

TRANS-CHINA AUTOMOTIVE HOLDINGS LIMITED

(Company Registration No.: 306871)

(Incorporated in the Cayman Islands)

**RESPONSE TO QUERIES FROM SHAREHOLDERS AND SECURITIES INVESTORS
ASSOCIATION (SINGAPORE) (“SIAS”) IN RELATION TO THE COMPANY’S ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (“FY2021”)**

The Board of Directors (“**Board**”) of Trans-China Automotive Holdings Limited (the “**Company**” or “**TCA**” and together with its subsidiaries, the “**Group**”) refers to the questions raised from shareholders and SIAS in relation to the Company’s annual report for FY2021. The Board would like to thank shareholders who submitted their questions in advance of our annual general meeting to be convened by way of electronic means on 26 April 2022 at 2.00 p.m.

The Company wishes to provide its responses to the questions raised by shareholders below:

Question 1

In view of more major cities in China being shut down due to the pandemic, please elaborate what impact will it have on TCA, if one or more of the cities that it operates in faces shut downs of several weeks.

Response

We experienced city wide lockdowns in 2020 when all our stores were closed for 4-6 weeks. During this time, business operations fully ceased. Apart from the obvious lack of cash inflow, the largest financial concern at that time was arranging repayment of maturing inventory financing lines without corresponding cash inflow from car sales and after-sales. Additionally, there were some fixed expenses which could not be avoided, such as monthly payroll and rent payments for our facilities.

In March 2022, our Shenzhen BMW dealership and our Shenzhen McLaren dealership were closed for one week. A single week of closure has limited impact and business operations returned to 70-80% of pre-lock down levels within a matter of days following the re-opening, and gradually resume to normal thereafter.

Since the experience in 2020, we have made a few changes. First, we finance a larger proportion of our inventory with internal cash and financing provided by BMW Finance, which provides more flexible repayment arrangements. Second, given consecutive years of good profitability and proceeds from the IPO since then, our balance sheet is much stronger to withstand COVID related disruptions.

Question 2

Are the new Genesis dealership show room and BMW service center in Shenzhen on schedule to open in June 2022?

Response

Unfortunately, there are some delays for the opening of the new Genesis Guangzhou dealership. We had hoped to ‘soft-open’ the store this week, and we had scheduled the grand opening for the final week of May. However, the lockdown in Shanghai has delayed the delivery of some important items, most notably furniture for the showroom, certain office equipment, and importantly also some of the official signage for the building. Other than these items, the construction is mostly complete, and we have also hired more than 90% of the initial staffing that is required for starting operations. The new staff has mostly completed their training as well, but even on this front, a few training days had to be postponed. Finally, we are also still waiting for Genesis cars to be delivered for display in the showroom and for the demo cars.

At the moment, we do not have a revised opening date yet as we are awaiting further information on the re-opening of Shanghai. We are confident that the new dealership will be up and running as soon as the logistics disruptions alleviate in Shanghai.

The design and construction plans for our new BMW Service Center in the Pingshan district of Shenzhen requires input and review from BMW China, which is based in Beijing. However, some of the design meetings have been delayed due to travel restrictions between Beijing and Shenzhen. We are mitigating this by doing more meetings remotely, but the opening of the service center likely be in August instead of June/July as originally planned.

The delays are not expected to have a material impact on our financial year ending 31 December 2022 ("FY2022") financial results.

Question 3

When you sell a new car, does it come with a ""x-year free servicing"" package? If it does, what does TCA generate profits from providing after-sales servicing and maintenance?

Response

All new BMWs sold by TCA come with a three-year warranty from the manufacturer which protects the consumers from defects. This means that a defective product will be repaired for free during this period. The manufacturer relies on its dealership network to perform warranty repairs for which dealerships are paid by the manufacturer.

The warranty does not cover servicing and maintenance related to wear and tear, or accidents. These are paid by the car buyer or insurance company.

Question 4

It seems that TCA qualifies for an SGX Mainboard listing. Do you plan to transfer the listing from Catalist to Mainboard in order to attract a wider range of institutional investors?

Response

We believe that currently, the SGX Catalist board is more favorable for a company of our size and valuation. There is a lower free float requirement and more flexibility when it comes to M&A. However, as we grow we will certainly consider migrating to the SGX mainboard if it is in the interests of shareholders

Question 5

Please refer to page 110 of the Annual Report about "Revenue". For RMB3,972.176m "Sales of automobiles", how many % was derived from Electric Vehicles? Have the Board and Management planned on expanding its distribution of EVs (e.g. Tesla)?

Response

We generated RMB312 million or 8% of our total new car sales from New Energy Vehicles which includes pure electric cars and plug-in hybrids.

Our Electric Vehicle ("EV") strategy is to partner with manufacturing partners that have a balanced EV and Internal Combustion Engine ("ICE") strategy. This is to mitigate the risk of being overly dependent on either type of drivetrain technology. EVs are still relatively new and therefore the consumer uptake and product rollout are still subject to uncertainty. We note that EVs are subsidized in many of our markets and the impact of phasing out these subsidies is unknown.

Both of our main volume brands, BMW and Genesis, have a balanced EV and ICE product strategy. We currently offer several fully electric BMW models, and BMW is also well on its way to have an EV variant of its most popular ICE models by 2025. For Genesis, we currently offer the fully electric GV60 SUV, and more products will follow.

Question 6

For RMB3,972.176m "Sales of automobiles", how many % was derived from sales of premium automobiles (i.e. RMB300K – RMB1m each)? And how many % was derived from sales of ultra-premium automobiles (i.e. > RMB1m each)?

Response

We do not follow the exact pricing brackets as outlined in your question, but rather split it between brands we sell, although it must be noted that BMW has several models which cost more than RMB 1,000,000. The split in 2021 between revenue from BMW and from McLaren/Lotus was 96% and 4% respectively.

Question 7

For RMB3,972.176m “Sales of automobiles”, how many % was derived from sales of pre-owned automobiles?

Response

We conduct pre-owned car business in two ways. We broker trade-ins from customer's used cars. There we generated RMB8.5 million in commissions in FY2021. For some cars that are in good conditions, we buy them as used car inventory and resell them. This is a smaller proportion of our revenue mix at just 0.3% (RMB11.8 million) of total revenue in FY2021.

Question 8

Please refer to page 110 of the Annual Report about “Other income”. “Pre-owned automobiles and fleet sale commissions” have increased by 8.3 times from RMB1.039m in 2020 to RMB8.579m in 2021. What kind of growth have the Board and Management planned to achieve in the next 2-3 years?

Response

The customer acceptance and availability of quality pre-owned cars is increasing. As such we believe that our used car business will continue to grow. While it is a challenge to repeat a 8.3x growth, we expect pre-owned car to represent a meaningful part of our business in the coming 2-3 years.

Question 9

Please refer to page 110 of the Annual Report about “Other income”. What is the nature of “Handling and commission fee income”? How did “Handling and commission fee income” manage to increase by 41.8% from RMB48.541m in 2020 to RMB68.839m in 2021?

Response

The handling and commission fee is comprised of arrangement fees for assisting customers with car plate registration and referral fees from our financial partners. We receive an introduction fee for referring our new car customers to banks for car financing packages.

We had a large increase from the year before as a result of increased volume of cars sold and higher commission rates offered by banks.

Question 10

On page 12 of the Annual Report, it was stated that “The strong demand for premium cars and enhanced inventory management during the year boosted gross profit margin for this (sales of automobiles) segment to 3.9% from 2.9% in FY2020. Inventory turnover also improved to 25.5 days in FY2021 from 31.0 days in FY2020”. However, on page 103 of the Annual Report about “Inventories”, inventories of automobiles have actually increased by 36.8% from RMB206.647m in 2020 to RMB282.732m in 2021. It seems that inventory turnover may decline subsequently. Is the Board and Management confident of maintaining the GPM of at least 3.9%?

Response

The inventory turnover is calculated based on average inventory held throughout the year. Therefore, despite higher ending inventory, the inventory turn is higher as a result of lower average inventory held and higher revenue in FY2021.

In our experience gross margins for new car sales range from 1.0% to 5.0% and have usually been between 2.5-3.5%. Last year's gross margin was higher than the usual range.

Question 11

Please refer to page 102 of the Annual Report about “Trade and other receivables”. Although “Sales of automobiles” increased by 7.2% from RMB3,703.958m in 2020 to RMB3,972.176m in 2021 (and its segmental GPM increased by 1.0% from 2.9% in 2020 to 3.9% in 2021), why “Vendor rebates receivables” actually declined by 6.1% (instead of an increase) from RMB134.634m in 2020 to RMB126.471m in 2021?

Response

Vendor rebates are comprised of many smaller rebate programs that change annually and some incentives aren’t tied to car sales volume. There were more uncollected vendor rebates at the end of FY2020 including facility renovation rebate incentives than at the end FY2021.

Question 12

Please refer to page 103 of the Annual Report about “Prepayments and deposits”, particularly “Prepayments to manufacturers”. Although “Vendor rebates receivables” has declined by 6.1% from RMB134.634m in 2020 to RMB126.471m in 2021, may I ask the Audit Committee why “Prepayments to manufacturers” has increased by 12.0% from RMB327.777m in 2020 to RMB367.145m in 2021? Had we been paying the automobile manufacturers and/or their vendors too quickly?

Response

We order our inventory throughout the year on a weekly schedule. As part of an order, we have to place a deposit with our manufacturer to secure the inventory order and/or production slots. Near year-end we placed a large inventory order for deliveries in December and January. The actual car inventory arrived after December and therefore there was a large prepayment to our manufacturing partner. The inventory arrived in January for in time for deliveries before Chinese New Year.

Please also note that under the dealership agreements that there is no right of offset of the manufacturer deposit and vendor rebates.

Question 13

Please refer to page 103 of the Annual Report about “Prepayments and deposits”. “Security deposits for other borrowings from manufacturers” has declined by 65.9% from RMB63.504m in 2020 to RMB21.648m in 2021. May I ask the Audit Committee what was the nature of such “other borrowings from manufacturers”?

Response

Other Borrowing relates to BMW Finance which is BMW’s financing arm that provides financing to dealerships to purchase inventory. This inventory financing is secured with a deposit. The security deposits ratio can vary depending on factors such as utilization of the line, business contribution to BMW Finance, and overall credit profile of the company.

Question 14

Please refer to page 106 of the Annual Report about “Trade and bills payable, accruals and other payables”. Why “Bill payables” increased by 28.1% from RMB330.645m in 2020 to RMB423.452m in 2021? What were their breakdowns for 2021?

Response

Bills payables are inventory credit facilities provided by commercial banks in China. Bills payable are opened typically for 2-3 months. Bills payable balances increased because of higher inventory balance at the end of the year and because bills payable balances had not matured yet.

Question 15

Please refer to page 104 of the Annual Report about “Pledged bank deposits and cash and cash equivalents”. It was stated that “Pledged bank deposits were pledged for bills payable granted by financial institutions to certain subsidiaries of the Group.” In fact, “Pledged bank deposits”

has increased by RMB159.189m from RMB149.537m in 2020 to RMB308.726m in 2021. May I ask the Audit Committee what were these “bills payable granted”?

Response

Pledged bank deposits are security deposits for bills payable. Typically, the initial deposit is 10% of the total line. Proceeds from sale of the inventory are deposited in a pledged deposit account and at maturity of a bills payable line, the pledged cash is used to repay the bills payable. At the end of FY2021, as a result of outstanding bills payable, the pledged deposit is higher compared with FY2020.

Question 16

Please refer to page 9 of the Annual Report about “Letter to shareholders”. In the 4th paragraph, it was stated that “In January 2022, just two months after our listing, we announced we had secured a new dealership for the Genesis brand. The new dealership will be located in Guangzhou and the construction of the facilities has already commenced.” In the 6th paragraph, it was also stated that “We are also excited to be adding another BMW facility in Shenzhen. Construction has commenced on a new BMW Service Centre in the district of Pingshan”. How will the capital expenditure trend be like over the next 2-3 years? How will they be funded?

Response

The capital expenditure budget is RMB17 million and RMB15 million for the Genesis Showroom and BMW Service Centre. We consider these as relatively small capital projects compared to building a full-fledged dealership facility (“4S” facility as they are called in China). Larger projects such as development or acquisition of a full-service dealership will be in the RMB60-150 million range. We are on the lookout for such opportunities.

We intend to fund our capital expenditures through a combination of funds from operations and bank loans. Due to the cyclical nature of the business, we will balance the growth while maintaining a strong balance sheet.

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

Question 1

For the financial year ended 31 December 2021, the group sold 6.5% more automobiles to reach 10,809 units for the year despite supply shortages.



(Source: Company annual report)

Revenue amounted to RMB4.52 billion while net profit was RMB124.0 million in FY2021. Sales in the first half of FY2021 was stronger as supply constraints deepened in the second half of the year due to the ongoing pandemic.

The group's gross profit from sale of automobiles jumped by 42.8% from RMB107.5 million to RMB153.5 million in FY2021. Gross profit margin was 3.9% for FY2021, up from 2.9% in FY2020. The improved profitability was attributed to the strong demand for premium cars and enhanced inventory management. Inventory turnover also improved to 25.5 days in FY2021 from 31.0 days in FY2020.

(i) Did management actively increase the selling prices knowing that demand exceeds supply? What plans does management have to further improve profit margins? How sustainable is the increased profit margin?

Response

The Chinese automotive retail market is competitive. In our markets, our customers have a choice of BMW dealerships to purchase from. TCA aims to stand out by competing on quality and service. Customer service is a core value to us. We have strict facilities management policies to ensure our customers receive a first class experience when they visit our stores. Customer care is also emphasized in our staff training and staff evaluations. We use an IT system to track our 50,000+ customers that have serviced or purchased a vehicle from us in the past. With this system, we can tailor our marketing message. For example, we have visibility over their car's service history and when the customer may be in the market for a new car. We are also very active with post-purchase engagements and hold events such as car owner maintenance workshops, drive tours through the country side and co-branded events like wine tastings. Our efforts have resulted in favourable word of mouth referrals and allowed our Group to earn above average profits in most markets we operate in.

Specifically on the vehicle gross margins - when we became aware of the possibility that we might face some supply disruptions, we started focusing on ensuring that our sales department would become more selective in offering discounts to customers on the cars we sell. This is a typical reaction for car dealerships, and similar strategies will also have been implemented by our competitors. Consequently, average discounts on BMWs narrowed during the 4th quarter of 2021, leading to somewhat higher gross margins. It should be noted that customer behaviour also changes when this happens, with a higher proportion of customers interested in how soon they can take delivery of a new vehicle rather than mainly focusing on obtaining the best price available in the city. In terms of sustainability of such a situation, it comes back to the original catalyst – supply and demand. At the moment, we believe that in the case of BMW, our supplies for 2022 are relatively secure and therefore we do not expect a significant reduction in forecast supply versus our own sales targets, and therefore it would be reasonable to expect an impact on gross margin on cars for 2022.

(ii) How does management maintain/improve the customers' level of satisfaction given the higher prices for customers?

Response

Customer satisfaction is something that we as well as our OEM partners pay a lot of attention to, and in fact customer satisfaction is regularly measured through various surveys. Customer satisfaction is driven by the overall experience of a customer when visiting one of our dealerships. Particularly in the premium and ultra-premium markets, price is just one part of the overall customer experience. Some important factors for customer satisfaction are (i) the quality of interaction with and professionalism of our Sales Consultants and Service Advisors; (ii) the condition of our facilities; (iii) the ability to provide solutions for our customers; and (iv) whether the prices we charge are fair and reasonable. We don't believe that lower discounts during the 4th quarter of 2021 have impacted customer satisfaction negatively.

(iii) What further improvement can be made to the group's inventory management given that inventory turnover days have improved to 25.5 days from 31 days?

Response

We fully recognize the financial benefits of reducing our inventory turnover days, but this needs to be balanced with being able to offer customers a wide range of cars that can be delivered to them in a reasonable period of time. Reducing inventory days to less than 3-4 weeks can have a negative impact on sales cadence as well as gross margins on cars due to the unavailability of certain models/colours/trim, etc, if there is a lack of choice.

Question 2

Since the acquisition of the BMW dealership in Foshan in 2009, the group's network of dealerships has expanded to 5 BMW locations (Foshan, Chongqing, Guangzhou, Shenzhen (Pingshan & Longgang)), 4 McLaren locations (Guangzhou, Wuhan, Shenzhen, Changsha) and 1 Genesis location (Guangzhou) (expected to commence operations mid-2022).



(Source: Company annual report)

(i) As an update to shareholders, what is the progress of the construction of the Guangzhou Genesis showroom given the recent wave of COVID-19 infection in China?

Response

Unfortunately, there are some delays for the opening of the new Genesis Guangzhou dealership. We had hoped to 'soft-open' the store this week, and we had scheduled the grand opening for the final week of May. However, the lockdown in Shanghai has delayed the delivery of some important items, most notably furniture for the showroom, certain office equipment, and importantly also some of the official signage for the building. Other than these items, the construction is mostly complete, and we have also hired more than 90% of the initial staffing that is required for starting operations. The new staff has mostly completed their training as well, but even on this front, a few training days had to be postponed. Finally, we are also still waiting for Genesis cars to be delivered for display in the showroom and for the demo cars.

At the moment, as the situation is evolving, we do not have a revised opening date yet as we are awaiting further information on the re-opening of Shanghai. We are confident that the new dealership will be up and running as soon as the logistics disruptions alleviate in Shanghai. However, we do not expect the delay in opening to have a material impact to our FY2022 financial results.

(ii) Can management provide shareholders with an update of the sentiments on the ground in the key cities in China, especially Guangzhou and Shenzhen? How are the lockdowns/restrictions affecting the group's operations?

Response

Consumer sentiment and propensity to consume has slowed relative to the final quarter of 2021. Showroom traffic is lower than in the 4th quarter of 2021, and customers are more cautious. This is true across all our locations in China, but it is a bit more pronounced in Guangdong province.

Our Shenzhen store experienced one week of formal lockdown, whereas our stores in Foshan and Guangzhou are subject to movement restrictions imposed on customers. The lockdown and movement restrictions have been for relatively short periods of time, and from that perspective ordinarily would not have significant negative impacts on our operations. However, there are Covid-related restrictions across all of China in many large urban areas and this is significantly affecting consumer sentiment and accordingly, in the near term, our business would also be affected by the pandemic control regulations.

(iii) How similar or dissimilar are the target markets for Genesis when compared to the customer base of BMW/McLaren?

(iv) How does management avoid/prevent cannibalisation of demand for BMW cars in Guangzhou when it launches Genesis in the market?

Response

The two brands compete in similar price segments, and from that perspective, there is always some overlap in the target customer which then leads to potential for cannibalization. However, we believe that adding the Genesis brand to our portfolio increases the overall potential market for the Group. For example, the target customers between the two brands are not entirely overlapping, and more importantly, TCA will be the sole Genesis dealer in Guangzhou whereas we are just one of thirteen BMW stores in Guangzhou. Ultimately it is up to us to achieve conquest sales from other brands for the benefit of our Genesis store in Guangzhou.

(v) With the delay of McLaren Arturas, how does it affect the group's allocation when the first batch of the McLaren supercar arrives in China (tentatively late in the third quarter of the year)?

Response

At the date of announcement, we still do not have a definitive date for the delivery schedule of the first batch of McLaren Arturas to be delivered to China. At the moment, we have several orders for the Artura, and typically these would be the first ones to be filled because we will have allocated all of our production slots for these customers. It is our focus right now to ensure that the customers who have ordered the cars are prioritized, and that we continue to add to the order book so that when the cars finally do arrive, the McLaren business will pick up.

(vi) What are the plans for the vacant land in Chongqing? What are the factors that would determine which dealership and when the group launches it?

Response

The vacant land owned by the Group in Chongqing (adjacent to our BMW store) is prime commercial land in a rapidly developing new district of Chongqing. It is just a few minutes' drive from the location where the new high-speed railway station is being constructed, and new residential developments within the area have been filling up rapidly. Therefore, the location is highly attractive for automotive dealerships, and premium brands in particular will have strong interest. From this perspective, we are in a position to make strong and attractive proposals to some of the OEMs that we would like to work with. The challenge for us is that we need to convince such OEMs that our location and proposal trumps proposals from other dealer groups, especially incumbent dealer partners that those OEMs already work with. We are actively pursuing this and will make the appropriate announcements when we have something concrete in place.

(vii) Would the group be looking to expand to Beijing and Shanghai or other cities, such as Tianjin, Suzhou and Hangzhou?

Response

In terms of geographic expansion, our priority is to focus on Guangdong province and the Greater Bay Area as well as Chongqing, Changsha, and Wuhan. In other words, cities where we already have existing operations. Beyond those locations, we definitely would not rule out attractive opportunities, but in our view, we think that our priority areas will suffice in presenting such opportunities.

Question 3

As noted in the corporate governance report, the company engaged RSM Risk Advisory Pte. Ltd. as internal auditors in the preparation for the listing.

While the audit and risk committee (“ARC”) and board are cognisant of the need to establish the internal audit function, the company has yet to appoint a suitable internal auditor and is currently looking to appoint the internal auditors to conduct and review the adequacy and effectiveness of the group’s internal controls on a regular basis in light of the size and complexity of the group’s operations. For the benefit of shareholders, can the ARC provide further information/update on the following?

(i) What are the reasons that the appointment of the internal auditor was delayed and not carried out during/before the IPO?

Response

We wish to clarify that RSM Risk Advisory Pte. Ltd. was appointed as internal auditors for the IPO. The Company is in the process of selecting an internal auditor post listing, which includes RSM Risk Advisory Pte. Ltd. (“RSM”) given that they have been our internal auditors for the listing. Our focus has been on ensuring that we meet all the expectations of our new shareholders as well as the regulatory requirements. Given the listing date was relatively late in the fiscal year, RSM’s work covered the most of FY2021. Nonetheless, the internal auditor will be appointed for FY2022.

(ii) What are the selection criteria for the internal auditor?

Response

We want to work with an IA who is familiar with the business and the operating environment in China. Additionally, the IA must also be experienced in meeting the requirements of our regulatory framework. Therefore, we are looking for an international firm that has resources on the ground in both China and Singapore.

(iii) What is the progress made by the ARC in shortlisting and selecting the internal auditors? When will the ARC be appointing the internal auditor?

Response

We have a candidate firm that we believe can meet all our requirements and expect to appoint them in due course. As well as the prerequisites of professionalism, knowledge and rigor, we also seek an internal auditor who is familiar with the business and the operating environment in China. We are cognisant that an internal audit will need to be conducted for FY2022.

By Order of the Board

Francis Tjia
Executive Chairman and Chief Executive Officer
20 April 2022

This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, RHT Capital Pte. Ltd. (the "**Sponsor**") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**").

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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