CHONG KIN
創建集團(控股)有限公司

CHONG KIN GROUP HOLDINGS LIMITED
創 建 集 團（控 股）有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1609)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2020

Reference is made to the announcement (the "**Announcement**") of Chong Kin Group Holdings Limited (the "**Company**" and, together with its subsidiaries, the "**Group**") dated 24 June 2020 in relation to the annual results of the Group for the year ended 31 March 2020 (the "**2020 Annual Results**"). Capitalised terms used herein shall have the same meaning used in the Announcement unless defined otherwise.

As disclosed in the Announcement, the Group has engaged the independent external valuer, Vision Appraisal and Consulting Limited (the "**Valuer**") to perform the goodwill impairment review (the "**Review**"). The Review was based on the value-in-use calculation of the NEV and Logistics business operated by the indirect non wholly-owned subsidiary of Stand East (the "**CGU**") using cash flow projections covering a period of 5 years (the "**Five Year Projection**"), impairment loss occurs when the recoverable amount is below the carrying value. The major revenue streams of the CGU included in the cash flow projections comprising (i) the sales of NEVs, (ii) the provision for logistics related services; and (iii) the NEV leasing services.

The Company hereby sets out below further information relating to the Review and the significant impairment loss on goodwill recognised for the financial year ended 31 March 2020 that relates to the acquisition of Stand East Group.

REASONS FOR THE IMPAIRMENT LOSS

Based on the Review, the recoverable amount of the CGU is below its carrying value, as such, an impairment loss on goodwill in the sum of HK$254,565,000 was recognised.

Due to the impact of COVID-19 Outbreak, the Change in Government Policies and the trade disputes between China and the United States, the management of the Group has decided not to purchase NEV for sales purpose, the business segment of the sales of NEVs is assumed to be discontinued in year ending 31 December 2021 in the Five Year Projection, the CGU will focus on carrying out the businesses of provision for logistics related services and vehicle leasing services (the "**Remaining Businesses**"). The Group will deploy human and funding resources from the business segment of the sales of NEVs to the provision of logistics related service segment and NEV leasing service segment. For the avoidance of doubt, the Company intends to purchase additional NEVs for NEV leasing segment proportionally to cope with the anticipated growth.

COVID-19 Outbreak

It was anticipated that COVID-19 Outbreak will have the following impacts on the CGU. Firstly, COVID-19 Outbreak affects the business of CGU's end customers, most of them are in retail and catering industry, the existing customers will take time to recover and some of the customers may close down their business due to the COVID-19 Outbreak. Secondly, competition is expected to increase following the increase of unemployment rate, unemployed individuals who own vehicle will join the industry by offering similar services at lower price, which will make the operation environment worse.

The Group noticed that the revenue of the CGU dropped immediately since COVID-19 Outbreak in view of the temporary closures of part of the CGU's end customers. Based on the management accounts of the CGU from January to March 2020, the revenue in the first quarter of 2020 has decreased by approximately 30.8% as compared to the corresponding period in 2019. Besides, some customers who purchased NEVs applied for extension on payment, the CGU had taken actions to recover its receivable including retrieval of the sold NEVs from long-outstanding customers. The management anticipated that the impact brought by the COVID-19 Outbreak on the financial positions of its end customers needs time to recover. The management considers that it is a prudent choice to concentrate available resources on low risk areas on the Remaining Businesses in view of the current business environment.

Change in Government Policies

The CGU had purchased approximated 5,800 NEVs in 2018 for sales and operation purpose at favourable purchase price because of the purchase subsidies. The central and local government policies relate to purchase subsidies on NEV have a material impact on the CGU's strategy decisions. According to the notices on 《關於完善新能源汽車推廣應用財政補貼政策》的通知 — 財建[2020]86號 which was published on 23 April 2020 (the "**2020 Policy**") and《關於進一步完善新能源汽車推廣應用財政補貼政策》的通知，財建[2019]138號 which was published on 27 March 2019 (the "**2019 Policy**"), when compared to 財建[2018]18號文《新能源汽車推廣補貼方案及產品技術要求》 (the "**2018 Policy**"), the purchase subsidies are not as favourable to the end users and the CGU as before. The 2019 Policy indicates that the intention of the government in gradually reducing the purchase subsidies in qualitative terms. The 2020 Policy sets out in quantitative terms as to the reduction in the purchase subsidiaries and capped the number of the vehicles that were able to obtain the purchase subsidies.

Under the Subsidy Standard section of the 深圳市發展和改革委員會關於印發《深圳市2019–2020年新能源汽車推廣應用財政補貼實施細則》的通知 which is a local policy in Shenzhen following the 2019 Policy, the top applicable purchase subsidies is equal to 50% of the 2018 standard for NEVs registered after 1 January 2019, and the applicable purchase subsidies is reducing gradually and that no subsidies is available for NEVs registered after 7 August 2019.

The consequences of the 2019 Policy and the 2020 Policy are the decrease in purchase subsidies for selling NEVs, which means the car makers would no longer be able to enjoy the compensation for production costs, as the result, the purchase price is anticipated to increase, the gross margin will decrease as the CGU will not be able to push up selling price and sales volume under current economic condition. The NEVs sold by the CGU for the financial year ended 31 March 2019 were purchased in 2018 and the carmakers had offered discounts to the CGU by taking into account the purchase subsidies at the time the CGU made the bulk purchase.

It was estimated that the purchase price will increase by 33.4% or above for similar models that the CGU purchased in 2018 after the implementation of the 2019 Policy and the 2020 Policy, such an increase includes the change in the value add tax rate from 16% to 13% since April 2019 and the slightly adjustment in the vehicle functions, however the elimination of the purchase subsidies have the most significant effect on the increase in the purchase price.

Ongoing Trade Dispute between China and the United States

Ongoing trade dispute between China and the United States imposed tariffs on import and export goods, which had multi-dimensional impacts on most economic chain, it is expected that the business environment which the CGU is operating will be weakened if the relationship between China and United States deteriorates.

In view of the above factors, it is expected that the customers of the CGU, particularly big corporations, would be more cautious under the current circumstances in making orders. As such, further orders for big sale is more difficult to obtain and the credit risk would increase in view that the capital requirement relating to NEV sales is much higher than other businesses. As such, the Board considers that the discontinuation of the sale of NEVs by the CGU is fair and reasonable and in the interests of the Company and its shareholders as a whole.

ADOPTION OF VALUATION METHOD

Selection of the valuation approach in valuing the CGU is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market transactions, uniqueness of the CGU's business operations and nature of the industry the CGU is participating. Income approach was considered to be the most appropriate valuation approach in this valuation as it is more likely to reflect the potential growth of the CGU in future. Under the income approach, the discounted cash flow (the "**DCF**") method is adopted, the DCF method begins with an estimation of the annual cash flows, which a participant acquirer would expect the asset to generate over a discrete projection period. There is no change of valuation method of the CGU for the year ended 31 March 2019 and 2020.

VALUE OF INPUTS ADOPTED IN 2019 AND 2020 PROJECTIONS

	For the year ended 31 December	For the year ending 31 December			
Revenue Growth in 2019 projection	**2019**	**2020**	**2021**	**2022**	**2023**
Provision for logistics related services	N/A	154.5%	72.0%	14.5%	5.0%
Vehicle leasing services	N/A	97.5%	50.9%	42.6%	18.2%
Sales of NEVs	N/A	90.1%	–30.8%	16.4%	10.0%

	For the year ending 31 December				
Revenue Growth in 2020 projection	**2020**	**2021**	**2022**	**2023**	**2024**
Provision for logistics related services	–6.9%	22.3%	2.6%	2.8%	3.1%
Vehicle leasing services	–36.9%	11.9%	1.8%	7.0%	9.8%
Sales of NEVs	–76.2%	N/A	N/A	N/A	N/A

Gross Profit Margin in 2019 projection	For the year ended 31 December 2019	For the year ending 31 December 2020	2021	2022	2023
Provision for logistics related services	10.1%	8.0%	9.8%	10.7%	11.7%
Vehicle leasing services	37.8%	53.8%	55.9%	58.7%	61.1%
Sales of NEVs	19.1%	22.7%	18.4%	18.4%	18.4%

Gross Profit Margin in 2020 projection	For the year ending 31 December 2020	2021	2022	2023	2024
Provision for logistics related services	22.8%	25.4%	25.6%	23.5%	21.3%
Vehicle leasing services	27.5%	43.8%	41.9%	40.5%	45.8%
Sales of NEVs	14.6%	N/A	N/A	N/A	N/A

Profit margin in 2019 projection	For the year ended 31 December 2019	For the year ending 31 December 2020	2021	2022	2023
Profit Margin	5.6%	9.4%	8.8%	10.3%	11.2%

Profit margin in 2020 projection	For the year ending 31 December 2020	2021	2022	2023	2024
Profit Margin	12.7%	16.2%	9.5%	5.7%	5.7%

The pre-tax discount rate adopted for 2019 and 2020 projections are 29.1% and 32.8% respectively, the post-tax discount rate are 23% and 25%. The increase in discount rate reflects the risk that the CGU cannot meet its expected performance due to uncertainty under the COVID-19 Outbreak and the Change in Government Policies.

The long term growth rate adopted for 2019 and 2020 projections are 3% and 2.55% by reference to the inflation of the PRC sourced from Statista.com.

BASIS FOR THE VALUE OF INPUTS ADOPTED IN 2020 PROJECTION

The value of inputs in the Five Year Projection made in 2020 have been determined and calculated referring to historical operational data and the NEVs on hand as at 31 March 2020, having taken into consideration the Change in Government Policies, the impact of COVID-19 Outbreak and the trade dispute between China and the United States which were anticipated to continue affecting the business environment of the CGU, inflation has been added to the projection from the year 2024 onwards.

Provision of Logistics Related Services Segment

The revenue of the provision of logistics related services comprising road-freight transportation income, other transportation income and services income, the road-freight transportation income account for approximately 71% of the total segment revenue.

The revenue growth rate for 2020 in the rate of −6.9% is determined by 3 months actual and 9 months forecast revenue in 2020 for this segment, the decrease in 2020 projected revenue was mainly due to the much lower actual result brought by the impact of COVID-19 Outbreak in January to March 2020, the COVID-19 Outbreak affects the business of the end customers of this segment where most of them are in the retail and catering industry, the revenue of this segment dropped immediately since the COVID-19 Outbreak in view of the temporary closure of the end customers, the actual revenue of this segment for January to March 2020 represents 71.9% decrease for the corresponding period in 2019. The 9 months forecasted road-freight transportation income for 2020 was determined by the estimated demand of 328 NEVs earning an average price of RMB358 per NEV per day, the demand was estimated by referring to the number of NEVs under operation the average price per NEV per day was sampled from the average of the historical operation ledger of major customers, the 9 months forecasted other transportation income for 2020 was determined by the contracts on hand and the progress biddings, the forecasted services income was pro rata on the average results of January to March 2020 on the assumption of the business will run smoothly throughout the remaining period. The revenue growth rate for 2021 of 22.3% is due to the anticipated recovery of this segment in 2021 by eliminating the COVID-19 Outbreak factor, as such, the estimated income will assume to return to the original level in 2019. The revenue growth rate for 2022 to 2024 in the range of 2.6% to 3.1% is by reference to the long term growth rate of 2.55% in the PRC.

The Cost of Sales in the provision of logistics related services segment mainly consists depreciation, insurance cost and the commission shared with the drivers. Depreciation cost is calculated in straight line method on NEVs in operating, the useful life of NEV in operating is five years with minimum residual value; Insurance cost was calculated in accordance operating NEVs and non-operating NEVs, operating NEVs are required to purchase basic insurance and commercial insurance, non-operating NEVs will purchase basic insurance only. The amount of insurance premium float up or down according to the condition of NEV and the block purchase discount negotiated with insurers. The commission that share with driver ranges differently from different cities, the projection was based on the average of historical operating data to share road-freight service income with driver after deduct the fees and add the rewards.

The actual gross profit margin of this segment in 2019 is 3.8%. The gross profit margin for the year end 31 December 2019 is significantly lower than the value of inputs adopted in the 2020 Projection because of the classification of items in the Cost of Sales.

The depreciation, which was recognized as a cost item in Cost of Sales in 2019 under the segments of provision for logistics related services and in NEV leasing, were re-allocated to NEV leasing segment in 2020 Projection, the re-allocation increases the gross profit margin of the provision for logistics related services segment but it would not affect the overall gross margin of the CGU after all.

NEV Leasing Segment

The NEVs classified as property, plant and equipment were assumed to leasing out to corporate and individual customers to earn rental income, the monthly rental are varied by the model and conditions of NEV as well as the negotiation with customers, newly acquired NEVs under CAPEX were assumed to earn higher rental and the leasing out rate is also better than the old models.

The revenue of this segment in the Five Year Projection is determined by the approximately 820 NEVs held on hand as at 31 March 2020, that classified as property, plant and equipment, utilised for this segment multiplying the rental income in the range of RMB2,500 to RMB3,200 per NEV per month. Approximately RMB29 million leasing income were recorded in this segment during 2019 and that were an average of 1,100 NEVs earning the leasing income throughout the whole year, assuming 20% unutilisation rate.

The revenue growth rate for 2020 in the rate of −36.9% is determined by 3 months actual and 9 months forecast revenue in 2020 for this segment, the decrease in 2020 projected revenue was due to the drop in number of NEVs leasing out in view of the minimum lease-in assumption and the disposal of property, plant and equipment in 2019. Based on the NEVs on hand, the projection has considered the conditions of the equipment for leasing, the aged NEVs and low functional models, the unutilisation rate of 20% based on the marketing practice and on the best estimation of the management were adopted in the Five Year Projection. Aged NEVs and low function models were rented out at below market price, as such, the lease-out rate were adjusted in projection to reflect this issue.

The Company has adopted differential growth rate regarding revenue growth in 2020 projection for the segments of provision for logistics related services and vehicle leasing services, as it is projected that the low functional and old models representing approximately 26.8% of the CGU's total number of NEVs will retire from 2022 to 2024 are to be replaced by new models in three batches, the replaced number of new models is approximately 10% less than the retired NEVs. The new models will be leased out at a higher rate in term of leasing income and popularity, as such, the growth rate adopted for vehicle leasing services will be higher in view of the replacement with new NEVs.

The revenue growth rate for 2021 in the rate of 11.9% is due to the anticipated recovery of this segment in 2021 by eliminating the COVID-19 Outbreak factor, 30 NEVs lease-in and lease-out throughout the whole year for 2021, but only 20 NEVs were leased-in and leased-out during January to March 2020 and no lease-in NEVs assumed for the forecast 9 month of 2020 in considering the impact brought by the COVID-19 Outbreak. The revenue growth rate for 2022 in the rate of 1.8% has taken into account the first batch of retirement and replacement of a small number of NEVs which the new models replaced is less than the old models retired and also having taken in account the long-term growth rate of 2.55% in the

PRC. The revenue growth rate for 2023 and 2024 in the rate of 7.8% and 9.8% is computed by taking into account the more numbers of NEVs replacement of old model with new models which would result in a higher rental income and also having taken into account the long term growth rate of 2.55% in the PRC.

The Cost of Sales in the NEV leasing segment including depreciation and lease-in rent, the depreciation policy in leasing NEVs are the same as that adopted in the provision of logistics related services segment; The lease-in rent per month per NEV assumed to be the median of lease-out rent among various models of NEVs, lease-in number of motor NEV were assumed to a minimal of 30 per year from 2021 to 2024 in the assumption that the CGU would utilise its own vehicle resources as much as possible. The lease-in arrangement is to cover the shortage of vehicles in the case of that the subsidiaries of the CGU in different cities happened have insufficient vehicles in particular models for lease-out and operation purpose. However, in considering the impact brought by the COVD-19 Outbreak, no lease-in were assumed for the forecast 9 months in 2020, but in the actual results of 2019 including 550 NEVs that were leased-in from the third party at approximately RMB2,000 per month per NEV for the first eight months due to the one-off contract entered by the CGU in November 2018, all of the 550 NEVs has been leased-out to a third party at RMB2,500 per month per NEV for the same period.

The actual gross profit margin of this segment in 2019 is 7.7%, the gross profit margin adopted in 2020 projection assumed to be improved as the decrease in lease-in rental expenses by the utilization of NEVs resources owned by the CGU, the reclassification of items such as insurance in the Cost of Sales also contributed to the increase. The CGU was leasing vehicles from external parties in 2019 for the provision of road-freight services and for lease out purpose. The lease in number of vehicles were minimised in the projection assuming that the CGU would utilise its own sources as possible, the reduction in lease-in rental has improved the gross margin in NEV leasing segment. For vehicle leasing services, lease-out rate was considered as the Group has planned to gradually replace the existing NEVs with new NEVs in the coming financial years in 2022 to 2024, the Group presumes the revenue and profit margin of vehicle leasing services segment will be increased by taking into the market rental of the new models of NEVs.

Sales of NEV Segment

It was assumed in the projection that inventory items of the CGU are for sale purpose and the inventory on hand will be sold out in the forecast year of 2020, cost of NEV sold is referred to the actual purchase cost of inventories without value-add-tax.

The revenue growth rate for this segment in 2020 in the rate of -76.2% is in view that the number of NEVs available for sale is estimated to have dropped by approximately −77% while the sale price remains static. The gross profit margin in 2020 is estimated to be 14.6% in projection, the decrease is due to the decrease in selling price by taking in account of the age of the NEVs for sale and the microeconomic status that the CGU operating.

Last, but not least, considering there are connections between the business segments, the discontinuation of the sale of NEV business in the Five Year Projection will also benefit other business segments by reducing the common costs. Hence, together with the factors in each segment mentioned above, the gross profit margins in 2021 were improved.

The table below set out the other key input/ assumptions used in the Review:

Key input/ assumptions	**Basis**
Discount rate	Determined by using the weighted average return attributable to all of the operating assets of the CGU (the "**WACC**").
Long-term growth rate from 2024 onwards	Inflation of the PRC in 2021 (Rate: 2.55%), estimated by International Monetary Fund (Source: Statista.com).

WACC represents the weighted average return attributable to all the operating assets of the CGU. WACC was computed using the formula below:

$$WACC = We \times Re + Wd \times Rd \times (1 - Tc)$$

In which

Re = Cost of equity;

Rd = Cost of debt;

We = Weight of equity value to enterprise value;

Wd = Weight of debt value to enterprise value; and

Tc = Corporate tax rate.

The cost of equity was calculated by using the following formula:

$$Re = Rf + \beta \times \text{Market Risk Premium} + \text{Other Risk Premiums}$$

In which

Re = Cost of equity;

Rf = Risk-free rate; and

β = Beta coefficient.

REASONS FOR THE CHANGE IN THE VALUE OF INPUTS OR ASSUMPTIONS

The 2019 projection mostly relied on the assumptions adopted by Frost & Sullivan at the time of acquisition of the Stand East Group. The CGU gained a better understanding of its own unique situations after operating a whole year and it has been considered in its 2020 projection, the differences are explained below:

— Revenue growth rate by segment in 2019 projection: the CGU expects to buy 2500 NEVs each year for sale purpose and for the estimated increasing demand in road freight business, revenue growth mainly contributed by the optimistic estimated increase in selling price of NEVs and the demand for sale of NEVs and road freight services at the time of 2019

— Revenue growth rate by segment in 2020 projection: due to the discontinuance of the sales of NEVs and COVID-19 Outbreak, a more prudent approach was adopted by the management in the projection in 2020. The assumptions for road freight services and leasing income were estimated based upon actual historical data in 2019 with a reasonable increase

— Gross profit margin by segment in 2019 projection: the revenue and cost of sales are mostly considered with reference to industry trends and the industrial report prepared by Frost & Sullivan, the decrease in profit margin was mainly due to the subsequent increase in purchase cost for NEVs acquired and sold after 2019

— Gross profit margin by segment in 2020 projection: projection is more related to the CGU having taken into account the realistic marketing strategies and the actual operation. The actual lease-in cost for the first quarter of 2020 has reduced the gross profit margin for NEV leasing segment, such lease-in cost has considered to be minimal for the projection in 2021 and afterwards

— Profit margin in 2019 projection is in line with the majority of industry trend

— Profit margin in 2020 projection: the increase in profit margin is mainly due to the subsidies from local governments, it was assumed that the profit margin will be decreased after 2021. It has been referred to the historical range of profit margin of the industry peers and the profit margin in the 2020 projection is considered reasonable.

Set out below in the table the reason(s) for change in the value of inputs or assumptions from those previously adopted by the Group.

Input/assumptions	Reasons for the Changes
Decreased in budgeted revenue and growth rate and net profit margin	Due to discontinuance of the NEV sale business and COVID-19 Outbreak, a more prudent approach was adopted by the management in the projection in 2020. The assumptions for road-freight services and leasing income were estimated based upon actual historical data in 2019 and increase in reasonable range. The increase in profit margin is mainly due to the subsidies from local government, it was assumed that the profit margin will be descending after 2021. It has been cross checked with the historical range of profit margin of the industry peers.
Discount rate (Pre-tax: 2020: 32.8%; 2019: 29.1%) (Post-tax: 2020: 25%; 2019: 23%)	The increase in discount rate reflects the risk that the CGU cannot meet its expected performance due to uncertainty under the COVID-19 Outbreak and the Change in Government Policies.
Decrease in Budgeted CAPEX	Due to the discontinue of the business of NEV sales in the forecast year ending December 2021, the management lowers its budget for the purchase of NEVs.
Budgeted Change in net working capital	(a) Inventory: the CGU is expected to hold no NEVs as inventory for sales after the existing inventories have been sold out; (b) Receivables: due to the discontinue of the business of sales of NEVs in the forecast year ending December 2021, receivables is expected to decrease.

In considering the reasons stated below, the Company is of the view that the CGU projection shall adapt to changes and it is appropriate to temporarily discontinue the massive purchases of NEVs for sale purpose and not to adopt the basis prepared by Frost & Sullivan adopted in 2019 projection, the main reasons that affect the Company's decisions are as follows:

(1) The adverse effect that brought by the COVID-19 Outbreak has had and is expected to continue to have a material impact on the business and economic environment in which the CGU operates, that has weakened the financial positions of the CGU's customers, which is a key data used for calculating the value in use of assets, and the probability of an adverse economic situation as compared to that of 2019.

(2) The government policies on the promotion of NEVs are one of the key assumptions used in estimating the value-in-use which determines the recoverable amount for he CGU, the CGU and the Company anticipate the market will not react positively under current economic conditions.

In view of those unforeseen situations, the Company considers that it is prudent to downwards adjust the projection. The Company shall continue to monitor the market situations and shall make further announcement when and as necessary and shall keep the Shareholders and investors informed.

PROFIT GUARANTEE

According to the share purchase agreement dated 12 June 2018 in relation to the acquisition of the entire issued share capital of Stand East, the total net profits of the Stand East Group after tax calculated on a consolidated basis shall not be less than HK$20,000,000 for each financial year ending 31 December 2019, 2020 and 2021. The Stand East Group consists Stand East, Profit Empire and Zhong Jun and its subsidiaries.

As disclosed in the Announcement, according to the consolidated audited financial statement of Zhong Jun, the net profit after tax prepared in accordance with HKFRS has met the minimum profit guarantee of HK$20 million for the financial year ended 31 December 2019 (the "**Profit Guarantee**").

Since Stand East and Profit Empire, the intermediate holding companies of the Group were investment holding companies only and do not have any business operations for the year ended 31 December 2019, the Group did not prepare the audited consolidated financial statements of Stand East Group. Stand East and Profit Empire had recorded losses for the twelve months period ended 31 December 2019 in the sum of several thousand only due to corporate maintenance fee and bank charges, such sums are of negligible amount and do not affect the Profit Guarantee. The financial figures of Zhong Jun, Stand East and Profit Empire had been used for and reflected in the audited consolidated financial statement of the Group for the financial year ended 31 March 2020. The Company confirms that it will prepare the audited consolidated financial statements of Stand East Group for the year ending 31 December 2020 and 31 December 2021.

By Order of the Board
Chong Kin Group Holdings Limited
Zhang Jinbing
Chairman

Hong Kong, 20 October 2020

As at the date hereof, the Board comprises three executive Directors, namely Mr. Zhang Jinbing, Mr. Ni Biao and Mr. Yang Rui, one non-executive Director, namely Mr. Yan Haiting and three independent non-executive Directors, namely Dr. Zhu Zhengfu, Dr. Li Yifei and Mr. Tam Ping Kuen, Daniel.