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CHINA EVERGRANDE NEW ENERGY VEHICLE GROUP LIMITED

中國恒大新能源汽車集團有限公司

(a company incorporated in Hong Kong with limited liability)

(Stock Code: 708)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

Reference is made to the annual report of China Evergrande New Energy Vehicle Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2023 (“**2023 Annual Report**”). Unless otherwise defined herein, capitalised terms herein shall have the same meanings as those defined in the 2023 Annual Report.

IMPAIRMENT

As disclosed in the 2023 Annual Report, the Company recorded impairment losses of RMB1,443 million, RMB3,349 million, RMB19 million and RMB926 million on property, plant and equipment, intangible assets, right-of-use assets and other receivables respectively.

Reasons and circumstances leading to recognition of impairment losses for the year ended 31 December 2023

As disclosed in page 129 of the 2023 Annual Report, the recoverable amount of the new energy vehicle manufacturing business for Hengchi 5 model, which represented a single cash generating unit, has been determined by management, with reference to value in use calculation, using cash flow projections based on the latest financial budget formally approved by management. When approving the financial budget, the management has taken into account the changes in business plan by suspending the development of other models and ceasing the battery operations during the reporting year in order to consolidate the Group’s resources for marketing Hengchi 5, the anticipated downward trend in the economic condition and, expected operations difficulties. In light of the suspension of model development other than Hengchi 5, the changes in the expected sales and profit margin relating to vehicle manufacturing for Hengchi 5 and the cessation of the battery business as reviewed by the management of the Company, the Company changed both the value of input for Hengchi 5 manufacturing including its development costs and the method of impairment in respect of development

cost relating to models other than Hengchi 5 as well as for battery manufacturing in the 2023 Annual Report as compared to the corresponding input and method adopted in the annual report of the Company for the year ended 31 December 2022.

As disclosed on page 81, other receivables have been assessed for impairment on collective and individual basis based on different credit risk and characteristics including historical settlement records and past experience and accordingly they were categorized in Group 1, 2 and 3 for assessment purposes.

Impairment assessment

The Company engaged Greater China Appraisal (Shanghai) Limited, an independent qualified valuer (the “**Valuer**”) with relevant qualifications and experience, to perform impairment tests on new energy vehicle (“**NEV**”) manufacturing and new energy battery (“**NEB**”) manufacturing. In respect of the NEV manufacturing, value-in-use calculations (“**VIU**”) were used to determine the present value of the future cash flows expected to be derived, while the valuation method used remained unchanged as compared to that in the previous year (“**Valuation**”). Full impairment however was made for relevant development costs of models other than Hengchi 5 on prudent basis to reflect the management decision to suspend the development of those models and it was a change from the use of VIU calculation in the previous year. In respect of the NEB manufacturing, given the management have ceased the battery business during the year ended 31 December 2023 as a result of the resource reallocation from the NEB manufacturing to NEV manufacturing, the Company changed the valuation method and made the impairment for NEB manufacturing including, among others, development costs and construction in progress based on the fair value less costs of disposal of NEB manufacturing business in 2023 compared to the previous year.

Other receivables from third parties have been assessed for impairment on a collective basis based on different credit risk characteristics by the Valuer. Other receivables from related parties have been assessed for impairment by the Management based on the expected credit losses.

(i) NEW ENERGY VEHICLE MANUFACTURING FOR HENGCHI 5

According to the valuation report produced by the Valuer of NEV for Hengchi 5, the recoverable amounts of the NEV manufacturing cash generating unit (“CGU”) assets were RMB15,800 million, the carrying amount of CGU were RMB17,341 million, and as a result the total impairment amount of the automobile group’s asset group was RMB1,541 million. For allocating the total impairment amount, the Company based on the percentage of the carrying amount of each asset and that the carrying amount of each asset after impairment is not less than the recoverable amount of its individual asset. On this basis, as the carrying amount of construction in progress was RMB12,224 million which represented 70.49% of the carrying amount of NEV CGU, the resultant impairment amount was pro rata at RMB1,086 million. Set out below are the major valuation inputs and assumptions for the Valuation:

Premise of value

The valuation has been prepared in accordance with the International Valuation Standards (“IVS”) published by the International Valuations Standards Council, which states that valuations undertaken for inclusion in financial statements shall be provided to meet the requirement of the financial reporting standards that are applicable, including Hong Kong Financial Reporting Standard(s) (the “HKFRS”) and Hong Kong Accounting Standard(s) (the “HKAS”).

The valuation of new energy vehicle manufacturing for Hengchi 5 for the year ended 31 December 2023 was based on the going concern premise and conducted on the basis of VIU in accordance with HKAS 36 “Impairment of Assets”.

Valuation approach

The Valuer observed and referred to HKAS 36, where estimating the value in use of an asset or cash generating unit involves: (i) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and (ii) applying the appropriate discount rate to those future cash flows.

Accordingly, the estimation of value in use conforms with discounted cash flow method under the income approach to the Valuation, which focuses on the economic benefits generated by the income producing capability of a business. The underlying theory of this approach is that the value of a business can be measured by the present worth of the economic benefits to be received over the life of the business.

Financial model

The free cash flow to the firm (“FCFF”) model has been utilized in the Valuation. FCFF represents the amount of cash available to both debt and equity holders after all operating expenses, taxes, change in net working capital and capital expenditure.

The Valuer's opinion of value was obtained by applying the cash flow projections based on financial budgets approved by the management. The financial budgets are prepared based on the above plan considering the past performance, achievement of the medium or long-term growth target. A constant terminal growth rate was then taken to estimate the cash flows beyond the projection period. The pre-tax discount rate and the terminal growth rate used to determine the recoverable amounts are approximately 18.25% and 3% respectively.

Comparable search

In searching for the comparable companies, the selection criteria have been adopted as follows:

- Publicly listed with liquid market trading and sufficient information;
- Mainly product and manufacture of new energy vehicles; and
- Principal place of business based in Asia Pacific;

As sourced from iFinD, on a best effort basis, the Valuer shortlisted the following comparable companies:

Company Name	Stock Code
BYD Company Limited	1211.HK
Li Auto Inc.	LI.O
XPeng Inc.	XPEV.N
BAIC BluePark New Energy Technology Co., Ltd	600733.SH
NIO Inc.	NIO.N

Discount rate

A discount rate represents the total expected rate of return that an investor would demand on the purchase price of an ownership interest in an asset given the level of risk inherent in that ownership interest. In the valuation, the discount rate applied to the cash flow streams attributable to the Group is the weighted average cost of capital (“WACC”).

Key parameters and inputs for the year ended 31 December 2023 are shown below:

Parameter	Input	Source	Note
Risk-free rate	2.94%	iFinD	Average of China generic 10-year and above government bond yields
Market risk premium	6.75%	iFinD	Average of China stock market indices and government bond yields after removing the maximum and minimum values in the Chinese market over the past 10 years
Relevered beta	1.0492	iFinD	Unleveraged beta is 0.8080, taken from median beta of the comparable companies
Size premium	1.39%	CRSP Deciles Size Premium 2023	
Cost of equity	20.40%	Group	
Debt-to-equity ratio	39.81%	iFinD	
Cost of debt	13%	Group	
After-tax cost of debt	9.75%	Group	
WACC	17.36%	Group	
WACC (Round)	17.00%	Group	

By an interactive computation, the pre-tax discount rate of 18.25% was determined so that value in use determined using pre-tax cash flows and a pre-tax discount rate equals value in use determined using post-tax cash flows and a post-tax discount rate.

As of 31 December 2023, the impairment losses for the development costs for NEV CGU were RMB3,337 million of which an amount of RMB176 million related to Hengchi 5 and an amount of RMB3,161 million related to models other than Hengchi 5 (i.e Hengchi 6 and 7). For details of impairment assessment, it is set out as follows:

(i) *The impairment assessment for the development costs of Hengchi 5*

The valuer has assessed the impairment losses in respect of the development costs of Hengchi 5 based on the impairment losses of NEV CGU and its allocated impairment amount which is a percentage of the carrying amount. As part of the assessment, the Valuer estimated the VIU in accordance with HKAS 36 Impairment of Assets which involves (i) estimating future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and (ii) applying the appropriated pre-tax discount rate and the terminal growth rate

used to determine the recoverable amounts which are approximately 18.25% and 3% respectively. The valuation method is consistent with the previous year and the key parameters and inputs for the calculation of the pre-tax discount rate were the same as shown in the above table. Similarly, the calculated impairment losses have been allocated to different types of assets of the NEV CGU (including property, plant and equipment, intangible assets and development costs, and right-of-use assets) on a pro rata basis.

(ii) *The impairment assessment for the development costs of models other than Hengchi 5*

The management suspended the development and validation processes for models other than Hengchi 5 (i.e Hengchi 6, Hengchi 7) during the year ended 31 December 2023 as the Group did not have sufficient financial resources to complete the final design and comprehensive testing cycle stage. As such the development costs incurred as of to date on Hengchi 6 and Hengchi 7 were fully impaired on the prudent basis in accordance with the relevant accounting standards whilst the value-in-use calculations was used in the impairment assessment in the previous year.

(ii) NEW ENERGY BATTERY MANUFACTURING

The valuation of NEB CGU was conducted by the Valuer and determined based on fair value less costs of disposal in accordance with HKAS 36 “Impairment of Assets” as the battery business was ceased in 2023 due to its resources being reallocated for vehicle manufacturing of Hengchi 5. The fair value measurements categorised within the level 2 and the key assumptions for the fair value are newness rates ranging from 49% to 84%. However, as the NEB manufacturing business was ceased during the year, relevant impairment was made as the carrying amount is less than the recoverable amount. For the recoverable amount of the construction in progress in relation to NEB assets, which comprised mainly with buildings under construction and installation equipment under construction, it was calculated based on the fair value less costs of disposal of each asset, and the corresponding provision for impairment was made when the carrying amount was less than the recoverable amount.

For buildings under construction, the valuation approach uses the reset cost method, the fair value = full price reset × newness rates. The full price reset of a building includes construction and installation costs, pre-construction and other costs and capital costs. The formula for calculating the full price reset is as follows:

Full price reset = Construction and installation costs + Pre-construction and other costs + Capital costs.

The newness rates is determined by the economic durability of the housing building and the number of years it has been in use, in conjunction with the on site survey. The newness rate was 78%.

For installation machinery and equipment under construction, the valuation approach uses the reset cost method, the fair value = full price reset × newness rates. As the machinery and equipment assessed are large scale and with specific purpose and it is difficult to search for relevant quotation

cases in the market, full price reset of the machinery and equipment is adjusted to the original book value using the price index adjustment method. The newness rates were based primarily on the economic life of the machinery and equipment, the number of years it has been in use.

Based on the above valuation methodology, the impairment amount of construction in progress in respect of both building and installation machinery and equipment for the NEB CGU was RMB50 million. Together with the impairment amount of RMB1,086 million in respect of construction in progress under NEV manufacturing, the aggregate impairment amount for construction in progress was RMB1,136 million.

(iii) OTHER RECEIVABLES

Other receivables consist primarily of balances with third parties and related parties. The balances with third parties are mainly due to transactions arising from the Group's ordinary course of business whilst the amounts with related parties totalled RMB16,906 million of which an aggregate amount of RMB14,573 million was reclassified (“**Reclassified Balances**”) following the Health Management (“**Health Management**”) disposal on 12 May 2023. Prior to the disposal of the Health Management, the Reclassified Balances mainly arose from borrowing and lending of funds between subsidiaries as a result of operating business and other activities.

For other receivables with third parties, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It also considers the available, reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of other receivables and adjusts for forward looking macroeconomic data.

As part of the review process, the Group adopted a “three-stage” model for impairment based on changes in credit quality since initial recognition as summarised below:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime (Stage 1)
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 90 days past due	Lifetime expected losses (Stage 2)
Non-performing (credit impaired)	Interest and/or principal repayments are 365 days past due or it becomes probable a customer will enter bankruptcy	Lifetime expected losses (Stage 3)
Write-off	There is no reasonable expectation of recovery	Asset is written off

Other receivables have been assessed for impairment on a collective basis based on different credit risk characteristics and was categorised as follows for assessment purpose:

- Group 1 Other receivables due from related parties and deposits for acquisition of land use rights
- Group 2 Other deposits except the deposits for acquisition of land use rights
- Group 3 Others

For balances with related parties (except for non-controlling shareholders of RMB142 million), which are non-trade nature, unsecured, interest free and have no specific repayment terms, they were receivables due from fellow subsidiaries, associates and joint ventures of China Evergrande Group. In the meantime, the Group also has other payables to fellow subsidiaries, associates and joint ventures of China Evergrande Group amounting to RMB23,230 million, and the Company has been discussing with the relevant fellow subsidiaries of China Evergrande Group on the arrangement of offsetting debts and liabilities on the basis where a right of setoff exists until the reporting date. Based on this, the Management considered the amounts due from related parties (except for non-controlling shareholders of RMB142 million) in nature to be low credit risk as the

counterparties have a low risk of default and are able to meet their contractual cash flow obligations or related liabilities through offsetting where a right of setoff exists in the near term. The Group also assessed the balances with related parties on the basis of the expected credit losses on Stage 1 and use 12 months ECL method. Based on the assessment, no provision was made.

For balances with third parties and non-controlling shareholders of RMB142 million, the Company engaged Greater China Appraisal (Shanghai) Limited, an independent qualified valuer (the “**Valuer**”) with relevant qualifications and experience, to assess the expected credit losses. The Valuer assessed for impairment on a collective basis based on different credit risk characteristics and adopted a “three-stage” model for impairment based on changes in credit quality since initial recognition as summarised. For other receivables in Stage 1 and Stage 2, the Valuer primarily uses the probability of default (“**PD**”)/loss given default (“**LGD**”) methodology to measure expected credit losses (“**ECL**”) i.e. $ECL = PD \times LGD \times EAD \times \text{forward-looking adjustment factor}$ where EAD is exposure at default.

In calculating expected credit losses, the Company will consider forward-looking information that can be obtained without unnecessary additional cost or effort, including but not limited to macroeconomic factors, industry policies and industry environment, etc., and adjust the measurement of expected credit losses based on the forward-looking information.

For other receivables in Stage 3, the Valuer measures the amount of impairment by taking into account the forward-looking information, the debtor’s property and creditworthiness, and other information from various perspectives.

The Valuer has assessed that the expected credit losses of non-controlling shareholders and deposits for acquisition of land use rights are not significant which is on Stage 1 and use 12 months ECL method.

The Valuer has assessed that Group 2 and Group 3 are on Stage 3 and use lifetime expected losses method, including to move those previously in Stage 2 to Stage 3 due to credit-impaired prepayment.

Key parameters and inputs for the year ended 31 December 2023 are shown below:

	Loss given default (LGD)	Probability of default (PD)	Forward- looking adjustment factor
Within 90 days	8.48%	100.00%	99.66%
91 days to 180 days	8.48%	100.00%	99.66%
181 days to 365 days	8.48%	100.00%	99.66%
1 year to 2 years	22.05%	100.00%	99.66%
2 year to 3 years	82.26%	100.00%	99.66%
3 year to 4 years	100.00%	100.00%	100%
Over 4 years	100.00%	100.00%	100%

As of 31 December 2023, the gross carrying amount and loss allowance of other receivables in categories are as follows:

	Stage 1		Stage 2		Stage 3	
	Gross carrying amount RMB'000	Loss allowance RMB'000	Gross carrying amount RMB'000	Loss allowance RMB'000	Gross carrying amount RMB'000	Loss allowance RMB'000
As of 31 December 2023						
Group 1	16,953,802	(169,950)	—	—	—	—
Group 2	—	—	64,531	(49,679)	73,093	(73,093)
Group 3	—	—	1,445,764	(157,156)	842,280	(842,280)
Total	<u>16,953,802</u>	<u>(169,950)</u>	<u>1,519,295</u>	<u>(286,835)</u>	<u>915,373</u>	<u>(915,373)</u>

The Company has been actively pursuing the collection of other receivables from third party companies in order to recover them. With respect to balances due from related parties, the Company has been sorting out the accounts receivable and payable of the same related parties particularly those companies under the Health Management and trying to make arrangement where a right of setoff exists for offsetting in order to recover the due balances.

Save as disclosed above, the contents of the 2023 Annual Report remain unchanged.

For and on behalf of the Board of
China Evergrande New Energy Vehicle Group Limited
SIU Shawn
Chairman

Hong Kong, 18 February 2025

As at the date of this announcement, the executive Directors are Mr. SIU Shawn and Mr. CHOI Wai Hong Clifford; and the independent non-executive Directors are Mr. XIE Wu, Mr. Vincent Gar-Gene LEUNG and Ms. Carina Man Yee FOO.