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China ZhengTong Auto Services Holdings Limited
中 國 正 通 汽 車 服 務 控 股 有 限 公 司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1728)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

HIGHLIGHT OF RESULTS

For the year ended 31 December 2021:

- Revenue was approximately RMB20,986 million, representing a year-on-year increase of 24.3% as compared with approximately RMB16,881 million in 2020
- Overall gross profit was approximately RMB1,236 million, while the gross loss of 2020 was approximately RMB5,173 million
- Loss attributable to equity shareholders of the Company decreased by approximately 57.8% to approximately RMB3,622 million

The board (the "**Board**") of directors (the "**Directors**") of China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (the "**Company**" or "**ZhengTong**", together with its subsidiaries, the "**Group**") is pleased to announce the Group's annual consolidated results for the year ended 31 December 2021:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2021
(Expressed in RMB'000)

	Note	For the year ended 31 December 2021 RMB'000	2020 RMB'000
Continuing operations			
Revenue	*3*	**20,985,529**	16,880,923
Cost of sales		**(19,749,970)**	(22,054,370)
Gross profit/(loss)		**1,235,559**	(5,173,447)
Other income	*4*	**556,634**	665,223
Selling and distribution expenses		**(1,281,469)**	(1,502,673)
Administrative expenses		**(1,151,222)**	(1,066,925)
Impairment losses on goodwill and intangible assets	*8, 9*	**(316,617)**	(2,262,744)
Loss from operations		**(957,115)**	(9,340,566)
Finance costs	*5(a)*	**(1,301,874)**	(1,091,937)
Share of profit of associates and a joint venture		**45,340**	37,077
Loss before taxation	*5*	**(2,213,649)**	(10,395,426)
Income tax	*6(a)*	**9,641**	1,782,957
Loss for the year from continuing operations		**(2,204,008)**	(8,612,469)
Discontinued operations	*15*		
(Loss)/profit for the year from discontinued operations, net of tax		**(1,576,759)**	23,865
Loss for the year		**(3,780,767)**	(8,588,604)
(Loss)/profit for the year attributable to:			
Equity shareholders of the Company			
— from continuing operations		**(2,200,181)**	(8,596,060)
— from discontinued operations		**(1,421,950)**	16,954
		(3,622,131)	(8,579,106)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*
For the year ended 31 December 2021
(Expressed in RMB'000)

	Note	**For the year ended 31 December** **2021** ***RMB'000***	2020 *RMB'000*
(Loss)/profit for the year attributable to:			
Non-controlling interests			
— from continuing operations		**(3,827)**	(16,409)
— from discontinued operations		**(154,809)**	6,911
		(158,636)	(9,498)
Loss for the year		**(3,780,767)**	(8,588,604)
Basic and diluted (loss)/earnings per share	*7*		
from continuing operations (RMB cents)		**(81.3)**	(335.5)
from discontinued operations (RMB cents)		**(52.5)**	0.7
		(133.8)	(334.8)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021
(Expressed in RMB'000)

	Note	For the year ended 31 December 2021 RMB'000	2020 RMB'000
Other comprehensive income for the year (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of:			
financial statements of entities outside the Mainland China		**6,541**	14,772
Other comprehensive income for the year		**6,541**	14,772
Total comprehensive income for the year		**(3,774,226)**	(8,573,832)
Attributable to:			
Equity shareholders of the Company			
— from continuing operations		**(2,193,640)**	(8,581,288)
— from discontinued operations		**(1,421,950)**	16,954
		(3,615,590)	(8,564,334)
Non-controlling interests			
— from continuing operations		**(3,827)**	(16,409)
— from discontinued operations		**(154,809)**	6,911
		(158,636)	(9,498)
Total comprehensive income for the year		**(3,774,226)**	(8,573,832)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021
(Expressed in RMB'000)

	Note	At 31 December 2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment		**5,688,860**	6,098,398
Investment properties		**115,631**	—
Right-of-use assets		**2,915,812**	3,036,412
Intangible assets	*8*	**2,631,734**	2,979,596
Goodwill	*9*	**566,736**	693,791
Interest in associates		**533,367**	516,887
Deferred tax assets		**616,626**	442,782
Long-term receivables		**270,075**	237,924
Other financial assets		**—**	35,000
		13,338,841	14,040,790
Current assets			
Inventories	*10*	**2,649,031**	1,801,768
Trade and bills receivables	*11*	**1,005,066**	1,054,337
Prepayments, deposits and other receivables	*12*	**4,294,473**	4,373,866
Other financial assets		**122,589**	250,000
Pledged bank deposits		**2,696,460**	989,711
Time deposits		**413,841**	443,180
Cash and cash equivalents		**208,771**	395,119
Asset(s) held for sale	*15*	**1,400,714**	4,647,182
		12,790,945	13,955,163
Current liabilities			
Loans and borrowings		**14,776,527**	10,122,239
Bonds payable		**365,936**	—
Lease liabilities		**309,477**	529,620
Trade and other payables	*13*	**5,974,680**	4,197,308
Income tax payables		**414,378**	387,750
Liabilities held for sale	*15*	**—**	2,203,270
		21,840,998	17,440,187
Net current liabilities		**(9,050,053)**	(3,485,024)
Total assets less current liabilities		**4,288,788**	10,555,766

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
At 31 December 2021
(Expressed in RMB'000)

	Note	At 31 December 2021 RMB'000	2020 RMB'000
Non-current liabilities			
Loans and borrowings		**1,519,457**	1,433,964
Bonds payable		**—**	1,417,105
Lease liabilities		**1,169,334**	1,161,212
Deferred tax liabilities		**839,606**	946,546
Trade and other payables	*13*	**219,770**	251,656
Other financial liabilities		**—**	32,383
		3,748,167	5,242,866
NET ASSETS		**540,621**	5,312,900
CAPITAL AND RESERVES			
Share capital		**235,203**	231,265
Reserves		**273,227**	3,876,829
Total equity attributable to equity shareholders of the Company		**508,430**	4,108,094
Non-controlling interests		**32,191**	1,204,806
TOTAL EQUITY		**540,621**	5,312,900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China ZhengTong Auto Services Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in 4S dealership business, supply chain business, financial services and comprehensive properties business in the People's Republic of China (the "**PRC**").

On 31 August 2021, the sale and purchase agreement among Xiamen ITG Holding Group Co., Ltd. ("**ITG Holding**"), Joy Capital Holdings Limited ("**Joy Capital**", the then controlling shareholder) and other relevant parties (the "**SPA**") has been completed. Upon completion of the SPA, ITG Holding holds 820,618,184 shares, representing approximately 29.9% of the Company's share capital in issue and then becomes the single largest shareholder of the Company, and Joy Capital holds 562,898,636 shares, representing approximately 20.51% of the Company's share capital in issue, and is no longer the controlling shareholder of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**the Listing Rules**"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Group and the Group's interest in associates.

These consolidated financial statements are presented in Renminbi ("**RMB**") which is the Group's presentation currency, rounded to the nearest thousand, except for earnings per share information.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that certain financial assets are stated at fair value as explained in the accounting policies set out below.

— investments in equity securities; and

— derivative financial instruments.

The Group incurred a net loss of RMB3,781 million for the year ended 31 December 2021. And the Group had net current liabilities of RMB9,050 million as at 31 December 2021, including a sum of loans and borrowings of RMB5,766 million due to ITG Holding and its subsidiaries. Notwithstanding these conditions, the Group's consolidated financial statements for the year ended 31 December 2021 have been prepared on a going concern basis and the directors consider that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern. This is because, based on the cash flow projections for at least the next twelve months, the directors of the Company concluded that the Group will have adequate funds having considered the current available banking facilities as well as the financial support from ITG Holding, who has informed the Group that, on the basis that in compliance with regulatory regime applicable to state owned enterprises and after obtaining internal resolutions and approvals, it will provide financial support to the Group as may be necessary to enable the Group to continue operation as a going concern for at least the next twelve months.

(c) Changes in accounting policy

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

Amendment to HKFRS 16, *COVID-19-related rent concessions beyond 30 June 2021*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021* (2021 amendment)

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022. The Group has early adopted the 2021 amendment in this financial year.

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

(d) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "**holder**") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "Other payables and accruals" at fair value.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when expected credit losses (ECLs) on the financial guarantees are determined to be higher than the amount carried in "Other payables and accruals" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(e) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group are concerned are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the relevant applicable policies.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal groups constituting the discontinued operation.

3. REVENUE

The Group is mainly engaged in sales of passenger motor vehicles, provision of after-sales services, provision of logistics services, sales of lubricant oil and financial services. Revenue represents the sales of goods, services income rendered to customers and interest income.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or services lines is as follows:

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Continuing operations		
Sales of passenger motor vehicles	**16,988,912**	12,605,564
Provision of after-sales services	**3,104,557**	3,373,363
Provision of logistics services	**613,298**	611,266
Sales of lubricant oil	**269,766**	280,576
	20,976,533	16,870,769
Discontinued operations		
Service income from financial services	**34,242**	72,597
Revenue from other sources		
Continuing operations:		
Others	**8,996**	10,154
Discontinued operations:		
Interest income from financial services	**247,827**	547,908
	21,267,598	17,501,428
Revenue of continuing operations	**20,985,529**	16,880,923
Revenue of discontinued operations	**282,069**	620,505

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for passenger vehicles such that the Group does not include information about revenue that the Group will be entitled to when it satisfied the remaining performance obligations under the contracts for sales of passenger vehicles that had an original expected duration of one year or less.

4. OTHER INCOME

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Continuing operations:		
Service income	**389,932**	430,838
Interest income from bank deposits	**14,126**	33,051
Net gain on disposal of property, plant and equipment	**261,737**	34,909
Gain on disposal of interest in a joint venture	**—**	133,403
Realised/unrealised (loss)/gain of financial instruments	**(116,775)**	16,534
Others	**7,614**	16,448
	556,634	665,223
Discontinued operations:		
Government grants	**3**	12,164
Others	**2,080**	(2,643)
	2,083	9,521
	558,717	674,744

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	Note	For the year ended 31 December 2021 RMB'000	2020 RMB'000
(a) Finance costs:			
Continuing operations:			
Interest on loans and borrowings and bonds payable		**1,254,898**	1,046,242
Interest on lease liabilities		**89,807**	102,650
Finance costs for consideration of business combination	*(i)*	**16,048**	22,219
Other finance costs	*(ii)*	**23,717**	20,433
Less: Interest capitalised*		**(82,596)**	(99,607)
		1,301,874	1,091,937
Discontinued operations:			
Interest on lease liabilities		**1,276**	1,899
		1,303,150	1,093,836

* The borrowing costs have been capitalised at a rate of 5.9%–7.4% per annum (2020: 4.13%–8.80%).

	Note	For the year ended 31 December 2021 RMB'000	2020 RMB'000
(b) Staff costs:			
Continuing operations:			
Salaries, wages and other benefits		**1,009,023**	1,293,136
Contributions to defined contribution retirement plans	*(iii)*	**56,251**	17,944
Equity settled share-based transactions		**15,926**	17,310
		1,081,200	1,328,390
Discontinued operations:			
Salaries, wages and other benefits		**57,215**	69,101
Contributions to defined contribution retirement plans	*(iii)*	**5,529**	749
		62,744	69,850
		1,143,944	1,398,240

(i) It represents the unwinding of interest element of business combination consideration.

(ii) It mainly represents the interest expenses arising from discounting of bills payable.

(iii) Employees of the Group's PRC subsidiaries are required to participate in defined contribution retirement schemes administered and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal government to the schemes to fund the retirement benefits of the employees. The Group remits all pension fund contributions to the respective tax bureau, which are responsible for the payment and liabilities relating to the pension funds.

The Group also operates a Mandatory Provident Fund Scheme (the "**MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Company's and its subsidiaries' contributions made to the above defined contribution schemes are non-refundable and cannot be used to reduce the future or existing level of contribution of the Company and its subsidiaries should any forfeiture be resulted from the schemes.

Due to the impact of an outbreak of COVID-19, a number of policies including the relief of social insurance have been promulgated by the government since February 2020 to expedite resumption of economic activities, which contributed to the relief of certain defined contribution plans in 2020.

The Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
(c) other items:		
Continuing operations:		
Cost of inventories *(note 10(b))*	**19,070,743**	21,312,963
Depreciation		
— owned property, plant and equipment	**361,024**	371,919
— Right-of-use assets	**379,291**	397,899
— Investment properties	**571**	—
Amortisation of intangible assets	**161,114**	183,897
Operating lease charges	**8,069**	5,735
Net foreign exchange gain	**(181,000)**	(350,442)
Impairment losses		
— Goodwill *(note 9)*	**127,055**	1,241,322
— Intangible assets *(note 8)*	**189,562**	1,021,422
— Property, plant and equipment	**311,777**	235,628
Discontinued operations:		
Cost of interests*	**63,449**	147,915
Depreciation		
— Owned property, plant and equipment	**—**	3,143
— Right-of-use assets	**—**	9,290
Amortisation of intangible assets	**—**	5,536
Operating lease charges	**135**	320
Net foreign exchange (gain)/loss	**(1,068)**	995
Impairment losses		
— Receivables from financial services	**887,854**	309,266
Loss in relation to loss of control in a subsidiary *(note 15)*	**1,200,197**	—

* The cost of interests is the borrowing costs for financial services, and is recognised in the cost of sales of discontinued operations.

6. INCOME TAX

(a) Continuing operation

(i) Income tax in the consolidated statement of profit or loss represents:

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Current tax:		
Provision for income tax for the year	**113,148**	(1,548,535)
Deferred tax:		
Origination of temporary differences	**(122,789)**	(234,422)
	(9,641)	(1,782,957)

(ii) Reconciliation between income tax and accounting loss at applicable tax rates:

		For the year ended 31 December	
		2021	2020
		RMB'000	*RMB'000*
Loss before taxation		**(2,213,649)**	(10,395,426)
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%		**(553,412)**	(2,598,857)
Non-deductible expenses, net of non-taxable income		**191,570**	408,382
Unused tax losses not recognised		**363,536**	246,690
Share of profits recognised under the equity method		**(11,335)**	(9,269)
Effect of withholding tax	*(iv)*	**—**	170,097
Income tax		**(9,641)**	(1,782,957)

(b) Discontinued operations:

(i) Income tax in the consolidated statement of profit or loss represents:

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Current tax:		
Provision for income tax for the year	**(52,481)**	64,434
Over-provision in respect of prior years	**(143)**	(143)
	(52,624)	64,291
Deferred tax:		
Origination of temporary differences	**(289,072)**	(55,678)
	(341,696)	8,613

(ii) Reconciliation between income tax and accounting (loss)/profit at applicable tax rates:

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
(Loss)/profit before taxation	**(1,918,455)**	32,478
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**(479,614)**	8,120
Effect of tax rate differential	**180,030**	—
Tax effect of consolidation adjustments	**(42,114)**	—
Non-deductible expenses	**145**	636
Over-provision in respect of prior years	**(143)**	(143)
Income tax	**(341,696)**	8,613

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) No provision for Hong Kong Profits Tax was made for the subsidiaries located in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25% (2020: 25%).

Taxation for the Group's PRC subsidiaries is calculated using the estimated annual effective rates of taxation that are expected to be applicable.

(iv) Under the CIT law and its relevant regulations, capital gains and dividends receivable on investment by non-PRC resident enterprises from PRC resident enterprises for earnings beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements.

7. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2021 was based on the loss attributable to equity shareholders of the Company of RMB2,200,181,000 (2020: RMB8,596,060,000) from continuing operations and loss attributable to equity shareholders of the Company of RMB1,421,950,000 (2020: profit of RMB16,954,000) from discontinued operations and the weighted average number of ordinary shares in issue during the year ended 31 December 2021 of 2,707,891,078 (2020: 2,562,402,360), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2021	2020
Issued ordinary shares at 1 January	**2,697,442,420**	2,452,220,420
Effect of shares issued for placing	**—**	110,181,940
Effect of restricted shares vested to employees	**10,448,658**	—
Weighted average number of ordinary shares at 31 December	**2,707,891,078**	2,562,402,360

The potential ordinary shares in respect of vesting of restricted shares on 12 June 2021 and the remaining unvested restricted shares pursuant to the share award scheme was anti-dilutive, as they would lead to a decline in the loss per share. Therefore, diluted earnings per share are equal to basic earnings per share.

8. INTANGIBLE ASSETS

	Car dealerships & Dealership operation rights *RMB'000*	Favourable lease contracts *RMB'000*	Trademark *RMB'000*	Software *RMB'000*	Others *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2020	4,848,553	36,904	362,732	52,943	363	5,301,495
Additions	—	—	—	8,716	—	8,716
Reclassification to assets classified as held for sale *(note 15)*	—	—	—	(38,189)	—	(38,189)
At 31 December 2020, and 1 January 2021	4,848,553	36,904	362,732	23,470	363	5,272,022
Additions	—	—	—	2,814	—	2,814
At 31 December 2021	4,848,553	36,904	362,732	26,284	363	5,274,836
Accumulated amortisation:						
At 1 January 2020	1,053,193	32,690	—	22,540	—	1,108,423
Additions	177,326	2,828	—	9,279	—	189,433
Reclassification to assets classified as held for sale *(note 15)*	—	—	—	(26,852)	—	(26,852)
At 31 December 2020, and 1 January 2021	1,230,519	35,518	—	4,967	—	1,271,004
Additions	153,460	1,369	—	6,285	—	161,114
At 31 December 2021	1,383,979	36,887	—	11,252	—	1,432,118
Accumulated impairment losses						
At 1 January 2020	—	—	—	—	—	—
Additions	905,758	—	115,664	—	—	1,021,422
At 31 December 2020, and 1 January 2021	905,758	—	115,664	—	—	1,021,422
Additions	159,599	—	29,963	—	—	189,562
At 31 December 2021	1,065,357	—	145,627	—	—	1,210,984
Net book Value:						
At 31 December 2021	2,399,217	17	217,105	15,032	363	2,631,734
At 31 December 2020	2,712,276	1,386	247,068	18,503	363	2,979,596

Intangible assets — car dealerships

The car dealerships arise from prior business combinations and relate to relationships with automakers, with an estimated useful life of 40 years. The fair value of the car dealerships as at the respective acquisition date was determined by using the multiple excess earning method.

The dealership operation rights arise from a prior business combination through an agreement on strategic operation management cooperation scheme, with an estimated useful life of 10 years. The fair value of the dealership operation rights as at the acquisition date was determined by using the multiple excess earning method.

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

The outbreak of COVID-19 had a severe and direct impact on the financial performance of the Group in 2020, which led to continual decline in the Group's financial performance and increased strain over the Group's liquidity position.

As such, the Group had carried out various measures such as the reduction of new car purchases from automakers in 2020. These measures, while necessary, resulted in failure to achieve certain agreed purchase volume, failure to meet certain sales targets agreed with automakers, and failure to satisfy with certain standards on dealership operation as stipulated in dealer agreements with automakers, such as customer satisfaction ratings. As a result, the Group was alleged by automakers to have damaged their brands, and some dealership agreements have then been terminated or suspended as at 31 December 2020.

In 2021, the Group has been making improvements for the majority of the dealerships such as achieving the purchases and sales targets assigned by automakers and improving customer satisfaction ratings, and has been in active negotiation with the automakers to ease the relationship and to re-build trust, so as to recover from the adverse impacts occurred in 2020 to the most extent. As a result, certain of the previously suspended dealership agreements had been gradually resumed.

However, a few dealerships were subsequently terminated or still remained suspended due to the continual underperformance compared with the targets set by the automakers in 2021, mainly caused by unexpected situations like the insufficient supply by automakers due to the supply shortage of car chips that was not fully anticipated as of 31 December 2020, which directly led to an underperformance of new car sales volume and revenue for certain 4S dealership stores during the year ended 31 December 2021.

As such, the directors of the Group consider that there are impairment indicators for several 4S dealership stores as at 31 December 2021, which were independent cash generating units (CGUs).

Therefore, management engaged an external valuer to assist with an impairment test to determine the recoverable amount of the related CGUs as at 31 December 2021, with the result of recognition of impairment losses of goodwill and intangible assets — car dealerships of approximately RMB127 million and RMB160 million (2020: RMB1,241 million and RMB906 million), respectively.

Impairment testing of intangible assets — car dealerships and goodwill

The recoverable amount of CGUs is determined based on the higher of its fair value less costs to sell and value in use calculations according to requirements of Hong Kong Accounting Standard 36 *Impairment of Assets*, and fair values less costs to sell of the CGUs are not estimated to be materially different from their respective value in use amounts. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated by using an estimated growth rate of 3% (2020: 3%) which is consistent with the forecasts included in industry reports. The pre-tax discount rates applied to the cash flow projections beyond the one year period are with a range from 13% to 14% (2020: 16%). The carrying amount of these CGUs has been reduced to their recoverable amount, the impairment first reduced the carrying amount of goodwill allocated to the CGU, then the remaining amount of the impairment loss was allocated pro rata to other assets in the CGU, on the basis of the carrying amount of each asset in the CGU (including intangible assets), no less than the highest of its recoverable amount (if it is determinable) and zero.

Key assumptions used in the value in use calculation

Key assumptions used in the value in use calculations include: (i) annual revenue growth rates during the forecast period, (ii) gross profit margin, (iii) working capital as a percentage of revenue and (iv) discount rates.

The key inputs and assumptions used in the impairment test for the year of 2021 and 2020 are listed as follows:

As at 31 December 2021

Inputs	**2022**	**2023**	**2024~2026**
Annual Revenue Growth Rate	-1.6%~79.0%	3.0%~36.1%	3.0%~12.0%
Gross Profit Margin	5.3%~14.2%	5.9%~14.5%	
Working Capital as a% of Revenue	-31.0%~13.9%	-31.0%~13.9%	

As at 31 December 2020

Inputs	2021	2022	2023~2025
Annual Revenue Growth Rate	-97.0%~194.9%	3.0%~70.2%	3.0%~12.2%
Gross Profit Margin	5.2%~46.5%	5.2%~46.5%	
Working Capital as a % of Revenue	-40.3%~17.7%	-40.3%~17.7%	

The key assumptions are estimated by the management with reference to the actual and historical financial performance, expected market growth trend for different brands based on open market data and the trend estimation for repositioned stores:

— For annual revenue growth rate:

   a) For certain dealership stores whose dealership agreements had been newly terminated and would be focus only on after-sale services or self-operation, a significant reduction in estimated revenue in 2022 was expected, while for 2023 through 2026 reverting back to a single digit growth rate;

b) For other dealership stores, the estimated revenue for 2022 has been adjusted back to a normal level being commensurate with the actual revenue achieved in 2021 based on financial budgets approved by management, and for 2023 through 2026, as the growth was from a normal base, a relatively low growth rate is expected to reflect the steady future business expansion.

— Gross profit margin was mainly estimated based on the historical performance of each stores (before COVID-19 and liquidity strain) and take into consideration of mix for different revenue categories like new car sales and after-sale services and of the actual performance of 2021.

— Working capital as percentage of revenue was estimated by calculation based on historical trend (before COVID-19 and liquidity strain) of turnover days of different balance sheet items or expense to revenue ratios of different profit or loss items, which is generally in line with years comparable to the periods before COVID-19.

The pre-tax discount rate applied to the impairment test had been adjusted to a range from 13% to 14% (2020: 16%) as the overall credit risk of the Group has become lower since ITG Holding became the single largest shareholder of the Company in 2021.

Among the above inputs and assumptions, the main changes compared to 31 December 2020 were the changes in revenue growth. As mentioned above, for those dealership stores whose dealership rights were newly terminated or suspended, their focuses will be on after-sale services only or self-operation, and therefore a reduction in revenue growth was forecasted for the full year of 2022; and for other stores, a rebound in revenue growth for the full year of 2022 was forecasted based on the approved budget prepared according to annual purchase quotas as agreed with automakers for 2022. Consequently, the normal base in 2022 will lead to a relatively low and steady increase in growth rate in future years. Such impacts were not fully reflected in the inputs and assumptions used in the 2020 year end assessment, as the new termination or suspension of dealership occurred in 2021 was non-adjusting subsequent events for the year ended 31 December 2020. There have been no subsequent changes in the valuation methods used compared with those adopted in the year of 2020.

Intangible assets — trademark

The trademark, arising from the acquisition of Top Globe Limited, has an indefinite useful life because it is expected to contribute net cash inflows to the Group indefinitely. The fair value of the trademark as at the acquisition date was determined by using the relief from royalty method.

During the year ended 31 December 2021, the operating results of several 4S dealership stores under Top Globe Limited had not achieved the year-to-date 2021 financial budgets approved by management, and certain dealership agreements within this group were terminated within the year as mentioned in the part of "Intangible assets — car dealerships above". Management has adjusted the five-year financial budgets of these stores on the basis of its forecast, and the carrying amounts of trademark was therefore reduced by RMB29,963,000 as at 31 December 2021 (2020: RMB115,664,000).

9. GOODWILL

	RMB'000
Cost:	
At 1 January 2020, 31 December 2020 and 31 December 2021	**2,006,335**
Accumulated impairment losses:	
At 1 January 2020	**71,222**
Impairment during the year	**1,241,322**
At 31 December 2020, and 1 January 2021	**1,312,544**
Impairment during the year *(note 8)*	**127,055**
At 31 December 2021	**1,439,599**
Carrying amount:	
At 31 December 2021	**566,736**
At 31 December 2020	**693,791**

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's CGUs identified according to the operating segments as follows:

	At 31 December	
	2021	2020
	RMB'000	*RMB'000*
4S dealership business	**566,736**	693,791

10. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December	
	2021	2020
	RMB'000	*RMB'000*
4S dealership business		
Motor vehicles	**1,796,851**	967,392
Automobile spare parts	**216,724**	256,610
Others	**43,917**	41,459
	2,057,492	1,265,461
Comprehensive properties business		
Properties under development for sale	**591,539**	536,307
	2,649,031	1,801,768

Inventories with carrying amount of RMB565,866,000 have been pledged as security for the bills payable as at 31 December 2021 (2020: RMB161,994,000).

Inventories with carrying amount of RMB901,237,000 have been pledged as security for loans and borrowings from banks and other financial institutions as at 31 December 2021 (2020: RMB775,833,000).

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

		For the year ended 31 December	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Carrying amount of inventories sold		**18,975,817**	16,894,387
Write down of inventories		**54,352**	101,190
Reversal of write-down of inventories	*(i)*	**(8,270)**	(664)
Re-assessment of rebate receivables	*(ii)*	**48,844**	4,318,050
		19,070,743	21,312,963

(i) The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain motor vehicles as a result of a change in consumer preferences.

(ii) Rebate receivables in prior years were accrued based the terms of the underlying vendor rebate policies and relevant inputs, including sales and purchase volume data, rebate rates and other specific criteria such as customer satisfactory results, store demonstration requirements, etc., as set out in the respective vendor rebate policies.

As disclosed in note 8, a few dealership agreements were terminated during the year ended 31 December 2021 due to the continual underperformance compared with the targets set by automakers. Accordingly, these automakers have alleged that the Group failed to make improvement against the damage the Group brought to their brands and clawed back the Group's prior years' rebate entitlements. The Group has therefore reassessed the recoverability of the rebate receivables, and a reduction of rebate receivable (VAT exclusive) by RMB48,844,000 was recognised in profit or loss for the year ended 31 December 2021 (2020: A reduction of RMB4,318,050,000).

11. TRADE AND BILLS RECEIVABLES

	At 31 December	
	2021	2020
	RMB'000	*RMB'000*
Trade receivables	**1,004,158**	1,053,682
Bills receivable	**908**	655
	1,005,066	1,054,337

All of the trade and bills receivables are expected to be recovered within one year.

None of the trade and bills receivables are pledged against bank loans as at 31 December 2021 (2020: RMB17,073,000).

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date, is as follows:

	At 31 December	
	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**976,505**	1,013,109
More than 3 months but within 1 year	**7,565**	21,962
Over 1 year	**20,996**	19,266
	1,005,066	1,054,337

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		At 31 December	
		2021	2020
	Note	***RMB'000***	RMB'000
Prepayments		**583,669**	763,067
Deposits		**475,735**	510,213
Other receivables	*(ii)*	**3,235,069**	3,100,586
		4,294,473	4,373,866

(i) All of the prepayments, deposits and other receivables are expected to be recovered within one year.

(ii) For the reason disclosed in note 10(b)(ii), a reduction of RMB55,194,000 (VAT inclusive) has been made against rebate receivable, which was included in other receivables, during the year ended 31 December 2021 (2020: RMB4,879,397,000 (VAT inclusive)).

13. TRADE AND OTHER PAYABLES

		At 31 December	
		2021	2020
	Note	***RMB'000***	RMB'000
Current			
Trade payables		**1,102,712**	1,029,801
Bills payable	*(i)*	**2,829,084**	699,320
		3,931,796	1,729,121
Contract liabilities	*(ii)*	**1,150,320**	916,287
Other payables and accruals		**891,626**	1,528,557
Payables due to related parties		**938**	23,343
		5,974,680	4,197,308
Non-current			
Long-term payables		**219,770**	251,656
		6,194,450	4,448,964

(i) Bills payable of RMB1,620,765,000 as at 31 December 2021 (2020: RMB523,728,000) were secured by pledged bank deposits.

Bills payable of RMB2,578,300,806 as at 31 December 2021 (2020: RMB175,592,000) were secured by inventories.

As of the end of reporting period, the ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	At 31 December	
	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**3,715,365**	1,530,030
Over 3 months but within 6 months	**211,543**	190,570
Over 6 months but within 12 months	**4,888**	8,521
	3,931,796	1,729,121

(ii) The amount of revenue recognised in the year that was included in the contract liabilities balance at the beginning of the year was RMB916,287,000 (2020: RMB914,527,000).

14 DIVIDENDS

(i) No final dividend was proposed or paid after the end of reporting periods of the year ended 31 December 2021 and 2020.

(ii) No dividend was proposed in respect of previous financial years, approved and paid during the reporting periods of the year ended 31 December 2021 and 2020.

(iii) Other dividends

During the year ended 31 December 2021, none of the subsidiaries of the Group has declared or paid any dividends in cash to non-controlling shareholders (2020: RMB7,725,000).

15 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS

On 20 October 2020, the Company received from Shanghai Office of the China Banking and Insurance Regulatory Commission (the "**CBIRC**") an administrative decision against the Company (the "**CBIRC Decision**"), alleging that (i) the Company obtained administrative licenses and permits for the establishment of Shanghai Dongzheng Automotive Finance Co., Ltd. ("**Dongzheng**"), a subsidiary of the Company, by improper means and the Company and its related parties engaged in non-compliant related-party transactions with Dongzheng; and (ii) Dongzheng's dealer auto loan business was carried out in serious violation of the principle of prudent operation. CBIRC required that the Company shall withdraw the Company's interest in Dongzheng within 3 months from the date of the CBIRC Decision.

In response to the CBIRC Decision, the Company had committed to sell its entire interests in Dongzheng which constituted the Group's financial services segment. It had engaged a financial adviser to assist in the disposal (the "**Potential Disposal**") and had been actively identifying potential purchasers with an objective of achieving a completed sale within 2021, which helped the Company obtain a reasonable extension beyond the original due date of 19 January 2021 for the completion of the Potential Disposal. Accordingly, the interests in Dongzheng have been presented as a disposal group held for sale as at 31 December 2020 and the related activities as discontinued operations since then.

During 2021, although the Company had tried to achieve the Potential Disposal and kept periodic communication with CBIRC, no binding sales and purchase agreements had been entered into with any potential purchasers. Towards the end of 2021, Shanghai Financial Court of the People's Republic of China (the "**Shanghai Financial Court**") has accepted the application by the CBIRC and ruled to approve on January 2022 the compulsory liquidation of the Company's interests in Dongzheng by way of auction (the "**Liquidation Order**").

On 29 January 2022, the Company received two rulings on administrative proceedings and a notice of property preservation against the Company issued by the Shanghai Financial Court (collectively, the "**Rulings**").

In view of the aforementioned developments in particular the auction application that occurred in December 2021 and the subsequent confirming evidence by way of the Rulings issued on 29 January 2022, the Company has concluded that at the end of 2021 there was a significant change in circumstances around how power can be exercised over Dongzheng and that the Company lost control over Dongzheng. Consequently, from then the Company has ceased to consolidate the assets, liabilities and activities of Dongzheng and has recognised its interests in Dongzheng as a financial asset at fair value through profit or loss and, accordingly, the assets and liabilities in the disposal group held for sale at 31 December 2020 has become one single financial asset held for sale at 31 December 2021. In accordance with the valuation report issued by an external valuer on 24 March 2022, the fair value of the equity interests held by the Company in Dongzheng as whole at the date of loss of control was RMB1,400,714,000. Accordingly, upon the loss of control the Company has recognised a remeasurement loss of RMB1,200,197,000 being the difference between the fair value of the overall interest and the Group's share of the carrying amounts of the underlying assets and liabilities of Dongzheng.

(i) **Analysis of profit for the year from Dongzheng**

The results of the discontinued operations of Dongzheng for the period up to the date of loss of control and the results for the preceding year are as follows:

	Note	**For the period up to the date of loss of control** *RMB'000*	**For the year ended 31 December 2020** *RMB'000*
Revenue		375,403	808,709
Elimination of inter-segment revenue		(93,334)	(188,204)
External revenue	*3*	282,069	620,505
Cost		(1,380,732)	(630,414)
Other revenue		2,083	9,521
Administrative expenses		(99,046)	(111,946)
Finance costs (note 5(a))		(1,276)	(1,899)
Add back: Change in expected credit loss on inter-segment receivables and other inter-segment expenses		478,644	146,711
Results from operating activities		(718,258)	32,478
Income tax		221,676	(8,613)
Results from operating activities, net of tax		(496,582)	23,865
Fair value remeasurement loss		(1,200,197)	—
Income tax		120,020	—
Fair value remeasurement loss upon loss of control, net of tax		(1,080,177)	—
(Loss)/profit for the year from discontinued operations, net of tax		(1,576,759)	23,865

Immediately before the loss of control by the Company and as at 31 December 2020, the major classes of assets and liabilities of Dongzheng are as follow:

	At the date of loss of control *RMB'000*	As at 31 December 2020 *RMB'000*
Property, plant and equipment	7,867	7,598
Right-of-use assets	20,636	20,636
Intangible assets	12,060	11,337
Receivables from financial services	1,403,898	4,389,884
Deferred tax assets	324,755	87,548
Prepayments, deposits and other receivables	26,340	34,758
Cash and cash equivalents	255,890	95,421
Assets	2,051,446	4,647,182
Add: inter-segment receivables (after expected credit loss)	1,343,505	1,621,580
Dongzheng reportable assets	3,394,951	6,268,762
Loans and borrowings	—	(2,033,911)
Trade and other payables	(111,289)	(127,608)
Lease liabilities	(13,582)	(23,372)
Income tax payables	(26,398)	(18,379)
Liabilities	(151,269)	(2,203,270)
Add: inter-segment payables	(36)	(932)
Dongzheng reportable liabilities	(151,305)	(2,204,202)

The above loss of control over Dongzheng had the following effect on the Group's assets and liabilities upon the date when control was lost:

	At the date of loss of control *RMB'000*
Net assets of Dongzheng immediately before loss of control after consolidation adjustments	
Assets	2,051,446
Liabilities	(151,269)
	1,900,177
De-consolidation adjustments upon loss of control:	
Loans and borrowings due to Dongzheng	1,440,044
Payables due to Dongzheng	274,705
Receivables due from Dongzheng	(36)
Non-controlling interests	(1,013,979)
Fair value remeasurement loss upon loss of control	(1,200,197)
Fair value of interest in Dongzheng immediately after loss of control	**1,400,714**

16 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Note 2(b) explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities (other than financial guarantees), which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	At 31 December 2021					At 31 December 2020				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand	**More than 1 year but less than 5 years**	**More than 5 years**	**Total**	**Balance sheet carrying amount**	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	15,232,831	1,588,420	—	16,821,251	16,295,984	10,976,009	2,918,311	—	13,894,320	11,556,203
Lease liabilities	372,157	1,129,605	643,928	2,145,690	1,478,811	551,288	932,743	637,701	2,121,732	1,690,832
Bonds payable	374,286	—	—	374,286	365,936	163,956	1,443,876	—	1,607,832	1,417,105
Trade and other payables	5,974,680	284,000	71,000	6,329,680	6,196,457	4,197,308	284,000	142,000	4,623,308	4,448,964
Total liquidity exposure other than the financial guarantees issued	21,953,954	3,002,025	714,928	25,670,907	24,337,188	15,888,561	5,578,930	779,701	22,247,192	19,113,104

Financial guarantees issued

In March 2016, Wuhan Zhengtong United Industrial Investment Group Co., Ltd. ("**Wuhan Zhengtong**"), an indirect wholly owned subsidiary of the Company, had entered into an undertaking (the "**2016 Undertaking**") to provide financial guarantees for Beijing Guangze Real Estate Development Co., Ltd. ("**Beijing Guangze**")'s obligations to 1). pay the redemption price for the equity investment made by Ningbo Yuchen Fengze Equity Investment Partnership (Limited Partnership) ("**Yuchen Fengze**") in Beijing Zunbaocheng Real Estate Co., Ltd. ("**Beijing Zunbaocheng**") and Beijing Baoze Automobile Technology Development Co., Ltd. ("**Beijing Baoze**") ("**Equity Investment Redemption Obligation**"); and 2). repay the outstanding loan balance owed by Beijing Guangze to Yuchen Fengze ("**Unsettled Loan Balance**"). In March 2020, Wuhan Zhengtong renewed the 2016 Undertaking as certain shortfall agreements ("**2020 Shortfall Agreements**") to further provide financial guarantees for the Equity Investment Redemption Price and the Unsettled Loan Balance.

Beijing Guangze is a majority-controlled company held indirectly by a family member of Mr. Wang Muqing, a former executive director of the Company, who has resigned on 10 January 2022. Beijing Guangze holds 8.6758% and 4.3478% equity interest in Beijing Zunbaocheng and Beijing Baoze, respectively.

Other than by the financial guarantees provided by Wuhan Zhengtong as mentioned above, the Equity Investment Redemption Obligation and Unsettled Loan Balance were also secured by, among other things, certain land use rights and properties located in Beijing, belonging to Beijing Zunbaocheng and Beijing Baoze (the "**Pledged Assets**") since 2016.

On 17 December 2021, the Company was notified that a court judgement had been granted by the Ningbo Intermediate People's Court in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong.

On 28 December 2021, the Company was notified that another court judgement had been granted in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong by the Yangzhou Intermediate People's Court (together with the aforementioned court judgement being notified on 17 December 2021, as "**First Instance Judgement**").

Pursuant to the First Instance Judgement, Beijing Guangze shall:

— pay to Yuchen Fengze a principal amount of RMB420 million together with interest, comprising, among others, the redemption price for the equity investment made by Yuchen Fengze in Beijing Zunbaocheng and Beijing Baoze. Wuhan Zhengtong was held jointly and severally liable for the same amount;

— pay to Yuchen Fengze approximately RMB1.41 billion (comprising the loan principal of RMB1.35 billion, accrued interest, default interest and compound interest) and late payment interest, the actual amount of which will increase with time and relevant costs. Wuhan Zhengtong was held jointly and severally liable for the same amount.

The First Instance Judgement is not yet effective, and Wuhan Zhengtong has already filed appeals against it through Zhejiang Higher People's Court and Jiangsu Higher People's Court, respectively. Zhejiang Higher People's Court have proceeded the initial court hearing in February 2022. The appeals were still ongoing as of the date of approval of these financial statements.

According to the PRC legal opinion issued by an external legal advisor, the Group is only obliged to pay the shortfall based on the 2016 Undertaking and the 2020 Shortfall Agreements, if any, after Beijing Guangze fails to fulfill its obligation including liquidating the Pledged Assets to repay the liabilities. And even if Wuhan Zhengtong is jointly and severally liable for the obligation, it has the legal right to be reimbursed for the payment it made from the proceeds of sales for the Pledged Assets, which could be enforced for sale according to relevant PRC laws and regulations.

Accordingly, cash shortfalls for the Group are the expected payments to reimburse Yuchen Fengze for a credit loss that it incurs less any amounts that the Group expects to receive from Beijing Guangze including the proceeds obtained from the sales of the Pledged Assets.

The maximum amount guaranteed by Wuhan Zhengtong with the 2016 Undertaking during the year from 2016 to 2019 was RMB1.80 billion. The maximum amount guaranteed by Wuhan Zhengtong with the 2020 Shortfall Agreements as at 31 December 2021 was RMB1.83 billion (2020: RMB1.77 billion). Both the Equity Investment Redemption Obligation and the Unsettled Loan Balance were collateralised by the Pledged Assets.

The fair value of the Pledged Assets and the estimated net realisable amount calculated as fair value less cost to sell as at 31 December 2021 were RMB2.88 billion and RMB2.01 billion, respectively, according to the valuation reports issued by an external valuer on 24 March 2022.

The initial fair value of the financial guarantees upon the initial recognition in 2016 was immaterial, which was measured for the future net cash outflow based on the credit spread (after considering macroeconomic and industry factors) of Beijing Guangze, the maximum exposure and value of the Pledged Assets according to the valuation report issued by an external valuer, as well as a discount factor. Subsequently, the financial guarantee contract was measured at the higher of the initial recognised amount (which was assessed to be immaterial in 2016), minus accumulated amortisation (which was nil accordingly), and the expected credit loss allowance. As at 31 December 2016 to 2021, the expected credit loss allowances for the financial guarantees, based on the Group's expected cash outflows less the expected recoveries from Beijing Guangze and the Pledged Assets, were assessed to be immaterial based on the value of the Pledged Assets, and other factors such as the volatility of the value, and disposal expenses, of the Pledged Assets.

Wuhan Zhengtong, the indirect wholly owned subsidiary of the Company had entered into the 2016 Undertaking and 2020 Shortfall Agreements (collectively, "**Shortfall Agreements**") in favour of Beijing Guangze, a company indirectly controlled by family member of Mr. Wang Muqing. Wang Muqing and Wang Muqing's family member had been the controlling shareholder of the Group when the Shortfall Agreements were entered into until 31 August 2021, and a related party of the Group after 31 August 2021 up to date.

On the basis of a valuation report issued by an external valuer, the directors consider the fair value of the 2016 Undertaking and 2020 Shortfall Agreements at initial recognition was not material, and the expected credit loss allowances as at 31 December 2016 to 2021 were assessed to be immaterial as well.

BUSINESS REVIEW

In 2021, the Group was committed to developing its luxury and ultra-luxury auto sales business and after-sales services business, with rapid recovery of various businesses and all round improvement of operation quality as its primary goal. The Group recorded restorative growth amidst an overall supply shortage in the industry and continuously improved its operating quality, which were attributable to the financial support from its shareholders, the unity and cooperation of its core team, reasonable and efficient operating decisions, effective communication with the manufacturers of agent brands, as well as the resourcing support from financial institutions.

During the reporting period, the Group's financing channels recovered rapidly and liquidity improved. It formulated reasonable and effective operation strategies, implemented refined management and achieved quality and efficiency improvement. Customer-oriented, it improved service quality and increased sales volume by giving play to its advantages in brand and network. During the reporting period, the Group expanded the operating network of advantageous brands with a new Porsche brand store and a new Benz brand store. It strategically adjusted the positioning of certain loss-making shops to optimize the structure of its operating network, actively tapped into the new energy automobile market to accumulate experience in new energy automobile services, expanded its investment in new media operating channels, and increased both its marketing channels and customer acquisition capabilities. It maximized synergy between business segments including new automobiles sales, after-sales service, pre-owned automobile replacement, pre-owned automobile dealership, and financial insurance and promoted a business layout that encompasses the full vehicle cycle.

For the year ended 31 December 2021, the Group recorded a revenue of approximately RMB20,986 million (2020: approximately RMB16,881 million), and gross profit of approximately RMB1,236 million (2020: gross loss of approximately RMB5,173 million). Loss attributable to equity holders of the Company was approximately RMB3,622 million (2020: approximately RMB8,579 million) and basic loss per share was approximately RMB133.8 cents (2020: approximately RMB334.8 cents, representing a decrease of approximately 60.1% versus last year). In the fourth quarter, sales of new automobiles, comprehensive gross profit margin for new automobiles and after-sales capacity value have recorded various degrees of growth, and the conversion rate of pre-owned automobile and the profitability of single vehicles have increased significantly. In 2021, the stores of the Company received a total of 156 awards from automobile manufacturers, local governments, industry media, industry associations, among which, 144 were awarded by manufacturers, while 12 were awarded by local governments, media and industry associations.

I. MAJOR OPERATING INFORMATION IN 2021

(I) Automobile dealership sector

1. Sales of new automobiles business

The overall shortage in the supply of luxury vehicles in the PRC market in 2021 was mainly due to the shortage of whole-vehicle supply caused by the global shortage in semi-conductor chips, as well as the overwhelming demand for luxury branded automobiles. Although it was affected by the waves of the pandemic and the shortage of chips and capital, the Group seized market opportunities, made rapid business recovery its target, adopted various measures to overcome challenges, and achieved significant improvement in the sales volume and sales revenue of new vehicles.

For the year ended 31 December 2021, the sales of new automobiles of the Group reached 51,433 units in total, representing a year-on-year increase of approximately 24.3%, including 39,702 units of luxury branded and ultra-luxury branded automobiles, representing a year-on-year increase of approximately 25.8%.

The Group proactively responded to the market trend by, on one hand, actively communicating with manufacturers while achieving their targets to a high standard, which gave the Group greater access to quality resources, and on the other hand, focusing on the improvement of sales capability and profitability by taking advantage of the changing market supply and demand. The Group researched and analysed the development trend of the industry to formulate forward-looking operating strategies, executed flexible pricing policy in light of market changes, strengthened resources sharing via coordination of regional resources, optimized inventory structure to accelerate the turnover of commodity vehicles and enhanced customer experience and loyalty with personalized products and services. Such measures resulted in a significant improvement in the profitability of the Group's sales of new automobiles business.

2. After-sales services business

In 2021, the Group served 1,352,572 units of automobiles after-sales in aggregate. Revenue from the after-sales services of the Group amounted to approximately RMB3,105 million.

During the reporting period, focusing on customer experience, the Group promoted precise digital marketing by relying on its advanced information management system and developed customer profiles through big data analysis to classify customer bases and provide personalized services and products based on customer needs, with a focus on attracting lost customers and enhancing the loyalty of existing customers. The Group analyzed the after-sales needs of customers in surrounding areas of dealership shops and enhanced customer solicitation to expand regional coverage and business, as well as strengthened the coordination between new vehicle and pre-owned vehicle businesses to provide "one-stop" services for customers. In order to minimize the adverse impact of the ongoing epidemic on its after-sales business while ensuring strict compliance with the epidemic prevention and control policies of local governments, the Group conducted customer invitation and schedulings through its information management system, increased the proportion of its online business, improved the efficiency of offline services, and promoted car pickup and delivery services to create a safe and efficient service experience for customers.

3. *Pre-owned automobile business*

According to the data published by China Automobile Dealers Association, a total of 17,590,000 units of pre-owned automobiles were traded nationwide in 2021, representing a year-on-year increase of 22.6%. The strong market demand has driven a rapid increase in the trading volume of pre-owned automobiles.

The Group's pre-owned automobile business is an important strategic business segment, and the Group has continued to attach great importance to its development during the reporting period. During the reporting period, riding on the rapid increase of new automobiles sales, the Group established a standard for its pre-owned automobile business to optimize service procedures and improve fundamental management functions. Based on the regions in which the dealerships operate and brand characteristics, the Group formulated differentiated pre-owned automobile business objectives and promoted business improvement in conjunction with performance appraisal planning. It strengthened collaboration among the pre-owned automobile segment, the after-sales service segment and the new automobiles sales segment, and integrated customer information to facilitate mutual growth between business segments, establish synergy and promote the effective improvement of the Group's pre-owned automobile business.

4. *Auto finance technology segment*

Dongzheng, a former subsidiary of the Company, is an automotive finance company regulated by the CBIRC focusing on the luxury vehicle market. In January 2022, the Company received a ruling from the Shanghai Financial Court, pursuant to which the Shanghai Financial Court ruled that the Company's equity interest in Dongzheng be liquidated by way of auction. For further details, please refer to "Note 15 to the consolidated financial statements—Disposal group held for sale and discontinued operations" above and the section headed "Business Review—Material Acquisitions and Disposals" below.

4.1 *Financial Leasing and Insurance Brokerage have been further refined*

Under the synergistic effect of the Group, Shanghai Zhengtong Dingze Financial Leasing Co, Ltd. ("**Dingze Leasing**") has made substantial strides in its business. It has been recognised by market dealer groups and 4S stores, and has achieved a great performance.

As regards the insurance brokerage, the Group further consolidated the online new insurance and renewal insurance businesses, the profitability of which has been further strengthened. By pursuing a "customer-oriented" business philosophy, the Group provides its customers with a diversified product mix to meet various insurance demands at different stages of vehicle usage. At the internal level, the Group has scaled up the integration of management and optimized staffing structure to significantly enhance management efficiency.

4.2 *Gradual digital transformation to drive the innovative development of the Company*

In 2021, by focusing on the digital operation and management of the customer life cycle, the Company carried out considerable development and innovation.

Given the popularity of online marketing ushered in by the pandemic, the Company has implemented continuous precision marketing on target customers by using various live stream media and official accounts, which improved its marketing capacity and significantly increased sales leads. The after-sales digital marketing project, which is self-developed and based on the Cheweixin (車微星) system, has completed its primary development phase. Through piloting, the Company has established connection with 150 thousand customers, and approximately ten thousand actual transactions and approximately three million interactions between customers and the Company, building a solid foundation for future implementation of customer life-cycle management, end-to-end services and marketing.

In terms of customer acquisition, tracking and management, the Company has developed a medium for connecting with vertical websites such as Autohome (汽車之家), Yiche (易車) and Dongchedi (懂車帝). It also uses WeCom to connect with potential customers, and has established a communication channel between WeCom and customers. In terms of customer retention and services, it set up various customer solicitation tasks through the establishment of customer tags and a customer solicitation criterion pool in OMS. In terms of operating support, through the upgrade of internal management software modules, it has achieved real-time KPI updates in various operating daily reports, and various operating control reports of brands and stores are now automatically generated.

5. Network development

As of 31 December 2021, the Group owned 118 dealership stores in 40 cities across 17 provinces and municipalities in China. During the year, the Group opened four new stores, namely Chengdu Porsche Centre, Wuhan Benz 4S Store, Dongguan Porsche Repair Centre and Shenzhen FAW-Volkswagen New Energy Showroom, and reinstated the dealership of a Volvo 4S Store in Beijing, which was terminated in 2020. As of 31 December 2021, the Porsche Centre in Dalian developed by the Group has passed the facility inspection of Porsche manufacturers and commenced soft operation in late March 2022. The Group currently has 6 Porsche brand outlets. During the year, there were 5 dealership stores under development, including 4S stores for core luxury brands such as Porsche, Benz, BMW and Audi and repair centres. The Group will continue to progress its superior brand projects as scheduled and commence operation as soon as possible. Furthermore, the Group actively cooperated with OEMs of its brands to carry out brand upgrades, strengthened interaction with OEMs, and worked hard to improve both quantity and quality, thereby comprehensively improving customer experience and the operating capabilities of its dealership stores.

During the year, due to the ongoing COVID-19 epidemic and the subsequent impact of liquidity risks, the Group strategically closed 11 dealership stores based on their operational results and taking into account factors such as the potential of the automobile market in the region and the development strategies and profitability of relevant brands. The Group also completed the brand conversion of 7 dealership stores, whereby certain stores have been converted into comprehensive outlets or leased out to improve overall profitability. The Group will keep focusing on the general business recovery of its operational dealership stores, the continuous optimization of brands and regions, and strive to develop new growth points.

The following table sets out the details of our dealership stores as of 31 December 2021:

	Dealership stores in operation	**Dealership stores in development**	**Total**
5S/4S stores for luxury and ultra-luxury brands	72	4	76
4S stores for mid to high-end brands	12	0	12
Urban showrooms for luxury brands	10	0	10
Authorized repair service centres for luxury brands	6	1	7
Self-operated stores	18	0	18
Total	118	5	123

China's passenger vehicle market is gradually changing. On one hand, the overall sales growth of the passenger vehicle market has slowed down considerably, though the sales growth of the luxury brands market remained relatively robust. On the other hand, the market share of new energy vehicles has continued to increase. The Group will continue to focus on luxury brands in its network expansion strategies by strengthening its strategic partnership with domestic mainstream luxury and ultra-luxury brand OEMs and optimizing brand structure and regional distribution to achieve a balanced layout of dealership stores for core luxury brands and a refined brand structure in furtherance of its development plans. In addition, in response to the recent development trend of the automobile market, the Group will pay particular attention to new energy vehicle projects and different types of dealership stores such as repair centres. The Company has actively interacted and communicated with different new energy brands with the aim of participating and exploring new growth drivers when the opportunity arises.

(II) Supply chain business

In light of the shortage of chips in the automobile manufacturing industry and the continuing epidemic, in 2021, Shengze Jietong Supply Chain Co., Ltd. ("**Shengze Jietong**") adhered to its goal of maximizing revenue and minimizing costs and steadily operated its three major businesses, namely, vehicle logistics business, warehousing logistics business and spare parts logistics. In 2021, Shengze Jietong recorded an operating income of RMB601 million, representing a year-on-year increase of 3.72%; and its profit before tax increased by 162.39% year-on-year, achieving sound operation result.

In 2021, a total of 451,700 vehicles were shipped, representing a year-on-year decrease of 5.75%, which was mainly due to the shortage of chips and changes in demand. Nonetheless, the vehicle logistics business achieved an increase in market share by developing a railway to road and road to water transportation model. In addition, Shengze Jietong exclusively obtained the vehicle distribution and transportation business of Pentium and Mazda from the Wuhan warehouse on the strength of the vehicle warehousing and transportation network in central China. In terms of the warehousing and logistics business, Shengze Jietong intends to move its Wuhan vehicle warehouse to its base in Hannan given the integrated road, railway and water transportation advantage of its Hannan logistics base, which is expected to further strengthen future business development and provide diversified business resources. Hannan's relocation plan gained widespread support from customer brands. During the year, a new three-year business contract for spare parts warehousing and distribution was signed. During the year, Shengze Jietong also actively pursued business with new energy vehicle brands in vehicle transportation, spare parts storage and transportation, vehicle storage management and distribution, and customers have shown strong willingness to cooperate given the Hannan base's advantages such as its proximity to riverside port, convenient transportation, and comprehensive supply chain support.

In 2021, Shengze Jietong strengthened its business operation and management. By improving transportation mode and procedures, Shengze Jietong was able to meet the delivery requirements of various customers and its efforts were recognised. In terms of commercial business, through procurement negotiation, bidding and other commercial cost reduction methods, a solid foundation has been laid for completion of annual target.

In 2022, Shengze Jietong will continue to expedite the construction of the logistics base in Hannan and actively promote the relocation and related business, so as to shore up resource reserves for the business expansion of the new base. In addition, Shengze Jietong will vigorously develop its automobile logistics project and seek to collaborate with various automobile brands on its automobile transportation business nationwide, so as to further improve its logistics network layout.

(III) Comprehensive properties business

To fully capitalize on the potential value of the land held by it, the Group promoted the planning and construction of comprehensive property projects. Such projects are mainly commercial real estate projects located in Chongqing, Kunming, Dalian and Shantou and other places. The projects in Kunming, Dalian and Shantou have obtained pre-sales permits and are planned for sale, and the structural engineering aspect of the project in Chongqing has also been completed. The Company organized and carried out two assets stocktaking, and provided the currently idle assets to its subsidiaries to facilitate mutual allocation and attract external investment. The Group believes that the said arrangement is reasonable to improve the efficiency of capital utilisation and generate a higher return for the shareholders.

II. STRATEGIC SYNERGY, MANAGEMENT OPTIMIZATION AND IMPROVEMENT OF OPERATIONAL QUALITY

In 2021, the Group leveraged its business recovery and reshaping to facilitate the "transformation and upgrade" process and expanded the application of new tools and new models in its corporate business management. The Group introduced innovative concepts on management, implemented refined management measures, and promoted a strong corporate culture by advocating a learning-oriented approach, improved its digital management standard, enhanced its operational efficiency, and further strengthened its core competitiveness.

(I) Organizational structure adjustment and strategy formulation

Upon the acquisition of 29.9% of the equity interest in the Company by ITG Holding, the team designated by the new single largest shareholder appointed new executive directors to the Board, and strengthened the supervisional requirements of state-owned capital. It also streamlined and integrated the departments at the headquarters, and appointed young and capable talents to key departments including operating, capital, financial, human resource and other departments, so as to bolster its management.

The Company engaged a professional consultant to assist in formulating its 2021-2025 development strategy, and set a new vision of "becoming a leading comprehensive service provider in the ecology of the automobile industry", namely, by establishing a strong foothold in automobile dealerships, focusing on "automobile, customers and data", surveying the ecology of the automobile industry, and unearthing the value of the customer life cycle.

(II) The establishment of regulation and system, and resource support

Since the fourth quarter of 2021, the Company has formulated and issued regulations in relation to the management of periodic reporting and information release, the management of goods and services procurement and internal approval procedures, in order to streamline the approval process and foster management relationship, which has significantly improved internal efficiency and coordination between departments.

The Company has implemented comprehensive budget management and formulated a system of performance appraisal in a targeted manner, which not only stabilized the core team, but also improved the efficiency and systematicness of coordination and management.

With the support of the largest shareholder, the Company has been afforded various financing channels, and has properly handled various maturing debts and actively strived for new financing, which effectively relieved the Company's capital pressure.

(III) To improve operational efficiency through digital and standardized management

The Company has established a business management and monitoring system to achieve real-time update of business progress, which continuously enhanced the timeliness and accuracy of business data, significantly improved the efficiency of management decisions at all levels, and elevated the Group's digital management capacity. Meanwhile, the Company expanded the application of digital marketing management media in its operating services, and guided stores to actively try new marketing models, such as live stream, short video, social media, and personal media. It also expanded the communicative channels between WeCom and customers and strengthened cooperation with vertical media platforms. With its digital marketing and services in development, a foundation for the achievement of customer life-cycle services and marketing has been laid.

The Company implemented standardized and graded management at stores. Through selecting the crucial indicators in the process of automobile sales and after-sales services, it established a business indicator system, so as to identify the weakness in the operating process, and adopted corresponding performance appraisal system. In respect to the advantage and disadvantage of dealerships, it adopted differentiated and targeted management models and operating strategies: for dealerships with excellent performance, more authority on decision-making is given to them, as well as appropriated resource preference; for dealerships with significant weakness in business, it formulates corresponding improvement and action plans, and conducts periodic review to promote its business performance; for dealerships whose performance cannot be improved after evaluation, they will be in a process of closing, suspension, merged and transfer.

(IV) The implementation of safe production, and establishment of learning organization

The Group paid a long-term attention to the growth and development of its employees. Adhering to the management principle of "safe first, prevention first", the whole Company conducted safe production on a standardized and systematic manner. It conducted self-inspection and self-promotion on environment protection, fire protection, safety monitoring and equipment and facility management through organizing safe production inspection before festivals, "Fire Safety Month", "Hundred Days of Safety", learning activity of new Production Safety Law and so on. In response to the COVID-19 epidemic, the Company insisted on the implementation of multiple measures including knowledge promotion, prevention and control, and inspections, as well as periodic inspection to ensure staff, and all business area that were under the orderly control of the epidemic prevention and control team.

The Company provided customers with better services through the establishment of a learning organization and the improvement of staff's professional skills and comprehensive quality. As of 31 December 2021, the Zhengtong College, a learning platform of the Group, had launched a total number of 129 online courses, the average teaching time of registered lecturers was up to 83 minutes, and there are more than 4,527 person-time of special examinations organized by it, and the accumulative total of all staff's learning was more than 64,851 person-time. Meanwhile, it facilitated staff to apply new knowledge to practical businesses through the offline training and activity on the basis of the contents taught in the online training, and the combination of theory and practice, which effectively improved the learning efficiency and business standards of employees.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2021, the Group recorded a revenue of approximately RMB20,986 million, representing an increase of approximately 24.3% as compared to the revenue of approximately RMB16,881 million in 2020. The increase was mainly due to an increase in the sales of new automobiles during the year. Revenue of the Group was derived from the sales of new automobiles, after-sales services, and other business. Revenue from the sales of new automobiles amounted to approximately RMB16,989 million in 2021, representing an increase of approximately 34.8% as compared to approximately RMB12,606 million in 2020, and accounted for approximately 81.0% and 74.7% of the total revenue in 2021 and 2020, respectively. The revenue from sales of luxury and ultra-luxury branded automobiles increased by approximately 34.7% to approximately RMB15,483 million in 2021 from approximately RMB11,495 million in 2020, accounting for approximately 91.1% and 91.2% of revenue from the sales of new automobiles in 2021 and 2020, respectively. Revenue from the after-sales services was approximately RMB3,105 million, representing a decrease of approximately 7.9% as compared to approximately RMB3,373 million in 2020. In 2021, revenue from the after-sales services accounted for approximately 14.8% of our total revenue, representing a decrease of approximately 5.2 percentage points in revenue from that of last year.

Cost of sales

For the year ended 31 December 2021, the Group's cost of sales decreased by approximately 10.4% to approximately RMB19,750 million as compared to approximately RMB22,054 million in 2020. In 2021, the cost of sales for new automobiles of the Group decreased by approximately 12.3% to approximately RMB16,807 million from approximately RMB19,165 million in 2020. Cost of sales for after-sales services increased by approximately 2.5% to approximately RMB2,134 million from approximately RMB2,083 million in 2020. For the year ended 31 December 2021, the cost of sales included the reversal of RMB49 million (VAT exclusive) against rebate receivable (2020: reversal of RMB4,318 million (VAT exclusive)) .

Gross profit/(loss) and gross profit/(loss) margin

For the year ended 31 December 2021, the Group had gross profit of approximately RMB1,236 million, while the Group incurred gross loss of approximately RMB5,173 million in 2020. The Group's gross profit margin was approximately 5.9% in 2021, while its gross loss margin was approximately 30.6% in 2020.

The Group's gross profit was principally generated from sales of new automobiles and after-sales services business. In 2021, the Group had gross profit from sales of new automobiles of approximately RMB182 million, while the Group incurred gross loss from sales of new automobiles of approximately RMB6,560 million in 2020. In 2021, the Group's gross profit from after-sales services decreased by approximately 24.9% to approximately RMB970 million from approximately RMB1,291 million in 2020.

Selling and distribution expenses

For the year ended 31 December 2021, the Group's selling and distribution expenses decreased by approximately 14.8% to approximately RMB1,281 million from approximately RMB1,503 million in 2020. The decrease in selling and distribution expenses was mainly attributable to decreases in staff salary cost and annual discretionary bonus, etc.

Administrative expenses

For the year ended 31 December 2021, the Group's administrative expenses amounted to approximately RMB1,151 million, representing an increase of approximately 7.9% over approximately RMB1,067 million in 2020. Such increase was primarily due to the fact that the foreign exchange gain generated from the appreciation of Renminbi during 2021 was less than that of 2020.

Loss from operations

For the year ended 31 December 2021, the Group's loss from operations decreased by approximately 89.8% to approximately RMB957 million from approximately RMB9,341 million in 2020. The Group's operating loss margin was approximately 4.6% in 2021, representing a decrease of approximately 50.7 percentage points over approximately 55.3% in 2020.

Income tax

For the year ended 31 December 2021, the Group's income tax amounted to approximately RMB10 million as a result of loss from operation incurred during the year and the effective tax rate was approximately 0.4% (2020: 17.2%).

Loss for the year

For the year ended 31 December 2021, the Group's loss for the year decreased by approximately 56.0% to approximately RMB3,781 million from approximately RMB8,589 million in 2020. The Group's loss margin was approximately 18.0%, representing a decrease of 32.9 percentage points as compared to 50.9% in 2020.

Contingent liabilities

As at 31 December 2021, the Group did not have any significant contingent liabilities other than the financial guarantees issued as disclosed in "Note 16 to the consolidated financial statements — Financial risk management and fair value of financial instruments" above.

Current assets and current liabilities

As at 31 December 2021, the Group's current assets amounted to approximately RMB12,791 million, representing a decrease of approximately RMB1,164 million as compared to the current assets of approximately RMB13,955 million as at 31 December 2020. As at 31 December 2021, the Group's current liabilities amounted to approximately RMB21,841 million, representing an increase of approximately RMB4,401 million as compared to the current liabilities of approximately RMB17,440 million as at 31 December 2020, which was mainly due to an increase in loans and borrowings.

Cash flow

As at 31 December 2021, the Group had cash and cash equivalents amounting to approximately RMB209 million, representing a decrease of approximately RMB282 million over approximately RMB491 million as at 31 December 2020. The Group's transactions and monetary assets were principally conducted in Renminbi. The Group's primary uses of capital were to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to fund the Group's working capital and ordinary recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the year ended 31 December 2021, the Group had net cash inflow of approximately RMB156 million generated from its operating activities (for the year ended 31 December 2020: net cash inflow from operating activities amounted to approximately RMB346 million).

Capital expenditure and investment

For the year ended 31 December 2021, the Group's capital expenditure and investment were approximately RMB661 million (2020: RMB644 million).

Inventory

The Group's inventories included vehicles, automobile spare parts and properties under development for sale. In general, each of the Group's dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group utilizes its information technology systems to manage its inventory, and also monitors the inventories within its whole dealership network and may transfer automobiles from one dealership store to another to rebalance inventory levels. The inventories of the Group were approximately RMB2,649 million as at 31 December 2021, which increased by approximately RMB847 million when compared with RMB1,802 million as at 31 December 2020. Such change was mainly due to the increase in the inventories of new automobiles by the Group based upon market situation. The Group's average inventory turnover days of 2021 decreased by 5.0 days to

31.5 days from 36.5 days for 2020. The following table sets forth our average inventory turnover days (excluding the impact of properties under development for sale) for the year indicated:

	For the year ended 31 December (day)	
	2021	2020
Average inventory turnover days (excluding the impact of properties under development for sale)	**31.5**	36.5

Risks of foreign exchange

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. However, the Group's operating cash flow and liquidity have not been subject to significant influence from fluctuations in exchange rate. The Group used cross currency swap to hedge its US-dollar and HKD future loans repayment.

Liquidity and capital resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks and other financial institutions. As at 31 December 2021, the Group's cash and bank deposits were approximately RMB3,319 million (including: pledged bank deposits of approximately RMB2,696 million, time deposits of RMB414 million and cash and cash equivalents of RMB209 million), representing an increase of approximately RMB1,491 million from approximately RMB1,828 million as at 31 December 2020. As at 31 December 2021, the Group's loans and borrowings, lease liabilities, and bonds payable amounted to approximately RMB18,141 million (31 December 2020: loans and borrowings, obligations under finance leases, and bonds payable amounted to approximately RMB14,664 million).

Pledged assets

The Group has pledged its assets as the security for loans and borrowings to be used as working capital for daily operations. As at 31 December 2021, the pledged assets of the Group amounted to approximately RMB6,310 million (31 December 2020: approximately RMB5,458 million).

Investments held in foreign currency and hedging

For the year ended 31 December 2021, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

Employees and remuneration policies

As at 31 December 2021, the Group had a total of 7,760 employees in China (at 31 December 2020: 7,997 employees). The staff costs incurred for the year ended 31 December 2021 were approximately RMB1,081 million (2020: approximately RMB1,392 million). The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans. The Group also provided good working environment and diversified training program.

FUTURE OUTLOOK AND STRATEGIES

The prevention and control of COVID-19 has become normalized in 2021. Though there exists considerable uncertainty as to the impact the ongoing COVID-19 epidemic has on the world economy, China has been at the forefront of the prevention and control of COVID-19 during the year. China's economy has further demonstrated its development vigour and was one of the growth drivers of world economy in 2021. It is expected that the impact of COVID-19 will remain in 2022, but as the epidemic prevention and control mechanism becomes mature, its impact on the national economy will likely continue to be within control. It is expected that the domestic economy will develop steadily, household consumption will continue to rise, the automobile consumption upgrading trend will continue and the development prospects of the luxury brands automobiles market will be promising as a whole.

Based on the outlook of the future market, the Group has formulated short-term, medium-term and long-term and targeted development strategies based on its operational status. In the short term, the Group will endeavor to eliminate its liquidity risks, revitalize corporate assets, improve cash flow and operating environment, enhance operating efficiency, and accelerate business recovery to its due level. In the medium term, leveraging on a diversified portfolio of luxury brands and personalized finance, insurance and other high value-added services, the Group will adhere to the development strategy rooted in the luxury brands automobiles market, continue to improve the network layout of luxury brands so as to create a leading consumer experience for customers and deploy enhanced automobile after-market services to continue to enhance its market competitiveness. In the long term, based on the luxury brands automobiles and new energy automobile market, the Group will integrate superior resources, enhance external cooperation and form a business loop centring on the whole car ownership cycle, aiming to build a world-class automobile service brand. During this period, the Group will accelerate the process of transformation and upgrading, continue to optimize internal management, improve operational efficiency and continue to create greater value for shareholders, staff and society.

DIVIDEND

Given the severity of the COVID-19 epidemic development across the world and its impact on the local and global economy, the Board has resolved not to recommend the payment of a dividend for the year ended 31 December 2021 after thorough consideration. The Group considers such temporary suspension of dividend payment to be reasonable under the current situation and feels optimistic about the prospects of economic recovery from COVID-19 and resumption of our dividend policy.

DISPOSAL OF SHARES BY FORMER CONTROLLING SHAREHOLDER

On 19 October 2020, the former controlling shareholder of the Company, i.e. Joy Capital and Mr. Wang Muqing entered into a sale and purchase agreement (the "**Agreement**") with Xiamen Xindeco Ltd. ("**Xindeco**"). Pursuant to the Agreement, Joy Capital conditionally agreed to sell and Xindeco conditionally agreed to purchase 806,535,284 shares of the Company at a consideration of HK$1,403,371,394. On 30 July 2021, a supplemental sale and purchase agreement (the "**Supplemental Agreement**") was entered into between the original parties to the Agreement and ITG Holding, pursuant to which certain major terms of the Agreement were amended. Under the Supplemental Agreement, it was agreed (among others) that ITG Holding shall enjoy all such rights and assume all such obligations of Xindeco under the Agreement, and the number of shares to be transferred under the Agreement was adjusted to 820,618,184 (representing 29.9% of the entire issued share capital of the Company as at the date of the Supplemental Agreement), at a total consideration of HK$1,427,875,640.16 (the "**Disposal**"). Completion of the Disposal took place on 31 August 2021, upon which ITG Holding became the single largest shareholder of the Company.

MATERIAL ACQUISITIONS AND DISPOSALS

On 20 October 2020, the Company received from the Shanghai Office of the CBIRC an administrative decision against the Company (the "**Decision**"), alleging that (i) the Company obtained administrative licenses and permits for the establishment of Dongzheng, a subsidiary of the Company, by improper means and the Company and its related parties engaged in non-compliant related-party transactions with Dongzheng; and (ii) Dongzheng's dealer auto loan business was carried out in serious violation of the principle of prudent operation. CBIRC required that the Company shall withdraw its interests in Dongzheng within 3 months from the date of the Decision.

In response to the Decision, the Company had committed to sell its entire interests in Dongzheng. Prior to the Ruling (as defined below), the Company had been actively identifying potential purchasers and had engaged a financial adviser to assist on the possible disposal of its interests in Dongzheng with an objective of achieving a completed sale within 2021.

On 29 January 2022, the Company received a ruling on administrative proceeding and a notice of property preservation (the "**Ruling**") from the Shanghai Financial Court. Pursuant to the Ruling, the Company's 1.52 billion shares in Dongzheng shall be liquidated by auction (the "**Liquidation Order**") and its 1.52 billion shares and dividends held in Dongzheng shall be frozen for a period from 26 January 2022 to 25 January 2025 (the "**Freezing Order**").

As advised by the PRC legal adviser of the Company:

(i) The Liquidation Order will take effect immediately upon its delivery, and therefore there is no avenue for judicial appeal. An appeal against the Freezing Order may be lodged by the Company with the Shanghai Financial Court within five days from the date of receipt of the Ruling.

(ii) As the property preservation is procedural in nature, there is no disposition of the Company's substantive rights.

(iii) Given the Ruling approved the enforcement of the Decision and the actual circumstances of this case, it is difficult to prevail in any application for an appeal to revoke the Freezing Order.

Accordingly, based on the advice of its PRC legal adviser, the Company has decided not to apply for an appeal to revoke the Freezing Order.

In view of the ruling of Shanghai Financial Court, the Company has terminated its previous discussions with independent purchasers regarding the potential disposal.

As the Shanghai Financial Court has ruled to enforce the auction of the equity interest held by the Company in Dongzheng, the Company is currently unable to ascertain the timing and price of such disposal, and therefore cannot determine the overall financial impact of the disposal on the Company at this point in time.

Given that the Company must comply with the court order for the disposal by way of auction of the equity interest held in Dongzheng, and has no discretion otherwise, such disposal will not constitute a "transaction" under Chapter 14 of the Listing Rules, and therefore the requirements for notifiable transactions, including shareholders' approval and the dispatch of a circular to shareholders, will not apply to such disposal.

For further details, please refer to the announcements of the Company dated 7 December 2020, 3 February 2021, 9 March 2021 and 8 February 2022.

Save for the above court ordered disposal which has yet to take place, for the year ended 31 December 31 2021, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 30 September 2021, the Company commenced an offer (the "**Offer**") to purchase for cash any and all of its outstanding US$173,000,000 in aggregate principal amount of senior notes due 2022 (the "**Notes**") issued by the Company on 21 January 2020 and 14 February 2020. As of the expiration deadline of the Offer, US$162,400,000 in aggregate principal amount of the Notes had been validly tendered. On 29 November 2021, the Company purchased all the Notes validly tendered in the Offer, after which Notes (the "**Remaining Notes**") in an aggregate principal amount of US$10,600,000 remained outstanding. The Company redeemed the Remaining Notes at maturity date (i.e. 21 January 2022).

Save for the abovementioned redemption, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

LEGAL PROCEEDINGS

In 2016, Wuhan Zhengtong United Industrial Investment Group Co., Ltd.* 武漢正通聯合實業投資集團有限公司 ("**Wuhan Zhengtong**"), an indirect wholly owned subsidiary of the Company, undertook (the "**2016 Undertaking**") to pay for any shortfalls in the event of default by Beijing Guangze Real Estate Development Co., Ltd.* 北京廣澤房地產開發有限公司 ("**Beijing Guangze**"), in support of Beijing Guangze's (i) redemption obligations under certain investment agreements relating to the investment made by Ningbo Yuchen Fengze Equity Investment Partnership (Limited Partnership)* 寧波禹宸豐澤股權投資合夥企業(有限合夥) ("**Yuchen Fengze**") in Beijing Zunbaocheng Real Estate Co., Ltd.* 北京尊寶成置業有限公司 ("**Beijing Zunbaocheng**") and Beijing Baoze Automobile Technology Development Co., Ltd.* 北京寶澤汽車科技發展有限公司 ("**Beijing Baoze**") (the "**Redemption Obligations**"); and (ii) repayment obligations under a loan (the "**Loan Obligations**"). In March 2020, Wuhan Zhengtong entered into certain shortfall agreements (the "**2020 Shortfall Agreements**") which replaced the 2016 Undertaking as guarantees for the equity investment redemption obligations and the unsettled loan balance.

To the best knowledge of the Directors, Beijing Guangze is a majority-controlled company held indirectly by a family member of Mr. Wang Muqing, a former executive Director, who has resigned on 10 January 2022. Beijing Guangze holds 8.6758% and 4.3478% equity interest in Beijing Zunbaocheng and Beijing Baoze, respectively.

Other than the shortfall guarantees provided by Wuhan Zhengtong as mentioned above, the Redemption Obligations and Loan Obligations have also been secured by, among other things, certain land use rights and properties located in Beijing belonging to Beijing Zunbaocheng and Beijing Baoze since 2016.

On 17 December 2021, the Company was notified that a court judgement had been granted by the Ningbo Intermediate People's Court in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong.

On 28 December 2021, the Company was notified that another court judgement had been granted in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong by the Yangzhou Intermediate People's Court (together with the court judgement notified to the Company on 17 December 2021, the "**First Instance Judgement**").

Pursuant to the First Instance Judgement, Beijing Guangze shall:

- pay to Yuchen Fengze a principal amount of RMB420 million together with interest, comprising, among others, the redemption price for the equity investment made by Yuchen Fengze in Beijing Zunbaocheng and Beijing Baoze. Wuhan Zhengtong was held jointly and severally liable for the same amount;

- pay to Yuchen Fengze approximately RMB1.41 billion (comprising the loan principal of RMB1.35 billion, accrued interest, default interest and compound interest) and late payment interest, the actual amount of which will increase with time and relevant costs. Wuhan Zhengtong was held jointly and severally liable for the same amount.

For further details, please refer to the announcements of the Company dated 22 December 2021 and 31 December 2021.

The First Instance Judgement is not yet effective, and Wuhan Zhengtong has already filed an appeal against it through Zhejiang and Jiangsu Higher People's Court. An initial court hearing was held by the Zhejiang Higher People's Court in February 2022. The appeal has not reached conclusion as of the date of this announcement.

As stated in the announcement of the Company dated 10 January 2022, an independent board committee (the "**IBC**") comprising executive directors who were not directors of the Company at the relevant time was established on 7 January 2022 for the purpose of investigating the above matters.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules in force during the year (the "**CG Code**"). So far as the current Board is aware, during the year ended 31 December 2021, the Company has complied with the code provisions set out in the CG Code, except for the following deviation:

During the year under review, for the period from the beginning of the year up to 9 September 2021, the positions of Chairman and Chief Executive Officer were held separately by Mr. Wang Muqing (who resigned as the Chairman of the Board on 9 September 2021 and subsequently resigned as an executive Director on 10 January 2022) and Mr. Wang Kunpeng (who resigned as an executive Director and the Chief Executive Officer on 17 September 2021), respectively. To the best knowledge and belief of the Company, Mr. Wang Muqing and Mr. Wang Kunpeng did not have any financial, business, family or other material/relevant relationship with each other.

Mr. Wang Mingcheng was appointed as the Chairman of the Board and the Chief Executive Officer on 9 September 2021 and 17 September 2021, respectively. In order to focus on the performance of his responsibilities as the Chairman of the Board and an executive Director, Mr. Wang Mingcheng subsequently resigned as the Chief Executive Officer on 10 March 2022 and the role of Chief Executive Officer was taken up by Mr. Chen Hong. Save for their current and/or former employment with certain subsidiaries of the single largest shareholder of the Company, details of which are set out in the announcements of the Company in relation to their respective appointment dated 31 August 2021 and 10 March 2022, Mr. Wang Mingcheng and Mr. Chen Hong do not have any financial, business, family or other material/relevant relationship with each other.

Although the positions of Chairman and Chief Executive Officer were not separate during the abovementioned period from 17 September 2021 to 31 December 2021 (and to 10 March 2022 when the new Chief Executive Officer was appointed), the powers and authorities have not been concentrated as all major decisions have been made in consultation with the Board and appropriate Board committees, as well as senior management. In addition, there are three independent non-executive Directors on the Board offering their experience, expertise, independent advice and views from different perspectives. The Board is therefore of the view that there were adequate balance of power and safeguards in place. Since Mr. Chen Hong was appointed as the new Chief Executive Officer on 10 March 2022, there has been segregation of duties between the Chairman of the Board and the Chief Executive Officer.

In connection with the ongoing investigation by the IBC into the circumstances which led to the execution of the 2016 Undertaking and 2020 Shortfall Agreements, the current management of the Company is still making improvements to historical record keeping of the Group. Nevertheless, following the recent change in the Company's single largest shareholder and the implementation of internal controls from then on, the Company believes that its internal controls have significantly improved.

REVIEW OF ANNUAL RESULTS

The audit committee of the Board ("**Audit Committee**") comprises three independent non-executive Directors, namely, Dr. Wong Tin Yau, Kelvin (Chairman of the Audit Committee), Dr. Cao Tong and Ms. Wong Tan Tan. The Group's annual results for the year ended 31 December 2021 have been reviewed by the Audit Committee.

The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF RESULTS ANNOUNCEMENT

This results announcement is available for viewing on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com) and the annual report for the year ended 31 December 2021 of the Company containing all the information required by the Listing Rules will be despatched to the shareholders and published on the above websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management team and employees for their commitment and diligence, and would also like to thank our shareholders and business associates for their continued support.

For and on behalf of the Board of Directors of
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
Wang Mingcheng
Chairman

Hong Kong, 29 March 2022

As at the date of this announcement, the Board comprises Mr. WANG Mingcheng (Chairman), Mr. LI Zhihuang and Mr. ZENG Tingyi as executive Directors; and Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan as independent non-executive Directors.

* *For identification purposes only*