales orders carried incoterms "FOB" (free-on-board), "CIF" (costs, insurance and freight) and "C& F" (costs and freight) where the control of the goods passed to the buyers on board of the ship at the delivery port, and the Company recognised overseas sales when goods were despatched from the warehouse which was close to the delivery time based on the terms of FOB, CIF and C& F, and recorded transportation expenses in accordance with the invoices received. Although there have been increasing overseas sales orders carrying incoterms "DAP" (delivered at place of destination), "DPU" (delivered at place unloaded) or similar terms, the finance department, for operational convenience, has recorded such sales on the same basis as "FOB", "CIF" and "C& F as mentioned above (the "**Inappropriate Treatment**").

It is considered that the cut-off adjustment for revenue was minimal (representing about 0.01% of the total revenue of the Group for the year ended 31 December 2019 ("**FY2019**")). Also, the differences among the sales contracts with various incoterms are insignificant with regard to key business terms such as credit periods and settlement of trade receivables. There was neither any significant extension of settlement of trade receivables nor any material credit loss noted in relation to sales transactions with different incoterms. There should not be any material impact on the balance sheet for a particular year (e.g. total current assets) although the figures under each line item would be different (inventories vs. trade receivables). The finance department of the Group has not taken into account of any accumulative effect on the balance sheet arising from the treatment. The matter has not been considered a material issue and was not brought to the attention of the audit committee of the Company or the Board at that time.

In the course of performing financial related preparation work in relation to the Proposed Spin-off (as defined in the announcement of the Company dated 20 November 2020) and considering that the overseas business was expected to grow further in the coming years, the Group took the opportunity to conduct extensive checks on overseas sales transactions and did matching of timing of revenue recognition against various orders (the "**Extensive Checks**").

After the Extensive Checks and having taken into account the Prior Year Adjustments made for FY2019, the Board considers that:

(a) the adjustments made to the consolidated statement of profit or loss and other comprehensive income would not be considered as material (the adjustment on net profit amounted to approximately RMB4.1 million, representing approximately 0.05% of the total equity prior to adjustments); and

(b) the adjustments made to the balance sheet items, for the purpose of addressing and accounting for the accumulative impact for the previous years would be considered as material (in particular the adjustment made to the equity as at 31 December 2019 amounted to approximately RMB132.3 million, representing approximately 1.7% of the total equity prior to adjustments),

and the Prior Year Adjustments shall be made.

Further work had been carried out by the finance department of the Group to confirm if any adjustments were required and any figures were to be adjusted. These adjustments include (i) adjustment in relation to the cut-off point on revenue recognition, which is to recognize revenue on sales of goods in accordance with the goods delivery terms which reflects the point in time when control of the goods is transferred to the customers; and (ii) adjustment to amend the accrued goods transportation expenses, which is to accrue goods delivery expenses in the appropriate accounting periods. These adjustments have corresponding impact on revenue, cost of sales, distribution and selling expenses, income tax expenses, and balance sheet items such as inventories, trade, bills and other receivables, trade, bills and other payables and tax liabilities, etc.

The audit procedures performed by the Company's auditor in relation to recognition of revenue from contracts with customers and accrual of transportation expenses in proper accounting period include, but are not limited to, understanding relevant business processes and accounting policies adopted by the Group, obtaining sales contracts, sales orders and transportation contracts, on a sample basis, to understand the key terms, obtaining the Prior Year Adjustments prepared by the management of the Company, testing the accuracy and completeness of the Prior Year Adjustments provided by the Company, examining logistics information, bills of lading and other documents, and reviewing disclosures of the Prior Year Adjustments in the consolidated financial statements.

Regarding the audit in the previous years, given that the differences among the sales contracts with various incoterms and the financial impact for recording transportation expenses according to invoices received as a result of the Inappropriate Treatment are not material to the Group for a particular year, the auditor of the Company was provided with the accounting information and schedules prepared on the same basis for performing the required audit procedures.

The audit committee of the Company has discussed with the management to understand the background leading to the Prior Year Adjustments and the work performed to derive the Prior Year Adjustments. It has also discussed with the auditor of the Company and understood that the auditor of the Company had performed proper audit procedures and was able to issue an unmodified auditor's report for the consolidated financial statements of the Company for the year ended 31 December 2020 ("**FY20 Consolidated Financial Statements**"). Based on the above and given that the Prior Year Adjustments form part of the FY20 Consolidated Financial Statements, the audit committee of the Company is satisfied that the FY20 Consolidated Financial Statements do not contain any material misstatements.

Based on the Extensive Checks and the management's subsequent assessment, and assuming that the issue was identified when preparing the consolidated financial statements of the Group for the year ended 31 December 2018 ("**FY2018**"), the Board consider that:

(a) the adjustments made to the consolidated statement of profit or loss and other comprehensive income would not be considered as material; and

(b) the adjustments made to the balance sheet items, for the purpose of addressing and accounting for the accumulative impact for the previous years would be considered as material.

However, based on the Extensive Checks conducted for FY2018 to FY2020, the Board considers that the Prior Year Adjustments presented in the FY20 Consolidated Financial Statements have already addressed the impact on the consolidated profit or loss for each of FY2019 and FY2020 as well as the accumulated impact on the balance sheet items for all previous years in accordance with International Accounting Standard 8 – *Accounting Polices, Changes in Accounting Estimates and Errors* ("**IAS 8**") issued by the International Accounting Standards Board and it was noted that the auditor was able to issue an unmodified auditor's report for the FY20 Consolidated Financial Statements.

In order to prevent similar events from occurring in the future, the Group will enhance its internal control policies and strengthen the implementation of its internal control system on transactions including, but not limited to, strengthening the coordination and reporting arrangements among the various functions of the Group, including the sales department, the finance department and the Board. The Company has engaged an independent professional internal control consultant to assist in assessing, reviewing and improving the Company's internal control on accounting system. The review is expected to be completed by the end of August 2021. In addition, to ensure that the Company's consolidated financial statements are accurate and to prevent similar events from recurrence, the Group has taken or will take the following remedial measures, rectification and follow up actions:

(i) the Group is in the course of upgrading the bookkeeping and finance system in order to better record and ascertain the timing for overseas sale revenue recognition;

(ii) the Group has issued a guidance to finance personnel on the timing for recognition of revenue and related expenses under different delivery terms of relevant orders. In particular, the Group urges its overseas customers and logistics partner companies to submit proof of deliveries regularly to cross check the timing for delivery and sales recognition;

(iii) the Company will invite its auditor to deliver seminar to all finance personnel to explain major accounting principles and how the terms of sales orders would impact on the consolidated financial statements of the Company; and

(iv) for preparation of future consolidated financial statements, the Company will specifically require finance managers to conduct regular checks and engage external auditor to perform specific procedures, on sample basis, on timing for sales recognition against the delivery terms of various sales orders, and the chief finance officer shall report to the Board on the relevant findings.

SHARE-BASED PAYMENTS

Reference is made to note 34 to the consolidated financial statements as set out in the 2020 Annual Report on Share-based Payments in relation to Jiangsu Xingda. The Board would like to provide additional information about the Share-based Payments as follows:

Relevant Jiangsu Xingda Share Transfers

On 26 August 2020, the three LLPs entered into share transfer agreements with Jiangsu Xinghongda for the purchase of the Relevant Jiangsu Xingda Shares at approximately RMB1.67 per share, for a total consideration of RMB250,000,000 ("**Relevant Jiangsu Xingda Share Transfers**"). Other than being a substantial shareholder at the subsidiary level of the Company, Jiangsu Xinghongda and its ultimate beneficial owner (Ge Hong) are independent third parties of the Group.

The consideration of RMB1.67 per share was determined upon arm's length negotiations between the general partners of the three LLPs and Jiangsu Xinghongda, with reference to the then market price of the shares of the Company, after considering that Jiangsu Xingda is the key subsidiary of the Group, contributing a very significant portion of the total revenue of the Group.

泰州金澤企業管理合夥企業(有限合夥)(Taizhou Jinze Corporate Management Partnership Corporation (Limited Partnership)*) ("**Partnership A**") is a PRC limited partnership established by Liu Jinlan, Zhang Yuxiao and other individuals, with Liu Jinlan as the general partner. 泰州業祥企業管理合夥企業(有限合夥)(Taizhou Yexiang Corporate Management Partnership Corporation (Limited Partnership)*) ("**Partnership B**") is a PRC limited partnership established by Liu Xiang, Hang Youming and certain employees of Jiangsu Xingda, with Liu Xiang as the general partner. The general partner of, and 泰州永業企業管理合夥企業(有限合夥)(Taizhou Yongye Corporate Management Partnership Corporation (Limited Partnership)*) ("**Partnership C**") is a PRC limited partnership established by Tao Jinxiang, certain employees of Jiangsu Xingda and another individual, with Tao Jinxiang as the general partner. Liu Jinlan, Liu Xiang and Tao Jinxiang are directors of the Company. Partnership A, Partnership B and Partnership C were funded by the Participants in proportion to their respective capital contributions to the relevant partnership. Partnership A, Partnership B and Partnership C were set up for the purpose of purchasing a total of 150,000,000 shares of Jiangsu Xingda.

The counterparty, Jiangsu Xinghongda, being a substantial shareholder of Jiangsu Xingda, is a connected person at subsidiary level under Chapter 14A of the Listing Rules.

To the best information and knowledge of the Directors:

(a) when the management of the Company came to know that Jiangsu Xinghongda would like to sell part of its equity interests in Jiangsu Xingda, they informed certain of the Company's employees at managerial grades and a supplier of the relevant investment opportunity to acquire such equity interests in Jiangsu Xingda; such of the directors, employees and supplier of Jiangsu Xingda who were interested to purchase the Relevant Jiangsu Xingda Shares informally agreed that the transactions were to be entered into by limited partnerships to be set up by some of the limited partners first (for administrative convenience) and their interests in the Relevant Jiangsu Xingda Shares were to be reflected through their subscription of equity interests in the relevant limited partnerships;

(b) the Company was aware of the set-up of the three LLPs and the entering into of the transfer agreements between the three LLPs; and

(c) Jiangsu Xinghongda was aware that the potential purchasers involve directors and employees of Jiangsu Xingda.

Since (i) the share transfer arrangements were transactions between Jiangsu Xinghongda as the transferor and the three LLPs (i.e. Partnership A, Partnership B and Partnership C) as the transferees, and the Group was not a party to the transactions and has not contributed to or financed the relevant purchases of the Relevant Jiangsu Xingda Shares or the capital of the LLPs; and (ii) the share-based payment was accounted for in accordance with IFRS2 rather than a transaction undertaken by the Group, the relevant share transfer arrangements did not constitute a transaction under Chapter 14 or Chapter 14A of the Listing Rules.

Details of the ultimate beneficial owners of each of Partnership A, Partnership B and Partnership C are set out below:

Partnership A

Name	**Capital contribution** *(in RMB'000)*	**Approximate shareholding percentage**
劉錦蘭 (Liu Jinlan)	11,000	10.0%
興化市興達綉園酒店有限公司 (Xinghua City Xingda Xiuyuan Hotel Company Limited*) *(Note 1)*	25,000	22.73%
張宇曉 (Zhang Yuxiao)	4,000	3.64%
上海方齊文化傳播有限公司 (Shanghai Fangqi Culture Broadcast Company Limited*) *(Note 2)*	10,000	9.09%
劉濤 (Liu Tao) *(Note 3)*	15,000	13.63%
劉宇東 (Liu Yudong) *(Note 3)*	15,000	13.63%
劉浩 (Liu Hao) *(Note 4)*	5,000	4.55%
Other 16 limited partners	25,000	22.73%
Total:	110,000	100.00%

Notes:

1. 興化市興達綉園酒店有限公司 (Xinghua City Xingda Xiuyuan Hotel Company Limited*) is a company indirectly controlled by Mr. Liu Jinlan and Zhang Yuxiao.

2. 上海方齊文化傳播有限公司 (Shanghai Fangqi Culture Broadcast Company Limited*) is a company under common control of a major supplier of the Group.

3. Liu Tao and Liu Yudong are sons of Liu Jinlan.

4. Liu Hao is a son of Liu Xiang.

Partnership B

Name	**Capital contribution** *(in RMB'000)*	**Approximate shareholding percentage**
劉祥 (Liu Xiang)	20,980	26.22%
徐方流 (Xu Fangliu)	5,350	6.69%
沈愛國 (Shen Aiguo)	7,250	9.06%
王進 (Wang Jin)	4,820	6.03%
杭友明 (Hang Youming)	15,000	18.75%
Other 35 limited partners	26,600	33.25%
Total:	80,000	100.00%

Partnership C

Name	**Capital contribution** *(in RMB'000)*	**Approximate shareholding percentage**
陶進祥 (Tao Jinxiang)	11,000	18.333%
潘祥玉 (Pan Xiangyu)	4,000	6.667%
王金和 (Wang Jinhe)	5,400	9.000%
陶慧 (Tao Hui) *(Note 1)*	2,000	3.333%
杭衛明 (Hang Weiming)	1,500	2.500%
王庭良 (Wang Tingliang)	800	1.333%
Other 41 limited partners	35,300	58.834%
Total:	60,000	100.00%

Notes:

1. Tao Hui is a daughter of Tao Jinxiang.

Set out below are the shareholding tables of Jiangsu Xingda before and after the relevant share transfers by Jiangsu Xinghongda to the three LLPs:

Shareholding table of Jiangsu Xingda before the relevant share transfers by Jiangsu Xinghongda to the three LLPs

Name of shareholder	Capital contribution *(in RMB)*	Approximate shareholding percentage *(%)*
Faith Maple	1,263,088,409.5	73.44%
江蘇興宏達實業有限公司 (Jiangsu Xinghongda Industrial Ltd.*) ("**Jiangsu Xinghongda**")	334,323,922.5	19.44%
江蘇興達鋼簾線股份有限公司工會 (Labour Union of Jiangsu Xingda Steel Tyre Cord Co. Ltd.*) (the "**Union**")	122,585,439	7.12%
Mr. Zhang Yuxiao	1,114.5	0.000065%
興化市興戴貿工農業總公司 (Xinghua Xingdai Commercial and Industrial Company*) ("**Xingdai**")	1,114.5	0.000065%
Total:	1,720,000,000	100.0%

Shareholding table of Jiangsu Xingda after the relevant share transfers by Jiangsu Xinghongda to the three LLPs

Name of shareholder	Capital contribution *(in RMB)*	Approximate shareholding percentage *(%)*
Faith Maple	1,263,088,409.5	73.44%
Jiangsu Xinghongda	184,323,922.5	10.72%
The Union	122,585,439	7.12%
Mr. Zhang Yuxiao	1,114.5	0.000065%
Xingdai	1,114.5	0.000065%
Partnership A	66,000,000	3.84%
Partnership B	48,000,000	2.79%
Partnership C	36,000,000	2.09%
Total:	1,720,000,000	100.0%

Relevant Jiangsu Xingda Shares deemed to be granted

The grant of approximately 101.8 million shares (details of which are disclosed in note 34 to the consolidated financial statements as set out in the 2020 Annual Report) were shares of Jiangsu Xingda and not a grant of share award under the Share Award Scheme of the Company. Such Relevant Jiangsu Xingda Shares were deemed to be granted on the date that the Participants became limited partners in the three LLPs, which is 20 September 2020 (i.e. the date on which the limited partnership agreements were entered into among the limited partners (the Participants)). Completion for the relevant share transfer agreements entered on 26 August 2020 took place on 30 September 2020.

101,840,880 shares out of the Relevant Jiangsu Xingda Shares were deemed to be granted to the directors and a supplier of the Group, with details set out below:

Name	**Number of shares of Jiangsu Xingda deemed to be granted** *('000)*
Liu Jinlan (director of the Company)	6,600
Liu Xiang (director of the Company)	12,590
Tao Jinxiang (director of the Company)	6,600
Zhang Yuxiao (director of the Company)	2,402
Wang Jinhe (director of a subsidiary of the Company)	3,240
Pan Xiangyu (director of a subsidiary of the Company)	2,400
Hang Youming (director of a subsidiary of the Company)	9,000
Hang Weiming (director of a subsidiary of the Company)	900
Xu Fangliu (director of a subsidiary of the Company)	3,211
Wang Tingliang (director of a subsidiary of the Company)	480
Other employees of the Group	48,418
上海方齊文化傳播有限公司 (a company under common control of 泰州市華達貿易有限公司, a supplier of the Group)	6,000
Total:	101,841

The relevant supplier is one of the major suppliers of Jiangsu Xingda, supplying steel rods to Jiangsu Xingda. To the best information and knowledge of the Directors, the supplier and 上海方齊文化傳播有限公司 are under common control by the same family. It is believed that indirect investment by the relevant supplier in Jiangsu Xingda would strengthen the strategic relationship with its major supplier and thereby stabilising the supply of key resources for its business.

In respect of the Relevant Jiangsu Xingda Shares deemed to be granted to the supplier, the Directors are of the opinion that the fair value of the goods or services received by the Group cannot be reliably determined as those shares were deemed to be granted for the purpose of promoting and maintaining the long-term business relationship with the supplier.

The indirect investment in the Relevant Jiangsu Xingda Shares by the directors and other subscribers of the three LLPs were their own investments which were not funded by the Group. The 101,840,880 Relevant Jiangsu Xingda Shares were deemed to be granted by the Group as a result of the accounting treatment as the relevant shares were transferred by an existing shareholder of the Group in accordance with IFRS2. To the best information and knowledge of the Directors, Jiangsu Xinghongda is a minority shareholder at subsidiary level of the Group who would like to realise its investment for cash rather than transferring the shares to the three LLPs for the purpose of awarding the directors and employees of the Group. Although most of the subscribers of the three LLPs are directors and employees of the Group, there are subscribers other than directors and employees who participated in the subscription as they had funding to contribute to the LLPs for the investment. There has been no grant of rights under an incentive scheme adopted by the Group. Hence, the deemed grant of share awards shall not constitute a transaction under Chapter 14 or Chapter 14A of the Listing Rules.

Reference is made to paragraph 3A of the IFRS2, the contents of which are extracted as follows:

"A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services. Paragraph 2 also applies to an entity that

(a) receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction, or

(b) has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services

unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them."

Taking into account the Relevant Jiangsu Xingda Shares were transferred by a shareholder of any group entity (Jiangsu Xinghongda is a shareholder of a subsidiary of the Company), the Group has been receiving services/goods from the directors, employees and the supplier, the fair value of the shares in Jiangsu Xingda in the share subscription transactions (details of which are disclosed in the announcement of the Company dated 16 December 2020 and note to the consolidated financial statements as set out in the 2020 Annual Report)("**Share Subscription Transactions**") was higher than the share price under the Relevant Jiangsu Xingda Share Transfers (such that the Jiangsu Xingda Related Participants were deemed to gain benefits from the Relevant Jiangsu Xingda Share Transfers), it is considered that share-based payment should be accounted for.

The amount of share-based payment expenses of RMB270.848 million was calculated by the number of Relevant Jiangsu Xingda Shares deemed to be granted to the directors, employees and a supplier of Jiangsu Xingda of 101.841 million multiplied by the difference between the fair value per share of the Relevant Jiangsu Xingda Shares and the transaction price per share in the Relevant Jiangsu Xingda Share Transfers (i.e. RMB1.67 per share), with immaterial differences unadjusted. The fair value per share of the Relevant Jiangsu Xingda Shares was determined by reference to the Share Subscription Transactions (i.e. RMB3.60 per share) with adjustment of, among others, dividend declared by Jiangsu Xingda in November 2020 (i.e. RMB0.72 per share).

By Order of the Board of
Xingda International Holdings Limited
Liu Jinlan
Chairman of the Board

Shanghai, the PRC, 23 June 2021

As at the date of this announcement, the executive Directors are Mr. LIU Jinlan, Mr. LIU Xiang, Mr. TAO Jinxiang and Mr. ZHANG Yuxiao and the independent non-executive Directors are Mr. KOO Fook Sun, Louis, Mr. William John SHARP and Ms. XU Chunhua.

* *For identification purpose only*