TRANS CHINA AUTOMOTIVE
耀骅汽车

(Company Registration No.: 306871)
(Incorporated in the Cayman Islands)

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**RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS")**

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The Board of Directors (the "**Board**") of Trans-China Automotive Holdings Limited ("**TCA**" or the "**Company**", and together with its subsidiaries, the "**Group**") refers to questions raised from SIAS in relation to the Company's annual report for financial year ended 31 December 2024 ("**FY2024**").

The Board wishes to inform that the Company has not received any questions from shareholders in relation to the Company's annual report.

The Company wishes to provide its response to the questions raised by SIAS below:

**<u>Question 1</u>**
**As shown in the financial highlights, the group has continued to record gross losses in its automobile sales segment.**

GROSS PROFIT / (LOSS) (RMB'MILLION)

| | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 |
|---|---|---|---|---|---|
| Sales of Automobiles | 107.5 | 153.5 | (0.7) | (122.7) | (201.5) |
| After-Sales Services | 208.6 | 218.1 | 194.6 | 177.3 | 176.9 |
| Agent Commission | – | – | 3.2 | 6.1 | 4.6 |
| Total | 316.1 | 371.6 | 197.1 | 60.7 | (20.0) |

GROSS PROFIT MARGIN (%)

| | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 |
|---|---|---|---|---|---|
| Sales of Automobiles | 2.9 | 3.9 | (0.0) | (4.2) | (9.8) |
| After-Sales Services | 40.9 | 40.1 | 38.5 | 35.1 | 35.5 |
| Overall | 7.5 | 8.2 | 4.9 | 1.8 | (0.8) |

**(Source: company annual report)**

**The group retails BMW, McLaren, and Genesis vehicles, with BMW as the primary revenue driver. However, the segment's gross profit turned negative in FY2022, and gross losses have since widened significantly:**

- **FY2023: RMB(122.7) million, gross loss margin of 4.2%**
- **FY2024: RMB(201.5) million, gross loss margin of 9.8%**

**Revenue declined from RMB3.46 billion (FY2023) to RMB2.55 billion (FY2024), while net loss widened to RMB(103.4) million (FY2023: RMB(91.6) million). Management attributed part of the decline to BMW's loss of market share in China, citing the brand's underperformance amid rising adoption of local new energy vehicles (NEVs).**

**(i) How structurally onerous are the OEM agreements in terms of pricing flexibility, volume commitments, and rebate structures? Have the additional vendor rebates been significant, and what other forms of support can the OEM manufacturers provide to the group?**

**<u>Response</u>**

The confidentiality clauses in the OEM agreements prevent us from providing figures in the discussions below.

The vendor rebates from our key OEM partners are critical to our business. These rebates are earned when we reach the sales and purchase targets stipulated in the annual sales agreement.

If market conditions worsen drastically from when the sales and purchase volume targets are set, typically the OEM will grant additional vendor rebates which are quite significant. Our net loss without the additional vendor rebates would be materially worse. The timing and quantum of extra vendor rebates are typically uncertain at any given point in a sales period, and it is incumbent on the Company as well as other OEM retailers in the network to provide feedback and information to the relevant OEMs.

Please see below for other forms of support provided by the OEM partners.

**(ii) In light of the recurring gross losses in this segment, what specific actions has management taken to renegotiate vendor terms, potentially incorporating more risk-sharing arrangements?**

**<u>Response</u>**

In this intensely competitive market environment, we have actively engaged with our OEM partners. This includes daily sales information sharing, coordination of marketing activities and local area discussions.

Some of the specific actions that have resulted from these discussions include:

a. Availability of OEM-backed auto finance products that offer zero down and low interest or and/zero interest payments;
b. Availability of OEM-backed wholesale finance lines;
c. Withdrawing sales volume to allow price recovery;
d. Allowances to reduce head count requirements;
e. Sales target adjustments;
f. Waiver of certain costs and fees; and
g. Subsidy to relocate and reduce dealership sizes to save operating costs.

**Management has stated that among all the foreign luxury brands in China, BMW suffered the highest decline.**

**(iii) What are the primary reasons behind BMW's sharp decline in China vehicle sales? Was it due to delayed new energy model launches, strategic misalignment with local consumer trends, or broader brand perception issues?**

**<u>Response</u>**

BMW sold 715,000 cars in 2024 representing a decrease of 13.4% compared with sales volume in 2023. We believe the sales decline is due to:

a. Weak consumer sentiment - The economy in China remains sluggish. The years long housing slump as well as crackdown on monopolistic behaviour in the technology sector have hampered the economy leading to poor consumer sentiment. Furthermore, after three years of COVID-19 restrictions, tourism spending has increased which has taken away consumption on luxury products. This has made consumers reluctant to spend on luxury products including expensive automobiles and impacted all luxury car brands.

b. Intensely competitive car market - Over the last 4-5 years many homegrown NEV companies have entered the market. Many of these companies are offering their products at a steep discount in order to build volume quickly to reach breakeven. Also, in this weak economy, the many local governments have offered vehicle purchase subsidies for entry to mid segment cars. This has made EVs even more attractive. The availability of low-cost alternatives has taken away market share from existing market participants.

c. Withdraw from price war - As a result of the challenging market conditions in the first half of 2024, BMW strategically withheld sales volume in July and August to allow for price recovery. This helped improve gross margins but also contributed to sales decline in 2024 compared with 2023.

Source: https://k.sina.com.cn/article_1747383115_6826f34b0400202k2.html
https://www.bain.com/insights/2024-china-luxury-goods-market/

**Question 2**

**In the letter to shareholders, the chairman and CEO express management's confidence in BMW's electrification strategy, particularly in the upcoming Neue Klasse all-electric models.**

**(i) Has the board conducted scenario planning for a future where Chinese-made NEVs become the aspirational choice among premium consumers? If so, how would that shift impact the group's current business model, brand portfolio, and OEM alignment?**

**Response**

The Chinese car market has averaged around 20 million units in sales annually. As is typical for luxury goods, the absolute volume of luxury vehicle sales is relatively small in the context of the overall market. Luxury vehicles, defined as over RMB300,000 per unit represented no more than 13% of the total market. For FY2024, 2.99 million luxury vehicles sold with total car market is RMB22.89 million. Even at its height of record sales volume reached in 2023, the BMW's China sales represented only 3-4% of total car sales in China. The bulk of the market is dominated by entry to mid-segment. These are the segments that has been most impacted by the NEV disruption. Many of the entry to mid-segments have seen significant volume declines.

The current car market is being negatively impacted by a sluggish economy and disruption from EV manufacturers. The economy is being weighed by slow property market and poor consumer sentiment. At the same time, the EV brands that have emerged in the last 4-5 years are disrupting the market with innovative products at very low prices. Many of the EV brands are willing to incur losses to build market share. However, offering steep discounts to build market share without prospects of a return isn't sustainable. One study estimates that only 19 of the 100 plus NEV will reach profitability by the end of the decade. In the meantime, many of NEV brands will likely exit the market. This uncertainty can significantly influence a car shopper's purchase decision as a brand with questionable viability will negatively affect after-sales service quality.

China is the single largest market for BMW. The brand is well-known for its prestige and attractively designed cars. Last year BMW announced an additional RMB20 billion investment in a new production facility located in northern China for its electric vehicles. BMW is also working with local technology companies to introduce Chinese smart car tech in its products. As such, we believe this brand is committed to the Chinese market and will withstand the on-going market disruption. For the Group's other brands, those remain more niche and cater to specific customers. Therefore, we will closely monitor and review them in the short to medium term.

In this uneven and intensely competitive market, our overall objective is to safeguard the Company. That means curtail all significant capital projects and ensure sufficient liquidity for normal operations. At the same time, identify and implement cost savings strategy.

Source: http://www.cpcaauto.com/newslist.php?types=csjd&id=3724
https://www.yoojia.com/dongtai/5059884002?from_src=biji_tab
https://guba.sina.com.cn/?s=thread&tid=1110&bid=25796
https://www.scmp.com/economy/global-economy/article/3303645/china-bmw-bemoans-eu-tariffs-seeks-compromise-policy-changes

**(ii) Has the board explored strategic partnerships with emerging Chinese NEV brands with premium positioning?**

**Response**

We are always on the lookout for new opportunities. Our key selection criteria for starting a new brand include:

- Upfront investment – This refers to the upfront investment it takes to build a showroom, inventory costs if any, and running costs.

- Location – This refers to the locations offered and whether we already have staff and operations in target areas.

- Brand and attractiveness of the business – This includes the attractiveness of the brand and product as well as future product line. The financial strength of the OEM and dealership density are also important selection criteria.

- Business model – This is the anticipated gross margins for vehicles and aftersales services and how sustainable these gross margins are. Also, whether the business model requires upfront inventory purchase and then sell at a gross margin or operates an agency model which pays a delivery fee.

We have applied the selection criteria to the opportunities that have been presented to us over the last few years, and to-date, there are no compelling partnerships.

Each brand has showroom requirements in terms of size, location and décor. A new NEV dealership requires significant upfront investments. In the current intensely competitive market it is not clear which brands can offer a satisfactory return. Most NEV dealerships including some of the well-known brands reported losses or are marginally profitable. For example, Neta by Hozon, which regularly appeared on the monthly top 10 sales volume rankings three years ago, is now in the process of restructuring. These factors and evidences of brand failures make us very cautious in starting new brands.

**(iii) Has the group modelled the competitive implications and viability of its current business model under a scenario where Chinese NEV brands continue to expand capacity but are forced into aggressive domestic discounting due to factors such as global recession or trade barriers restricting exports?**

**Response**

We are experiencing the negative effects of a sluggish economy and disruption of NEVs. However, we firmly believe that there will always be a place for luxury car brands like BMW. This has held true across history and product categories. BMW will introduce new products in its Neue Klasse, a new line of vehicles in 2026. Additionally, we also note that there are BMW dealership operators that have exited the industry. This is beneficial for the remaining market participants because the intra-brand competition intensity is reduced.

In terms of trade war for restricting exports, we note that over 95% of the cars currently being delivered in China is manufactured domestically. The remaining 5% is from around the world including the United States. In 2018, when the US – China trade war started we also experienced some disruption but BMW quickly rerouted the supply of cars into China from tariff free countries.

Given that the dealerships purposed built and there are limited opportunities to expand into other brands economically, we believe the best course of action in the immediate term is to further reduce costs by freezing new hires, reducing headcount and closing locations with limited profit potential. In the meantime, if the economy recovers and general propensity to spend on luxury product improves, we may stand to benefit.

Source: https://www.bmwgroup.com/en/news/general/2025/production-network-of-the-future.html
https://k.sina.com.cn/article_5073157482_12e623d6a00101eml4.html
https://baijiahao.baidu.com/s?id=1828794492032325742&wfr=spider&for=pc

**<u>Question 3</u>**

**The "going concern basis of accounting" is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.**

**As noted in the KAM, as at 31 December 2024, the group was in a net current liabilities position of RMB(159.4) million and reported a net loss of RMB(103.4) million for the year.**

**Several financial line items underscore the group's liquidity and capital situation:**

- **Inventories have declined RMB323.9 million to RMB177.6 million.**
- **Trade and other receivables remain high at RMB246.9 million (FY2023: RMB251.4 million)**
- **Loan due to shareholder amounting to RMB22.3 million (FY2023: RMB28.8 million)**
- **Cash and cash equivalents decreased from RMB75.0 million to RMB33.8 million**
- **Finance costs remained substantial at RMB37.0 million (FY2023: RMB44.4 million)**

**The board stated in the annual report (page 103) that there is no material uncertainty over the group's ability to continue as a going concern over the next 12 months.**

**(i) Operating cash flow before changes in working capital was negative for FY2024. What operational or strategic levers has management identified to turn the business cash flow positive at the operating level—e.g., pricing adjustments, cost restructuring, working capital optimisation? How much headroom exists before further shareholder/external support is needed?**

**<u>Response</u>**

Operating cash flow before changes in working capital was negative primarily as a result of the operating losses. As explained in our earnings result announcements the main reason for the operating losses was the due to large negative gross losses on our new car sales. The gross loss on new cars were driven by market conditions and OEM policies. To stem losses, we are focusing on:

- Reduce costs across the organization which include hiring freeze, headcount and salary reductions. Compensation related expenses represent 40-50% of our expenses;

- Review and freeze of all discretionary expenses. This includes holding discussions with our landlords in all our locations to seek for rental agreement renegotiations and concessions. Facilities rental costs represent another significant portion of our expenses;

- Review and closure of locations and brands with limited profit potential; and

- Enhance work in the Group's other profit centres such as aftersales, pre-owned car and finance & insurance divisions to increase turnover and/or gross margins.

In terms of further balance sheet support, we note that while the reported net current liabilities is RMB159.4 million, the Group's adjusted net working capital working deficit is RMB43.2 million. The large difference between reported and adjusted net working deficit is due to certain liabilities which are not settled with cash:

| | |
|---|---|
| **Reported net current liabilities** | **RMB159.4 million** |
| - Deferred income which represents customer deposit on orders converted to car sales | RMB90.3 million |
| - Deferred income which represent OEM subsidies amortized over 5 years | RMB17.1 million |
| - Other payables and accruals which represents long outstanding payables not written off | RMB8.8 million |
| **Adjusted net working deficit** | **RMB43.2 million** |

Our business model where customers provide upfront deposits allows us to operate with a deficit working capital.

**(ii) Has the board reviewed the need to further strengthen the balance sheet given that it has leveraged on shareholder loan for liquidity?**

**<u>Response</u>**

The management provide a rolling 24-month cash flow projection for the Board's review periodically. The last cashflow presentation was provided on 21 February 2025. The cashflow forecast includes scenarios where the market deteriorates, remain the same or improve modestly. Based on the latest cashflow presentation and in all scenarios, the cash flow is sufficient to ensure normal operations given continued access to banking facilities.

**BY ORDER OF THE BOARD**

Francis Tjia

Executive Chairman and Chief Executive Officer

17 April 2025

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This announcement has been reviewed by the Company's sponsor, RHT Capital Pte. Ltd. (the "**Sponsor**"). It has not been examined or approved by Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made, or reports contained in this document.

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