五菱汽車集團控股有限公司
WULING MOTORS HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability) (股份代號 Stock Code : 305)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

References are made to the announcement of Wuling Motors Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 26 May 2020 regarding the announcement of the audited results of the Group for the year ended 31 December 2019 ("**Audited Results Announcement**") and the announcement dated 14 May 2020 in relation to, among other things, a profit warning statement of the Company for the annual results of the Group which were mainly attributable to the additional impairment losses made against the property, plant and equipment of the engines and related parts division and the automotive components and other industrial services division of the Group which amounted to approximately RMB112,000,000 and approximately RMB53,000,000 (the "**Additional Impairment Announcement**"). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Audited Results Announcement and the Additional Impairment Announcement.

Further to the information disclosed in the Audited Results Announcement and the Additional Impairment Announcement, the board of directors of the Company (the "**Board**") wishes to provide to the shareholders of the Company (the "**Shareholders**") and the potential investors with the following supplementary information:

ADDITIONAL IMPAIRMENT LOSS IN RESPECT OF THE PROPERTY, PLANT AND EQUIPMENT OF THE GROUP

Under HKAS 36 Impairment of Assets, the recoverable amount of a cash-generating unit is the higher of its fair value less cost of disposal and its value in use.

In determining the value in use calculations, the Company engaged BMI Appraisals Limited ("**BMI**"), an independent professional qualified valuer, to conduct valuation to determine the recoverable amount of the respective property, plant and equipment of the cash-generating units (the "**CGUs**") of the Group which indicated certain amount of impairment in the final assessment including: (a) the engines and related parts division ("**Unit A**"); (b) the automotive components and other industrial services division operating in the PRC ("**Unit B in the PRC operations**"); and (c) the automotive components and other industrial services division operating in Indonesia ("**Unit B in Indonesia operations**"). Details of the valuation method applied, value of inputs, bases and assumptions and the reasons leading to the changes in the value of inputs and assumptions from those previously adopted of the respective CGUs are as follows:

Valuation Method

BMI adopted income approach in the valuation for all CGUs, including Unit A, Unit B in the PRC operations and Unit B in Indonesia operations. Under the income approach, the discounted cash flow ("**DCF**") method was adopted in the valuation. The DCF method is the most fundamental and prominent method of the income approach. In applying the DCF method, the free cash flows ("**FCFs**") of the subject asset in future years were determined from the net income after tax plus non-cash expenses, such as depreciation and amortization expenses, and after-tax interest expense; the result was then less non-cash income, investment in capital expenditure and investment in net working capital.

In computing the present values of the FCFs, which covered the cash flow projections based on financial budgets approved by the management over a five-year period (i.e. from the financial year ending 31 December 2020 to 31 December 2024 (respectively referred as to"**FY2020, FY2021, FY2022, FY2023 and FY2024**")) (the "**Five-Year Projection Period**") plus a terminal value based on the long-term growth rate of the respective CGUs, the Weighted Average Cost of Capital ("**WACC**") was adopted as the post-tax discount rate for the valuation. In this regard, the WACC comprises two components: the cost of equity and the cost of debt. The cost of equity was determined using the Capital Asset Pricing Model ("**CAPM**"). The cost of equity is subject to risk-free rate, beta coefficient, market risk premium, size premium and company-specific risk premium.

Bases and Assumptions and Value of Inputs

In addition to the general and specific bases and assumptions which were disclosed in the respective valuation reports in more details, set out below are other key bases and assumptions of the business estimates and the value of major inputs of the respective CGUs for the valuation performed by BMI adopted in the preliminary assessment ("**2019 Preliminary Assessment**") and the final assessment ("**2019 Final Assessment**") for the year ended 31 December 2019, together with the reasons leading to changes, if any between the two assessments.

A. Key Business Estimates

Given that the products made by the Group, i.e. the engines sets and the automotive components, are mainly supplying to the customers with long term and strategic business relationship, the assumptions such as the expected business volume, the expected revenue growth, the expected gross profit margin used for cash flow projections were based on the estimation by the management of the Group with reference to the business plans as derived between the Group and the related customers.

In addition, the Company will also make reference to other external references such as the relevant press releases and industry reports issued by the professional and/or industry institutes with market recognition as available in assessing the appropriateness of the business estimates and in performing certain sensitivity analyses of the projections.

B. *Bases and Assumptions for Computation of the WACC and the Long-term Growth Rate*

1. *Risk-free Rate*

   The yield rate of the 10-year Central Government Bond of the PRC was adopted as the risk-free rate in the valuation for Unit A and Unit B in the PRC operations, whereas, the 10-year Indonesia Generic Government Bond was adopted as the risk-free rate for Unit B in Indonesia operations.

2. *Beta Coefficient*

   The beta coefficients for Unit A and Unit B in the PRC operations were determined as the average of the betas of the selected comparable companies, with adjustment for differences in corporate tax rates and leverage compositions, whereas, the beta coefficient for Unit B in Indonesia operations was determined as the median of the betas of the selected comparable companies, with adjustment for differences in corporate tax rates and leverage compositions.

3. *Market Risk Premium*

   The market risk premium of Unit B in Indonesia operation was computed using the market risk premium of the United States, whereas, the country risk premium of PRC was adopted for Unit A, Unit B in the PRC operations and Unit B in Indonesia operations.

4. *Size Premium*

   By considering the size of Unit A, Unit B in the PRC operations and Unit B in Indonesia operations, the size premiums were adopted in the valuation respectively with reference to "Valuation Handbook — Guide to Cost of Capital" published by Duff & Phelps.

5. *Company-specific Risk Premium*

   By considering the additional risk associated with the operation of Unit A, Unit B in the PRC operations and Unit B in Indonesia operations, 0.5% to 1% company-specific risk premiums were adopted.

6. *Cost of Debt*

   The cost of debt was determined by the expected lending rate of each unit with reference to the 5 Years Benchmark Lending Rates (i.e., 4.90%) for Unit A and Unit B in the PRC operations, whereas, the Bank Indonesia Base Lending Rates (i.e., 12.75%) was adopted for Unit B in Indonesia operations.

7. *Weight of Debt and Weight of Equity*

The weight of debt and weight of equity were determined by the averages of the selected comparable companies for Unit A and Unit B in the PRC operations, whereas the weight of debt and weight of equity of Unit B in Indonesia operations were determined by the median of the selected comparable companies.

8. *Pre-tax Discount Rate*

The pre-tax discount rate was determined by an iterative computation so that the 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.

9. *Long-term growth rate*

The long-term growth rate for Unit A and Unit B in the PRC operations refers to the average of the consumer prices index from 2009 to 2018 in the PRC, whereas, the long-term growth rate for Unit B in Indonesia operations refers to the average of the consumer prices index from 2015 to 2019 in Indonesia.

C. *Details of the value of major inputs of the respective CGUs in the 2019 Preliminary Assessment and the 2019 Final Assessment with the respective notes and reasons leading to changes, if any between the two assessments*

Unit A — Value of major inputs	**2019 Preliminary Assessment** *(note a)*	**2019 Final Assessment**	
Calculation of WACC			
Cost of equity	16.95%	16.95%	
Cost of debt	4.90%	4.90%	
Weight of equity value of enterprise value	78.17%	78.17%	
Weight of debt value of enterprise value	21.83%	21.83%	
Corporate tax rate	25.00%	25.00%	
WACC (Post-tax discount rate)	14.05%	14.05%	
Pre-tax discount rate	16.47%	15.62%	
Key Business Estimates			
Expected annual revenue growth over the Five-Year Projection Period	3.00%	3.00%	
Expected gross profit margin over the Five-Year Projection Period	9.40%	8.80%	*(note b)*

Unit A — Value of major inputs	**2019 Preliminary Assessment** *(note a)*	**2019 Final Assessment**	
	Approx. RMB'000	*Approx. RMB'000*	
<u>FCFs, Value in use and Impairment Assessment</u>			
Aggregate FCFs over the Five-Year Projection Period	402,453	267,731	*(note b)*
Aggregate present values of the FCFs over the Five-Year Projection Period (A)	281,819	182,034	
Long-term growth rate	2.23%	2.00%	*(note c)*
Terminal value	201,830	68,150	
Present value of the terminal value (B)	101,643	35,464	
Value in use for Unit A (A+B)	383,462	217,498	
Valuation of Unit A by BMI (rounded up/down to the nearest ten million)	380,000	220,000	
Carrying amounts of property, plant and equipment that have indications of impairment loss	329,555	329,555	
Impairment recognized	N/A	112,000	

Notes:

a. As mentioned in the section "Operation Review — Main Business Segment: Engines and Related Parts" in the Company's annual report for the year ended 31 December 2019 ("**FY2019**") ("**2019 Annual Report**"), an operating losses was incurred in Unit A, which was primarily attributable to a substantial decrease in the gross profit margin, despite a significant increase in revenue of approximately 67.3% in FY2019. The substantial decrease in the gross profit margin in FY2019 was mainly due to a reduction of the unit selling price of certain engine sets supplying to a key customer and a lower gross profit margin earned on the National VI standard engine sets which were launched in the second half of FY2019 supplying to the key customer and other customers. Hence, a preliminary assessment of Unit A was performed prior to the issue of the Preliminary Unaudited Results Announcement dated 31 March 2020, of which the preliminary valuation and the value of major inputs (subject to final review) were summarized above.

b. FCFs were adjusted in consequence of the updated assessment subsequent to the preliminary assessment from which the expected gross profit margins for FY2020 to FY2024 and years thereafter applied were scaled down by 0.6% in view of the severe pricing pressure from the main customer, additional costs incurred in the launches of new products and the uncertainty associated with the market environment, which would affect the improvement in the profitability of the division within a short period of time.

c. The long-term growth rate, was scaled down in consideration of the available updated market information of the automobile industry in the PRC during April and May 2020.

Unit B in the PRC operations — Value of major inputs	2019 Preliminary Assessment *(note d)*	2019 Final Assessment	
Calculation of WACC			
Cost of equity	15.72%	15.72%	
Cost of debt	4.90%	4.90%	
Weight of equity value of enterprise value	78.13%	78.13%	
Weight of debt value of enterprise value	21.87%	21.87%	
Corporate tax rate	25.00%	25.00%	
WACC (Post-tax discount rate)	13.08%	13.08%	
Pre-tax discount rate	16.13%	16.16%	
Key Business Estimates			
Expected annual revenue growth over the Five-Year Projection Period	3.00%	Nil–2.00%	*(note e)*
Expected gross profit margin over the Five-Year Projection Period	8.43%	8.43%	
	Approx. RMB'000	*Approx. RMB'000*	
FCFs, Value in use and Impairment Assessment			
Aggregate FCFs over the Five-Year Projection Period	1,829,856	1,646,586	*(note e)*
	Approx. RMB'000	*Approx. RMB'000*	
Aggregate present values of the FCFs over the Five-Year Projection Period (A)	1,263,640	1,142,621	
Long-term growth rate	2.23%	2.00%	*(note f)*
Terminal value	2,028,453	1,613,028	
Present value of the terminal value (B)	1,034,829	822,030	
Value in use for Unit B in the PRC operations (A+B)	2,298,469	1,964,651	
Valuation of Unit B in the PRC operations by BMI (rounded up/down to the nearest hundred million)	2,300,000	2,000,000	
Carrying amounts of property, plant and equipment and right-of-use assets that have indications of impairment loss	2,016,918	2,016,918	
Impairment recognized	N/A	51,388	

Notes:

d. As mentioned in the section "Operation Review — Main Business Segment: Automotive Components and Other Industrial Services" in the Company's 2019 Annual Report, due to the negative effect from a general slowdown of the automobile industry in the PRC, Unit B in the PRC operations experienced a continuous decrease in the total revenue, which was primarily attributable to a decrease of the business volume of the key customer in FY2019. Hence, a preliminary assessment of Unit B in the PRC operations was performed prior to the issue of the Preliminary Unaudited Results Announcement dated 31 March 2020, of which the preliminary valuation and the value of major inputs (subject to final review) were summarized above.

e. FCFs were adjusted in consequence of the updated assessment subsequent to the preliminary assessment from which the expected revenue growth rate were scaled down to 0%, 1%, and 2% for FY2020, FY2021 and FY2022 to FY2024 respectively due to the continuous slowdown of the automobile industry in China as a result of the uncertain business environment.

f. The long-term growth rate, was scaled down in consideration of the available updated market information of the automobile industry in the PRC during April and May 2020.

Unit B in Indonesia operations — Value of major inputs	**2019 Preliminary Assessment** *(note g)*	**2019 Final Assessment**	
<u>Calculation of WACC</u>			
Cost of equity	18.04%	19.03%	*(note h)*
Cost of debt	12.75%	12.75%	
Weight of equity value of enterprise value	95.54%	95.37%	
Weight of debt value of enterprise value	4.46%	4.63%	
Corporate tax rate	25.00%	25.00%	
WACC (Post-tax discount rate)	17.66%	18.59%	*(note h)*
Pre-tax discount rate	21.55%	20.79%	
<u>Key Business Estimates</u>			
Expected annual revenue growth over the Five-Year Projection Period	5.00%–45.00%	5.00%–30.00%	*(note i)*
Expected gross profit margin over the Five-Year Projection Period	9.00%–10.00%	9.00%–10.00%	
	Approx. RMB'000	*Approx. RMB'000*	
<u>FCFs, Value in use and Impairment Assessment</u>			
Aggregate FCFs over the Five-Year Projection Period	53,160	50,535	*(note i)*
Aggregate present values of the FCFs over the Five-Year Projection Period (A)	28,823	28,728	

Unit B in Indonesia operations — Value of major inputs	**2019 Preliminary Assessment** *(note g)*	**2019 Final Assessment**
Long-term growth rate	3.00%	3.00%
Terminal value	37,611	33,084
Present value of the terminal value (B)	15,629	14,143
Value in use for Unit B in Indonesia operations (A+B)	44,452	42,871
Valuation of Unit B in Indonesia operations by BMI (rounded up/down to the nearest million)	44,000	43,000
Carrying amounts of property, plant and equipment that have indications of impairment loss	67,119	67,119
Impairment recognized	22,636	24,248

Notes:

g. As mentioned in the section "Operation Review — Main Business Segment: Automotive Components and Other Industrial Services" in the Company's 2019 Annual Report, due to the continuous loss making situation of the operations in FY2019, an impairment loss was made against the property, plant and equipment of the Unit B in Indonesia operations, which amounted to RMB22,636,000 under the preliminary assessment. Hence, a preliminary assessment of Unit B in Indonesia operations was performed prior to the issue of the Preliminary Unaudited Results Announcement dated 31 March 2020, of which the preliminary valuation and the value of major inputs (subject to final review) were summarized above.

h. Cost of equity was adjusted in the final assessment due to the worse than expectation financial performance in the first quarter of the financial year ending 31 December 2020 which resulted in an increase of the WACC.

i. FCFs were adjusted in consequence of the updated assessment subsequent to the preliminary assessment from which the expected revenue growth rate were scaled down to 30%, 20%, 10% and 5% for FY2020, FY2021, FY2022 and FY2023 to FY2024 respectively due to the uncertain business environment faced by the automobile industry in Indonesia.

RELEVANT DISCLOSURE IN THE COMPANY'S 2019 ANNUAL REPORT

The Board would like to draw to the attention to the Shareholders and the potential investors that the relevant details and information of the impairment losses made against the property, plant and equipment of the engines and related parts division and the automotive components and other industrial services division of the Group which amounted to RMB187,636,000 for the year ended 31 December 2019 had also been disclosed in note 15 "Property, Plant and Equipment" to the consolidated financial statement in the Company's 2019 Annual Report.

On behalf of the Board
Wuling Motors Holdings Limited
Yuan Zhijun
Chairman

Hong Kong, 3 July 2020

As at the date of this announcement, the Board comprises Mr. Yuan Zhijun (Chairman), Mr. Lee Shing (Vice-chairman and Chief Executive Officer), Mr. Yang Jianyong and Mr. Wang Zhengtong as executive Directors, and Mr. Ye Xiang, Mr. Wang Yuben and Mr. Mi Jianguo as independent non-executive Directors.