CHINA AUTOMOBILE NEW RETAIL (HOLDINGS) LIMITED
中國汽車新零售（控股）有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 526)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULT FOR THE YEAR ENDED 31 MARCH 2021 IMPAIRMENTS LOSSES AND IMPAIRMENTS ON GOODWILL

Reference is made to the announcement of China Automobile New Retail (Holdings) Limited (the "**Company**", together with its subsidiaries, the "**Group**") on 6 September 2021 regarding its annual result for the year ended 31 March 2021 (the "**Announcement**").

As disclosed in the Announcement, the Company recognized impairment losses totaling RMB2,263 million during the year ended 31 March 2021, among which, RMB1,571 million was attributable to impairment losses on trade and other receivables, RMB296 million was attributable to expected credit losses for financial guarantees issued, and RMB396 million was contributable to impairment loss on goodwill in relation to the car-sale segment, which was due to the PRC regulation, outbreak of COVID-19 and the trade friction between the governments of the PRC and the United States. The Company would like to provide further information in respect of the impairment losses and impairments on goodwill.

Reasons for the circumstances leading to the impairment losses

During the year ended 31 March 2021, due to the adverse business environment encountered by the market participants of parallel imported car business in the PRC as a result of implementation of China VI vehicle emission standards ("**China VI**"), the COVID-19 outbreak, and the intensified tension caused by the ongoing trade issues between the PRC and the United States, the credit risk of receivables from and guarantee granted to the Group's customers in the parallel imported car business increased significantly. As a result, additional provision for expected credit loss is provided for the year ended 31 March 2021. As disclosed in the Announcement, the impairment loss on trade and other receivables of RMB1,571 million was related to the negative assessed result on the advances to customers of car trading platform and prepayment for purchase of parallel imported cars but ordered subsequently cancelled. Expected credit loss of RMB296 million was based on the assessment result by professional valuer on the financial guarantees issued for customers of car trading platform. Impairment loss on goodwill of RMB396 million was based on the valuation result of professional valuer on the goodwill of the car sale subsidiary in Tianjin. Overall speaking, the impairment losses and expected credit loss are the reflection of the poor market environment of parallel imported car business in the PRC and the negative impact on all market participants.

Expected credit loss of trade receivables, other receivables and financial guarantees (non -automotive business segment)

Knight Frank Petty Limited (the "**Valuer**") was engaged to perform the impairment analysis and the Valuer is an independent and experienced valuation specialist. The Valuer assessed the extent of expected credit loss of trade receivables, other receivables and financial guarantees (non-automotive business segment) for the Company on the valuation date of 31 March 2021. As of the valuation date of 31 March 2021, the outstanding balances of trade receivables, other receivables and financial guarantees (non-automotive business segment) are RMB428,738,713, RMB17,780,214 and RMB29,500,000, respectively. The expected credit loss of the foregoing as of the same date as calculated upon valuation are RMB5,212,454, RMB53,735 and RMB290,443, respectively. With respect to the valuation and calculation of expected credit loss of trade receivables, other receivables and financial guarantees (non-automotive business segment), the Valuer adopted an expected credit loss model for such computation.

Expected credit loss of trade receivables and other receivables (automotive business segment)

The Company assessed the extent of expected credit loss of trade receivables and other receivables (automotive business segment) on the valuation date of 31 March 2021. As of the valuation date of 31 March 2021, the outstanding balances of trade receivables and other receivables (automotive business segment) were RMB109,603,763 and RMB1,831,053,526, respectively. The expected credit loss of the foregoing as of the same date are RMB65,991,808 and RMB1,514,932,163, respectively.

Due to the negative impact of the China VI, the COVID-19 outbreak and the intensified tension caused by the ongoing trade issues between the United States and China, the credit risk of receivables from and guarantee granted to lenders of the Group's customers in the parallel imported car business increase significantly. An expected loss rate had been applied to those balance that were not yet past due. For those outstanding balance that are more than 90 days past due, full provision is made. The carrying value of trade receivables of automotive segment of RMB43,611,954 as of 31 March 2021 had been subsequently settled.

With respect to the calculation of expected credit loss of other receivables (automotive business segment), the Company assessed the net credit risk exposure of other receivables, which were based on: 1) the assessed value (valued by external valuer engaged by the Company) of collateral provided by the debtors; 2) whether the collateral were registered as pledged (for collateral that cannot be registered as pledged, the Company applied a 50% haircut to the assessed value); and 3) whether the Company had outstanding payables to the debtors of these other receivables. For other receivables that were not covered by the assessed value of collateral or outstanding liabilities, the Company assessed the recoverability to be remote, thus fully recognised expected credit loss.

Expected credit loss of financial guarantees (automotive business segment)

The Valuer assessed the extent of expected credit loss of financial guarantees (automotive business segment) of the Company on the valuation date of 31 March 2021. As of the valuation date of 31 March 2021, the outstanding balance of financial guarantees (automotive business segment) was RMB2,622,500,000. The expected credit loss as of the same date as calculated upon valuation is RMB336,892,773. With respect to the valuation and calculation of expected credit loss of financial guarantees (automotive business segment), the Valuer adopted an expected credit loss model for such computation.

Subsequently, subject to the availability of relevant securities for loan contracts under the financial guarantees, the loss given default of loan contracts under financial guarantees would be adjusted based on the loss given default in the financial research conducted relating to "Basel Ill Finalization" by Industrial and Commercial Bank of China. The Valuer could then calculate the expected credit loss rate of the financial guarantees based on the default rate and loss given default above. Lastly, the Valuer would apply forward-looking economic adjustment to expected credit loss rate in order to arrive at the expected credit loss rate for ultimate calculation and calculate the expected credit loss of the automotive business segment of financial guarantees.

Goodwill impairment of the car-sale segment

The Valuer assessed the value in use of Mega Convention Group Limited and its subsidiary (car-sale segment) on the valuation dates, 30 September 2020 and 31 March 2021, for the Company. The value in use of Mega Convention Group Limited and its subsidiary ("**Mega Convention Group**" or the "**Target Group**") as of 30 September 2020 and 31 March 2021 was RMB596,000,000 and RMB1,883,053, respectively. The goodwill impairment on the valuation dates, 30 September 2020 and 31 March 2021 are RMB165,153,000 and RMB231,311,000, respectively.

In the valuation, the Valuer adopted the income approach in computation of the value in use of the Target Group on each valuation date. The principle underlying this approach was that the value in use can be measured by the present worth of the economic benefits to be received over the asset life. The income approach estimates the future economic benefits and discounts these benefits to their present value using an appropriate discount rate for all risks associated with realizing those benefits.

The Valuer's valuation was based on following assumptions. Firstly, there would be no material change in the existing political, taxation, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Group. Secondly, the inflation and interest rate and the prevailing interest rate on the valuation dates would not be subject to material changes. Thirdly, competent management, key personnel and technical staff will be maintained to support the ongoing operation and development of the Target Group. Fourthly, the information relating to the Target Group, including but not limited to historical financial information, financial forecast and other information related to the Target Group, has been prepared on a reasonable basis after due and careful consideration by the management of the Company and it true and accurate. Save for the foregoing, the Valuer's valuation was also based on following assumptions:

1. the assumption of working capital on the valuation dates of 30 September 2020 and 31 March 2021;

2. weighted average cost of capital ("**WACC**") on the valuation date of 30 September 2020; and

   WACC is calculated as 13.85%, including cost of debt after tax (3.49%) and cost of equity (22.31%). In light of the Target Group's operation in PRC, numerous basic assumptions used are PRC-related, for examples, risk-free interest rate, long-term cost of debt and market risk premium. The Valuer's WACC calculation involves risk-free interest rate of 3.10%, long-term cost of debt of 4.65% and market risk premium of 6.26%.

3. WACC on the valuation date of 31 March 2021.

WACC is calculated as 13.98%, including cost of debt after tax (3.49%) and cost of equity (20.68%). In light of the Target Group's operation in PRC, numerous basic assumptions used are PRC-related, for examples, risk-free interest rate, long-term cost of debt and market risk premium. The Valuer's WACC calculation involves risk-free interest rate of 3.19%, long-term cost of debt of 4.65% and market risk premium of 5.40%.

Expected credit loss of trade receivables, other receivables and financial guarantees non-automotive business segment)

Compared with the expected credit loss of trade receivables, other receivables and financial guarantees (non-automotive business segment) of the Company in the year of 31 March 2020, there was an increase in the foregoing as of the valuation date of 31 March 2021 but they were largely consistent without material volatile changes. This was largely because all trade receivables and other receivables were not overdue and there are neither occurrences of any extension, overdue or proceeding litigations with respect to the financial guarantees (non-automotive business segment).

Expected credit loss of financial guarantees (automotive business segment)

Compared with the expected credit loss of financial guarantees (automotive business segment) in the year of 31 March 2020, the foregoing as of the valuation date of 31 March 2021 increased mainly because the loans under financial guarantees changed from normal guaranteed loan in the year of 31 March 2020 to guaranteed loan under statuses of extension, overdue or on default and in proceeding litigations. With respect to the financial guarantees under statuses of extension, overdue or on default and in proceeding litigations, since the credit rating thereof is lowered substantially ranging from B- to CCC-, the relevant default rate and expected credit loss rate increase in reflection of such risk level. Therefore, the expected credit loss as calculated basing on the increased expected credit loss rate also increases thereby.

Goodwill impairment of car-sale segment

	31 March 2020	**30 September 2020**	**31 March 2021**
Value in use	RMB733,164,000	RMB596,000,000	RMB1,883,053
Discount rate	11.22%	13.85%	13.98%
Long-term growth rate	3.00%	3.00%	2.00%

The value in use of Mega Convention Group as of the valuation date of 30 September 2020 decreased mainly because of the decrease in forecasted terminal value. The forecasted terminal value decreased from RMB567,669,000 on 31 March 2020 to RMB342,595,000 on 30 September 2020. The decrease in the forecasted terminal value was mainly because of the decrease in terminal income forecast from RMB2,197,188,000 on 31 March 2020 to RMB1,871,601,000 on 30 September 2020. The substantial decrease in income forecast was mainly attributable to the substantial decrease in income of the half year between 1 April 2020 and 30 September 2020. The income of the half year between 1 April 2020 and 30 September 2020, RMB39,867,000, decreased over 90% as compared with the income of the year between 1 April 2019 and 31 March 2020, RMB1,126,341,000, mainly because of the implementation of "Limits and measurement methods for emissions from light-duty vehicles (CHINA 6)" in mainland China, outbreak of COVID-19 and trade tensions between China and United States governments. The discount rate increased from 11.22% as of 31 March 2020 to 13.85% as of 30 September 2020 mainly due to the increase in risk-free interest rate, market risk premium and the decrease in the median of debt-to-equity ratio of comparable companies.

The value in use of the Target Group on the valuation date of 31 March 2021 decreased mainly because of the decrease in forecasted terminal value. The forecasted terminal value decreased from RMB342,595,000 as of 30 September 2020 to RMB28,192,000 as of 31 March 2021. The decrease in the forecasted terminal value is mainly because of the decrease in terminal income forecast from RMB1,871,601,000 as of 30 September 2020 to RMB355,709,000 as of 31 March 2021. The substantial decrease in income forecast is mainly attributable to the substantial decrease in income of the year between 1 April 2020 and 31 March 2021. The income in the year between 1 April 2020 and 31 March 2021, RMB136,663,000, decreased over 85% as compared with that, RMB1,126,341,000, in the year between 1 April 2019 and 31 March 2020 mainly because of the implementation of "Limits and measurement methods for emissions from light-duty vehicles (CHINA 6)" in mainland China, outbreak of COVID-19 and trade tensions between China and United States governments. The discount rate increased from 13.85% as of 30 September 2020 to 13.98% as of 31 March 2021 mainly due to the decrease in the median of debt-to-equity ratio of comparable companies. The long-term growth rate decreases mainly because of the reference to the forecast of decrease in the inflation rate of China in the future by International Monetary Fund.

Details of the assessments of impairment of goodwill at the time of the acquisitions of the imported car trading platform business in July 2019 and the imported car trading business in February 2017

The Board was aware of China VI at the relevant time of the acquisition of the imported car trading platform business and the imported car trading business ("**Acquisitions**"). At the relevant time in 2017 and 2019, the Board understood that China VI would be implemented. However, the Board considered that China VI was one of the laws, rules and regulations which the business need or will need to comply with in the PRC and China VI itself does not and would not cause material adverse impact to the subject of the Acquisitions.

The Board considered that implementation of China VI by the PRC government was constructive and it may affect the vehicle manufacturers in the PRC (as their design need to meet the new standard) and the vehicle owners (as the price for the second hand vehicles may drop significantly and their vehicles meeting China VI). As long as the Group has the ability to source and import vehicles meeting China VI, the Board did not consider that China VI would have material adverse impact on the business of the Imported Cars Segments.

However, in 2020, after the implementation of the policy relating to China VI, there was an outbreak of COVID-19, and together with the pandemic restrictive measures implemented in the PRC during pandemic and the increase of the costs for the international logistics transportation, the parallel imported vehicle business was seriously affected. Also, upon the implementation of the policy, different problems were noted, a phenomenon which is not uncommon when well-intended policies are implemented for the benefit of society. For example, China VI is a unique standard adopted by the PRC, vehicle manufacturers in Europe and the United States had not conducted any certifications specifically for China VI. Also, when the vehicle importers in the PRC requested certifications called "OBD certification" from overseas vehicle manufacturers in order to meet China VI, it was realised that it was difficult because the "OBD Certification" involved some core technology which overseas vehicle manufacturers were reluctant to disclose and provide such OBD Certification. It became a general obstacle for the vehicle importers in the PRC to meet China VI for a certain period of time and the policy was subsequently adjusted from time to time in order to enhance the development of the industry.

The Board engaged professional parties to conduct PRC legal due diligence for the Acquisitions. Also, the Board considered the market position of the Target Group under the Acquisition, the trend of the car sales in the PRC market and favourable government policies on car sales and parallel imported cars industry, the Board was of the view the Acquisition was in the interest of the Company and its shareholders as a whole. The Board also appointed independent financial advisers to advise the Independent Board Committee and the shareholders of the Company.

The above additional information does not affect other information contained in the Announcement and save for those disclosed above, all other information contained in the Announcement remains unchanged.

By Order of the Board
CHINA AUTOMOBILE NEW RETAIL (HOLDINGS) LIMITED
Cheng Jianhe
Executive Director

Hong Kong, 13 October 2022

As at the date of this announcement, the Board comprises Mr Li Lixin, Mr Cheng Jianhe and Ms Jin Yaxue being executive Directors, Mr He Chengying, Mr Shin Yick Fabian and Mr Kwong Kwan Tong being independent non-executive Directors.