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Brilliance Auto

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BRILLIANCE CHINA AUTOMOTIVE HOLDINGS LIMITED

(華 晨 中 國 汽 車 控 股 有 限 公 司) *

(Incorporated in Bermuda with limited liability)

(Stock Code: 1114)

**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER, 2022**

Reference is made to the annual report of Brilliance China Automotive Holdings Limited (the “**Company**”) and its subsidiaries (together with the Company, the “**Group**”) for the year ended 31st December, 2022 (the “**2022 Annual Report**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the 2022 Annual Report.

In addition to the information provided in the 2022 Annual Report, the board of directors of the Company (the “**Board**”) would like to provide additional information regarding the disclosure with respect to the money lending business of the Group conducted through BBAFC, a directly and non-wholly owned subsidiary of the Company as below:

Business model of BBAFC

BBAFC was established in 2015, headquartered in Shanghai, China. It is an automotive finance company approved by the China Banking and Insurance Regulatory Commission (recently reformed and renamed as The National Administration of Financial Regulation) in China. Automotive finance companies refer to non-banking financial institutions that specializes in providing automotive financial services which can help customers to borrow money to purchase cars.

* *For identification purposes only*

BBAFC mainly engages in providing retail loans to customers to finance automobiles purchases and receive repayments with interest by instalments for up to 60 months. As a regulated financial company, prudent credit risk management is essential to BBAFC, which assesses customers' repayment abilities when providing loans. Stable refinancing with matched funding strategy is also crucial for the sustainable growth of BBAFC. BBAFC often provides loans to customers together with cooperation banks as a joint loan (so-called co-lending). Out of the total booked portfolio of RMB2,469 million for the year ended 31st December, 2022, RMB2,308 million was provided by BBAFC with its own financing and RMB161 million represents BBAFC's portion provided under co-lending arrangements. BBAFC generates interest income on the portion of the loans provided by BBAFC and receives service fees from cooperation banks on the portion of the loans provided by co-lending banks. The service fee is determined through commercial negotiation with each co-lending bank based on the difference between the interest rate offered by BBAFC to its customers and the interest rate offered by each co-lending bank to BBAFC.

To adapt to the changing market environment and the rapid growth of the new energy vehicle (“NEV”) market in China over the past two years, from 2021, BBAFC has shifted its business focus from financing the purchase of traditional vehicles with internal combustion engine (“ICE”) to the NEV segment, where the demand and cooperation opportunities of which has been increasing. NEV-related business accounted for 93.1% of BBAFC's new businesses in 2022 and 84.1% of its loan balance at the end of 2022. This makes BBAFC the leading NEV financier in the market.

Customers and concentration risk

The retail loan receivables of the Group are denominated in Renminbi, which are fully secured by the motor vehicles of the borrowers. As at 31st December, 2022, there were a total number of 32,000 borrowers (2021: 42,758), including 22,094 individuals (2021: 35,933) and 9,906 corporations (2021: 6,825) under BBAFC's loan portfolio. Loan receivables attributable to the top five largest borrowers in aggregate and the single largest borrower of the Group accounted for approximately 0.28% (2021: 0.26%) and 0.09% (2021: 0.09%), respectively, of the outstanding loan receivables as at 31st December, 2022. The Group has no significant concentration of credit risk in respect of loan receivables, with exposure spread over a number of borrowers.

For the year ended 31st December, 2022, the amount of extended loans accounted for only 0.11% of BBAFC's booked portfolio. During the year, BBAFC strictly followed the regulators' notifications and guidelines to support small and medium-sized enterprises and China's economy during the COVID-19 and post period, and approved 401 cases of loan repayment extension requests of up to 3 months from customers who were impacted by COVID-19 and temporarily lost their repayment ability. Out of those extended loans, around 80% of the customers have subsequently repaid and BBAFC does not have repeated extensions for already extended customers. All extension requests were assessed by the risk department of BBAFC in accordance with its internal guidelines and standards.

Credit risk control

For credit risk control, BBAFC focuses on risk identification, analysis, assessment and continuous monitoring, and adopts preventive measures to control and reduce risks.

In retail business, as a regulated financial company, BBAFC performs prudent and complete assessment of customers with the external/internal data, scorecard, decision engine, revenue materials and telephone or on-site check as the proof of repayment ability, and to avoid any frauds. BBAFC established and implemented the control mechanism of borrower's Debt to Income ratio and keeps the prudent assessment and credit decision for customers with high Debt to Income ratio through systematic warnings and other possible measures. There is also a risk alert in the system for high risk car dealers which may refer retail customers to BBAFC. Car mortgage, higher down payment, additional guarantors and other possible measures are often set as prerequisites to mitigate the risks. A detailed approval matrix and delegation system for the credit decision based on the financed amount and risk policy are implemented to monitor credit decisions and to avoid internal frauds. BBAFC also has in place comprehensive internal control procedures for monitoring the status and formulating actions to be taken for recovery of loans. The risk, legal and compliance, internal control and audit departments of BBAFC are responsible for monitoring the repayment status of the loans and taking appropriate actions (including legal procedures) in recovery of loans.

Any failure to control BBAFC's credit risk will increase the company's risk cost leading to lower profitability. Furthermore, prudent credit risk control policy is directly related to BBAFC's non-performing loan ("NPL") ratio which is an important benchmark for banks and regulators in assessing its assets quality as an automobile financier. Among others, the increase in the NPL ratio may adversely affect BBAFC's ability to secure external funding and its related funding costs.

Impairment of loan receivables

Expected credit loss (“ECL”) allowances of loan receivables which are not credit-impaired, are considered based on 12-months ECL and estimated on collective basis taking into consideration of information such as past due status, customer age group, historical default record, collaterals (subject motor vehicles), ECL allowance rate recommended by regulators where available and forward-looking macroeconomic information and market of motor vehicle financing. BBAFC assesses the changes of credit risk since initial recognition of loan receivables at each balance sheet date. If the credit risk has increased significantly since initial recognition of the loan receivables, BBAFC recognises the provision for losses at an amount equivalent to lifetime ECL; if the credit risk has not increased significantly since initial recognition of the loan receivables, BBAFC recognises the provision for losses at an amount equivalent to 12-month ECL. The increase or reversal of credit loss provision for loan receivables is recognised as impairment loss or gain and included in profit or loss for the period. The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset that are not credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset. The Group recognises such loss allowance or reversal of the impairment in profit or loss through net expected credit loss allowance on loans and receivables.

As at 31st December, 2022, the credit risk on loan receivables was limited as all loan receivables were secured by the motor vehicles of the borrowers for retail auto financing and the counterparties had no material historical default record.

Basis of writing-off loan receivables by BBAFC

The following criteria are applied to determine whether retail loans should be written off;

- Account over 120 days of delinquency on the last day of the calendar month and has no repayment possibility and willingness according to collection records.
- Account less than 120 days of delinquency on the last day of the calendar month, but there is strong evidence to suggest that the account cannot be fully recovered, backed up by documentation (e.g. litigation result, confirmed fraud).
- Account less than 120 days of delinquency on the last day of the calendar month where the collateral has been liquidated, however the realized proceeds (resale, repayment by third party, third party settlement and insurance) do not fully cover the outstanding amount of the account.
- Delinquent debts of a small amount, where collections cost related to owed amount does not justify further collections activity.

Details on loan receivables

Loan receivables

	2022 RMB'000	2021 RMB'000
Gross loan receivables	2,468,633	3,514,556
Less: ECL allowance	<u>(44,682)</u>	<u>(63,436)</u>
Net loan receivables	2,423,951	3,451,120
Less: current portion	<u>(1,109,779)</u>	<u>(1,933,584)</u>
Long-term loan receivables	<u>1,314,172</u>	<u>1,517,536</u>
Gross loan receivables recoverable based on repayment schedule:		
– No later than 1 year	1,134,146	1,973,296
– Later than 1 year but no later than 5 years	<u>1,334,487</u>	<u>1,541,260</u>
	<u>2,468,633</u>	<u>3,514,556</u>

The retail loan receivables are denominated in Renminbi, which are fully secured by the motor vehicles of the borrowers. Out of the gross loan receivables which amounted to RMB2,468,633,000 (2021: RMB3,514,556,000), the gross loan receivables that will be repayable within 1 year amounted to RMB1,134,146,000 (2021: RMB1,973,296,000) bear fixed effective interest rates ranging from 4.8% to 14% (2021: 4.8% to 14%) per annum. The remaining gross loan receivables that will be repayable after 1 year but no later than 5 years amounted to RMB1,334,487,000 (2021: RMB1,541,260,000) bear fixed effective interest rates ranging from 7.42% to 14% (2021: from 4.8% to 14%) per annum. The actual interest rate offered to borrowers were determined with reference to the market rates from competitors at the material time, customer profiles and the brand of the motor vehicle which BBAFC is cooperating with.

Gross overdue loan receivables analysed by overdue period

The gross overdue loan receivables analysed by overdue period as at 31st December, 2022 is as follows:

	2022 RMB'000	2021 RMB'000
Overdue		
– 1 to 60 days	65,932	61,107
– 61 to 90 days	6,490	3,155
– 91 to 120 days	4,144	5,661
– more than 120 days	3,398	5,072
	<u>79,964</u>	<u>74,995</u>

Analysis by methods for assessing impairment losses under ECL model

The analysis by methods for assessing impairment losses under ECL model is shown as follows:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
At 31st December, 2022				
Gross loan receivables	2,461,091	4,144	3,398	2,468,633
Less: ECL allowances	<u>(38,796)</u>	<u>(2,488)</u>	<u>(3,398)</u>	<u>(44,682)</u>
Net loan receivables	<u>2,422,295</u>	<u>1,656</u>	<u>–</u>	<u>2,423,951</u>
ECL allowance ratio	<u>1.58%</u>	<u>60%</u>	<u>100%</u>	
At 31st December, 2021				
Gross loan receivables	3,503,823	5,661	5,072	3,514,556
Less: ECL allowance	<u>(54,967)</u>	<u>(3,397)</u>	<u>(5,072)</u>	<u>(63,436)</u>
Net loan receivables	<u>3,448,856</u>	<u>2,264</u>	<u>–</u>	<u>3,451,120</u>
ECL allowance ratio	<u>1.57%</u>	<u>60%</u>	<u>100%</u>	

The movement in ECL allowance in loan receivables during the year is as follows:

	2022	2021		
	RMB'000	RMB'000		
At 1st January,	63,436	100,668		
ECL allowance recognised	23,393	6,576		
Write-off of uncollectible amounts	(42,147)	(43,808)		
	<u> </u>	<u> </u>		
At 31st December,	44,682	63,436		
	<u> </u>	<u> </u>		
	Stage 1	Stage 2	Stage 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2021	97,218	2,449	1,001	100,668
Transfer from Stage 1 to Stage 2	(3,223)	3,223	–	–
Transfer from Stage 1 to Stage 3	(44,962)	–	44,962	–
ECL allowance recognised during the year	5,934	174	468	6,576
Amount written off during the year	–	(2,449)	(41,359)	(43,808)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st December, 2021 and 1st January, 2022	54,967	3,397	5,072	63,436
Transfer from Stage 1 to Stage 2	(2,284)	2,284	–	–
Transfer from Stage 1 to Stage 3	(36,888)	–	36,888	–
ECL allowance recognised during the year	23,001	203	189	23,393
Amount written off during the year	–	(3,396)	(38,751)	(42,147)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31st December, 2022	38,796	2,488	3,398	44,682
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

During the year ended 31st December, 2022, impairment losses of RMB23,393,000 was recognised, of which RMB23,001,000 under Stage 1 of the ECL model was mainly due to the negative impact of the COVID-19 pandemic in the PRC. The amount written off for the year ended 31st December, 2022 were triggered by one of the rules set out in the section headed “Basis of writing-off loan receivables by BBAFC” above as at the end of every calendar month.

The additional information set out above does not affect other information contained in the 2022 Annual Report.

By order of the Board
Brilliance China Automotive Holdings Limited
Wu Xiao An
(also known as Ng Siu On)
Chairman

Hong Kong, 22nd August, 2023

As at the date of this announcement, the Board comprises four executive Directors, Mr. Wu Xiao An (also known as Mr. Ng Siu On) (Chairman), Mr. Shen Tie Dong (Chief Executive Officer), Mr. Zhang Wei and Mr. Xu Daqing; and four independent non-executive Directors, Mr. Song Jian, Mr. Jiang Bo, Mr. Dong Yang and Dr. Lam Kit Lan, Cynthia.