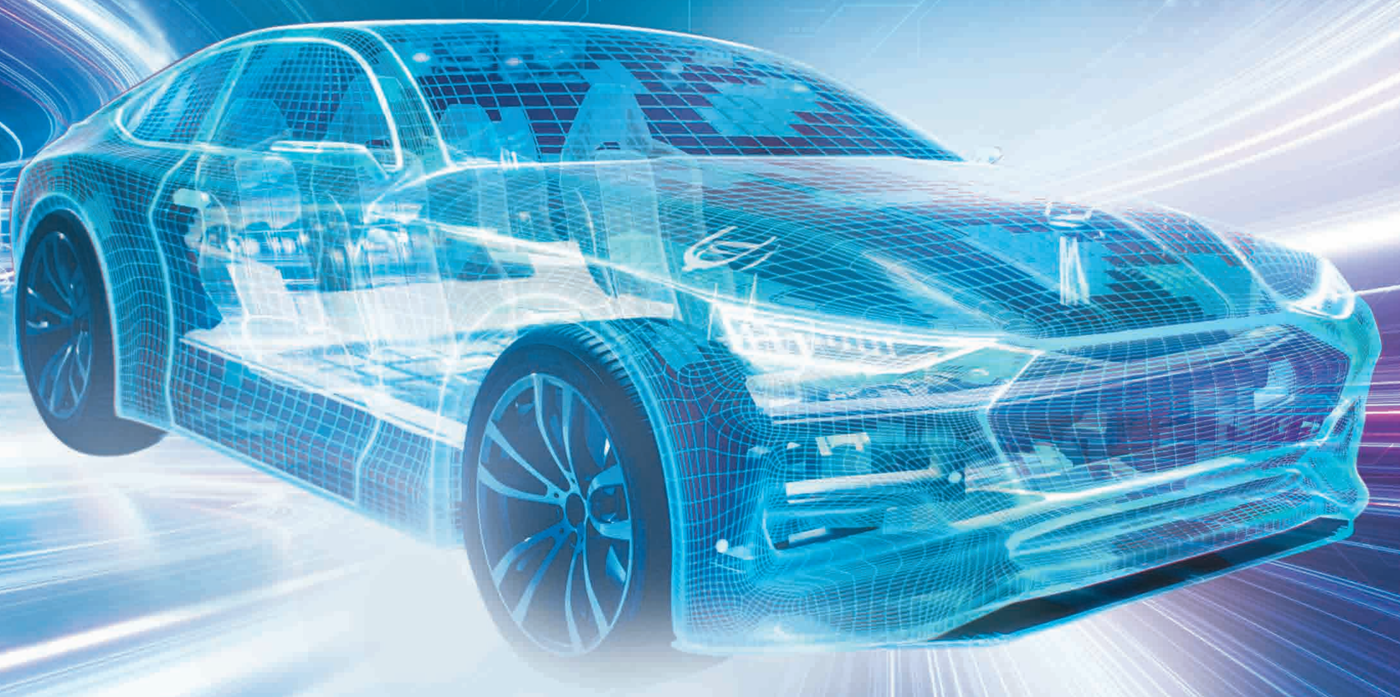
CHINA ZHENGTONG AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

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

Stock Code：1728

BECOMING A LEADING
COMPREHENSIVE SERVICE PROVIDER
IN THE ECOLOGY OF
THE AUTOMOBILE INDUSTRY

2022 ANNUAL REPORT



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COMPANY PROFILE

China ZhengTong Auto Services Holdings Limited (the "**Company**" or "**ZhengTong**" or "**ZhengTong Auto**", and together with its subsidiaries, the "**Group**") is a leading automobile dealership group in China focusing on the dealership of luxury and ultra-luxury branded automobiles such as Porsche, Mercedes-Benz, BMW, Audi, Jaguar Land Rover, Volvo and Hongqi, and is part of the Xiamen ITG Holding Group Co., Ltd. ("**ITG Holding**") group of companies. The Group also engages in the dealership of mid-to-high-end brands such as FAW-Volkswagen, Buick, Dongfeng-Nissan, FAW Toyota and Dongfeng-Honda.

The Group has established a forward-looking strategic network covering developed regions and provinces with strong economic growth in China, which has provided a solid foundation for its future development. As at 31 December 2022, we operated 109 dealership outlets in 38 cities across 17 provinces and municipalities nationwide. Our network not only covers the developed automobile market of some of the affluent first-tier cities and regions, but has also expanded its presence in second and third-tier cities and regions with rapid growth and low automobile penetration. In 2022, the Group opened a new Porsche centre in Dalian, Liaoning Province, bringing its total number of Porsche stores to 6 and further strengthening its relationship with Porsche manufacturers and profitability.

Adhering to its goal of shaping the "Smile Zhengtong" brand image, the Group has been committed to providing customers with superior automobile sales and after-sales services. The provision of comprehensive automobile solutions and adoption of a customer-oriented business model have allowed the Group to maintain its long-term relationship with customers. The Group has also strengthened its after-sales services with an aim to deliver high-quality and efficient services to its customers. The Group's supply chain logistics, insurance agency, financial leasing and other businesses have complemented its automobile dealership and after-sales service businesses.

FIVE YEARS' FINANCIAL SUMMARY

RESULTS

	2018	2019	2020	2021	**2022**
(RMB'000)					
Revenue	37,455,510	35,137,794	16,880,923	20,985,529	**22,606,790**
(Loss)/profit before taxation	1,889,488	1,163,064	(10,395,426)	(2,213,649)	**(130,342)**
Income tax credit/(expense)	(634,706)	(396,359)	1,782,957	9,641	**(167,079)**
(Loss)/profit for the year	1,254,782	766,705	(8,588,604)	(3,780,767)	**(297,421)**
Attributable to:					
Equity shareholders of the Company	1,224,065	663,862	(8,579,106)	(3,622,131)	**(296,285)**
Non-controlling interests	30,717	102,843	(9,498)	(158,636)	**(1,136)**
(Loss)/profit for the year	1,254,782	766,705	(8,588,604)	(3,780,767)	**(297,421)**

ASSETS AND LIABILITIES

	2018	2019	2020	2021	**2022**
(RMB'000)					
Total assets	44,199,218	44,857,974	27,995,953	26,129,786	**27,732,759**
Total liabilities	(31,873,772)	(31,217,677)	(22,683,053)	(25,589,165)	**(27,508,315)**
Total equity	12,325,446	13,640,297	5,312,900	540,621	**224,444**
Equity attributable to equity shareholders of the Company	12,143,276	12,418,268	4,108,094	508,430	**193,389**
Non-controlling interest	182,170	1,222,029	1,204,806	32,191	**31,055**
Total equity	12,325,446	13,640,297	5,312,900	540,621	**224,444**


Mercedes-Benz
PORSCHE

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS:

On behalf of the Board and all our staff, I would like to extend my sincere gratitude to all shareholders, investors and partners for their long-term contribution and support.

The year 2022 has been a year of challenges and changes. This year, China's comprehensive national strength has reached new heights and the macro-economic market has achieved overall stability. However, with the impact of the external environment and the pandemic, the industry has faced difficulties such as shortages of parts and components, price increases in the supply chain, circulation hurdles and weakened consumption throughout the year. Nevertheless, the introduction of a series of intensive rescue policies such as vehicle purchase tax exemptions and new policies for pre-owned vehicle trading has allowed China's automobile consumer market to recover after a downward trend and the industry has shown strong resilience. According to statistics released by the China Association of Automobile Manufacturers, in 2022, sales and production of passenger vehicles in China amounted to 23,836,000 units and 23,563,000 units, representing a year-on-year increase of 11.2% and 9.5%, respectively. This year, we saw a slight increase in the market presence of luxury brands and a continuous increase in the market share of high-end models. Meanwhile, market penetration of new energy vehicles continued apace, with a current penetration rate of nearly 30%. As the automobile market is undergoing unprecedented reform in terms of product format, user demand and channel development, the value of the vehicle industry chain is also being reconstructed.

As the automobile dealer industry went from rapid growth to high quality development, the Company has worked hard to ensure its stability and placed great effort in adhering to its strategies, focusing on its principal dealership business, accelerating cultural integration and promoting reform and transformation. Guided by the strategic vision of "becoming a leading comprehensive service provider in the ecology of the automobile industry", the Company further adjusted and optimized its brand structure by improving operating efficiency and restoring individual store competitiveness, and as a result achieved increases in both new vehicle sales and per store sales of core brands throughout the year. The Company systematically pushed forward the upgrading of its existing stores and initiated upgrading and retrofit projects for over 20 4S stores throughout the year, which further enhanced the consumer experience and competitiveness of its stores.

The Company continued to build a network encompassing diverse new energy bands and domestic brands through communication and cooperation with various brands like Tesla, NIO, HYCAN and Great Wall. The Company also sought to cooperate with other established new energy dealers with the aim of achieving a dual-pronged network expansion and promoting the transformation of its business.

The past year also saw the Company transition and shift from private to state-owned management. As the saying goes, "victory belongs to the team united by sharing common goals." As a Global 500 company, ITG Holding, the single largest shareholder of the Company, has been providing stable protection and strong support for the Company in terms of talent cultivation, credit financing and industrial development since investing in ZhengTong. With the core values of "first-class leadership, true responsibility, strive-oriented, co-creation and sharing" taking root, the increased collaboration with the ITG Holding group has created synergy and enabled our teams to experience the cultural tolerance and support of ITG Holding as a "big stage, platform for learning and home".

Though we have yet to move from a loss to profitability during the year due to the impact of the macro environment and the overall industry, we remain confident in our future prospects, especially with the industry embracing new trends and the unwavering support of our state-owned shareholder. The Company will place greater emphasis on staying ahead of the curve, improving its quality and efficiency and strive to become a dynamic, competitive and risk-resistant top end dealer. At the beginning of 2022, the Company developed a five-year strategic plan and refined its corporate vision of "becoming a leading comprehensive service provider in the ecology of the automobile industry", pursuant to which it will focus on its 4S business, new retail and emerging businesses as its business pillars, and draw on the support of its proactive cultural system, flexible and empowering organisation, leading workforce and efficient digital capabilities.

Looking to the future, the Company will continue to grasp new opportunities and forge ahead under the guidance of its pioneering culture, focus on enhancing the five aspects of "strong synergy, talents, brands, capital and culture", act with extraordinary determination, strong initiatives and strength, create efficiency in terms of decision making, management, potential and safety, in order to ensure its steady and sustainable development. We will make every effort to implement our strategies and achieve our visions by improving our network coverage of luxury brands, strengthening our automobiles after-sales services and focusing on our new energy vehicle business, as well as through the continuous optimization of our brand layout and network coverage.

Last but not least, I sincerely hope to work together with our shareholders, investors and partners to create a better tomorrow for the automobile ecology.

Wang Mingcheng
Chairman of the Board
30 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

• BUSINESS REVIEW

2022 has been a year of uncertainty for the world economy. A shortage in the supply of chips and the recurring pandemic has affected the automobile industrial chain and the end consumption market. The automobile industry faced the triple pressure of supply shortage, shrinking demand and weakening expectations, and enterprises experienced tremendous difficulties in their normal operations. As the pandemic swept across different regions, automobile dealerships suspended their operations from time to time, and there was a significant reduction in sales business, after-sales services and related demand.

During the year, the Group maintained its focus on the luxury and ultra-luxury auto sales business and after-sales business and prioritized accelerating business resumption and optimizing operational quality. Under the guidance of its five-year strategic plan and the strong support of its state-owned shareholder, the Group achieved good performance in the recovery of its principal business, maintaining authorizations, business expansion, obtaining financing facilities, internal control management and talent cultivation, and recorded a significant decrease in loss, which provided a solid foundation for its sustainable and quality development.

For the year ended 31 December 2022, the Group recorded revenue of approximately RMB22,607 million (2021: approximately RMB20,986 million) and gross profit of approximately RMB1,587 million (2021: RMB1,236 million). Loss attributable to equity holders of the Group amounted to approximately RMB296 million (2021: approximately RMB3,622 million) and basic loss per share was approximately RMB10.9 cents (2021: approximately RMB133.8 cents). In 2022, the Group's stores were granted 249 awards in total by automobile manufacturers, local governments, industry media and industry associations, among which, 233 were awarded by manufacturers and 16 were from the government, media and industry associations.

• MAJOR OPERATIONS IN 2022

(I) Automobile dealership segment

1. Sales of new automobiles

For the automobile dealership industry, the recurring pandemic outbreaks in 2022 led to disruptions in product supply and store closures on the supply side. Sluggish consumer demand also led to slower sales, capital occupation, declined gross profit and other unfavorable circumstances.

In order to actively overcome difficulties and challenges, the Group has taken various measures and achieved improvement in both scale and quality of the sales of new automobiles. In terms of the upstream business, the Group has enhanced communication and cooperation with brand manufacturers, obtained quality resources and achieved manufacturers' targets to a high standard. It maximized the synergistic advantages of its platforms, strengthened resources sharing via coordination of regional resources, responded to market changes in a timely manner and satisfied customer needs. In terms of its downstream business, the Group placed great emphasis on customer needs and service experience, providing more diverse product options for customers and building a competitive edge with personalized products. It launched an electronic signature function for sales transaction documents to address difficulties customers faced in purchasing automobiles offline during the pandemic, which improved the handling efficiency of the sales business. In response to changing local conditions, the Group enhanced its refined management to improve customers' purchase experience and satisfaction as well as increase customer stickiness.

For the year ended 31 December 2022, the Group's sales of new automobile amounted to 56,264 units, representing a year-on-year increase of approximately 9.4%, including 45,334 units of luxury and ultra-luxury branded automobiles, which represents a year-on-year increase of approximately 14.2%.

2. After-sales service business

With its customer-centric approach, the Group is committed to advancing digitised customer management by leveraging its self-developed information management system and establishing multi-channel communication with customers via WeChat and telephone etc. to address customer needs. It offered personalized product services to customers and provided a "one-stop" solution encompassing online payment, offline consumption, and after-sales consultation to enhance customer experience. The Group improved the interaction between its after-sales service and sales of new and pre-owned automobile businesses, consolidated its platform resources and launched integrated service products such as the "dual-guarantee worry-free" (雙保無憂) service. In addition, during the pandemic, the Group offered door-to-door pick-up and drop-off service as well as pandemic prevention packages, actively expanding its business offerings and customer base, in order to continuously provide customers with an excellent automobile service experience.

In 2022, the Group provided after-sales service for 1,070,313 units in total and recorded revenue from after-sales service of approximately RMB3,081 million.

3. Network development and layout of the Group

Continuously optimizing brand structure and store profitability and focusing on market opportunities brought by the new energy and new dealership model

As a leading dealership group of luxury brands in the PRC, the Group represents mass-market luxury and ultra-luxury automobile brands including Porsche, Mercedes-Benz, BMW, Audi, Jaguar Land Rover, Volvo and Hongqi. In addition, the Group also engages in the dealership of mid-to-high-end brands such as FAW-Volkswagen, Buick, Dongfeng-Nissan, FAW Toyota and Dongfeng-Honda.

As of 31 December 2022, the Group had 109 dealership stores in 38 cities across 17 provinces and municipalities in China, and was authorized to develop 7 additional dealership stores, including 4S stores for core luxury brands such as Mercedes-Benz and Audi and repair centres, as well as 4S stores and repair centres for mid-to-high-end and new energy brands (such as brands like GWM Haval, Tank and WEY, as well as NIO). In the first half of 2022, the Group opened a new Porsche centre in Dalian, Liaoning Province, bringing its total number of Porsche stores to 6 and further strengthening its relationship with Porsche manufacturers and profitability. In the second half of 2022, the Group opened a new HYCAN store and an authorized Tesla body and paint centre, continued its network expansion in the new energy field, and actively explored investment or cooperation opportunities in the new energy market.

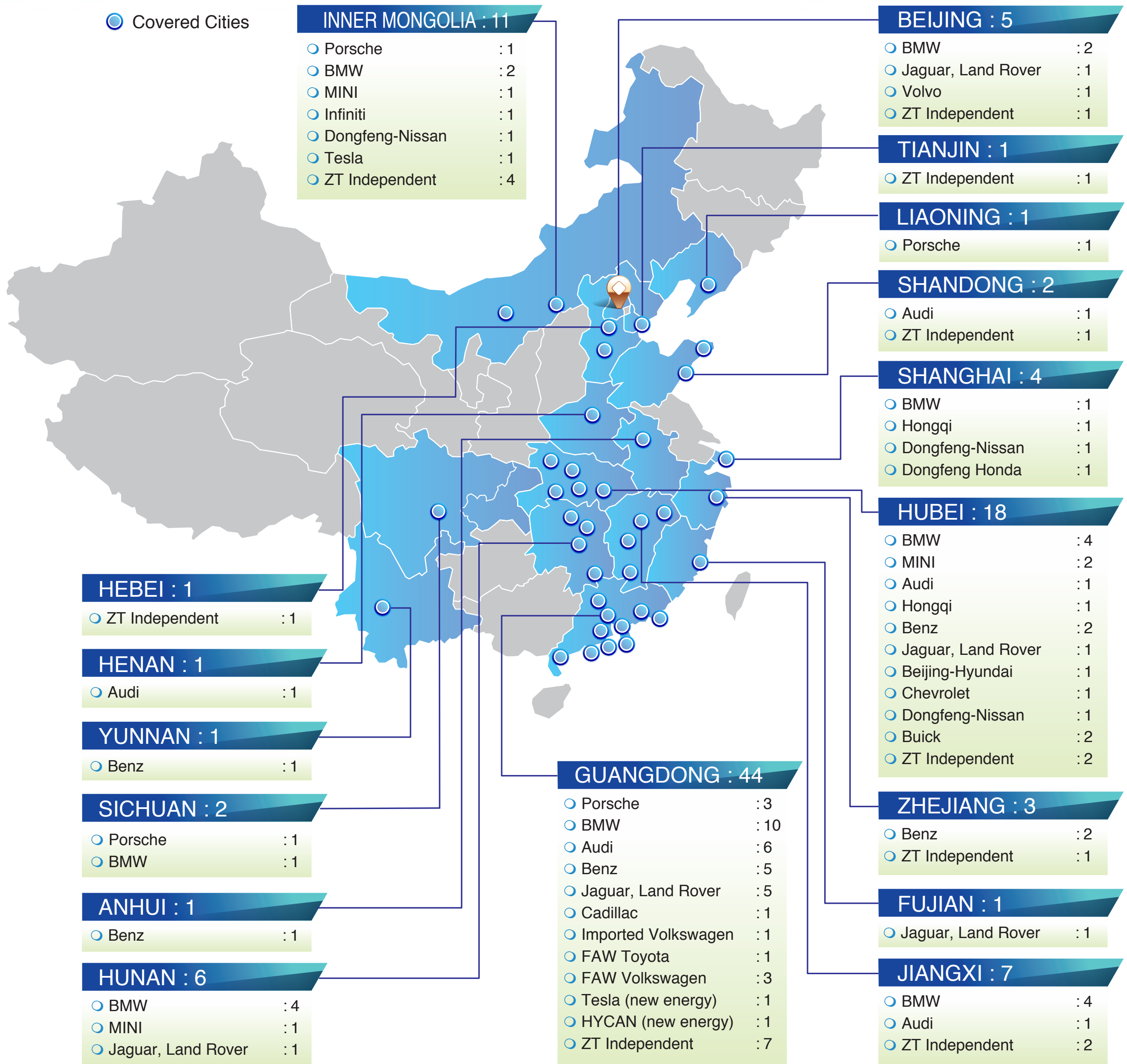
The following table sets forth the details of the Group's dealership stores as of 31 December 2022:

	Dealership stores in operation	Dealership stores in development	Total
5S/4S stores for luxury and ultra-luxury brands	62	2	64
4S stores for mid-to-high-end and new energy brands	12	2	14
Urban showrooms for luxury brands	7	0	7
Authorized repair centres for luxury brands	6	1	7
Mid-to-high-end and new energy brand service centres	2	2	4
Self-operated stores	20	0	20
Total	109	7	116

The recurrence of the pandemic, coupled with the strong, trend-bucking growth of the new energy sector and the change in direct sales or agency marketing models in 2022, has brought great challenges to the traditional automobile dealership industry. Taking full advantage of its internal resources and strengths, the Group concentrated on promoting core and profitable brand projects, streamlined and strategically repositioned certain low-performing brands and dealership stores to improve overall profitability. Meanwhile, the Group actively cooperated with OEMs of various brands to improve brand image, strengthen interaction with OEMs, and comprehensively enhance customer experience and the operational capabilities of its dealership stores.

NETWORK COVERAGE MAP

Balanced and reasonable deployment of the nationwide dealership network for luxury brands



(II) Derivative and emerging business segments

1. Derivative business

With the steady recovery of the automobile sales and after-sales businesses, the Group has intensified its efforts to expand its derivative business during the year, and the insurance agency and pre-owned automobile businesses also experienced rapid development.

- In terms of the insurance agency business, in addition to continuously evolving its traditional automobile insurance business, the Group's Dingze Insurance Agency tapped into new profit streams, introducing the Group's scooter products and developing the "dual-guarantee worry-free" product in 2022. During the reporting period, the Group put its full efforts behind promoting the "dual-guarantee worry-free" product, and the sales penetration rate has exceeded 40%. This has increased the output value and revenue, standardized and improved service standards, and increased the after-sales guarantee period and scope of customer vehicles. It was also recognized and appreciated by the customers of dealership stores, which has contributed to a higher level of customer stickiness. In addition to business innovation, Dingze Insurance Agency also strengthened its business integration through conducting insurance business data analysis, store and insurance company visits, and improved its service quality and customer satisfaction.

  Benefiting from its overall synergy and the interconnection of its business activities, the Group achieved sales of approximately RMB80 million from its dual-guarantee products in 2022, with cumulative sales of nearly 10,000 units. In the same year, the auto insurance business saw an increase of 11% and 15% on a year-on-year basis in the number of vehicles insured under new/renewed policies and amount of premiums, respectively.

- In terms of the pre-owned automobile business, the Group restructured its pre-owned automobile business management system during the year and gradually rolled out management measures and business guidelines. At the business transaction level, the Group introduced a number of industry-leading auction platforms (including AutoStreets (汽車街), Xiaoningpai (小檸拍), Youxinpai (優信拍), Cheyipai (車易拍), etc.) to broaden the sales channels of pre-owned automobiles, improve turnover efficiency and transaction transparency, and ultimately enhance the profitability of the Group.

  Although favorable policies conductive to the circulation of pre-owned automobiles have been introduced throughout the country in 2022, the overall performance of the pre-owned automobile market fell shy of expectations as a result of the pandemic. According to data released by the China Automobile Dealers Association, the trading volume of pre-owned automobiles in China in 2022 was approximately 16.03 million units, representing a year-on-year decrease of 8.9%. Nevertheless, with the aforesaid measures, the Group was able to achieve breakthrough growth in the scale and profitability of its pre-owned automobile business during the reporting period. The Group sold 10,564 pre-owned vehicles throughout the year. The gross profit contributed by pre-owned automobile business exceeded RMB48 million, representing a year-on-year increase of more than 20%.

2. Emerging Business

At present, the automobile dealership industry is facing enormous changes in terms of new energy, new technologies and new models. The Company has been attuned to the development trends of the industry and has actively embraced emerging business opportunities, and sought out models and projects appropriate for its resource endowments.

In 2022, the Group obtained additional new energy brand authorizations such as the Guangzhou HYCAN 4S store, the NIO maintenance centres in Yichang and Xiangyang and the Tesla body and paint centre in Jieyang, and emerging brand authorizations such as the Hohhot Haval 4S store and Beijing Yizhuang Tank 4S store. Among these, the Guangzhou HYCAN new energy 4S store and Jieyang Tesla authorized body and paint centre have successfully passed manufacturers' inspection and been put into operation. The Company has established an emerging business team to further expand its network in the new energy segment, push forward ongoing and pipeline projects and actively explore joint venture cooperation and M&A opportunities in the new energy market.

(III) Supply chain business segment

Notwithstanding an insufficient logistics demand due to the pandemic, Shengze Jietong's vehicle logistics and spare parts warehousing business still achieved a total operating revenue of nearly RMB491 million. By adhering to the operating strategy of reducing costs and increasing efficiency, overall gross profit margin of this business increased by 2.02%, and pre-tax profit increased by 32.81% on a year-on-year basis.

In terms of the vehicle business, the Group eliminated order delays caused by the pandemic through logistics proposals and other measures, and continued to expand the capacity of its carriers, explore and optimize routes and fulfill customer service requirements. During the year, Shengze Jietong has successfully participated in the bidding projects for the automotive business of FAW-Volkswagen, Hongqi, Besturn and Dongfeng-Nissan (including Infiniti and Venucia) for the next three years. In terms of the spare parts business, it optimized and adjusted the storage areas to effectively reduce operating costs, efficiently managed its order business, achieved cross-regional revenue generation, and established a foundation for subsequent cooperation. In terms of the warehousing business, it successfully secured businesses with Master Kong and Dongfeng-Aeolus, was officially included in the logistics supplier panel of SAIC Anji during the year, and was widely appreciated by many of its customers and suppliers.

During the year, Shengze Jietong obtained the qualification as a high-tech enterprise, won the "Top Ten Enterprises in China Chegu Modern Service Industry (中國車谷現代服務業十佳企業)", and was listed in the "National Comprehensive Hub to Complement and Improve the Chain (國家綜合樞紐補鏈強鏈)" project database.

(IV) Management improvement

In 2022, according to the deployment of the Group's management and the effective promotion and implementation of employees at all levels, the Group also made the following optimizations and improvements in its corporate governance, organizational structure, human resources, information development, cost reduction and efficiency increase, internal supervision, and risk prevention:

1. In terms of corporate governance, the Company has established and improved a standardized corporate governance structure and scientific rules of procedure, formulated various rules and systems that meet the requirements of listing compliance and business development, clarified the responsibilities and authorities of decision-making, implementation and supervision, and developed a scientific and effective division of responsibilities and checks and balances mechanism. During the year, the Company has conducted a comprehensive revision of the Company's rules and regulations, covering the optimization and improvement of core control systems such as risk management, investment management, procurement bidding, cost management and internal supervision. The Company has also optimized the review and approval

authorities of various automobile dealerships businesses and headquarters departments in accordance with appropriate rights and responsibilities, hierarchical authorization, conciseness and efficiency.

2. In terms of organizational structure, in accordance with the principles of effective management, flat streamlining and stable adaptation, the Company separated the roles of chairman of the Board and chief executive officer, and readjusted the role division of senior management to ensure clearer responsibilities of the management. The Company has reorganized and integrated the responsibilities of general departments accordingly, adjusted the organizational structure of the brand departments and unified the post settings of each brand management department, clarifying the requirements of personnel allocation to promote significant development.

3. In terms of human resources, the Company has optimized a scientific and reasonable renumeration system and established an employee career management system which is compatible with its development strategy. The Company has optimized its cadre selection mechanism and promoted internal competition and market-oriented selection for middle and senior-level posts in accordance with the principles of fairness, justness and openness. The Company has established channels for internal talents to exchange and learn, and constantly enhanced its talent discovery, growth, development and incentive mechanism. It has strengthened multi-dimensional training to improve the professional knowledge and skills of its management and business personnel, organised various activities to promote corporate culture, and promoted the milestones and deeds of the diligent individuals to help employees achieve values and goals.

4. In terms of information development, by focusing on the digital operation and management of the customer life cycle, the Company energized the Group's innovation and development and business upgrading. It independently designed and developed a series of automotive informatization projects, including the development of electronic signature functions to facilitate online signing of transaction documents, the creation of client WeCom mini-programs, in-store pre-owned automobile inspection on mobiles, dual insurance product system development, sales funnel accounting management, centralized procurement project management, customer solicitation project development, function optimization of Cheweixin (車微星)'s customer management platform, continuous improvement of internal one-click outbound call platform, data center network and information security system optimization. The Company developed a business indicator monitoring system and performance benchmarking system and consolidated its refinement management, and responded effectively to market changes and changes in consumer demand. In terms of digital presentation, the Group has further improved the data integration and data decision support functions of the internal information management system, improved the operational KPI benchmarking system, automatically integrated key indicators of various modules, realized multi-dimensional data benchmarking, and provided more powerful decision-making data support for promoting business development.

5. In terms of reducing costs and increasing efficiency, the Company introduced multiple automotive categories and subdivided products for itself through standardized and unified bidding and procurement, and standardized the centralized procurement of various business needs to control overall procurement costs as a whole. At the same time, the Company introduced competitive negotiations and other initiatives to reasonably extend the settlement period with suppliers, improve capital utilisation, and reduce operating resources occupation. In addition, financial costs were controlled and reduced through financing channels expansion, debt replacement, and moderate debt scale reduction.

6. In terms of internal supervision, the Company has established a multi-level supervision and inspection system that covers various levels within the headquarters and subsidiaries to assess and supervise the implementation of controls in each business area by increasing the frequency of regular reviews, special investigations, on-site inspections and other means. The Company continuously improved the experience, ability and professional qualifications of internal auditors, and applied IT technology and systems to automatically identify and flag risks. It also set up special occupational fraud reporting channels to improve its risk prevention system in terms of professional ethics.

7. In terms of risk prevention, the Company dynamically analyzed and evaluated risks based on its development stage and business expansion, and adjusted its risk response strategies accordingly. The Company has formulated an operational risk management system, and strengthened the identification, prevention and control of risks. The Company has established and optimized its financing, guarantee and foreign exchange transaction management systems, and strictly controlled the execution risks of its financial and fund raising activities. It established an emergency management and public opinion management team and developed emergency disposal and public opinion response mechanisms.

• FINANCIAL REVIEW

Revenue

For the year ended 31 December 2022, the Group recorded a revenue of approximately RMB22,607 million, representing an increase of approximately 7.7% as compared to the revenue of approximately RMB20,986 million in 2021. 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 RMB18,845 million in 2022, representing an increase of approximately 10.9% as compared to approximately RMB16,989 million in 2021, and accounting for approximately 83.4% and 81.0% of the total revenue in 2022 and 2021, respectively. Revenue from the sales of luxury and ultraluxury branded automobiles increased by approximately 13.0% to approximately RMB17,491 million in 2022 from approximately RMB15,483 million in 2021, which was mainly due to the increase in sales of luxury automobiles, which accounted for approximately 92.8% and 91.1% of revenue from the sales of new automobiles in 2022 and 2021, respectively. Revenue from the after-sales services was approximately RMB3,081 million, representing a decrease of approximately 0.8% as compared to approximately RMB3,105 million in 2021. In 2022, revenue from the after-sales services accounted for approximately 13.6% of our total revenue, representing a decrease of approximately 1.2 percentage points in revenue from that of last year.

Cost of sales

For the year ended 31 December 2022, the Group's cost of sales increased by approximately 6.4% to approximately RMB21,020 million as compared to approximately RMB19,750 million in 2021. The increase was in line with the increase in sales of new automobiles. In 2022, the cost of sales for new automobiles of the Group increased by approximately 10.8% to approximately RMB18,630 million from approximately RMB16,807 million in 2021. The increase was mainly due to the increase in sales of new automobiles. Cost of sales for after-sales services decreased by approximately 15.4% to approximately RMB1,806 million from approximately RMB2,134 million in 2021. The decrease was mainly due to the decrease in rental and staff costs of certain dealership stores.

Gross profit and gross profit margin

For the year ended 31 December 2022, the gross profit of the Group was approximately RMB1,587 million, representing an increase of approximately 28.4% from approximately RMB1,236 million in 2021. The increase was mainly due to the increase in revenue generated from sales of new automobiles, and the control over the aforementioned cost of sales. The Group's gross profit margin was approximately 7.0% in 2022, while its gross profit margin was approximately 5.9% in 2021.

The Group's gross profit was principally generated from sales of new automobiles and after-sales services business. In 2022, the Group's gross profit from sales of new automobiles business was approximately RMB215 million, while the Group's gross profit from sales of new automobiles business was approximately RMB182 million in 2021. The increase was mainly due to the increase in revenue generated from sales of new automobiles and the control over the aforementioned cost of sales. In 2022, the Group's gross profit from after-sales services increased by approximately 31.4% to approximately RMB1,275 million from approximately RMB970 million in 2021. The increase was mainly due to the significant decrease in the cost of after-sales service as a result of the Group's cost-saving measures.

Selling and distribution expenses

For the year ended 31 December 2022, the Group's selling and distribution expenses decreased by approximately 5.5% to approximately RMB1,211 million from approximately RMB1,281 million in 2021. The decrease in selling and distribution expenses was mainly attributable to decreases in staff salary costs and annual discretionary bonuses, etc.

Administrative expenses

For the year ended 31 December 2022, the Group's administrative expenses amounted to approximately RMB1,281 million, representing an increase of approximately 11.3% over approximately RMB1,151 million in 2021. Such increase was primarily due to the foreign exchange loss generated from the loan and borrowings denominated in foreign currency during 2022 as a result of the depreciation of Renminbi while a net foreign exchange gain had been recognised in 2021.

Profit from operations

For the year ended 31 December 2022, the Group's profit from operations was approximately RMB834 million, as compared with a loss from operations of approximately RMB957 million in 2021. The turnaround from loss to profit was mainly due to the overall improvement in the Group's operation. The Group's operating profit margin was approximately 3.7% in 2022.

Income tax

For the year ended 31 December 2022, the Group's income tax amounted to approximately RMB167 million and the effective tax rate was approximately −128.2% (2021: 0.4%). The reason for the negative tax rate for the year ended 31 December 2022 was the tax impact of non-deductible expense, net of non-taxable income.

Loss for the year

For the year ended 31 December 2022, the Group's loss for the year decreased by approximately 92.1% to approximately RMB297 million from approximately RMB3,781 million in 2021. The decrease of the loss of the Group was mainly due to the significant increase in other income, operation recovery and the closure of certain loss-making dealership stores. The Group's loss margin was approximately 1.3%, representing a decrease of 16.7 percentage points as compared to 18.0% in 2021.

Contingencies

As at 31 December 2022, the Group did not have any significant contingent liabilities other than that as disclosed in note 34 to the consolidated financial statements — Contingent liabilities.

Current assets and current liabilities

As at 31 December 2022, the Group's current assets amounted to approximately RMB13,830 million, representing an increase of approximately RMB1,039 million as compared to approximately RMB12,791 million as at 31 December 2021. The increase was mainly due to the increase in inventories and pledged bank deposits. As at 31 December 2022, the Group's current liabilities amounted to approximately RMB18,911 million, representing a decrease of approximately RMB2,930 million as compared to the current liabilities of approximately RMB21,841 million as at 31 December 2021, which was mainly due to a decrease in short-term loans and borrowings.

Adjusted net assets

Net assets presented in the Company's financial statements was approximately RMB224 million, and the adjusted net assets, a non-GAAP financial measure, was approximately RMB1,224 million (for reference only). Adjusted net assets, a non-GAAP financial measure, is based on the net assets presented in the statement of financial position of RMB224 million as at 31 December 2022, adjusting the impact of certain long-term borrowings of RMB1.0 billion from the Company's single largest shareholder ITG Holding and its subsidiaries (the "**ITG Group**"). The presentation of such non-GAAP financial measure is due to management's belief that RMB1.0 billion of the borrowings from ITG Group constitutes continuous long-term borrowings of not less than three years committed by ITG Group. The Company's management believes that the non-GAAP financial measure can reflect the positive impact the financial support from ITG Group had on the Company's ability to continue as a going concern and provide investors with a clearer view on the Group's financial results, and with useful supplementary information to assess the performance of the Group's strategic operations, by adjusting the impact of certain long-term borrowings from ITG Group. One of the limitations of using such non-GAAP financial measure is that such measure excludes certain item that has been (and may continue to be for the foreseeable future) a component in the Company's financial position. Nevertheless, the use of such non-GAAP financial measure has limitations as an analytical tool. Such unaudited non-GAAP financial measure should be considered in addition to, and not as a substitute for, analysis of the Group's financial performance prepared in accordance with HKFRS. In addition, such non-GAAP financial measure may be defined differently from similar terms used by other companies.

Cash flow

As at 31 December 2022, the Group had cash and cash equivalents amounting to approximately RMB734 million, representing an increase of approximately RMB525 million from approximately RMB209 million as at 31 December 2021. 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 2022, the Group had net cash inflow of approximately RMB159 million generated from its operating activities (2021: net cash inflow from operating activities amounted to approximately RMB156 million).

Capital expenditure and investment

For the year ended 31 December 2022, the Group's capital expenditure and investment were approximately RMB859 million (2021: RMB661 million). The increase was mainly due to the upgrade and renovation of dealership stores.

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 manages the quotas and orders for new automobiles, automobile spare parts and other inventories separately. 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 RMB4,064 million as at 31 December 2022, representing an increase of approximately RMB1,415 million from RMB2,649 million as at 31 December 2021. Such change was mainly due to the increase in the inventories of new automobiles by the Group based on market demand. The Group's average inventory turnover days for 2022 increased by 16.9 days to 48.4 days from 31.5 days for 2021. The increase was mainly due to the increase in inventories at the year-end caused by the expansion of operations and the impact of the pandemic.

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 significantly affected by fluctuations in exchange rate. The Group used forward foreign exchange contracts to hedge its risk of foreign currency related to its loan and borrowings denominated in US dollar.

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 2022, the Group's cash and cash equivalent and bank deposits were approximately RMB4,691 million (including: pledged bank deposits of approximately RMB3,957 million and cash and cash equivalents of RMB734 million), representing an increase of approximately RMB1,372 million from that of approximately RMB3,319 million as at 31 December 2021. The increase was mainly due to the increase in financing. As at 31 December 2022, the Group's loans and borrowings and lease liabilities amounted to approximately RMB20,018 million (31 December 2021: loans and borrowings, lease liabilities, and bonds payable amounted to approximately RMB18,141 million). This increase was mainly due to the proceeds of certain bank loans and borrowings. As at 31 December 2022, the net gearing ratio of the Group was approximately 6,828.9% (31 December 2021: approximately 2,741.6%). Net gearing ratio as at 31 December 2022 was calculated as loans and borrowings and lease liabilities less cash and cash equivalents and pledged bank deposits divided by total equity. The Group will actively enhance its business efficiency and consider various methods to improve its existing financial position and reduce the degree of leverage of the Group.

Pledged assets

The Group has pledged certain assets as security for loans and borrowings to be used as working capital for daily operations. As at 31 December 2022, the pledged assets of the Group amounted to approximately RMB8,003 million (31 December 2021: approximately RMB6,310 million). The increase was mainly due to the increase in the pledged inventories required for financing.

Investments held in foreign currency and hedging

For the year ended 31 December 2022, the Group did not hold any material 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 change in exchange rate.

• MATERIAL ACQUISITIONS AND DISPOSALS

On 20 October 2020, the Company received from the Shanghai Office of the China Banking and Insurance Regulatory Commission ("**CBIRC**") an administrative decision against the Company (the "**Decision**"), alleging that (I) the Company obtained administrative licenses and permits for the establishment of Shanghai Dongzheng Automotive Finance Co., Ltd.* (上海東正汽車金融股份有限公司) ("**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 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 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 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.

In view of the Ruling from the Shanghai Financial Court, the Company had terminated its discussions with independent purchasers regarding the potential disposal.

On 16 April 2022, the Company was made aware of an auction announcement issued by the Shanghai Financial Court on the judicial auction online platform on JD.com (https://paimai.jd.com/287421325) in relation to the auction of the shares held by the Company in Dongzheng, details of which are (among others) as follows:

Subject of auction: 1.52 billion shares held by the Company in Dongzheng.

Base bid price: RMB1,606,812,970.00; deposit: RMB160,000,000; increment interval of bid: RMB5,000,000 or in multiples thereof.

Time of auction: 10:00 a.m., 18 May 2022 to 10:00 a.m., 19 May 2022 (excluding extensions of time).

Qualification of the bidder: The bidder shall be a corporate legal person in compliance with PRC laws and regulations as well as the regulations and requirements of the CBIRC and other relevant regulatory authorities in relation to any changes in the controlling shareholder of an automotive finance company. The bidder shall also be aware of the relevant Hong Kong regulatory requirements.

As set out in the announcement dated 19 May 2022, pursuant to the judicial auction online platform on JD.com, the final auction sale price of the 1.52 billion unlisted foreign shares held by the Company in Dongzheng was RMB1,606,812,970.00 (the "**Final Auction Sale Price**"). On 16 June 2022, the Company received a notice from the Shanghai Office of the CBIRC which stated that, since the Final Auction Sale Price is RMB1,606,812,970.00, after deducting the necessary charges, the final amount to be received by the Company with respect to the ordered withdrawal of its shares in DongZheng will be RMB1,410,560,000.00 (the "**Sale Proceeds**").

As set out in the announcement dated 5 August 2022, pursuant to a registration of transfer confirmation issued by China Securities Depository and Clearing Corporation Limited, registration of the transfer of the Company's equity interest in Dongzheng to the purchaser has been completed on 4 August 2022 (the "**Completion**"). Following the Completion, the Company no longer has any equity interest in Dongzheng. As at the date of this annual report, the Company has received the Sale Proceeds, and applied them towards repayment of outstanding dealership loans from Dongzheng.

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 had no discretion otherwise, such disposal did 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, did not apply to such disposal.

For details, please refer to the announcements of the Company dated 7 December 2020, 3 February 2021, 9 March 2021, 8 February 2022, 21 April 2022, 19 May 2022, 17 June 2022 and 5 August 2022.

Save as disclosed above, for the year ended 31 December 2022, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

• EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2022, the Group had a total of 7,181 employees (as at 31 December 2021: 7,760 employees) in the PRC. For the year ended 31 December 2022, the staff costs of the Group for the continuing operations amounted to approximately RMB985 million (2021: approximately RMB1,081 million).

The Group attaches great importance to human resources and understands the importance of attracting and retaining high-quality employees to the long-term success of the Group. The Group offers competitive remuneration packages and welfare benefits including pension, work-related compensation benefits, maternity insurance, medical plans and unemployment benefit plans on a long-term basis. In 2022, the Group established a four-level training system to train and systematically cultivate employees at different levels according to aptitude through online empowerment, front-line practice, and enhanced results, so as to help employees grow gradually and actively establish a learning organization. The Group carried out popular activities such as reading and sharing sessions, advanced employee selection, creating and enjoying good music and themed essays to promote and gradually implement the same into its of corporate culture.

• FUTURE OUTLOOK AND STRATEGY

Looking forward to 2023, with the continued recovery of China's economy, increased domestic consumer demand and persistent policy efforts, a strong rebound is expected from household consumption on automobiles. According to the forecast of the China Association of Automobile Manufacturers, China's total automobile sales and sales of various automobile segments including traditional fuel passenger vehicles, commercial vehicles and new energy vehicles are expected to achieve growth and breakthroughs in 2023.

Against the backdrop of the rapid recovery of the domestic economy after the pandemic, the Group will also seize the opportunity, when the automotive industry stabilises, to take all possible steps to stabilize operations, expand scale, reduce costs and increase efficiency. In terms of the development direction of the core business, we will maintain our focus on luxury automobile brands, strengthening strategic partnerships with domestic mainstream luxury and ultra-luxury branded OEMs, deepening all-round cooperation with OEMs, including new energy projects, and optimising brand structure and store profitability. In terms of after-sales service, the Group will consolidate customer retention operations and improve customer satisfaction with high-quality services. At the same time, the Group will actively respond and adapt to the development trends and directions of the automobile dealership industry, pay attention to market opportunities arising from new energy and new dealership models, and seize opportunities to participate in the sales, delivery and maintenance centre projects of new brands and traditional domestic brands with relatively large development potential, so as to develop new growth.

In addition to focusing on our principal business, we will also vigorously expand the business scale of pre-owned automobile business, enhance our influence in the pre-owned automobile market to obtain higher gross profit returns, and attempt to develop pre-owned automobile exports and explore business opportunities in the new energy service industry chain. In terms of logistics business, we will speed up the construction of bases and the implementation of automated warehousing solutions, and continue to explore and develop high-quality customers. The Group will also strive to improve turnover rate and gross profit margin by continuing to adhere to the development path of both scale advantages and efficiency improvement, improving cost control management and personnel efficiency, building brand power and competitiveness through digitalization, as well as continuously improving service capabilities and customer loyalty.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Group also acknowledges the vital importance of good corporate governance to the success and sustainability of the Group.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). So far as the Board is aware, during the year ended 31 December 2022, the Company has applied the principles and complied with the code provisions set out in the CG Code, except for the following deviations:

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. 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 on the same date. Save for their current and/or former employment with the ITG Group, 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 10 March 2022, 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.

Code provision C.6.2 stipulates that the appointment and dismissal of the company secretary should be dealt with by a physical board meeting rather than a written board resolution. The appointment of Ms. Fung Wai Sum as the company secretary of the Company on 6 July 2022 was not dealt with by a physical Board meeting as the Company considered that such change in company secretary did not involve the dismissal of the company secretary and should not be controversial.

The Company will periodically review and enhance its corporate governance practices to ensure that it will continue to comply with the requirements of the CG Code.

CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors' securities transactions (the "**Securities Code**") on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the Securities Code and the Model Code during the year ended 31 December 2022.

The Company has also adopted a warning to its employees regarding insider dealings (the "**Insider Dealings Warning**") for their securities transactions. So far as the Company is aware, there was no incident of non-compliance of the Insider Dealings Warning by the employees.

BOARD OF DIRECTORS

Board Composition

The Board consisted of six Directors, including three executive Directors and three independent non-executive Directors as at the date of this report.

During the year and up to the date of this report, the Board consisted of the following Directors:

Executive Directors:

Mr. Wang Mingcheng *(Chairman)*
Mr. Li Zhihuang
Mr. Zeng Tingyi
Mr. Wang Muqing *(resigned on 10 January 2022)*

Independent Non-executive Directors:

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

The biographical information of the current Directors is set out in the section headed "Directors' and Senior Management's Profiles" on pages 61 to 62 of this annual report.

The Company has listed independent non-executive Directors in all corporate communications pursuant to the Listing Rules. The list of Directors (by category) which specifies the roles and functions of the Directors was also disclosed on the websites of the Company and the Stock Exchange pursuant to the Listing Rules.

To the knowledge of the Company, save for the executive Directors' current and/or former employment with the single largest shareholder of the Company and/or its subsidiaries, details of which are set out in the section headed "Directors' and Senior Management's Profiles" of this annual report, there is no financial, business, family or other material/relevant relationship among the current members of the Board.

During the year ended 31 December 2022, the Board at all times complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Not less than one-third of the members of the Board were independent non-executive Directors.

The Company has received the written annual confirmation of independence from all three independent non-executive Directors, namely Dr. Wong Tin Yau, Kelvin, Dr. Cao Tong and Ms. Wong Tan Tan, and considers that all of them were independent having regard to the independence criteria set out in Rule 3.13 of the Listing Rules.

All of the current Directors have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

Responsibilities

The Board is collectively responsible for leading and managing the Company and overseeing the businesses, strategic decisions and performance of the Company. The Board has delegated the Chief Executive Officer to assign the authority and responsibility for the daily management and operation of the Group to the senior management. In addition, the Board has established Board committees (the "**Committees**") and has delegated to these Committees various responsibilities as set out in their respective terms of reference.

Delegation by the Board

The Board reserves its rights to make decisions on all major matters of the Company, including the formulation and monitoring of all policies and directions, overall strategies and budgets, internal control and risk management systems, major transactions (in particular those that may involve a conflict of interest), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to relevant information as well as the advice and services of the secretary of the Company (the "**Company Secretary**"), with a view to ensuring that the procedures of the Board and all applicable rules and regulations are followed. Each Director may request the Board to seek independent professional advice in appropriate circumstances at the expense of the Company.

The Company has maintained directors and executives liability insurances for its Directors and executives in respect of any legal actions taken against them arising out of corporate activities.

Appointment and Re-election of Directors

The procedures and processes of appointment, re-election and removal of Directors are specified in the articles of association of the Company (the "**Articles**"). The Nomination Committee is responsible for reviewing the structure, size, board diversity and composition of the Board, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. Details of the responsibilities of the Nomination Committee are set out in the section headed "Board Committees" below.

Each of the Directors has entered into a service contract (for executive Directors) or a letter of appointment (for independent non-executive Directors). Each of the independent non-executive Directors was appointed for a term of three years subject to provisions of retirement and rotation under the Articles. No Director proposed for re-election at the forthcoming 2023 annual general meeting of the Company (the "**2023 AGM**") has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Pursuant to the Articles, at each annual general meeting (the "**AGM**"), one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one-third) is required to retire from office by rotation, provided that every Director shall be subject to retirement at least once every three years. The Director to retire in every year shall be the one who has been longest in office since his/her last election but as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by ballot and shall be eligible to offer themselves for re-election. Any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting of the Company and shall, being eligible, be subject to re-election at such meeting.

Accordingly, Dr. Wong Tin Yau, Kelvin and Dr. Cao Tong will retire from office by rotation at the 2023 AGM, and being eligible, will offer themselves for re-election.

Board Diversity

The Board has adopted and applied a board diversity policy (the "**Board Diversity Policy**"). In determining the composition of the Board, the Company considers whether a candidate will bring potential complementary benefits to the Board and contribute to the improvement of the overall competence, experience and expertise of the Board. The Company may consider the diversity of the composition of the Board in various aspects, including professional experience and qualifications, gender, age, ethnicity, and cultural and educational background, as well as any other factors that the Board from time to time deems relevant and appropriate. Selection of candidates will be based on a range of diversity perspectives, including but not limited to experience and expertise, professional experience and qualifications, gender, age, ethnicity and cultural and educational background. The Nomination Committee has conducted an annual review of the Board Diversity Policy to ensure its effectiveness. The review results are satisfactory. The Nomination Committee and the Board consider that the current composition of the Board is sufficiently diverse and has met the objectives set out in the Board Diversity Policy and provided the Company with a good balance of skills, experience and diversity of perspectives appropriate to the requirements of its business, and accordingly have not set any measurable objectives.

Gender Diversity

Currently, the Board has one female Director and five male Directors, and the Company's chief executive officer, representing its senior management, is male. The Board will continue to embrace gender diversity when making future board appointments but no specific targets or timelines to further enhance gender diversity have been set as the Board is of the view that all aspects of diversity should be considered as a whole in the selection of candidates for directorship.

The same approach to gender diversity at the Board level also applies to the Group's workforce, including its senior management. As of 31 December 2022, approximately 61% and 39% of the Group's employees were male and female, respectively. The Group recognises the value of gender diversity to promote a diverse and inclusive working environment and welcomes increased female representation at all levels. However, the Group currently does not consider it appropriate to set any specific gender target for its workforce. As an equal opportunity employer, the Group also takes into account other relevant factors in its hiring decisions, and given it already maintains a close to 40% female representation in a traditionally male-dominated industry, considers that the gender ratio of the workforce of the Group is appropriate for its current business model and operational needs.

Mechanism for Assessing the Independence of the Board

The Company has complied with code provision B.1.4 of the CG Code by adopting the Board independence assessment mechanism ("**Board Independence Assessment Mechanism**") during the year to ensure that the Board has a strong element of independence to enable the Board to exercise independent judgment effectively and better protect the interests of the Shareholders and the Company.

The objectives of the assessment are to improve the effectiveness of the Board to maximize its strengths and identify areas for improvement or further development. The evaluation process also articulates actions the Company needs to take to maintain and improve Board performance, for example, identifying the individual training and development needs of each Director.

Under the Board Independence Assessment Mechanism, an annual review on Board independence will be conducted. The Board Independence Assessment Report will be presented to the Board for discussion of the results and actions for improvement.

During the year ended 31 December 2022, all Directors have completed an independence assessment, and the Board Independence Assessment Report has been submitted to the Board with satisfactory results. The Board has also reviewed the implementation and effectiveness of the Board Independence Assessment Mechanism and the results are satisfactory.

Induction and Continuing Development of Directors

Every newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Directors' responsibilities and obligations under the Listing Rules, common law and relevant statutory requirements.

The existing Directors are continuously updated with developments in the legal and regulatory regime and the business and market environments so as to facilitate the discharge of their responsibilities. Ongoing updates of applicable laws and regulations were provided by the Company to the Directors in a reasonable time frame.

Pursuant to code provision C.1.4 of the CG Code, the issuer should be responsible for arranging and funding suitable training. During the year, all of the current Directors have participated in appropriate continuous professional development by attending training courses or by reading materials relevant to the Company's business or management or Directors' duties and responsibilities. The table below summarises the participation of each of the current Directors in continuous professional development during the year ended 31 December 2022:

Name of Director	Participated in continuous professional development[1]
Executive Directors	
Mr. Wang Mingcheng	√
Mr. Li Zhihuang	√
Mr. Zeng Tingyi	√
Independent Non-executive Directors	
Dr. Wong Tin Yau, Kelvin	√
Dr. Cao Tong	√
Ms. Wong Tan Tan	√

Note:

(1) Attended training/seminar/conference arranged by the Company or other external parties or read relevant materials

ATTENDANCE RECORDS

The attendance of the Directors at the general meetings, Board meetings and Committee meetings in 2022 was as follows:

Members of the Board	Meetings Attended/Meetings Held during Tenure of Office				
	2022 AGM	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:					
Mr. Wang Mingcheng *(Chairman)*	1/1	6/6	—	—	1/1
Mr. Li Zhihuang	1/1	6/6	—	1/1	—
Mr. Zeng Tingyi	1/1	6/6	—	—	—
Mr. Wang Muqing *(resigned on 10 January 2022)*	0/0	0/1	—	0/0	—
Independent Non-Executive Directors:					
Dr. Wong Tin Yau, Kelvin	1/1	6/6	3/3	—	—
Dr. Cao Tong	1/1	6/6	3/3	1/1	1/1
Ms. Wong Tan Tan	1/1	6/6	3/3	—	1/1

BOARD AND COMMITTEE MEETING

Board Practices and Conduct of Meetings

During the year ended 31 December 2022, the Company held a total of six Board meetings. At the Board meetings, among others, the Board reviewed and approved the annual results for the year ended 31 December 2021 and interim results for the six months ended 30 June 2022 and also considered other significant matters of the Company. In addition, during the year ended 31 December 2022, apart from regular Board meetings, the Chairman of the Board also held one meeting with the independent non-executive Directors without the presence of other Directors.

The Company serves notices of regular Board meetings at least 14 days before the date of the meetings. For other Board and Committee meetings, reasonable notices are given. The Company has provided agenda of meeting of the Board and the Committees made available to Directors in advance. Documents in relation to the meeting together with all appropriate, complete and reliable information are sent to all Directors at least three business days before the date of each Board meeting or Committee meeting to keep the Directors abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and every Director also have separate and independent access to the senior management where necessary.

The Articles contain provisions requiring any Director to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Director or any of his/her associates have a material interest.

BOARD COMMITTEES

The Board has established three Committees, including the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. The Remuneration Committee, the Nomination Committee and the Audit Committee are established with defined written terms of reference. These terms of reference are posted on the websites of the Company and the Stock Exchange, respectively and are available for inspection by Shareholders upon request. These Committees are provided with sufficient resources to discharge their duties and are required to report to the Board on their decisions or recommendations. During the year ended 31 December 2022, three meetings of the Audit Committee, and one meeting of each of the Remuneration Committee and the Nomination Committee were held respectively.

Remuneration Committee

As at the date of this report, the Remuneration Committee comprises three members, including executive Director Mr. Li Zhihuang, and independent non-executive Directors Dr. Cao Tong (chairman of the Remuneration Committee) and Dr. Wong Tin Yau, Kelvin.

The Remuneration Committee is primarily responsible for making recommendations to the Board on the remuneration policy and structure of the Company for all Directors and senior management and establishing a formal and transparent procedure of the formulation of the remuneration policy. The responsibilities of the Remuneration Committee also include reviewing and approving the remuneration proposals of the management with reference to the corporate goals and objectives of the Board, and ensuring that no Director or any of his/her associates participates in the determination of his/her own remuneration.

During the year ended 31 December 2022, the Remuneration Committee held one meeting. Work performed by the Remuneration Committee during the year includes reviewing the remuneration policies and strategies of the Group and making recommendations to the Board on the remuneration of Directors and senior management.

Details of the amount of remuneration of Directors and senior management are set out in note 7 and note 8 to the consolidated financial statements.

Nomination Committee

As at the date of this report, the Nomination Committee comprises three members, including the Chairman of the Board and executive Director Mr. Wang Mingcheng (chairman of the Nomination Committee), and independent non-executive Directors Dr. Cao Tong and Ms. Wong Tan Tan.

The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board and making recommendations regarding any proposed changes, identifying suitable candidates for appointment as Directors, making recommendations to the Board on the proposed appointment or re-appointment and succession plan of Directors and assessing the independence of independent non-executive Directors. The Nomination Committee will also review the Board Diversity Policy as and when appropriate to ensure its effectiveness and discuss any revisions that may be required in light of the corporate strategies of the Company and recommend any such revisions to the Board for consideration and approval.

During the year ended 31 December 2022, the Nomination Committee held one meeting. Work performed by the Nomination Committee during the year includes: (i) reviewing the Board Diversity Policy and the structure, size, diversity and composition of the Board to ensure the professional knowledge, skills and experience of the Board meet the business needs of the Company; (ii) reviewing the annual confirmation of independence of the independent non-executive Directors and assessing their independence; and (iii) making recommendations to the Board on re-appointment of Directors retiring and offering themselves for re-election at the 2022 AGM.

Audit Committee

As at the date of this report, the Audit Committee comprises three members, all being independent non-executive Directors (including one independent non-executive Director with appropriate professional qualifications and accounting expertise), namely, Dr. Wong Tin Yau, Kelvin (chairman of the Audit Committee), Dr. Cao Tong and Ms. Wong Tan Tan.

The Audit Committee is primarily responsible for reviewing financial information of the Group, monitoring the independence and objectiveness of the external auditors and the effectiveness of the auditing process and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the approval of their remuneration and terms of engagement. The Audit Committee is also responsible for reviewing the financial reporting process and financial controls, internal controls and risk management systems, including the adequacy of resources, staff qualifications and experience, training programmes and budgets of the internal audit functions as well as arrangements for concerns about possible misconducts in financial reporting, internal controls or other matters raised by employees of the Company.

The Audit Committee reviews the accounts, annual and interim results and reports of the Group before submission to the Board for approval.

During the year ended 31 December 2022, the Audit Committee held three meetings. Work performed by the Audit Committee during the year includes: (i) reviewing the preliminary unaudited results and annual results for the year ended 31 December 2021 and interim results for the six months ended 30 June 2022; (ii) reviewing the relevant financial reporting procedures and compliance procedures, the report of internal audit on internal controls and risk management system; (iii) reviewing the effectiveness of the internal control and risk management systems as well as the internal audit function; and (iv) reviewing the re-appointment of external auditors and providing relevant recommendations to the Board.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022.

The Board is responsible for presenting balanced, clear and understandable annual and interim reports, announcements and other disclosures prepared in accordance with the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the financial statements of the Company, which are put to the Board for approval.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties:

(a) to develop and review the policies and practices on corporate governance of the Group;

(b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group;

(c) to review and monitor the policies and practices on compliance with any requirements, directions and regulations that may be prescribed by the Board or contained in any constitutional documents of the Group or imposed by the Listing Rules, the applicable laws and other applicable organisational governance standards;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the CG Code and the disclosure in the corporate governance report to be contained in the Company's annual reports.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company in respect of its reporting responsibilities for the financial statements is set out in the section headed "Independent Auditor's Report" on page 77.

The remuneration received by the Company's auditors, KPMG, during the year ended 31 December 2022 is set out below:

Category of Services	Fee Paid/ Payable RMB
Audit Services	9,800,000
Non-audit Services	120,000
Total	9,920,000

Note: The non-audit services conducted by the external auditor mainly include ESG service.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board monitors the risk management and internal control systems principally through the Internal Audit Department of the Group (which performs an independent audit on the effectiveness and completeness of the risk management and internal control systems, identifies any material risks that would adversely affect the achievement of the Group's objectives, makes recommendations on the improvement and rectification plans and measures and conducts follow-up audits with regard to the identified issues to ensure that the planned remedial measures have been duly implemented), and is committed to conducting, at least annually, a review on the effectiveness of the risk management and internal control systems of the Group, including financial, operational and compliance controls such as the governance structures, adequacy of staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit, financial reporting functions, as well as those relating to the Company's ESG performance and reporting.

The Board, through the Audit Committee, has conducted an annual review on the effectiveness of the risk management and internal control systems of the Group and a review on the items set out in code provision D.2.3 of the CG Code for the year ended 31 December 2022. The Board considers the current systems to be generally effective and adequate.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective and ongoing communication with Shareholders is essential for enhancing investor relations and investors' understanding of the business performance and strategies of the Group. the Company also recognises the importance of transparency and timely disclosure of corporate information, which enables effective evaluation of the performance of the Group by Shareholders and investors.

The Company facilitates communication between the Board and the Shareholders through general meetings, and it communicates with the Shareholders, investors and the general public through annual reports, interim reports and other corporate announcements.

The Company strives to maintain a high level of investor access through a range of investor relations activities, including teleconferences, one-to-one meetings, roadshows, press conferences and site visits. The Company also regularly meets with institutional investors from overseas and Mainland China to keep the investors abreast of the major developments and strategies of the Group.

To facilitate communication, the Company maintains a website at http://www.zhengtongauto.com, where updates on the Company's structure, the Board, business developments and operations, financial information, corporate governance practices and other information are posted.

The Board conducted an annual review of the effectiveness of the above communication methods with Shareholders and investors, and the results were satisfactory.

COMPANY SECRETARY

The Company engages an external service provider to provide secretarial services and has appointed Ms. Fung Wai Sum as its Company Secretary. During the year, Ms. Fung Wai Sum's primary corporate contact person was Ms. Ding Ding (丁丁), who is a vice president of the Company.

During the reporting period, Ms. Fung Wai Sum has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules to enrich her knowledge and skills.

RIGHTS OF SHAREHOLDERS

A summary of certain rights of the Shareholders is set out below:

Procedures for Shareholders to convene an extraordinary general meeting ("EGM")

1. One or more Shareholders (the "**Requisitionist(s)**") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company carrying voting right at general meetings shall have the right to request the Board to convene an EGM in respect of any business transaction specified in such requisition.

   Such requisition shall be made in writing and delivered to the Board at the principal place of business of the Company in Hong Kong at Flat C, 32/F, Lippo Centre Tower 1, 89 Queensway, Hong Kong or via email at ir@zhengtongauto.com.

2. The EGM shall be held within two months after the deposit of such requisition.

3. If the Board fails to convene such meeting within twenty-one (21) days of such deposit, the Requisitionist(s) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for Shareholders to submit proposals at general meetings

A Shareholder of the Company should lodge a written notice of his/her proposal (the "**Proposal**") together with his/her detailed contact information at the principal place of business of the Company in Hong Kong at Flat C, 32/F, Lippo Centre Tower 1, 89 Queensway, Hong Kong.

1. The request will be verified with the Hong Kong branch share registrar of the Company and upon its confirmation that the request is proper and in order, the Board will be required to include the Proposal in the agenda of the general meeting.

2. The notice period given to all Shareholders of the Company for consideration of the Proposal to be raised by the Shareholder concerned at the general meeting varies with the nature of such Proposal:

   (a) At least 14 clear days' and 10 clear business days' notice in writing if the Proposal constitutes an ordinary resolution of the Company at an EGM;

   (b) At least 21 clear days' and 10 clear business days' notice in writing if the Proposal constitutes a special resolution of the Company at an EGM; and

   (c) At least 21 clear days' and 20 clear business days' notice in writing if the Proposal shall be passed at an AGM.

Procedures for Shareholders to make enquiries to the Company

For matters in relation to the Board, the Shareholders of the Company may contact the Company at Flat C, 32/F, Lippo Centre Tower 1, 89 Queensway, Hong Kong or via email at ir@zhengtongauto.com. The Company will not normally deal with verbal or anonymous enquiries.

For matters in relation to the share registration, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the registered Shareholders of the Company may contact Computershare Hong Kong Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

CONSTITUTIONAL DOCUMENTS

There was no change to the Memorandum and Articles of the Company during the year under review. The latest consolidated version of the Memorandum and Articles is available on the websites of the Company and the Stock Exchange.

DIVIDEND POLICY

The Company endeavours to maintain sufficient working capital to develop and operate the business of the Group and to provide sustainable returns to the Shareholders. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. While the dividend payout ratio is not pre-determined, in proposing or declaring any dividend payout, the Board will take into account: (i) the results of operations, (ii) cash flows, (iii) financial condition, (iv) Shareholders' interests, (v) general business conditions and strategies, (vi) capital requirements, (vii) the payment of cash dividends by the subsidiaries to the Company, and (viii) other factors the Board may deem relevant. Any payment of dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands, the Articles and all other applicable laws, rules and regulations. The Board will review the dividend policy from time to time and may exercise its sole and absolute discretion to update, amend and/or modify the dividend policy at any time as the Board thinks fit and necessary. There is no assurance that dividends will be paid in any particular amount for any given period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

1 ABOUT THIS REPORT

Introduction

This report is the seventh Environmental, Social and Governance Report (hereinafter referred to as the "ESG Report") issued by the Company. It aims to present the performance of the Group's environmental and social responsibility practices in 2022, including key ESG issues that concern stakeholders.

Basis of Preparation

This report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as provided in Appendix 27 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

Reporting Period

This report is prepared annually and the next report for the reporting period (2023) is expected to be released in 2024.

Scope of the Report

This report discloses the Group's environmental, social and governance management approaches, measures and performance from 1 January 2022 to 31 December 2022, and a portion of its contents provides a brief review and introduction of the Group's previous relevant activities and relevant information before the release of this report.

This report focuses on reporting on the Group's environment and social policies in relation to the sales of luxury and ultra-luxury brands and other branded vehicles, after-sales services, post-market businesses and supply chain businesses in the PRC during the reporting period. The social elements of the statistics of key performance indicators and other factors cover all business segments of the Group. The environmental elements of the statistics consist of the automobiles sales and after-sales services, being the 4S/5S stores, which had the most significant impacts on the environment. As the Group has been gradually systematically collecting data on environmental factors and vehicle recalls in recent years, 47 typical high-end branded stores with large site area and an energy consumption indicator above the group average level (2021: 45, 2020: 31) were selected based on their geographical locations, opening times, cooperative automotive brands and single store sales, representing a continuously larger scope of collection in future. The survey forms a strong basis for expansion of the survey.

Source

The information in this report is derived from the internal documents and related statistics of the Group.

Availability

The Chinese and English versions of this report are available on the website of the Stock Exchange (http://www.hkexnews.hk) and the official website of the Group. This report is prepared in both Chinese and English and in case of inconsistencies, the Chinese version shall prevail.

2 STATEMENT OF THE BOARD OF DIRECTORS

The board of directors of the Group takes sole responsibility for the Group's environmental, social and governance strategy and for reporting, assessing and determining the Group's ESG-related risks and for ensuring that the Group has established appropriate and effective ESG risk management and internal control systems.

Our development opportunities come from people's pursuit of a better and more convenient life. Because of this, we pay special attention to the sustainable development of the Company, and established and improved the ESG governance system, and the board of directors leads and participates in the review and decision-making mechanism on major ESG issues, including identifying and evaluating ESG risks, formulating ESG strategies and policies, establishing management policies and plans, approving and reviewing ESG target management, and approving annual ESG reports and other matters concerning management.

Based on the external environment and the Group's development strategy, the Group identified key ESG issues based on its communication with stakeholders during the reporting period, to clearly define its work priorities, including: product health and safety, supply chain management, customer privacy, among others. Accordingly, the Group integrated into its daily work consideration of the effectiveness of how it addresses the aforementioned issues and adjusted its targets accordingly. In the future, we will continue to adjust our strategy and progress our sustainable development management based on the expectations of stakeholders and the actual operation of the Group, so as to continuously improve the level of sustainable development.

This report discloses in detail the progress and effectiveness of the Group's ESG work in 2022. The board of directors of the Group, as the highest responsible and decision-making body for ESG matters, ensures that there are no false representations or misleading statements contained in, or material omissions from this report, and accepts full responsibility for the truthfulness, accuracy and completeness of the information therein.

3 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

3.1 Business and ESG Strategy

Business of the Group

The Group is committed to developing a one-stop automobile service platform, and its business mainly includes (i) the sales of luxury and ultra-luxury branded automobiles; (ii) after-sales services (including maintenance, repair and sales of auto spare parts); (iii) post-market businesses (including insurance brokerage, finance leasing, pre-owned automobiles trading, e-commerce platform and other high value-added businesses); and (iv) supply chain business, covering automobile logistics and trading of auto maintenance supplies, etc. As of 31 December 2022, the Group had 109 dealership stores in 38 cities across 17 provinces and municipalities in China, and, at the same time, was authorized to develop 7 additional dealership stores, including 4S stores for core luxury brands such as Mercedes-Benz and Audi and repair centres, as well as 4S stores and repair centres for mid-to-high-end and new energy brands (such as brands like GWM Haval, Tank and WEY, as well as NIO).

ESG Strategy of the Group

The Group highly values the harmonious relationship among people, operating efficiency and the environment, and firmly believes that this is crucial to its stable growth and sustainable development. In the pursuit of business and profit growth, the concept of sustainability is incorporated in every aspect of our operation through the adoption of effective and comprehensive policies and measures for the achievement of our mission in respect of the environment and community. It is our objective to enhance the corporate governance of the Group, to share our success with the suppliers, customers, employees and other stakeholders and to minimize the negative impacts of our operation on the environment.

3.2 ESG Governance Structure

The Group has established a top-down ESG governance structure, where the Board is responsible for supervising the Group's environmental and social affairs, including risk assessment, risk prioritizing and management, overseeing and reviewing the Group's performance with respect to environmental and social issues so as to guide the sustainable development direction and path of the Group. The Group also established an ESG working team, which is led by senior management and participated in by middle management. The working team consists of core representatives from the human resources department, the legal department and the administration department, covering all relevant departments involved in the Group's daily management. The working team reports to the Board on a regular basis to seek opinions and recommendations and is responsible for conveying, communicating and implementing the strategies, measures and feedback of the Group on issues related to ESG, and is an indispensable execution party for the sustainable development of the Group.

3.3 Involvement of Stakeholders

Stakeholders of the Group in respect of environmental, social and governance interests include internal and external stakeholders, which mainly involve internal staff (from management to front-line employees), suppliers, customers, shareholders, investors, governments and communities where the businesses are operated. The stakeholders involved, in addition to including the Board and senior management of the Group as the decision makers and designers of the Group's strategy, also includes a large number of the middle management and general staff working in the front line of operation. In organizing the involvement of stakeholders, in addition to interviews, online questionnaires were also conducted to provide better technical support for expanding the participation of stakeholders.

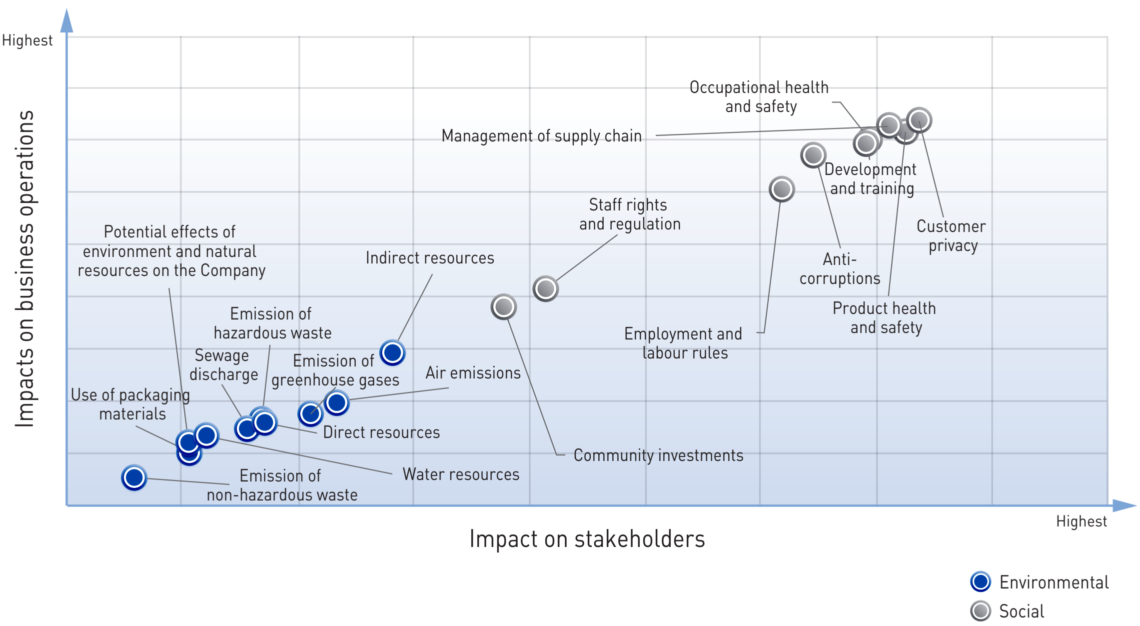
3.4 Materiality Assessment

Based on the results of involvement of stakeholders, the Group periodically reviews and updates the materiality assessment so as to ensure that the report can fully reflect the Group's management practices and progress in environmental, social and governance aspects. In the future, we also hope to involve external stakeholders when the situation warrants to enable a more comprehensive assessment of important issues, which will be reflective of the expectations and concerns of more stakeholders.

Materiality Assessment

Based on interviews and questionnaires with various stakeholders, we have prepared the following materiality assessment matrix.

Materiality assessment of ZhengTong



3.5 Reporting Principles

In preparing and disclosing the ESG Report, the Group has fully taken into account of the following reporting principles:

Materiality principle: We identify major ESG issues through materiality assessment, and the relevant process and results have been disclosed in this report.

Quantitative principle: In accordance with the "key performance indicators" of the "Environmental, Social and Governance Reporting Guide" as set out in Appendix 27 to the Listing Rules, the Group disclosed quantitative historical key performance indicators in the "environmental" and "social"categories, as well as forward-looking information such as targets to the greatest extent possible, which will be fully disclosed in the future after the statistical process is gradually optimized.

Balance principle: This report strives to disclose the Group's 2022 environmental, social and governance management practices and achievements in an objective, fair and truthful manner, and also discloses the problems encountered and improvement measures.

Consistency principle: We follow a consistent statistical disclosure method. In this report, we adopted the same disclosure policy as the previous year. For information disclosed for the first time, we will adopt a consistent method to disclose ESG information in subsequent years to facilitate meaningful comparisons year by year.

4 ENVIRONMENTAL PROTECTION

The Group is dedicated to adopting environmentally friendly operation methods as much as possible so as to reduce emissions and energy consumption, ultimately achieving the goal of minimizing the negative impacts of operating activities on the environment. The construction and operation of operating premises of the Group, such as maintenance centres and showrooms, and product marketing campaigns held outside its operating premises have strictly complied with the relevant laws and regulations that have a significant impact on the Group such as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》), the Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》).

Waste management

Since the Group's business involves after-sales repair and maintenance of vehicles, certain waste materials will inevitably be generated during its operations. In this regard, the Group has adopted a multi-pronged approach to reduce the discharge of pollutants with various means from different dimensions and channels.

First, reducing the generation of hazardous wastes. The Group has actively responded to and complied with administrative rules introduced by the government and industry and used environmentally friendly materials. Each of our stores used well-known branded water-based paint in the paint booth, which not only ensures the quality of vehicle maintenance, but also reduces the negative impact on the environment. We gradually replaced water mills with dry grinding to process the paint surface of the vehicle, which improved work efficiency and reduced the generation of sewage.

Second, the Group strictly controls the disposal of wastes. Special venues for the temporary disposal of waste are set up in each shop. Warning signs are placed outside the venues and the containers to prevent staff and customers from undue exposure. Each of our shops has entered into a disposal agreement with qualified hazardous waste management providers to ensure that our disposal process is in strict compliance with national and local environmental policies without any unauthorized or direct discharge of waste outside. The qualification of the providers will be regularly checked on relevant websites by the administration department of each district to ensure that they are still authorized by the government to handle wastes of the shops of the Group to prevent any potential hazards.

The waste discharge of the Group was as follows:

			Discharge per unit	
	2022	2021	**2022**	2021
Solid waste — batteries	**31.39 tonnes**	30.68 tonnes	**0.67 tonnes/shop**	0.68 tonnes/shop
Solid waste — solid	**151.97 tonnes**	128.39 tonnes	**3.23 tonnes/shop**	2.85 tonnes/shop
Liquid waste	**930,600 liters**	812,200 liters	**19,800 liters/shop**	18,000 liters/shop

Third, the Group strives to conduct preliminary treatment of the generated emissions, so as to further reduce environmental impacts. Each shop actively introduced and installed the VOCs photo-oxygen purification equipment to the premises where exhaust gas was generated during the maintenance process, including the spray booth, and the exhaust gas produced was then treated before being discharged. The shops were also equipped with emission equipment to monitor the rationality of emission data in real time. In 2022, we increased the content of activated carbon filter filler in the equipment and renovated the exhaust equipment in the polishing area and the painting area. Also, we pretreated the generated wastewater, adopting measures such as wastewater oil filtration and level-three sedimentation tank filtration to discharge to the municipal sewage pipeline after the standard is met. Based on their actual conditions, all stores strived to achieve diversion of rainwater and sewage, and to recycle rainwater after simple treatment to ensure the maximum use of resources.

During the reporting period, the Group invested RMB846,800 in total to implement 2 rain water and sewage diversion projects and installed 12 sets of VOC waste gas treatment equipment to reduce waste gas emission and waste water discharge.

Besides the repair process, because the Group provides rescue vehicles, test-drive vehicles and scooters to customers, and uses natural gas in vehicles and for business premises and canteens in daily work, the emissions of nitrogen oxides, sulfides, particulate matter and carbon dioxide produced during 2022 were as follows:

	2022	2021
Nitrogen oxides emission (kg)	**1,157.75**	1,456.87
Sulfide emissions (kg)	**65.48**	66.58
Particulate matter emissions (kg)	**124.37**	156. 38
Carbon dioxide equivalent (scope I) (tonne)	**12,994.77**	9,464.5
Shop average carbon dioxide equivalent (scope I) (tonne/shop)	**276.48**	210.32
Carbon dioxide equivalent (scope II) (tonne)	**16,082.60**	15,982.47
Shop average carbon dioxide equivalent (scope II) (tonne/shop)	**342.18**	355.17
Total carbon dioxide equivalent (tonne)	**29,077.37**	24,900.89
Shop average carbon dioxide equivalent (total) (tonne/shop)	**618.67**	553.35

In the future, we will gradually establish and improve the management system to manage and control waste reduction and reduce emission targets.

Use of resources

The Group attaches great importance to resource conservation. It continuously improves the management system in energy consumption management and optimizes energy conservation measures, to improve the efficiency of our energy and resource utilization. The measures taken include:

- When there is good daylight, the indoor light shall not be turned on; the outdoor lighting, light boxes, etc. are equipped with smart devices (controlled by time and lighting level); there are specialised personnel arranged to be responsible for implementing switch-standards for high-power lighting fixtures such as spotlight and metal halide lamps etc. in the exhibition hall according to the level of sunshine in the stores;

- The Group has strengthened the management of office equipment. Equipment not in use shall be turned off in a timely manner, so as to reduce the power consumption and standby power consumption of electronic office equipment;

- There are specialised personnel arranged to control the inlet and outlet water temperature of the central air-conditioner according to the room temperature of the customer area;
- Through multi-department collaboration, the Group improved the efficiency of the paint room by concentrating its time schedule to reduce frequent temperature change;
- In terms of workshop floor cleaning, the recommended procedure is to clean by mop at first, and then use tap water to flush, so as to reduce the flushing frequency;
- It is recommended to use energy-saving products such as LED lamps for newly-installed or renovated equipment and lighting fixtures, and the energy efficiency of high-power electric appliances shall not be lower than Grade 3;
- The energy-saving renovation is carried out on high-power facilities and equipment with a long remaining service life.

Shops of the Group are the major users of energy, including electricity and gas for kitchens and heating in northern China, the details of which are set out in the table below. The actual energy consumption equals to 86,179.86 mWh of comprehensive energy consumption.

	Energy Use in 2022 of the Group	
	2022	2021
Electricity (0'000 kWh)	**2,919.49**	2,532.44
Average electricity consumption per store[1] (0'000 kWh/store)	**63.11**	56.27
Natural gas (for canteen) (0'000 m^3)	**6.22**	6.78
Average natural gas (for canteen) consumption per store[2] (0'000 m^3/store)	**1.24**	1.36
Natural gas (for heating) (0'000 m^3)	**25.20**	24.29
Average natural gas (for heating) consumption per store (0'000 m^3/store)	**6.30**	6.23
Liquefied gas (0'000 liters)	**595.28**	397.42
Average liquefied gas consumption per store[3] (0'000 liters/store)	**66.13**	49.68
Diesel oil — vehicles (0'000 liters)	**0.68**	0.77
Unit energy consumption of diesel-powered vehicles (liters/100 km)	**9.90**	10.21
Gasoline (0'000 liters)	**61.37**	65.3
Unit energy consumption of gasoline-powered vehicles (liters/100 km)	**11.73**	17.45

In addition, the Group's water consumption and average water consumption per store in 2022 amounted to 566,541 tonnes and 12,054.06 tonnes, respectively.

1 The "average per store" here is the number of stores participating in environmental date collection as the denominator, which are 47 for 2022, 45 for 2021, and 31 for 2020.

2 The "average per store" here is the number of stores using natural gas consumption for canteen as the denominator.

3 The "average per store" here is the number of stores using natural gas consumption for heating as the denominator. The Group's stores offer staff meals and guest meals, and the increase in the consumption of liquefied gas is due to the increase in the number of diners in the relevant stores.

Green office

The wide application of new media in the work of the Group (for instance, the 2022 Annual Work Summary Conference and some corporate culture activities which were broadcasted live on corporate WeChat) has greatly supported our implementation of green office, which is conducive to reducing travel, energy conservation and emission reduction.

For hardware and operation of our stores, we actively implemented green construction and green operation. Shangrao Baoze and Zhuhai Baoze have obtained green power certificates.

[Case] BMW Green Star of Guangzhou Baoze

In 2022, BMW launched the "BMW Green Star" program to build a sustainable retail network from four aspects: green environment, green energy, green operation and green practice. On December 23, Guangzhou Baoze opened, becoming the first BMW Green Star store in Liwan. Guangzhou Baoze brands adopted durable perimeter fence on the periphery, wherein the roof is surrounded by nano thermal insulation felt; indoor lighting and air conditioning can be controlled by zones and are clearly marked. In principle, disposable items and mineral water are not provided, and all utensils are disinfected by high temperature to advocate recycling. The after-sales service consultant evaluates the reusable degradable after-sales three-piece set used in the vehicle and eco-friendly car wash fluid used in car washes.

Response to climate change

Climate change has become a common challenge for human society. The Group continuously pays attention to the risks and opportunities related to climate change, evaluates its actual and potential impact on our operations, strategies and financial performance, and actively adopts countermeasures to further promote the sustainable development of the enterprise.

Climate-related risks can be classified as transition risks arising from the transition to a low-carbon economy, and physical risks arising from climate change. Transition risks include policy and legal risks, market and technology risks and reputation risk, while physical risks include acute physical risk (extreme weather such as typhoons and floods) and chronic physical risk (long-term changes in climate patterns such as rising sea levels and persistent high temperatures).

Based on the nature of our business and the national industry policy orientation of the transition from fuel vehicles to hybrid and electric vehicles, we have continued to promote the electric vehicle dealership business in recent years, actively introducing hybrid and electric vehicles from brand manufacturers to fulfill customers' changing needs and requirements. At present, the customer base is relatively stable. We believe the transition risks also represent development opportunities for us.

In terms of physical risks, chronic physical risks are taken into account mainly during the selection process of the location of a new 4S store or 5S store, or the renovation of existing stores. In respect of daily operation, we mainly focus on acute physical risks. In view of the fact that our operating sites are located in various provinces in the PRC, the Group's exposure to acute physical risks varies widely, since the frequency of extreme weather events of each region vary. Hence, the stores in each region have formulated emergency management measures according to local climate characteristics and the frequency of extreme weather, and conducted irregular drills.

In the future, we will continue to improve the governance, strategy formulation, risk management, indicator and goal identification and management of climate-related risks, and work together with all parties in society to respond to climate change and achieve common sustainable development.

5 EMPLOYMENT AND LABOUR PRACTICE

Employees have always been important to us and are regarded as the most powerful and effective driving force behind the sustainable development of the Group. The Group has established standardized recruitment procedures, providing our employees with competitive compensation packages and fair and just promotion opportunities at a non-discriminatory workplace. We have always insisted on providing multiple channels and diversified training programs to different employees to improve their work and life satisfaction and the sense of belonging at the Company, laying a solid foundation for a talent pool required for the future development of the Company.

5.1 Employment

The Group has specifically formulated the Regulations on Management of Remuneration of China ZhengTong Auto Services Holdings Limited, which stipulates that employees' remuneration should be determined based on their positions and titles with reference to the Company's remuneration system, and comprises of fixed salary and performance bonus in a certain proportion; in addition, on-the-job employees are entitled to Company benefits, and we also set allowances for special positions.

Subject to applicable laws, we recognize the rights of our employees to customary values and practices, and respect their nationality, religion, physical health, disability, gender, workers' union membership, and political views. In any circumstance, no managerial personnel is permitted to adopt any form of coercion, intimidation, insult, humiliation or exploitation against our employees, including gestures, language abuse, and physical contact. The Company is resolute in eliminating child labour and forced labour. The principle of equal opportunity applies throughout all stages of employment, in particular in recruitment, training, career development and promotion. During the reporting period, the Group has complied with all relevant labour laws and regulations that have a significant impact on the Group such as the Labour Law of the People's Republic of China, Labor Contract Law of the People's Republic of China and Social Insurance Law of the People's Republic of China and relevant national laws and regulations and labour regulation issued in various regions.

Our internal policies such as the Employee Handbook and the Human Resources Operation Manual clearly stipulate that the basic requirement for candidates for employee recruitment is that they are "18 years of age or older". We require candidates to provide certain documents, including ID card and education certificates, and such certificates will be verified and reviewed during the recruitment approval procedure, to avoid misemploying child labour. The human resources department conducts random inspections of induction information provided by employees during internal audits. If child labor or forced labour is found, rectification will immediately be made by terminating the employment and holding the relevant responsible persons accountable. During the reporting period, there was no employment of child labour within the Group.

We advocate for diversity and equal opportunities, and welcome employees from all over the world. We attach importance to the diverse perspectives brought by employees' different backgrounds, languages, gender, among others, and create a diverse, open and equal working environment suitable for all employees. We provide equal employment opportunities and working environment for all of our staff. During the reporting period, we hired a total of 6 disabled employees, 228 ethnic minority employees and 2 foreign employees.

To improve the employment rates of the local markets where the subsidiaries are located, every time the Group opens a new store, while ensuring that there are certain necessary experienced staff seconded from other shops, the Group will hire local employees as much as possible. During the reporting period, the Group added 288 (2021: 289) fresh graduates in total, 2,393 employees of the Group were recruited from society, and as at the end of the reporting period, the Group had a total of 7,181 (2021: 7,760) employees.

The young force represents a vital factor in the future development of a business, thereby leading the business to a prosperous tomorrow. ZhengTong provides young professionals with tremendous employment opportunities, as well as a platform for young professionals to seek self-improvement and learning. During the reporting year, 2 out of 7 general brand managers were of the post-80s generation, and there were quite a few number of middle management of the post-90s generation. As at the end of the reporting period, 54% and 38% of the employees have worked in the Group for more than three years and five years, respectively. In order to build up a human resources management team that understands the younger generation, the Group constantly provides targeted trainings to staff in relevant positions.

As at the end of the reporting period, the number and ratio of each classification of the Group's employees are set out below:

Classification		2022		2021	
		Number of employees	Ratio	Number of employees	Ratio
By gender:	Male	4,352	61%	4,760	61%
	Female	2,829	39%	3,000	39%
Type of employment:	Full-time	7,017	98%	7,468	96%
	Part-time (intern, etc.)	164	2%	292	4%
By age:	30 years old and below	2,464	34%	2,936	38%
	30 to 39 years old (including 30 years old)	3,446	48%	3,592	46%
	40 to 49 years old (including 40 years old)	1,038	14%	994	13%
	Above 50 years old	233	3%	238	3%
By region:	North region (including Beijing, Tianjin, Shanghai, Jilin, Liaoning, Hebei, Henan, Shandong, Inner Mongolia, Anhui, Jiangsu)	1,573	22%	1,998	26%
	Central region (including Hubei, Hunan, Jiangxi, Sichuan)	2,474	34%	2,506	32%
	South region (including Fujian, Guangdong, Hainan, Yunnan, Chongqing, Zhejiang)	3,132	44%	3,256	42%
	Other (Hong Kong)	2	0.028%	—	—

In 2022, the Group's average employee turnover rate was 31.3% (2021: 28.6%), the details of which are as follows:

Classification		2022
By gender	Male	**61%**
	Female	**39%**
By age	Aged below 30	**43%**
	Aged between 30 (inclusive) and 39	**45%**
	Aged between 40 (inclusive) and 49	**10%**
	Aged above 50	**2%**

At the end of 2022, the number of employees decreased by 7% as compared with that in 2021, and the employee turnover rate increased by 3%. Excluding departures caused by the cancellation of authorization by Land Rover, BMW and Audi, the ongoing impact of the pandemic was also one of the major reasons for employee turnover. Other changes were due to employees' personal career development, family, transportation, education, and so on. On the other hand, the Company also filled vacancies of front-line positions swiftly to satisfy the rapid need for business development.

5.2 Health and Safety

The Group recognizes the importance of employee health and workplace safety, and considers occupational health and safety as part of our important social responsibilities. We particularly take safety control seriously in order to minimize any accidents that may cause injuries or casualties in the course of our operations. During the reporting period, the Group remained in strict compliance with the relevant laws and regulations that have a significant impact on the Group such as the "Production Safety Law of the People's Republic of China" (《中華人民共和國安全生產法》), "Prevention and Control of Occupational Diseases Law of the PRC" (《中華人民共和國職業病防治法》) and "Administrative Regulations on Personal Protection Equipment of Employers" (《用人單位勞動防護用品管理規範》), and strives to provide employees with a safe, healthy and comfortable workplace.

The Group continues to strengthen safety production management and system development. In the preparation and revision of safety guidelines, we have identified the major safety risks during operations and have taken corresponding risk control measures based on the characteristics of the risk. In high-risk areas, such as maintenance workshop and paint rooms, professional protection equipment, such as anti-smashing shoes, safety helmets, cut-resistant gloves, earplugs and so on, are provided to staff of high-risk positions, and staff working in paint rooms are equipped with gas masks and protective clothing to prevent injuries caused by high temperatures and to isolate the smell of spray paint; and staff in the welding booth are equipped with welding helmets to prevent eye injuries. Meanwhile, staff working in dangerous areas are strictly required to be equipped with safety equipment at all times. We will also conduct regular inspection and maintenance of large-scale equipment such as lifts. In view of the possible food safety risks in self-operated canteens, we require maintenance of samples daily and strictly manage and examine the hygiene of such canteens and chefs. In view of the explosive danger of gas use, the Group provides uniform training on the safe use of gas for staff and regularly examines their use. The Group is gradually using materials which are more environmentally friendly, non-harmful or less harmful (e.g. the use of water-based paint for painting) so as to minimize bodily harm that these operations may cause to the staff. Additionally, we actively hold emergency drills and seminars on various security incidents. During the reporting period, we held 252 drills in total with 14,321 participants; and 570 lectures with 15,238 participants. In 2022, we invested RMB1.974 million in total in safety production/employee health protection.

At the beginning of the outbreak of the COVID-19 pandemic, the Company established a special anti-pandemic team, and formulated the Epidemic Prevention Guidance Manual, which included emergency plans. Since the first outbreak of the pandemic, the Group has actively taken action in a timely manner, reorganizing working groups on pandemic prevention and control and assigning responsibilities to designated persons, and established a daily pandemic monitoring and reporting mechanism and adopted a series of optimized anti-pandemic and prevention measures to protect the health and safety of all staff. In 2022, we released a micro-course training on pandemic prevention and control through ZhengTong College, which requires staff of our stores to watch and take the online exam. During the reporting period, all stores under the Group strengthened daily monitoring, equipped themselves with pandemic prevention materials, carried out regular disinfection, and established emergency management mechanisms in accordance with the requirements of local pandemic prevention departments. During the reporting period, for those who were unable to go to work normally due to the pandemic, we paid relevant remuneration and benefits during the period in accordance with national and local policies to stabilize the employment of employees.

Fire accidents are devastating, and thus fire safety is critical to the safety of the life and property of our employees and customers. To address fire accidents, the Group has always considered prevention as the first line of defense and persistently promotes fire prevention awareness and provision of fire extinguishing equipment. On the other hand, we designate fire control responsible officers, and ensure that evacuation routes and safety exits are constantly accessible. The electrical wiring must be in strict compliance with regulations. Furthermore, fire extinguishers (powder and carbon dioxide) and other basic fire control equipment must be in good condition and thorough inspections are carried out every month and maintenance records are kept.

During the reporting period, the Group cooperated with the fire safety training centre to regularly hold fire safety training in relation to the use of firefighting equipment and explanation of relevant knowledge, so as to consolidate fire safety knowledge and skills. Meanwhile, we also collaborated with the fire brigade to carry out fire drills, and all staff in the relevant shops took part in the drills. Through firefighting simulations and evacuation drills, the safety awareness and emergency response ability of our staff and customers have been strengthened. We organised 174 fire drills in total in 2022.

During the reporting period, the Group continued to organize different types of health and safety educational programs in order to raise the awareness of our staff in this respect, including trainings, safety knowledge quizzes and competitions. The Group also regularly examined the compliance of safety guidelines of the stores and vehicle maintenance workshops. During the year, the Group arranged in-house safety inspections for each shop so as to ensure all certificates required by laws and regulations have been obtained or renewed. In addition, we also accepted external safety supervision. Qualified suppliers conduct fire inspection on the fire protection systems and issue an annual fire inspection report on a yearly basis.

The Group has strictly complied with the health and safety work requirements. During the reporting period, the aggregate number of work-related injuries was 15, and number of working days lost due to such injuries was 473. After the occurrence of work-related injuries, the Group communicated with the relevant employees and departments in a timely manner to understand the reasons for the accident and the post-injury treatment, and used these cases to strengthen occupational heath and safety education. From 2019 to 2022, the number of work-related fatalities was 2, which occurred in 2020 and 2022. During the reporting period, there were no violations of laws and regulations in terms of production safety and occupational health and safety.

5.3 Development and Trainings

An enterprise must maintain a talent pool of high-caliber professionals as the pillar to support its sustainable development. Despite high-quality talents being sourced from external recruitment, internal development and training plays a greater role. Training significantly improves and enhances an employee's knowledge, expertise and attitude, which also helps our employees understand and identify with our corporate values. Through training, the capability of our employees is improved and the Company gains a competitive advantage. As the automobile retail business is labor-intensive in nature, the Group formulated and revised internal regulations such as the Regulations on the Management of Employee Career Development (Trial), Remuneration Management Regulation and Regulations on the Administration of the Selection and Appointment of Heads of Subsidiaries etc. The human resources department of the Group, based on the Group's business and positions, has built a multi-dimensional training system covering all employees with 4-level systematic training, combined with special training and internal training, and introduced a complete series of programs for different business and positions. Vertically, it consists of the introduction programs for new recruits, promotion training programs and senior management training courses. Horizontally, training is provided for sales executives and after-sales technicians, which focus on soft and hard skills, respectively. Through supervising employees to participate in trainings and complete relevant examination and assessment, the Group has built a service team with excellent quality.

Various marketing and technical training sessions for new car models were also arranged by the OEMs of different brands of vehicles. The Group actively arranged for staff to participate in such trainings to ensure that our customers are provided with the sales, repair and maintenance services using the latest technologies. In addition to conventional trainings, we also integrated the application of new media into the daily operation and corporate culture to improve employees' familiarity with new media.

In order to adapt to the steady expansion of the Group's business and to maintain consistent high quality services, the Group is focused on training key personnel for the purpose of retention. The Group has continued organizing "senior manager training programs" since 2009. Those who participated in the training were all middle-level management selected from each department, 4S or 5S stores of the Group. The lecturers who taught were not only the Group's executives, department directors or senior store managers, but also external lecturers.

ZhengTong College (正通學院)

The Group established ZhengTong College in 2019, which is an internal college managed by ZhengTong Group. Our internal self-built learning platform utilizes internal and external lecturers, courses and other resources to roll out online and offline learning projects for various positions, which will constantly provide the Company with talents.

Positioned as an employee growth consultant, business development partner, and business transformation catalyst, ZhengTong College aims to become a comprehensive, systematic, and professional training institution rooted in ZhengTong, and envisions transforming into an incubation base for talents and the accelerator for business growth. With the goal of ultimately being established as a learning organization, ZhengTong College seeks to develop into the most respected training institution in the automobile dealership industry. In 2022, we created a new four-level training system, which teaches and systematically trains different levels according to their aptitude through online empowerment, front-line practice, and enhanced results, so as to help employees grow gradually and actively build a learning organization.

There are currently 105 internal lecturers at ZhengTong College and 1,506 internal and external online courses. The total course duration lasts 258 hours, and covers the topics of improving the professional capabilities of new employees and on-the-job employees in various positions (sales, after-sales, marketing, customer services, etc.). During 2022, 1,506 courses were opened and 19 new courses were launched, which were mainly related to business operation, strategic outlook and so on. During the reporting period, approximately 2,638 employees participated in the special examinations organised by the college, and the cumulative total of employees who participated in the special examinations exceeded 82,607, and since the opening of ZhengTong College on 15 August 2019, more than 9,861 active learning users have logged on with a total of 297,996 learning hours.

During the reporting period, all employees of the Group have received training.

5.4 Employee Benefits

Employee care is an important way for us to maintain a sound employment relationship with our employees. We start from the real needs of employees so that care projects can truly benefit employees in all aspects of catering, clothing, residence and transportation. Therefore, we carry out cultural and sports activities such as greetings, team building and birthday parties from time to time to promote communication and exchange among employees and unite their solidarity.

We care for our employees and their families, and in November 2022, we established a "China ZhengTong Auto Service Holdings Limited Employee Care Fund" and formulated a "ZhengTong Auto Employee Care Fund Charter". The fund gives full play to its advantages of "one party in difficulty, eight parties support" to promote the harmonious and stable development of enterprises and effectively solve the actual difficulties of employees, and establishes a long-term mechanism for caring and assisting employees in difficulty. When an employee or his or her relatives experiences financial difficulties due to an emergency, the fund will provide certain financial assistance to alleviate the temporary difficulties of employees, thereby enhancing the cohesion of the enterprise and enhancing the sense of belonging of employees who regard ZhengTong as their home.

Case: Fighting the midsummer heat and cooling front-line employees

In order to prevent heatstroke, to cool down and to improve the working conditions of front-line employees and ensure that they have a safe summer, we promoted safe production in all positions. On the afternoon of July 20th, the Group management sent heatstroke prevention and cooling medicines, herbal tea, watermelons and other cooling materials to front-line employees, and extended sincere regards to all.

Employees who received supplies from the Group's management deeply felt the Company's care, and indicated that they would work together to overcome difficulties and create good results together.

Case: Celebrating the New Year and Giving Benefits during the Spring Festival

During the Spring Festival in 2022, we prepared and distributed a gift box as a Spring Festival gift to each employee.

Stores in Guangdong prepared red packets for employees to start work for the next year, and there were activities such as lion dances, which signified a good start to work.

6 ANTI-CORRUPTION

Any misconduct in business operation, including graft, and accepting or committing bribery, will severely damage our reputation, and seriously disrupts the proper management and operation of a business, and damages the integrity of a company. These misconducts will impede the sustainable and healthy development of a business. As a result, the Group is uncompromising in its opposition to any form of fraud or corruption.

In this regard, the Group has also adopted a series of measures to prevent and punish actions involving corruption. The Company established a supervision department to further enhance the Company's supervision and inspection in accordance with national administrative laws, regulations, rules and policies. Based on the concept of prevention, the Group has focused on two aspects, namely system development and education promotion to strengthen control and supervision. Through the formulation of the Notice on Further Tightening the Discipline of Leading Cadres in Handling Weddings and Funerals and the Implementation Measures for Standardizing the Work of Conducting Honest Interviews with Leading Personnel, and amendments to Accountability Management Approach, to form deterrent punishment, effective prevention and stringent security mechanisms that eliminate corruption. In order to further promote party style and clean government building, prevent and control corruption from the source, and enhance the ideological awareness of party members and cadres, we have arranged for party-members, leaders and cadres to study special materials such as "Rectifying Illegal Tourism", "Rectifying the Issue of Failure to Take Responsibility and Inaction", the "Notice on Carrying out Special Study and Education on Rectifying Illegal Subsidies or Welfare", and the "Notice on Carrying out Special Study and Education on Rectifying Illegal Receipt and Delivery of Precious Specialties and Gifts and Welfare", and actively arranged for all party branches to watch the integrity-themed film "Zero Tolerance", reprinted relevant integrity videos of the Central Commission for Discipline Inspection via the intranet, and carried out "Integrity Culture Publicity and Education Month" activities such as integrity knowledge tests. Our legal department also arranges relevant training programs for our staff to promote the prevention of corruption and uphold moral uprightness and integrity with zero tolerance for corruption. The audit department conducts inspections and audits from time to time, and if any misconduct is identified, it shall be promptly rectified, and the Company will seriously pursue consequences against the persons who violated regulations and disciplines. During the reporting period, the legal department and external professional institutions carried out integrity education for directors, senior management and employees, and achieved positive results.

Meanwhile, the Group also strictly complies with the Labor Law of the People's Republic of China, the Anti-unfair Competition Law of the People's Republic of China, the Law of the People's Republic of China on Anti-money Laundering, the Interim Provisions Governing Prohibition of Commercial Briberies, and other relevant laws and regulations that have a significant impact on the Company to strictly prohibit bribery by our staff so as to contribute to a healthy business environment for the whole society.

The Group has adopted a zero-tolerance policy to strictly prohibit corruption in all aspects of our operation. The Group believes that the strict compliance and implementation of regulatory systems can maintain the proper business management and safeguard the career of our staff. Due to the trend of younger employees, many employees are still inexperienced and lack social experience when joining the Group, and as a result may be more susceptible to temptations. The Group will continuously educate our staff to improve their moral cultivation and regularly review their training, so that they can remember, respect and observe the law. During the reporting period, the Group was not aware of any corruption incidents.

7 SUPPLY CHAIN MANAGEMENT

The automobile dealership is an industry that connects to both the downstream and the upstream players, as it deals with massive upstream suppliers and directly caters to end users in the downstream. Supply chain plays an integral role in the automobile sales and after-sales services of the Group. The stable supply of automobiles and spare parts guarantees that the Group is able to render quality products and services to consumers.

Automobile brands and ZhengTong are two different stakeholders on the same interest chain. Automobile brands provide products, while ZhengTong directly faces customers. Both have common interests and concerns. Automobile brands and ZhengTong work together to identify market development initiatives and to implement strategic planning. Furthermore, ZhengTong also actively taps into its own advantages in terminals and regions to deepen its market presence in the regional distribution market, which will assist with its own development while meeting the strategic objectives of automobile brands. The business relationship between automobile suppliers and the Group has always been two-way. Due to our long history and reputation in providing quality products and services, offering efficient sales channels and communications methods for automobiles suppliers and focusing on employee interests and environmental protection, our Group is able to acquire the dealership of many renowned automobile brands and maintain stable business relations.

In the meantime, the Group also collaborates with various automobile brands and other suppliers on social and environmental aspects for the purpose of contributing to the sustainability of the entire industry and community. Regarding after-sales services, the Group collaborates closely with service providers and holds regular meetings to enhance mutual communication. Our Group also regularly evaluates our suppliers' performance in environmental and social responsibility aspects. For logistics suppliers, we have issued the "Transportation Management Measures" to supervise and assess logistics suppliers to operate in accordance with the requirements and specifications in terms of planning management, on-site management, quality management, in-transit management, behavior management, and complaint management etc. For the suppliers of spare parts and other items, our Group has stringent criteria for selection of suppliers, including requirements of environmental and social responsibilities regarding "Prohibition of Child Labour", "Health and Safety" and "Environmental Protection" etc. The Group has entered into an "integrity agreement" with each of our suppliers to show our determination and require them to comply with our anti-corruption policy. Suppliers who do not comply with such requirements will be given an unfavourable assessment in our evaluation. In addition, for suppliers that require the related industrial qualifications, we confirm and ensure all of these suppliers and manufacturers have obtained all qualifications required by their respective industries. In 2022, we performed a regular inspection on all our suppliers. For major project suppliers, we implemented a re-tender every three years; and for new suppliers, the Group requires them to provide the technical details of the Company, such as self-owned vehicle details, vehicle insurance information and relevant convection resource business, as well as the latest financial reports and legal updates before accessing the intranet. Only after the aforementioned three requirements are met can the suppliers gain access to the intranet, and there are also a series of designated appraisal mechanisms in actual business.

During the reporting period, we had 44 suppliers in total, among which 5 were new suppliers in 2022. We are committed not to work with suppliers who fail environmental and social audits. We terminated cooperation with 2 suppliers this year, and 1 termination was due to environmental and social matters.

Regional Distribution of Suppliers

Region	Unit	Number 2022	2021
Northeast China	Supplier	**7**	7
North China	Supplier	**8**	8
Northwest China	Supplier	**6**	6
South China	Supplier	**9**	9
Central China	Supplier	**10**	10
East China	Supplier	**6**	6

8 PRODUCT LIABILITIES

Dealership in stores

"Offering superior driving experience to our customers" is the mission and principle of all employees of our Group and what our employees strive to practice. To continue to offer better experience for customers when purchasing and using their cars, we have further created a new model of marketing to improve customer interaction experience and diversified our offerings to provide more comprehensive services for customers.

The Group attaches great importance to cooperation with automobile brands to jointly improve customers' experience.

Case: "Hello East Region, Smile ZhengTong (你好東區，微笑正通)" campaign

In 2022, Yiwu Xinhui launched the "Hello East District, Smile ZhengTong" project at the Mercedes-Benz East District Dealer Conference, which aimed to improve the service capabilities of regional 4S stores. Subsequently, Yiwu Xinhui carried out the customer-centric training for all staff to improve the service capability of front-line staff. In order to enhance the ceremonial nature of picking up a car, sales consultants created unexpected surprises for customers by preparing items with good meanings such as apples, oranges, chopsticks, salutes and cakes, and earned friendships with customers while improving performance.

[Case] Mercedes-Benz "Hospitality", "Five-star" Service Experience

In 2022, the two 4S stores, namely Wuhan Tengxing (武漢騰星) and Suzhou Anzhixing consistently adopted Mercedes-Benz's "Hospitality" to provide customers with a full range of sincere services. When delivering a vehicle, the customer service specialist established a car owner service group to provide active services to the car owner, and engaged the customer group by sharing vehicle knowledge, energy saving, weather, hot search and functional short videos. A 5-minute response system was established for the car supervisor team for quick response to customer needs, cultivation of customers' dependence on the car supervisor and the building of trust in cooperation with the multiple-position service mode (sales, after-sales, insurance, technology, CAM). Tengxing special afternoon tea, which embedded Mercedes-Benz brand elements, star coffee, star refreshments, star exclusive, star service and star culture, was arranged for customers to have a good time while selecting and waiting for car delivery and maintenance, creating a "Five-star" service experience.

[Case] "Leap Out — Test Drive Experience Upgrading" campaign

ZhengTong Porsche's event around Porsche North District Area, "Leap Out — Test Drive Experience Upgrading" campaign, focused on test drives as an important part of the customer experience, so that customers can fully experience the power of Porsche vehicles and experience Porsche's newly upgraded test vividly drive service. Besides, through online multi-channel video dissemination, the superb service was presented to customers.

[Case] "Care Program for Customers with Longer Waiting Period for Car Delivery"

In 2022, ZhengTong Porsche provided customers with care packages, door-to-door visits, holiday greetings and themed activities through different contact points to alleviate customers' anxiety and improve their experience. In the "Care Program for Customers with Longer Waiting Period for Car Delivery" initiated by Porsche manufacturers, three stores in ZhengTong Porsche South District Area won the Excellent Case Award in the first half of the year, and two stores in Guangzhou Panyu and Dongguan Liaobu won awards again in the second half of the year.

[Case] Jaguar Land Rover VIP Delivery Ceremony

Throughout 2022, ZhengTong Jaguar Land Rover stores carried out VIP car owner service activities, arranged exclusive car delivery arrangements for RR/RRS/Defender models, and took photos and recorded small videos for customers to record the joyful pick-up moment for car owners, so that customers can truly feel Jaguar Land Rover's luxurious quality service.

New media marketing

With the normalization of the pandemic and the popularization and application of new media marketing, live broadcasting is becoming an important way for potential customers to obtain automobile information, and it also effectively supplements and expands customer channels. The stores of the Group adopted various digital communication methods such as short videos, live broadcasts, and cloud-based car viewing, and satisfied the personalized needs from potential customers to existing customers by creating both online and offline scenarios and constantly enriching consumer touchpoints and extensively connecting with customers, so as to achieve in-depth customer operation and multiple value exploration.

In 2022, we continued to strengthen the operation and maintenance of the new media platform and carried out online marketing activities on live broadcasts, short videos, and Xiaohongshu note sharing through multiple channels, which expanded business opportunities while effectively saving the number of customer visits and reducing the impact of emissions. Besides, we organized new media marketing case sharing sessions within the Group to widely disseminate excellent new media marketing approaches among stores, and further improve the role of new media operations in improving efficiency. The number and quality of leads of the Group's stores on major vertical websites such as Autohome, Yiche, and Dongchedi have stabilized at the first camp of the auto dealer group, and most of its stores are among the top in the region. The innovative communication of online live broadcasts has always maintained a high level of participation at the consumer level, and sales leads have increased significantly. In 2022, the number of ZhengTong leads increased by 26% on a year-on-year basis. A total of 22,000 live car broadcasts were held in the Group's stores in 2022, with a total of 24,000 hours of live broadcasts and nearly 20 million viewers. Based on their actual condition and regional distribution of stores, a total of 6 live broadcast skills training sessions were organized in stores in 2022, and the number of live broadcast sessions increased month by month thereafter. By May 2022, the monthly live broadcast sessions was basically maintained at above 700. The Company also provided an internal exchange platform for a number of experienced live broadcast store managers to share internally, discuss solutions at the execution level, and improve the overall media use, live broadcast skills and conversion effects.

Supporting services

Employees of ZhengTong always uphold the mission of "offering superior driving experience to our customers" and strive to provide our customers with high quality services. We have continuously worked hard to fulfil the vision of the Group of "being a world-class automobile services brand".

The Group continues to improve its services with a focus on "fulfilling customers' needs and requirement". We have created a friendly and convenient consumption environment, and actively responded to the potential demands of customers based on their feedback. In 2022, with the normalization of pandemic prevention and control, the travel of the residents was sometimes inconvenient, which also caused difficulties for some customers to buy and use cars. For customers who required vehicle maintenance, we provided free door-to-door pick-up and delivery services. There were also door-to-door rescue services, night delay services, scooter services, as well as car owner care activities from time to time, car owner lecture, and car body spray open days. During the pandemic, some stores have provided customers with free disinfection services.

The Group has maintained a clear price list for the products and services provided by the Company at all 4S stores or 5S stores. In order to better implement this objective, during the reporting period, all stores were equipped with one or two large-scale electronic displays showing the prices and warranty information of all accessories and services offered in the stores. Customers could compare the information shown on the displays with the promotion made by sales representatives, and could provide feedback on any inconsistent information. It is ensured that all customers are provided with transparent and fair price information.

Customer communication

The voice of customers is the starting point of ZhengTong's high-quality service. The Group earnestly assumed the main responsibility for protecting consumer rights and interests and ensured that the objectives and policies of consumer rights protection are effectively implemented. We consistently conducted customer satisfaction surveys to obtain and evaluate customer comments, and the satisfaction rate in 2022 was 98%.

The Group established the "4S Store Customer Complaint Handling Process" to ensure effective communication with customers after the products are provided. Consumer complaints are first received by the customer service department. Professional customer service personnel listen to customers' demands patiently, accurately record customer information including the complainant's name, phone number, car model, license plate, and specific complaint etc., and passes the same to the store through OMS and notifies the customer service manager by SMS, and the business department will then provide solutions after analysis and implement them in a timely manner. After the complaint is processed, the Group's call center will conduct a return visit to check the customer's satisfaction with the complaint handling result, and record the result into the OMS for archiving. In the event of a major customer complaint, the complainant will notify the department head and general manager as soon as possible, and the general manager will convene a meeting of the 4S crisis management team to discuss countermeasures, and give an early warning according to the manufacturer's relevant technical specifications and business specifications; if any media intervenes, the Group will handle the same in accordance with the "Procedures for Managing Media Public Relations of 4S Stores". For complaints with little substance, we also actively appease and ease customers' emotions. ZhengTong has always been committed to improving customer service experience. In 2022, we did not receive any complaints with significant impact and there was sporadic feedback on quality, which has been actively solved in cooperation with OEMs.

Customer privacy

Customer privacy is not only concerned with the customer information security, but also the commercial confidentiality of our Company. To ensure the long-term sound and stable development of our Group and to safeguard the personal information of our customers effectively, we have implemented strict measures for information management and control to protect customers' privacy with regards to systems and equipment:

1. The office computers in all stores are prohibited from copying and using customer information without permission;

2. All general staff may only input information of the specific customers they served to our system and shall have no authority to access information of other customers;

3. The authority to access customer information is only vested in a limited number of management members, and all of them have entered into confidentiality agreements with our Group;

4. During the customer care and return visit, we will also confirm with the customers whether there is any information leakage.

The above measures have strengthened the confidentiality awareness of the Group's employees, greatly mitigated the concerns of our customers or potential customers and safeguarded customer privacy effectively. Employees are required to sign a Confidentiality and Non-compete Agreement with the Group during onboarding. In addition, the information technology department reviews the operation history of the information system from time to time to ensure that there is no illegal login, information use and leakage.

During the reporting period, the Group did not have any incidents related to leakage of customer privacy.

Vehicle recalls

The research, development and manufacture of automobiles is a systematic and complicated process, so potential deficiencies or problems are likely to appear. Therefore, the timely recall of defective vehicles is an important means for the automobile industry to eliminate defects and also a necessary measure to ensure product quality and the safety of life and properties of customers. ZhengTong has always firmly believed that recalls are part of its responsibility to consumers, and in most cases, recalls are voluntary recalls and goodwill recalls where the safety of vehicles is not the issue. As a direct service provider for end customers, ZhengTong takes the protection of consumers' rights and interests as its fundamental principle when there is a recall of automobile products, cooperates closely with manufacturers, and assumes the responsibility as a strong participant and executor in the process of automobile recall by informing customers as soon as possible and properly arranging the corresponding recall procedures and services to ensure the safety of customers and roads, which greatly improved customer satisfaction, customer loyalty and brand recognition. During the reporting period, the Group did not suffer from any product recalls or recalls due to safety and health reasons, creating a healthy and safe consumption environment for customers.

In 2022, we assisted 16 brands in carrying out a total of 54,005 voluntary recalls and goodwill recalls that did not affect vehicle safety, and there were no product recalls or recoveries for safety and condition reasons after the sale and distribution of automotive products.

New energy vehicles

New energy vehicles (NEVs) is an important direction for the sustainable development of vehicles. The sale of NEVs is not only in line with the current national, local and OEMs policy and guidance, but is also a focus where we can leverage our resources to contribute to environmental protection. We continue to accelerate the creation of a green and smart life that exceeds expectations for users and builds a future travel ecosystem. ZhengTong actively communicated with a number of new leading car-making brands to carry out more extensive and in-depth cooperation, and to provide convenient after-sales service. We are also constantly trying and expanding new energy vehicle-related businesses. Based on the authorization of existing luxury brands, each store is also actively applying for new energy vehicle sales and after-sales authorization, and increasing the sales of NEVs in the daily operation. The proportion of NEVs in the total sales volume has increased gradually.

According to business development needs, we have specially set up a brand new energy special group and focus booth to expand the exposure opportunities of new energy vehicles and promote transactions. Based on the characteristics and brand advantages of new energy vehicles, we carried out targeted in-depth experience activities for vehicle owners to improve customer acceptance of new energy vehicles, accumulate NEV customers and establish a good brand reputation. In terms of internal management, we formulated a guiding incentive plan for the sales of new energy vehicles to promote their sales. While conducting in-store sales, we will make full vehicle introductions for potential consumers of new energy automobiles, and will actively assist new energy automobile owners to obtain relevant licenses and install new energy charging equipment. In addition, many stores' test drive activities have also begun to include new energy automobiles, allowing more consumers to experience new energy automobiles in person. We actively promoted new energy automobiles and publicized the concept of environmental protection through public welfare activities. In 2022, ZhengTong recorded sales of new energy vehicles of 3,454 units, accounting for 6% of the Group's sales, a significant year-on-year increase.

Scientific Research and Development

Taking innovation as the primary driving force, the Group has been continuously improving its product research and development system, focusing on developing products that adapt to different market needs and functions suitable for higher-end application scenarios to support the needs of complex driving scenarios in the future. In 2022, we actively invested in R&D and innovation, and have obtained 15 utility model patents in total.

9 COMMUNITY INVESTMENTS

ZhengTong has always regarded the philosophy of "business wealth from the society and for the society" as an important part of its corporate culture, and constantly explores ways to better integrate with society. Community investment is the driving force for the Company's continuous development in the future and participating in social welfare can shape a good corporate culture and public image. Therefore, ZhengTong proactively participated in local community development, organized and encouraged its employees to take part in a wide range of charity activities. During the reporting period, we held 14 public welfare activities in total.

Community Engagement

In 2022, we leveraged our own advantages and provided support and guarantee for community pandemic prevention in many aspects, actively organised employees to participate in community voluntary activities, and supplied scarce materials in a timely manner to deliver love and care. In 2022, we invested a total of RMB132,000 in this regard, including donating materials, food and other items to surrounding communities and medical institutions.

Other public welfare activities

[Case] Voluntary Blood Donation

Jieyang Dingjie organised a blood drive jointly with the community management committee in 2022.

In March 2022, Shenzhen Tengxing organized a blood drive jointly with the Shenzhen Blood Center in the "Learning from Lei Feng Activity Month", and a total of 94 people participated in this activity, contributing 28,500 ml of blood in total. In March 2022, the Company participated in Shenzhen volunteer activities and donated supplies to anti-pandemic medical staff.

[Case] Care for Left-in-hometown Children

Guangzhou Baoze arranged for employees to send warmth to and care for left-in-hometown children in mountainous areas, who were distributed supplies purchased in a targeted manner with employees' monetary donations, based on the list of children categorized by age provided by Huixin village committee of Qingxin District in Qingyuan City. On the day of the event, employees, which were classified into four groups, visited such children under the leadership of the village committee.

[Case] Visiting Special Children Rehabilitation Training Centre

In October 2022, Shantou Lujie "Caring for Children with Autism and Proceeding with Love (《關注星兒與愛同行》)" and Guangdong Land Rover Alliance jointly visited Shantou Enyu Special Children Rehabilitation Training Centre and donated training supplies and school supplies.

INDEX OF DISCLOSURES

ESG Report Guide		Chapter	Note
Major Category A. Environmental			
Aspect A1: Emissions			
A1	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to waste gas and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	4	
A1.1	Types of emissions and respective emission data.	4	
A1.2	Direct (scope 1) and energy indirect (scope 2) greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume and per facility).	4	
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume and per facility).	4	
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume and per facility).	—	Note 1
A1.5	Description of emission target(s) set and steps taken to achieve them.	4	
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	4	
Aspect A2: Use of Resources			
A2	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	4	
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume and per facility).	4	
A2.2	Water consumption in total and intensity (e.g. per unit of production volume and per facility).	4	Note 2
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	4	

ESG Report Guide		Chapter	Note
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	4	
A2.5	Total packaging material used for finished products (in tonnes) and, where appropriate, volume per production unit.	—	Note 3
Aspect A3: Environment and Natural Resources			
A3	General Disclosure Policies on minimising the issuer's significant impact on environmental and natural resources.	4	
A3.1	Description of the significant impacts of business activities on the environment and natural resources and the actions taken to manage them.	—	Note 4
Aspect A4: Climate Change			
A4	General Disclosure Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	4	
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	4	
Major Category B. Social			
Employment and Labor Practice			
Aspect B1: Employment			
B1	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, leaves, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	5.1	
B1.1	Total workforce by gender, employment type (such as full-time or part-time), age group and geographical region.	5.1	
B1.2	Employee turnover rate by gender, age group and geographical region.	5.1	

ESG Report Guide		Chapter	Note
Aspect B2: Health and Safety			
B2	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	5.2	
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	5.2	
B2.2	Number of working days lost due to work-related injuries.	5.2	
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	5.2	
Aspect B3: Development and Training			
B3	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	5.3	
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management and middle management).	5.3	
B3.2	The average training hours completed per employee by gender and employee category.	5.3	
Aspect B4: Labor Standards			
B4	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to prevention of child or forced labor.	5.1	
B4.1	Description of measures to review employment practices to avoid child and forced labor.	5.1	
B4.2	Description of steps taken to eliminate the irregular practices when discovered.	5.1	

ESG Report Guide		Chapter	Note
Operating Practice			
Aspect B5: Supply Chain Management			
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B5.1	Number of suppliers by geographical region.	7	
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	7	
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	7	
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	7	
Aspect B6: Product Responsibility			
B6	Information on (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	8	
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	—	Note 5
B6.2	Number of complaints on products and services and the follow-up measures.	8	
B6.3	Description of practices relating to observing and protecting intellectual property rights.	8	
B6.4	Description of quality assurance process and recall procedures.	8	
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	8	

ESG Report Guide		Chapter	Note
Aspect B7: Anti-corruption			
B7	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	6	
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	6	
B7.2	Description of preventive measures and whistleblowing procedures, and how they are implemented and monitored.	6	
B7.3	Description of anti-corruption training provided to directors and staff.	6	
Community			
Aspect B8: Community Investment			
B8	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take the communities' interests into consideration.	9	
B8.1	Key areas of contribution (e.g. education, environmental concerns, labor needs, health, culture and sport).	9	
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Note 1: As the Group mainly focuses on providing services, the emission of non-hazardous waste is insignificant to the Group.

Note 2: As the water used at shops for the Group's car washing business is recycled, consumption of water resources is insignificant to the Group.

Note 3: Automobiles sold by the Group are packed by the manufacturers, over which the Group has no control.

Note 4: The Group's business activities involve little natural resources, and accordingly this aspect is determined to be immaterial.

Note 5: The Group has not disclosed the key performance indicators in these social areas.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

DIRECTORS

Executive Directors

Mr. Wang Mingcheng (王明成先生), aged 54, has served as an executive Director and the chairman of the Nomination Committee since 1 September 2021 and the chairman of the Board since 9 September 2021. From September 2021 to March 2022, Mr. Wang also served as the chief executive officer of the Company. He is currently a vice chairman of the board of Xiamen Xindeco Ltd.* (廈門信達股份有限公司) (stock code: 000701.SZ), a company listed on the Shenzhen Stock Exchange ("**Xiamen Xindeco**"). From March 2016 to December 2018, Mr. Wang served as a general manager and a director of Xiamen ITG Assets Operation Group Co. Ltd.* (廈門國貿資產運營集團有限公司). From December 2018 to September 2021, Mr. Wang served as a general manager of Xiamen Xindeco. In 2013, Mr. Wang obtained an executive master's degree in business administration from Xiamen University. Mr. Wang is also an accountant. Mr. Wang has over 30 years of experience in corporate restructuring, company operation and management.

Mr. Zeng Tingyi (曾挺毅先生), aged 49, has served as an executive Director since 1 September 2021. He is currently a deputy general manager of Xiamen ITG Holding Group Co., Ltd. ("**ITG Holding**", the single largest shareholder of the Company), the chairman of the board of Xiamen CCRE Group Co., Ltd.* (廈門海翼集團有限公司), the chairman of the board of Xiamen XGMA Machinery Company Limited* (廈門廈工機械股份有限公司), a company listed on the Shanghai Stock Exchange ("**Xiamen XGMA**") (stock code: 600815.SH), a director of Xiamen Xindeco, and the chairman of Xiamen ITG Industry Co., Ltd* (廈門國貿產業有限公司). From October 2018 to January 2020, Mr. Zeng was a director of ITG Holding. From November 2013 to August 2018, Mr. Zeng was a vice president of Xiamen ITG Group Corp. Ltd. (廈門國貿集團股份有限公司), a company listed on the Shanghai Stock Exchange ("**Xiamen ITG**") (stock code: 600755.SH). From August 2018 to January 2022, Mr. Zeng served as the chairman of the board of Xiamen Xindeco. In 2004, Mr. Zeng obtained a master's degree in business administration from Xiamen University. Mr. Zeng is also a senior economist. Mr. Zeng has over 20 years of management experience in sales of automobiles, trade and logistics and investment.

Mr. Li Zhihuang (李植煌先生), aged 57, has served as an executive Director and a member of the Remuneration Committee since 17 September 2021. He is a deputy general manager of ITG Holding and the chairman of the board of Xiamen Xindeco. Mr. Li was the finance department manager, deputy financial director, financial director, vice president and executive vice president of Xiamen ITG, and a director of ITG Holding from February 2001 to July 2018. Mr. Li served as the chairman of the board of Zhonghong Pulin Group Co., Ltd.* (中紅普林集團有限公司) from June 2018 to March 2022, a director of Zhonghong Pulin Medical Products Co., Ltd.* (中紅普林醫療用品股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300981.SZ) from April 2009 to March 2022 and a director of Xiamen ITG. Mr. Li obtained an executive master's degree in business administration from Xiamen University in 2009 and is a senior accountant. Mr. Li has over 30 years of experience in accounting management for large-scale enterprises and corporate decision making and governance.

Independent Non-executive Directors

Dr. Wong Tin Yau, Kelvin (黃天祐博士), SBS, JP, aged 62, has served as an independent non-executive Director since 17 November 2010. He also serves as the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Dr. Wong is the chairman of the Accounting and Financial Reporting Council. He served as a non-executive director of the Securities and Futures Commission from 2012 to 2018, the chairman of the Investor and Financial Education Council from 2017 to 2018, the chairman of The Hong Kong Institute of Directors from 2009 to 2014, a member of the Listing Committees of the Main Board and GEM of the Stock Exchange from 2007 to 2013, a member of the Standing Committee on Company Law Reform from 2010 to 2016 and a member of the Operation Review Committee of Independent Commission Against Corruption from 2017 to 2022. Dr. Wong was appointed as a Justice of the Peace in 2013 and awarded a Silver Bauhinia Star in 2021 by the Government of the Hong Kong Special Administrative Region. Dr. Wong obtained his master's degree in business administration from Andrews University in Michigan, the United States in 1992 and his doctor's degree in business administration from The Hong Kong Polytechnic University in 2007.

Dr. Wong currently serves as a director in the following publicly listed companies: COSCO SHIPPING Ports Limited, a company listed in Hong Kong (stock code: 1199), as an executive director and a deputy managing director since July 1996; and Yangtze Optical Fibre and Cable Joint Stock Limited Company, a company listed in Hong Kong and Shenzhen (stock code: 6869 and 601869.SH), as an independent non-executive director since January 2020. Dr. Wong served as a director in the following publicly listed companies: I.T Limited, a company delisted in Hong Kong on 30 April 2021 (stock code: 999.HK), as an independent non-executive director from August 2007 to April 2021; Shanghai Fosun Pharmaceutical (Group) Co., Ltd., a company listed in Hong Kong and Shanghai (stock code: 2196.HK and 600196.SH), as an independent non-executive director from June 2015 to June 2021; Xinjiang Goldwind Science & Technology Co., Ltd., a company listed in Hong Kong and Shenzhen (stock code: 2208.HK; stock code: 2202.SZ), as an independent non-executive director from October 2016 to June 2022; and JS Global Lifestyle Company Limited, a company listed in Hong Kong (stock code: 1691.HK), as an independent non-executive director from October 2019 to August 2022.

Dr. Cao Tong (曹彤博士), aged 54, has been appointed as an independent non-executive Director since 8 April 2016. Dr. Cao is also the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company. Dr. Cao is currently the chairman of Shanghai Huarui Bank Co., Ltd.* (上海華瑞銀行股份有限公司). Dr. Cao served as a cadre of the Beijing Branch of the People's Bank of China, the vice president of the Beijing Branch, the general manager of the personal banking department of the head office and deputy head of the Shenzhen management department of China Merchants Bank, an executive director and the vice president of China CITIC Bank Corporation Limited, a company listed on the Hong Kong Stock Exchange (stock code: 998.HK), the vice president of the Export-Import Bank of China and the president of WeBank Co., Ltd. in Qianhai, Shenzhen, and a director of Shenzhen Hande Financial Technology Holdings Co., Ltd.* (深圳瀚德金融科技控股有限公司). Dr. Cao has nearly 28 years' experience in finance industry. Dr. Cao obtained his master's degree in economics from Renmin University of China. He further obtained a Ph.D. in finance from Dongbei University of Finance and Economics and a Ph.D. in business administration from Arizona State University, the United States.

Ms. Wong Tan Tan (王丹丹女士), aged 46, has served as an independent non-executive Director since 13 December 2016. Ms. Wong also serves as a member of the Audit Committee and Nomination Committee of the Company. Ms. Wong had served as a financial commissioner of the financial department and a senior manager of the marketing department at UTStarcom (USA) from March 2001 to February 2005, and served as an assistant to the chief executive officer at the Beijing headquarters of UTStarcom from February 2005 to April 2006. From May 2006 to September 2016, she was a chief representative and an executive director of the Beijing Office of J.P. Morgan Chase & Co. Ms. Wong studied business administration at Vanguard University of California in Costa Mesa in the United States from 1997 to 1998. From 1998 to 2000, she studied at the University of Southern California, Gordon S. Marshall School of Business, the United States, where she obtained a bachelor's degree in business administration, majoring in finance.

Senior Management Personnel

Mr. Chen Hong (陳弘), aged 40, has served as the chief executive officer of the Company since 10 March 2022 to preside over the daily operation and management. Mr. Chen Hong served successively as a representative of securities affairs and the general manager of the security affairs division of Xiamen ITG from July 2008 to November 2017. Mr. Chen Hong served successively as the secretary of the board and a deputy general manager of Xiamen Xindeco from December 2017 to March 2022, and concurrently served as an executive director of Xiamen Xindeco Investment Management Co., Ltd.* (廈門信達投資管理有限公司). Mr. Chen Hong graduated from Zhongnan University of Economics and Law with a bachelor's degree in law in 2005, and obtained a master's degree in law from Xiamen University in 2008. Mr. Chen Hong is also an economist and has over 14 years of management experience in corporate governance, standardized operations, investment and mergers and acquisitions of large enterprises.

* *For identification purpose only*

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL PLACE OF BUSINESS

The Company is an exempted company incorporated in the Cayman Islands with limited liability. Its registered office is located in the Cayman Islands and its operating headquarters are located in Beijing, the PRC.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 16 to the consolidated financial statements.

BUSINESS MODEL AND STRATEGIES

The Group's main focus is on luxury and ultra-luxury branded automobile sales operated in China, and has made significant strides in its traditional after-sales services and post-market businesses in sectors of insurance brokerage, pre-owned automobiles and beyond. The operation strategies implemented by the Group in the year are set out in the "Business Review" of the section headed "Management Discussion and Analysis" on pages 8 to 15 of this annual report.

SUBSIDIARIES

Please refer to note 16 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated financial statements.

BUSINESS REVIEW

Business performance, financial review, business review as well as prospects and strategies of the Group are set out in the section headed "Management Discussion and Analysis" in this annual report. Certain key financial indicators are provided in the section "Five Years' Financial Summary" in this annual report.

DIVIDEND

The Board has resolved not to recommend the payment of a dividend for the year ended 31 December 2022.

FIVE YEARS' FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 11 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The single largest customer and the top five customers in aggregate of the Group accounted for 2.86% and 6.83% of the Group's total sales for the year ended 31 December 2022 respectively. The single largest supplier and the top five suppliers in aggregate of the Group accounted for 32.19% and 74.50% of the Group's total purchases for the year respectively.

As far as the Directors are aware, none of the Directors, their close associates, or any Shareholder which to the knowledge of the Directors owns more than 5% of the number of issued Shares of the Company had any interest in any of the five largest suppliers and customers disclosed above.

RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in note 5 to the consolidated financial statements in this annual report. In addition to contributing into retirement benefit schemes organised by the PRC municipal government, the Group also makes contributions into mandatory provident fund scheme ("**MPF Scheme**") set up under the Hong Kong Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all the Group's qualifying employees in Hong Kong. Contributions into MPF Scheme are made based on 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2022 are set out in the Consolidated Statement of Changes in Equity on page 92 and note 30 to the consolidated financial statements.

At 31 December 2022, deficit of the Company amounted to RMB1,421 million (31 December 2021: deficit RMB635 million). The Board proposed not to declare a final dividend for the year of 2022 (2021: Nil).

In 2022, the Company proposed not to pay an interim dividend for the six months ended 30 June 2022 (2021: Nil).

DONATIONS

Donations made by the Group during the year are set out in the Environmental, Social and Governance (ESG) Report in this annual report.

DIRECTORS

The Directors during the year ended 31 December 2022 and up to the date of this report were as follows:

Executive Directors

Mr. Wang Mingcheng *(Chairman)*
Mr. Li Zhihuang
Mr. Zeng Tingyi
Mr. Wang Muqing *(resigned on 10 January 2022)*

Independent Non-executive Directors

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

The biographical information of the current Directors is set out on pages 61 to 62 of the section headed "Directors' and Senior Management's Profiles" of this annual report.

Dr. Wong Tin Yau, Kelvin and Dr. Cao Tong will retire from office by rotation at the 2023 AGM, and being eligible, will offer themselves for re-election. The Board proposes to re-appoint the Directors standing for re-election at the 2023 AGM.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the 2023 AGM has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

To the best knowledge of the current Directors, save as disclosed in the section headed "Compliance with Laws and Regulations" or elsewhere in this annual report, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries, and in which a person who was a director of the Company at any time during the year or an entity connected with him/her had a material interest, whether directly and indirectly, subsisted during or at the end of the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the current Directors or their respective associates has any interests in a business, which competes or is likely to compete with the business of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive Directors, a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors independent.

CONNECTED TRANSACTIONS

On 20 September 2022, the Company and Shandong Xindeco IOT Application Technology Co., Ltd.* (山東信達物聯應用技術有限公司) ("**Shandong Xindeco**", together with its subsidiaries, the "**Shandong Xindeco Group**") entered into the Works Entrustment Agreement (the "**Works Entrustment Agreement**") pursuant to which the Shandong Xindeco Group will provide and install smart technology and light current systems for certain 4S dealership stores and apartments of the Group at a total consideration not exceeding RMB6,000,000. As at the date of this report, ITG Holding is the single largest Shareholder of the Company holding 29.9% of the Company's total issued Shares. Shandong Xindeco is an indirect non-wholly owned subsidiary of ITG Holding. Shandong Xindeco is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transaction contemplated under the Works Entrustment Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Company confirmed that it had complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of the aforesaid connected transaction.

For details, please refer to the announcement of the Company dated 20 September 2022.

Save as disclosed above and in the section headed "Compliance with Laws and Regulations" of this annual report, none of the related party transactions set out in note 35 to the consolidated financial statements constituted non-exempt connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

CONNECTED LESSORS

The Group has occupied a number of premises (the "**Premises**") for its 4S business during the year ended 31 December 2022 (the "**Use of Premises**"). The leases to the Premises were previously entered into with Hubei Xike Industry Co., Ltd.* (湖北熙可實業有限公司) and certain wholly-owned subsidiaries of Beijing Guangze Real Estate Development Co., Ltd.* (北京廣澤房地產發展有限公司) ("**Beijing Guangze**") (namely, Beijing Baozehang Automobile Sales Services Co., Ltd.* (北京寶澤行汽車銷售服務有限公司), Inner Mongolia Dingjie Automobile Trading Co., Ltd.* (內蒙古鼎傑汽車貿易有限公司), Changsha Shengze Ruibao Electronics Trading Co., Ltd.* (長沙聖澤瑞寶電子產品貿易有限公司), Wuhan Jiangrong Investment Co., Ltd.* (武漢江融投資有限公司) and Wuhan Shengze Jieyun Trading Co., Ltd.* (武漢聖澤捷運貿易有限公司) (collectively, the "**Connected Lessors**")) and have expired on 31 December 2021. The Connected Lessors are associates of Mr. Wang Muqing who ceased to be a director of the Company on 10 January 2022 and under Rules 14A.06(8)(c) and 14A.07(2) of the Listing Rules continued to be treated as a "connected person" of the Company for the 12 months after his resignation i.e. till 10 January 2023.

Based on filings made by Mr. Wang Muqing and Joy Capital Holdings Limited (the entire voting share capital of which was previously held by Bright Brilliant Holdings Limited, which in turn was wholly-owned by Credit Suisse Trust Limited in Guernsey as trustee of a family discretionary trust of which Mr. Wang Muqing was one of the founders) under Section 324 of the SFO, Mr. Wang Muqing and Joy Capital Holdings Limited ceased to have any shares in the Company with effect from 22 June 2022.

As at the date of this report, the Group has not yet entered into new lease agreements relating to the Premises as a result of, among other things:

(i) the Group and the Connected Lessors not having been able to agree on the core commercial terms in respect of the renewal of such leases; and

(ii) new management was notified that the relevant Premises are subject to arrangements with banks and, based on the laws and regulations in the PRC, until those arrangements are finalised, it may not be in the interests of the Group to agree the terms of such leases.

For details of the accounting treatment of the above, please refer to note 35(b) to the consolidated financial statements. The Group has not entered into any lease agreements in respect of the Premises and has not made any payment to the Connected Lessors in respect of the Use of Premises for the year ended 31 December 2022. The Company has been advised by its Hong Kong legal advisers that given no agreement has been entered into and no payments made, the Use of Premises either did not constitute a "transaction" or a "connected transaction" for the purpose of Chapter 14 and Chapter 14A of the Listing Rules or is otherwise exempt from the disclosure and shareholder approval requirements pursuant to Chapter 14 and Chapter 14A of the Listing Rules. Notwithstanding, the Use of Premises has been classified as a related party transaction from 1 January 2022 to 22 June 2022 for the purpose of the Company's financial statements.

SHARE AWARD SCHEME

The Company adopted a restricted share award scheme (the "**Share Award Scheme**") on 12 June 2020 (the "**Adoption Date**"), which enables the Company to, among other things, provide selected participants with an opportunity to acquire a proprietary interest in the Company; to encourage and retain participants to work with the Group; to provide additional incentive for selected participants to achieve performance goals; and to attract personnel to join the Group, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the selected participants directly to the Shareholders through ownership of the Shares. The Share Award Scheme shall initially be valid and effective for a period of ten years from the Adoption Date, subject to early termination as stipulated under the rules related to the Share Award Scheme (the "**Scheme Rules**"). As at the date of this annual report, the remaining life of the Share Award Scheme was approximately 7 years.

Any employees or directors of the Company or any of its subsidiaries whom the Board considers, in its sole discretion, to have contributed or will contribute to the Group and who are nominated and selected by the Board and approved by the Remuneration Committee (as to identities of the selected participants and determination of the number of the Shares subject to the grant (the "**Grant Shares**")) in accordance with the terms of the Scheme Rules may be qualified as a selected participant under the Share Award Scheme.

Subject to the Scheme Rules, the Grant Shares shall be new Shares to be issued and allotted by the Company for nil consideration. The Grant Shares are subject to acceptance of the selected participants. For the purpose of implementing and administering the Share Award Scheme, the Company has appointed BOCI-Prudential Trustee Limited as the trustee (the "**Trustee**"). Shares granted under the Share Award Scheme will be issued and allotted to the Trustee who shall hold such Shares upon trust for the benefit of the selected participants and shall vest and transfer to the relevant selected participants after fulfilment of all vesting conditions as set out in the Scheme Rules and subject to the vesting schedule ranging from the first to the fourth anniversary of the date on which the Grant Shares are granted (the "**Grant Date**"), as determined and applicable to relevant selected participants according to their respective tenure of office with and/or level of position in the Group.

No Shares shall be allotted or issued pursuant to the Share Award Scheme if as a result of such allotment or issue, the aggregate number of Shares administered under the Share Award Scheme and underlying all grants made (excluding the Shares where the rights to acquire them have been released or lapsed in accordance with the Share Award Scheme) shall exceed in total 5% of the Company's issued Shares as at the Adoption Date (i.e. 122,611,021 Shares). The maximum number of Grant Shares which may be granted to an individual selected participant shall not exceed 1% of issued Shares of the Company as at the Adoption Date (i.e. 24,542,204 Shares). As at the date of this annual report, the total number of Shares available for issue in respect of awards which may be granted under the Share Award Scheme is 90,151,021, representing approximately 3.28% of the Shares in issue as at that date.

Where any grant is proposed to be made to any selected participant who is a connected person (including a Director), such grant must first be approved by all the independent non-executive Directors and in each case excluding any independent non-executive Director who is the proposed selected participant and shall be separately approved by the Shareholders at a general meeting with such connected person and his associates abstaining from voting and shall comply with all other requirements of Chapter 14A of the Listing Rules applicable to such grant.

During the year ended 31 December 2022, no grant was made under the Share Award Scheme. From the Adoption Date to 31 December 2022, a total of 47,100,000 Grant Shares have been granted by the Board on 12 June 2020 under the Share Award Scheme, representing approximately 1.92% of the number of Shares in issue as at the Adoption Date. Out of such 47,100,000 Grant Shares, (i) 35,700,000 Grant Shares were granted to 37 non-connected selected participants, all being independent employees of the Group who are not connected persons of the Company; and (ii) 11,400,000 Grant Shares were granted to Mr. Wang Kunpeng, Mr. Li Zhubo and Mr. Wan To, who were executive directors of the Company at the time of grant but have all since ceased to be directors of the Company.

The said 47,100,000 Grant Shares were initially and directly allotted and issued to the Trustee at market price based on the average closing price of the Shares for the five consecutive trading days immediately preceding the Adoption Date as quoted on the Stock Exchange of approximately HK$1.178 per Share. The market value and nominal value of such 47,100,000 Grant Shares were HK$55,483,800 and HK$4,710,000, respectively.

Details of the Grant Shares granted under the Share Award Scheme and their movements during the year ended 31 December 2022 are as follows:

Category of participants	Date of grant	Vesting date/period[1]	Unvested as at 1 January 2022	Granted during the year	Canceled during the year	Lapsed/ forfeited during the year	Vested during the year	Unvested as at 31 December 2022
Employee Participants								
In aggregate	12 June 2020	12 June 2021 to 12 June 2024[1(i)]	8,520,000	–	–	3,500,000	1,940,000[2]	3,080,000
	12 June 2020	12 June 2021 to 12 June 2023[1(ii)]	8,960,000	–	–	1,000,000	4,080,000[2]	3,880,000

Notes:

1 Subject to the satisfaction of the vesting conditions (including that the employees remain in service and meet performance requirements), the Grant Shares held by the Trustee on behalf of the selected participants shall vest and be transferred to the selected participants at no cost in accordance with the vesting schedule below:

(i) Applicable to selected participants whose term of service with any member of the Group is less than 5 years as at the grant date

Vesting Date	Amount of Grant Shares to vest
Second anniversary of grant date	One-third (round down to the nearest board lot of Shares)
Third anniversary of grant date	One-third (round down to the nearest board lot of Shares)
Fourth anniversary of grant date	The remaining Grant Shares

(ii) Applicable to selected participants whose term of service with any member of the Group is 5 years or more as at the grant date

Vesting Date	Amount of Grant Shares to vest
First anniversary of grant date	One-third (round down to the nearest board lot of Shares)
Second anniversary of grant date	One-third (round down to the nearest board lot of Shares)
Third anniversary of grant date	The remaining Grant Shares

(iii) Applicable to selected participants whose term of service with any member of the Group is 10 years or more as at the grant date and/or whose office or role are vice-president level or above

Vesting Date	Amount of Grant Shares to vest
First anniversary of grant date	100%

2 The closing price of the Shares immediately before the date on which the Grant Shares were vested (being 12 June 2022) was HK$0.55.

The number of share awards available for grant under the scheme mandate was 85,651,021 as at 1 January 2022 and 90,151,021 as at 31 December 2022.

For details of the summary of the major terms of the Share Award Scheme, and the grant of the Grant Shares please refer to the announcements of the Company dated 12 June 2020 and 18 June 2020 and the circular of the Company dated 31 August 2020. Further details of the Share Award Scheme are set out in note 28 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

To the best knowledge of the Company, as at 31 December 2022, none of the Directors and chief executive of the Company and any of their respective associates had or was deemed to have any interest or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, the interests or short positions of such persons (other than the Directors or chief executives of the Company) in the Shares and underlying Shares as recorded in the register of substantial Shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Name of Shareholders	Capacity/nature of interest	Number of Shares held	Approximate percentage of shareholding
ITG Holding Group Co., Ltd. (廈門國貿控股集團有限公司)	Beneficial owner	820,618,184 (Long position)	29.90%
Cheung Mei (張梅)	Beneficial owner	166,221,500 (Long position)	6.06%

Notes:

1. As at 31 December 2022, the total number of Shares in issue was 2,744,542,420.

Save as disclosed above, as at 31 December 2022, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had, or was deemed or taken to have, an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the Share Award Scheme, at no time during the year ended 31 December 2022 was the Company, or any of its holding company, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. Other than the Share Award Scheme, no equity-linked agreements were entered into by the Company during 2022 or subsisted at the end of 2022. Particulars of the Share Award Scheme are set out in note 28 to the consolidated financial statements and the paragraphs above.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2022 are set out in notes 24 and 27 to the consolidated financial statements.

EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are proposed by the Remuneration Committee to the Board, having regard to the Company's operating results, individual performance and comparable market statistics, subject to the final decision by the Board.

Save for Mr. Li Zhihuang and Mr. Zeng Tingyi who will not receive any remuneration from the Company during their respective terms of office, none of the current Directors has waived or agreed to waive any emoluments and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for the loss of office.

The remuneration of the Directors and senior management of the Company is set out in notes 7 and 8 to the consolidated financial statements.

RELATIONSHIPS WITH MAJOR STAKEHOLDERS

We understand that employees, customers and suppliers are the key to our sustainable and stable development. We are committed to establishing a close relationship with our employees, enhancing cooperation with our suppliers and providing high-quality products and services to our customers so as to ensure our sustainable development.

The Group places great emphasis on human resources and offers its employees a competitive remuneration package and various trainings, including internal trainings and refresher courses offered by professional organisations, so as to keep them abreast of the latest development in the market, industry and various businesses.

The Group has enhanced communications with customers via various channels so as to provide excellent and quality customer services, with a focus on the customers' needs and thus enhance customer satisfaction and loyalty. We value the feedback from customers and always try to understand their thoughts through daily communication, after-sale return visit and customer satisfaction surveys. In addition, we also assign designated personnel to maintain customers relationship, responding to the feedback and complaints from customers.

The Group has established strong cooperation relationship with a number of manufacturers of luxury and ultraluxury branded automobiles and entered into standing cooperative agreements, including dealership agreements and other licensing agreements. With the development of prevailing trends in the automobile industry, the Group will continue to facilitate exchange and cooperation with manufacturers of automobiles for the purpose of creating a win-win situation. For the management of other suppliers, the Group has been more prudent in selecting suppliers and establishing long-term cooperation with them. The Group places emphasis on ongoing assessment and monitoring on the suppliers selection in order to ensure compliance with our commitment to quality and ethical conduct.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company is aware of the importance of complying with applicable laws and regulations that have a significant impact on the business and operation of the Group, and is committed to continuously improving its internal control and corporate governance to ensure compliance with these laws and regulations.

In 2016 and 2020, 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 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 Baoze Automobile Technology Development Co., Ltd.* 北京寶澤汽車科技發展有限公司 ("**Beijing Baoze**") and Beijing Zunbaocheng Real Estate Co., Ltd.* 北京尊寶成置業有限公司 ("**Beijing Zunbaocheng**") (the "**Redemption Obligations**"); and (ii) repayment obligations in respect of a loan provided under an entrusted loan agreement (the "**Repayment Obligations**").

To the best knowledge and belief of the Directors, Beijing Guangze is held indirectly by family members of Mr. Wang Muqing, a former executive Director of the Company.

The Redemption Obligations and Repayment Obligations were secured by, among others, real estate owned by Beijing Zunbaocheng and Beijing Baoze (the "**Pledged Assets**").

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

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 (the "**Equity Investment First Instance Judgement**"); and

- 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 "**Loan First Instance Judgement**").

Wuhan Zhengtong has filed appeals against the Equity Investment First Instance Judgement and Loan First Instance Judgement through Zhejiang Higher People's Court and Jiangsu Higher People's Court, respectively. The Company has, in respect of its appeal against the Equity Investment First Instance Judgement, received a second instance judgement (the "**Equity Investment Second Instance Judgement**"), pursuant to which the guarantee given by Wuhan Zhengtong in respect of the amounts owed by Beijing Guangze was held to be a general guarantee (i.e. Wuhan Zhengtong shall only be responsible for any shortfalls if Beijing Guangze fails to fulfill its repayment obligations), and after having assumed its general guarantee liability, Wuhan Zhengtong shall be entitled to claim repayment from Beijing Guangze to the extent of the guarantee obligation it has performed. The Equity Investment Second Instance Judgement is the final judgement.

In January 2023, Wuhan Zhengtong entered into a settlement agreement (the "**Settlement Agreement**") with Yuchen Fengze, whose controlling interest the Company understands has been acquired by an investor principally engaged in distressed asset management and financial services business. Pursuant to the Settlement Agreement (which became effective in February 2023), Yuchen Fengze has agreed to facilitate the utilization and disposal of the collateral assets in satisfaction of the debt owed to it and Wuhan Zhengtong has withdrawn its appeal against the Loan First Instance Judgement.

As advised by the Company's PRC legal adviser, although Wuhan Zhengtong's withdrawal of its appeal would render the Loan First Instance Judgement effective (and by extension Wuhan Zhengtong's joint liability thereunder), given the withdrawal would facilitate Yuchen Fengze's disposal of the collateral assets (in particular, the Pledged Assets) in satisfaction of the debt owed to it and the value of the Pledged Assets likely exceeds the amounts owed, having assessed the overall settlement arrangement and the present situation, the Company's PRC legal advisers are inclined to be of the opinion that the probability of Wuhan Zhengtong being pursued for payment is relatively low.

For details, please refer to the announcements of the Company dated 22 December 2021, 31 December 2021, 10 January 2022, 20 July 2022 (together, the "**Announcements**"), 24 June 2022 and 10 February 2023. The financial impact of the above on the Company's financial statements for the year ended 31 December 2022 is set out on pages 179 to 180 of this annual report.

As stated in the Announcements, the entry into of the Undertaking and Shortfall Agreements may have constituted undisclosed connected transactions of the Company at the relevant time. As stated in the announcement of the Company dated 10 January 2022, the Board convened a meeting on 7 January 2022 (the "**7 Jan Meeting**"), to discuss and approve, among other things, the establishment of an independent board committee comprising executive Directors who were not Directors at the relevant time (i.e. Mr. Wang Mingcheng, Mr. Li Zhihuang and Mr. Zeng Tingyi) to conduct an investigation into the above matters. The Company received a notice from Mr. Wang Muqing on 9 January 2022, stating that he had no connection with the above matters and had never been involved in any violation of laws and regulations, but as he felt that he might not have the trust of the Directors who attended the 7 Jan Meeting, and considering his age, he has decided to resign as an executive Director and a member of the remuneration committee of the Company from 10 January 2022. Mr. Wang Muqing also confirmed that he had no disagreement with the Board and there were no matters that need to be brought to the attention of the Stock Exchange and the Shareholders.

IMPORTANT EVENTS AFTER 31 DECEMBER 2022

Other than as disclosed elsewhere in this annual report, the Board had, on 28 February 2023, approved a proposed plan to dispose of the Group's 100% equity interest in Shenzhenshi Huianqi Investment Advisory Co., Ltd.* (深圳市匯安啟投資諮詢有限公司), an indirect wholly owned subsidiary of the Company which holds the property interests (including land use rights and construction in progress, which is currently suspended) in a parcel of land located at the eastern side of Heping Road, Longhua Street, Longhua District in Shenzhen (the "**Shenzhen Property**"). The Shenzhen Property has a site area of approximately 31,260.44 square metres which will be developed into a new industries park with a plot ratio accountable gross floor area of approximately 161,700 square metres. As at the date of this annual report, the Shenzhen Property was bare land for which earth-and-stone and foundation pit support works had commenced. The disposal is intended to be conducted by way of public tender at the Shenzhen United Property and Equity Exchange* (深圳聯合產權交易所股份有限公司) and the initial price is preliminarily set at approximately RMB800 million.

Using the preliminary initial price as the basis for calculation, the relevant percentage ratios (calculated according to the Listing Rules) in respect of the potential disposal are expected to be more than 25% but less than 75%. Accordingly, the potential disposal, if materialized, will constitute a major transaction of the Company subject to the reporting, announcement, circular, and shareholders' approval requirements under Chapter 14 of the Listing Rules. An ordinary resolution will be proposed at the extraordinary general meeting expected to be held on 20 April 2023 for the shareholders of the Company to approve the potential disposal.

For further details, please refer to the announcement of the Company dated 28 February 2023 and the circular of the Company dated 27 March 2023.

MAJOR RISKS AND UNCERTAINTIES

The results and business operations of the Group are subject to the impact of a number of factors, including those arising from the macro-economic environment as well as those inherent in the auto retail sector. The major risks are summarised as follows:

(i) Macro-economic environment

As a pillar industry of the national economy, the auto sector is considerably correlated to the volatile periods of the macro-economy in terms of timing and extent. Currently, China's auto market continues to hold out strong potential for development. However, if significant fluctuations occur in the auto industry as a result of cyclical developments in the macro-economy, auto sales will be inevitably affected. As such, the Group is required to monitor any changes in the economic landscape in a timely manner and adjust its overall business planning, network development plans and marketing plans under different market conditions.

* *For identification purposes only*

(ii) Industry policies

The Group's business operations must comply with policies and regulations announced by the PRC government for the administration of the auto industry. Changes in such industry policies may result in decreased market demand for products, lower prices for products and services and escalated market competition, which will in turn result in the decrease in revenue and profit. As such, the Group will monitor closely any developments in government policies on our industry, while enhancing our service standards on an ongoing basis to address any risks arising from changes in industry policies.

(iii) Manufacturers' policies

As an auto dealer group, we have maintained sound cooperation with branded automobile manufacturers. Changes in the policies of such manufacturers might result in changes in the sales strategies for their brands, sales incentives and business policy support for us, and such changes might result in a decrease in products sales and revenue. Hence, the Group will actively enhance communication with the manufacturers and continue to adopt a development strategy that covers a diverse range of brands.

(iv) Intense competition

We compete not only with other auto dealers, but also players in the general express auto repair service sector and the e-commerce sector, in a number of segments, such as sales, repair, maintenance and extended services. Our inability to respond to challenges presented by different competitors in a timely manner may result in the decline in customers' demand for our products and the decrease in our revenue and profit. Hence, the Group is required to adjust its strategy in a timely manner and enhance its overall service standards to address intense competition.

(v) Supply chain

The Group does not own or operate any production facilities, and is dependent on branded automakers and suppliers of auto accessories for the supply of all of our products. Any disruption in the supply of products by our suppliers might result in problems for our supply chain. Nevertheless, we have fostered long-term, stable partnerships with a number of branded automakers and suppliers of parts and components, and such partnerships have been highly valued by the suppliers. Hence, we have endeavoured to minimise the impact of any disruption in supply on a best-effort basis and ensure we are able to locate other suppliers of similar quality for reasonable prices at any time.

(vi) Information systems

The Group's business is dependent on information technology systems and networks in connection with sales, procurement, sales and distribution at all retail outlets, inventory management, customer relations management, digitalized marketing, financial reporting and auto finance. Any serious disruption to or slowdown of our information technology systems as a result of, among others, our inability to successfully upgrade our systems, system breakdowns or virus or cyber attacks might result in the loss of data and disruption in operations. Hence, the Group will invest in information technology and ERP systems on an ongoing basis to ensure the technological security, accessibility and completeness of important operational data.

(vii) Market risks

The Group is subject to various types of market risks, including credit risks, liquidity risks, interest rate risks and exchange risks, the details of which are set out in note 32 to the consolidated financial statements in this annual report. The Group has exercised effective control over market risks through continuous monitoring of risks and changes, timely risk warnings and appropriate application of hedge instruments.

PERMITTED INDEMNITY

In accordance with the Articles of the Company containing provisions that provide indemnity to, among other persons, our Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty. In accordance with their respective service agreements, each of our executive Directors is entitled to be indemnified by the Company in all respects under laws, except to the extent of the willful default or gross negligence of a director. The Company maintained Directors' and chief executives' liability insurance and corporate compensation insurance during the year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We recognise the importance of environmental protection and have adopted stringent measures for environmental protection in order to ensure the compliance by the Group with the prevailing environmental protection laws and regulations.

The Group has been advocating the concept of green office in its daily operation by fully committing to environmental protection, energy saving and discharge reduction, reasonable allocation and utilisation of resources. In addition, the Group has implemented resources recycling with an aim to minimise energy consumption and waste. In future, the Group will continue to firmly employ its sustainable development strategy to strongly promote environmental protection and carry out measures for environmental protection.

More details of the environmental policies and performance of the Company are set out in the Environmental, Social and Governance (ESG) Report in this annual report.

MANAGEMENT CONTRACTS

Except for the service contracts of the Directors and senior management of the Company or otherwise disclosed in this annual report, no contracts were entered into between the Company and any individuals, companies or legal corporations, for the management and administration of the whole or any substantial part of the Company's business during the year ended 31 December 2022.

CORPORATE GOVERNANCE

So far as the current Board is aware, during the year ended 31 December 2022, save for the deviations as explained under the section headed "Corporate Governance Practices" on page 22 of this annual report, the Company had complied with the applicable Code Provisions set out in CG Code contained in Appendix 14 to the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained a sufficient public float.

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 senior notes in the aggregate principal amount of US$173,000,000 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 the Notes (the "**Remaining Notes**") in an aggregate principal amount of US$10,600,000 remained outstanding. The Company redeemed the Remaining Notes on the 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 2022.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of the Company or applicable laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the Shareholders by reasons of their holding of the Company's securities. If the Shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights (including entitlements to any relief of taxation) in relation to, the Shares, they are advised to consult an expert.

AUDITORS

KPMG will retire and, being eligible, offer themselves for re-appointment at the 2023 AGM. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the 2023 AGM.

On behalf of the Board

Wang Mingcheng
Chairman
30 March 2023

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of China ZhengTong Auto Services Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China ZhengTong Auto Services Holdings Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 88 to 195, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("**the Code**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of goodwill and intangible assets — car dealerships

Refer to note 14 & note 15 to the consolidated financial statements on pages 134 to 138 and the accounting policies on page 97 and page 100.

The Key Audit Matter	How the matter was addressed in our audit
As a result of acquisitions by the Group of 4S dealership stores, the Group recognised goodwill and intangible assets — car dealerships in the consolidated financial statements. Goodwill has been allocated to each of the relevant individual 4S dealership stores, which are considered to represent individual cash generating units ("**CGUs**"). As at 31 December 2022, goodwill and intangible assets — car dealerships, after impairment, amounted to RMB567 million (31 December 2021: RMB567 million) and RMB2.0 billion (31 December 2021: RMB1.9 billion), respectively. The 4S dealership business in China operates in a highly competitive and regulated market which increases the risk of sales volatility of the 4S dealership stores. Consequently, there are uncertainties as to whether the acquired 4S dealership stores can meet forecast growth projections.	Our audit procedures to assess impairment of goodwill and intangible assets — car dealerships included the following: • evaluating the appropriateness of management's identification of CGUs and the amounts of goodwill and intangible assets — car dealerships allocated to each CGU; • evaluating the reasonableness of management's identification of impairment indications of goodwill and intangible assets — car dealerships and reversal and determination of recoverable amount; • assessing the qualifications, experience and expertise of the external valuer appointed by management in assessing the impairment of goodwill and intangible assets — car dealerships and reversal of impairment of intangible assets — car dealerships and considering their objectivity and independence;

KEY AUDIT MATTERS (Continued)

Impairment assessment of goodwill and intangible assets — car dealerships (Continued)

Refer to note 14 & note 15 to the consolidated financial statements on pages 134 to 138 and the accounting policies on page 97 and page 100.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2022, management assessed goodwill and intangible assets — car dealerships for potential impairment and reversal of impairment and determined the recoverable amount for each CGU to which the goodwill and intangible assets — car dealerships have been allocated, with reference to a valuation report prepared by an external valuer appointed by management. The recoverable amount of each CGU is determined by management using the discounted cash flow method. The preparation of discounted cash flow forecasts involves the exercise of significant management judgement, particularly in estimating sales growth rates, corresponding gross margin rates and working capital changes, which are based on past performance and management's expectation of market developments.	• with the assistance of our internal valuation specialists, evaluating the methodology adopted by management and the valuer in determining the recoverable amount of goodwill and intangible assets — car dealerships with impairment indications and decrease in indications and the preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards and assessing whether the discount rate applied was within the range adopted by other companies in the same industry; • comparing data in the discounted cash flow forecast of each individual CGU with relevant data, including forecast revenue, forecast cost of sales, forecast other operating expenses and forecast working capital, in the financial budget which was approved by the directors and comparing forecast revenue growth trends with sales forecasts issued by industry research institutions;

KEY AUDIT MATTERS (Continued)

Impairment assessment of goodwill and intangible assets — car dealerships (Continued)	
Refer to note 14 & note 15 to the consolidated financial statements on pages 134 to 138 and the accounting policies on page 97 and page 100.	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified impairment of goodwill and intangible assets — car dealerships as a key audit matter because these assets are material to the consolidated financial statements and because the impairment assessments prepared by management are complex and contain certain judgements and assumptions which are inherently uncertain and could be subject to management bias.	• comparing forecast revenue, forecast cost of sales, forecast other operating expenses and forecasts working capital included in the discounted cash flow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified; • obtaining from management sensitivity analyses of the key assumptions adopted in the discounted cash flow forecasts and assessing the impact of changes in the key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements of the assumptions in the impairment assessments of goodwill and intangible assets — car dealerships with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (Continued)

<table>
<tr><th colspan="2">Recognition of vendor rebates</th></tr>
<tr><td colspan="2">Refer to note 20 to the consolidated financial statements on page 163 and the accounting policy on page 114.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group earns vendor rebates under various and differing arrangements with automobile manufacturers. Rebate arrangements, which can vary in different fiscal years and between automobile manufacturers, include rebates based on purchase or (for certain specific car models) sales volumes, performance rebates and other specific rebates.

Rebates based on purchase or sales volumes are granted by vendors if certain purchase or sales targets are met.

Performance rebates are granted by vendors in accordance with the vendors' comprehensive assessment of the Group's business performance.

In addition, other specific rebates are granted to the Group, including, but not limited to, compensation for automobile mortgage sales, new store one-off compensation, regional annual awards and car demonstration compensation.</td><td>Our audit procedures to assess the recognition of vendor rebates included the following:

• obtaining an understanding of the design and implementation of management's key internal controls in relation to the recognition of vendor rebates;

• assessing the Group's accounting policies in respect of the recognition of vendor rebates by inspecting the terms and conditions set out in each type of rebate arrangement communicated by the respective automobile manufacturers with reference to the requirements of the prevailing accounting standards;

• selecting a sample of vendor rebates recognised and settled during the year and comparing the recognised rebate amount with credit notes issued by the vendors or underlying bank payment slips;</td></tr>
</table>

KEY AUDIT MATTERS (Continued)

Recognition of vendor rebates (Continued)	
Refer to note 20 to the consolidated financial statements on page 163 and the accounting policy on page 114.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group manually calculates rebates and recognises them to the extent that the management expects it is probable that the associated conditions will be met and the amount can be estimated reliably. We identified recognition of vendor rebates as a key audit matter because there are many different kinds of rebate arrangements in place and because the manual calculation of the Group's entitlement to such rebates involves significant management's estimation, which is inherently subjective.	• for vendor rebate receivables at the reporting date, performing recalculations of the amounts receivable, on a sample basis, based on the terms of the underlying vendor rebate policies and relevant inputs, including sales and purchase volume data, rebate rates and other specific criteria as set out in the respective vendor rebate policies; • evaluating, on a sample basis, the above relevant inputs used to calculate vendor rebates by comparing the inputs with relevant underlying documentation; and • assessing, on a sample basis, whether vendor rebates accrued at the previous financial reporting date were subsequently settled in the current year.

KEY AUDIT MATTERS (Continued)

Assessment of the fair value of interest investment in Dongfeng Logistics Group Co., Ltd.	
Refer to note 17 to the consolidated financial statements on page 159 and the accounting policy on page 98.	
The Key Audit Matter	**How the matter was addressed in our audit**
As disclosed in note 17, the Group has lost its significant influence over Dongfeng Logistics Group Co., Ltd. ("**Dongfeng Logistics**") as at 31 December 2022. After the loss of significant influence, the Group's interest in Dongfeng Logistics has been in the scope of HKFRS 9 as a financial asset measured at fair value through profit or loss, and the fair value has been categorised as level 3 in the fair value hierarchy. The fair value of the Group's interest in Dongfeng Logistics was RMB945 million as at 31 December 2022, as determined by management with reference to a valuation report prepared by an external valuer engaged by the Group. Upon the loss of significant influence, the Company recognised a remeasurement gain of RMB424 million. Such remeasurement gain was based on the difference of the fair value and the carrying amount of the Group's interest in Dongfeng Logistics as at the date of loss of significant influence.	Our audit procedures to assess the fair value of the Group's interest in Dongfeng Logistics included the following: • assessing the design, implementation and operating effectiveness of key internal controls for the management's fair value assessment of financial instruments; • assessing the appropriateness of the accounting for the loss of significant influence in Dongfeng Logistics as at 31 December 2022 with reference to the requirements of the prevailing accounting standards; • assessing the competence, capabilities and objectivity of the external valuer; • involving our internal valuation specialists to perform our own valuation of the fair value of the Group's interest in Dongfeng Logistics and comparing our valuation with the Group's valuation. Our valuation specialists evaluated the methodology used by external valuation specialists with reference to the requirements of the prevailing accounting standards and obtained independent inputs in order to re-perform our own valuation; and

KEY AUDIT MATTERS (Continued)

Assessment of the fair value of interest investment in Dongfeng Logistics Group Co., Ltd. (Continued)	
Refer to note 17 to the consolidated financial statements on page 159 and the accounting policy on page 98.	
The Key Audit Matter	**How the matter was addressed in our audit**
The fair value of the Group's interest in Dongfeng Logistics was measured based on the market approach, of which the inputs used, including the price/sales ratio of the comparable listed companies and discounts for lack of marketability, are subject to a significant degree of judgement and could be subject to management bias. We identified the assessment of the fair value of the Group's interest in Dongfeng Logistics as a key audit matter because of the significance of the fair value and the remeasurement gain, and because of the significant degree of judgement exercised by management in determining the inputs to the valuation model.	• assessing the reasonableness of the disclosure of the Group's interest in Dongfeng Logistics in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the audit committee of the Company ("**Audit Committee**") in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminated threats or safeguards applied.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Kim Tak.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022 (Expressed in RMB'000)

	Note	For the year ended 31 December 2022 RMB'000	2021 RMB'000
Continuing operations			
Revenue	3	**22,606,790**	20,985,529
Cost of sales		**(21,019,912)**	(19,749,970)
Gross profit		**1,586,878**	1,235,559
Other income	4	**1,506,316**	556,634
Selling and distribution expenses		**(1,211,482)**	(1,281,469)
Administrative expenses		**(1,280,537)**	(1,151,222)
Reversal of impairment losses on intangible assets/(provision for impairment losses on goodwill and intangible assets)	14, 15	**232,426**	(316,617)
Profit/(loss) from operations		**833,601**	(957,115)
Finance costs	5(a)	**(1,006,998)**	(1,301,874)
Share of profit of associates		**43,055**	45,340
Loss before taxation	5	**(130,342)**	(2,213,649)
Income tax	6(a)	**(167,079)**	9,641
Loss for the year from continuing operations		**(297,421)**	(2,204,008)
Discontinued operations	31		
Loss for the year from discontinued operations, net of tax		**—**	(1,576,759)
Loss for the year		**(297,421)**	(3,780,767)
Loss for the year attributable to:			
Equity shareholders of the Company			
from continuing operations		**(296,285)**	(2,200,181)
from discontinued operations		**—**	(1,421,950)
		(296,285)	(3,622,131)
Loss for the year attributable to:			
Non-controlling interests			
from continuing operations		**(1,136)**	(3,827)
from discontinued operations		**—**	(154,809)
		(1,136)	(158,636)
Loss for the year		**(297,421)**	(3,780,767)
Basic and diluted loss per share	9		
from continuing operations (RMB cents)		**(10.9)**	(81.3)
from discontinued operations (RMB cents)		**—**	(52.5)
		(10.9)	(133.8)

The notes on pages 94 to 195 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022 (Expressed in RMB'000)

	Note	For the year ended 31 December 2022 RMB'000	2021 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		**(20,623)**	6,541
Other comprehensive income for the year		**(20,623)**	6,541
Total comprehensive income for the year		**(318,044)**	(3,774,226)
Attributable to:			
Equity shareholders of the Company			
— from continuing operations		**(316,908)**	(2,193,640)
— from discontinued operations		**—**	(1,421,950)
		(316,908)	(3,615,590)
Non-controlling interests			
— from continuing operations		**(1,136)**	(3,827)
— from discontinued operations		**—**	(154,809)
		(1,136)	(158,636)
Total comprehensive income for the year		**(318,044)**	(3,774,226)

The notes on pages 94 to 195 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022 (Expressed in RMB'000)

	Note	At 31 December 2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	11	**5,766,306**	5,688,860
Investment properties	12	**303,593**	115,631
Right-of-use assets	13	**2,606,585**	2,915,812
Intangible assets	14	**2,705,072**	2,631,734
Goodwill	15	**566,736**	566,736
Interest in associates	17	**15,341**	533,367
Deferred tax assets	29	**673,051**	616,626
Long-term receivables		**321,037**	270,075
Other financial assets	21	**944,947**	—
		13,902,668	13,338,841
Current assets			
Inventories	18	**4,064,270**	2,649,031
Trade and bills receivables	19	**907,442**	1,005,066
Prepayments, deposits and other receivables	20	**4,063,517**	4,294,473
Other financial assets	21	**103,561**	122,589
Pledged bank deposits	22	**3,957,215**	2,696,460
Time deposits		**—**	413,841
Cash and cash equivalents	23	**734,086**	208,771
Asset held for sale	31	**—**	1,400,714
		13,830,091	12,790,945
Current liabilities			
Loans and borrowings	24	**12,234,030**	14,776,527
Bonds payable	27	**—**	365,936
Lease liabilities	25	**363,493**	309,477
Trade and other payables	26	**5,827,775**	5,974,680
Income tax payables		**394,662**	414,378
Other financial liabilities	21	**91,516**	—
		18,911,476	21,840,998
Net current liabilities		**(5,081,385)**	(9,050,053)
Total assets less current liabilities		**8,821,283**	4,288,788

The notes on pages 94 to 195 form part of these financial statements.

At 31 December 2022 (Expressed in RMB'000)

	Note	At 31 December 2022 RMB'000	2021 RMB'000
Non-current liabilities			
Loans and borrowings	24	**6,439,857**	1,519,457
Lease liabilities	25	**981,073**	1,169,334
Deferred tax liabilities	29	**989,261**	839,606
Trade and other payables	26	**186,648**	219,770
		8,596,839	3,748,167
NET ASSETS		**224,444**	540,621
CAPITAL AND RESERVES	30		
Share capital		**235,203**	235,203
Reserves		**(41,814)**	273,227
Total equity attributable to equity shareholders of the Company		**193,389**	508,430
Non-controlling interests		**31,055**	32,191
TOTAL EQUITY		**224,444**	540,621

Approved and authorised for issue by the board of directors on 30 March 2023.

Wang Mingcheng
Chairman

Li Zhihuang
Director

The notes on pages 94 to 195 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022 (Expressed in RMB'000)

	Attributable to shareholders of the Company										
	Share capital RMB'000 (note 30(c))	Share premium RMB'000	Capital reserve RMB'000	PRC statutory reserve RMB'000 (note 30(d)(i))	Exchange reserve RMB'000 (note 30(d)(ii))	Discretionary surplus reserve RMB'000	General reserve RMB'000 (note 30(d)(iii))	(Accumulated losses)/ retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2021	231,265	6,327,409	624,471	797,228	(3,180)	4,459	156,047	(4,029,605)	4,108,094	1,204,806	5,312,900
Total comprehensive income for the year:											
Loss for the year	–	–	–	–	–	–	–	(3,622,131)	(3,622,131)	(158,636)	(3,780,767)
Other comprehensive income	–	–	–	–	6,541	–	–	–	6,541	–	6,541
Total comprehensive income for the year	–	–	–	–	6,541	–	–	(3,622,131)	(3,615,590)	(158,636)	(3,774,226)
Loss of control in a subsidiary	–	–	(315,517)	(63,716)	–	–	(156,047)	535,280	–	(1,013,979)	(1,013,979)
Issue of ordinary shares held as treasury shares for Share Award Scheme (note 30(a))	3,938	–	(3,938)	–	–	–	–	–	–	–	–
Equity settled share-based transactions	–	19,740	(3,814)	–	–	–	–	–	15,926	–	15,926
Appropriation to reserves	–	–	–	24,472	–	–	–	(24,472)	–	–	–
Balance at 31 December 2021, and 1 January 2022	235,203	6,347,149	301,202	757,984	3,361	4,459	–	(7,140,928)	508,430	32,191	540,621
Total comprehensive income for the year:											
Loss for the year	–	–	–	–	–	–	–	(296,285)	(296,285)	(1,136)	(297,421)
Other comprehensive income	–	–	–	–	(20,623)	–	–	–	(20,623)	–	(20,623)
Total comprehensive income for the year	–	–	–	–	(20,623)	–	–	(296,285)	(316,908)	(1,136)	(318,044)
Equity settled share-based transactions	–	6,922	(5,055)	–	–	–	–	–	1,867	–	1,867
Appropriation to reserves	–	–	–	44,840	–	–	–	(44,840)	–	–	–
Balance at 31 December 2022	**235,203**	**6,354,071**	**296,147**	**802,824**	**(17,262)**	**4,459**	**–**	**(7,482,053)**	**193,389**	**31,055**	**224,444**

The notes on pages 94 to 195 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2022 (Expressed in RMB'000)

	Note	For the year ended 31 December 2022 RMB'000	2021 RMB'000 (Note)
Operating activities:			
Cash generated from operations	23(b)	252,352	308,150
Income tax paid		(93,565)	(152,518)
Net cash generated from operating activities		158,787	155,632
Investing activities:			
Payment for purchase of property, plant and equipment		(868,895)	(638,429)
Proceeds from disposal of property, plant and equipment		301,314	509,119
Proceeds from redemption of financial assets	32	37,220	41,580
Payment for purchase of intangible assets		(1,911)	(3,537)
Proceeds from disposal of a former subsidiary	31	1,410,560	—
Dividend received from an associate		40,404	28,860
Loss of control in a subsidiary	31	—	(255,890)
Net cash used in business acquisition		(71,000)	(71,000)
Decrease in time deposits		413,841	29,339
Interest received	4	37,443	14,126
Net cash generated from/(used in) investing activities		1,298,976	(345,832)
Financing activities:			
Proceeds from loans and borrowings	23(c)	28,531,553	21,830,870
Repayment of loans and borrowings and bonds payable	23(c)	(26,919,435)	(19,397,617)
Capital element of lease rentals paid	23(c)	(305,467)	(475,903)
Interest element of lease rentals paid	23(c)	(90,556)	(91,083)
Interest paid	23(c)	(990,970)	(1,329,040)
Increase of pledged bank deposits	22	(1,467,633)	(627,681)
Proceeds of derivative financial instruments		306,133	—
Net cash used in financing activities		(936,375)	(90,454)
Net increase/(decrease) in cash and cash equivalents		521,388	(280,654)
Cash and cash equivalents at the beginning of the year		208,771	490,540
Effect of foreign exchange rate changes		3,927	(1,115)
Cash and cash equivalents at the end of the year	23	734,086	208,771

Note: Consolidated cash flow statement for the year ended 31 December 2021 include cash flows from both continuing and discontinued operations.

The notes on pages 94 to 195 form part of these financial statements.

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 and comprehensive properties business in the People's Republic of China (the "**PRC**").

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 2022 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 where otherwise stated.

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

— investments in equity securities (see note 2(g)); and

— derivative financial instruments (see note 2(h)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The Group incurred a net loss of RMB297 million for the year ended 31 December 2022 and had net current liabilities of RMB5,081 million as at 31 December 2022. The Group's liabilities included a sum of short-term and long-term loans and borrowings due to Xiamen ITG Holding Group Co., Ltd. ("**ITG Holding**") and its subsidiaries of RMB1,567 million and RMB3,195 million, respectively. Notwithstanding these conditions, the Company's consolidated financial statements for the year ended 31 December 2022 have been prepared on a going concern basis and the directors of the Company 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 Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these developments 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. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in subsidiaries is stated at cost less impairment losses (see note 2(m)).

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(m)(iii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate (after applying the ECL model to such other long-term interests where applicable (see note 2(m)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates (Continued)

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or Groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 32(e). These investments are subsequently accounted for as follows, depending on their classification.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other investments in debt and equity securities (Continued)

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(w)(ix)).

— fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

(h) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Investment properties

Investment properties are land and/or buildings which are owned to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are measured at cost less accumulated depreciation and impairment losses (see note 2(m)(iii)). Cost includes expenditure that is directly attributable to the acquisition of the investment property. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 30 to 40 years. Depreciation methods, useful lives and residual values are re-assessed at the end of each reporting period and adjusted if appropriate.

(j) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(m)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(z)).

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings situated on leasehold land	Over the shorter of the unexpired term of lease and their estimated useful lives, being 30–40 years after the date of completion
— Leasehold improvements	Over the shorter of the unexpired term of the lease and 5 years
— Plant and machinery	10 years
— Motor vehicles	5/10 years
— Office equipment and furniture	5 years

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Property, plant and equipment (Continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress is stated at cost less impairment losses (see note 2(m)). Cost comprises direct costs of construction during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets of their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

— Car dealership	40 years
— Dealership operation rights	10 years
— Favourable lease contracts	Over the unexpired term of lease, being 1–10 years
— Software	5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily property charges and office equipment. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(j) and 2(m)(iii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Leased assets (Continued)

(i) As a lessee (Continued)

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2(l)(i), then the Group classifies the sub-lease as an operating lease.

(m) Credit losses and impairment of assets

(i) Credit losses

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits, time deposits, trade and bills receivables, and deposits and other receivables and long-term receivables);

Other financial assets measured at fair value, including FVPL are not subject to the ECL assessment.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses (Continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and bills receivables, deposits and long-term receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

— receivables from financial lease: discount rate used in the measurement of the lease receivable;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables from contracts with customers within the scope of HKFRS 15 are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset has past due certain periods under different risk profiles. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor;

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group;

— significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost; and

— significant increases in credit risk on other financial instruments of the same debtor.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(i) Credit losses (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 2(w)(ix) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

— the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

— the disappearance of an active market for a security because of financial difficulties of the issuer; or

— the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off policy

The gross carrying amount of a financial asset or lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(ii) 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. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(m)(i) apply.

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.

(iii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- right-of-use assets;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets (Continued)

(iii) Impairment of other non-current assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest Group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iv) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value as follows:

— 4S dealership business

Cost is calculated on specific identification or weighted average basis as appropriate and comprises all costs of purchase after deducting rebates from suppliers and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

— Property development business

Cost and net realisable values are determined as follows:

— *Property under development for sale*

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of interests in leasehold land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 2(z)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

— *Completed property held for resale*

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

In the case of completed properties developed by the Group which comprise of multiple units which are sold individually, the cost of each unit is determined by apportionment of the total development costs for that development project to each unit on a per square foot basis, unless another basis is more representative of the cost of the specific unit. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

A right to recover returned goods is recognised for the right to recover products from customers sold with a right of return. It is measured in accordance with the policy set out in note 2(w)(i).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(w)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(p)).

(p) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

All receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(m)(i)).

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(m)(i).

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(s) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(z)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair values of the selected current employee services received in exchange for the grant of the restricted shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the granted share measured as of the grant date less the proceeds received from the employees, and records in the capital reserve until each unlocking date.

During the vesting period, the number of restricted shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of restricted share that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's share. The equity amount is recognised in the capital reserve until the restricted share is released (when it is included in the amount recognised in share capital for the share issued) or restricted share expires or is forfeited or cancelled (when it is released directly to retained earnings) after the end of vesting period.

Share-based payment transactions in which the Company grants share to its subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's statement of financial position which is eliminated on consolidation.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Provisions and contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of fulfilling the contract. The cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling that contract.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

The Group is the principal for its revenue transactions and recognises revenue on a gross basis, including the sale of motor vehicles that are sourced externally. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of motor vehicles

Revenue arising from the sale of motor vehicles is recognised upon delivery of motor vehicles when the customer takes possession of and accepts the motor vehicles. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) After-sales services — sales of motor spare parts

Revenue arising from the sale of motor spare parts is recognised when the customer takes possession of and accepts the spare parts.

(iii) After-sales services — maintenance services income

Revenue arising from maintenance services is recognised when the relevant service is rendered without further performance obligations.

(iv) Logistics services income and other related services income

Revenue arising from logistics services and other related services are recognised when the service is rendered to customers.

(v) Sales of lubricant oil

Revenue arising from the sales of lubricant oil is recognised when lubricant oil is delivered at the customers' premises.

(vi) Service income from financial services — consulting services

Revenue arising from consulting services is recognised when the customer has accepted the loan consulting services.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue and other income (Continued)

(vii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(viii) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(ix) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(m)(i)).

(x) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

In general, revenue from logistics services and other related services are recognised over-time upon fulfilment of services obligation, whereas revenue from sales of motor vehicles, motor spare parts, lubricant oil, and provision of maintenance and consulting services are recognised at a point in time.

(x) Vendor rebates

Incentive rebates provided by vendors are recognised to the extent that the Group estimates it is probable that the associated conditions will be met and the amount can be estimated reliably.

Incentive rebates relating to vehicles purchased and sold are deducted from cost of sales, while incentive rebates relating to vehicle purchased but still held as inventories at the reporting date are deducted from the carrying value of such vehicles so that the cost of inventories is recorded net of applicable rebates.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(aa) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Non-current assets held for sale (Continued)

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 policies set out elsewhere in note 2.

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 coordinated 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.

(bb) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group, or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(bb) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(cc) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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 and services income rendered to customers.

(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	
	2022	2021
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Continuing operations:		
Sales of passenger motor vehicles	**18,844,892**	16,988,912
Provision of after-sales services	**3,081,406**	3,104,557
Provision of logistics services	**472,588**	613,298
Sales of lubricant oil	**207,089**	269,766
	22,605,975	20,976,533
Discontinued operations:		
Service income from financial services	**—**	34,242
Revenue from other sources		
Continuing operations:		
Others	**815**	8,996
Discontinued operations:		
Interest income from financial services	**—**	247,827
	22,606,790	21,267,598
Revenue of continuing operations	**22,606,790**	20,985,529
Revenue of discontinued operations	**—**	282,069

(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

	Note	For the year ended 31 December 2022 RMB'000	2021 RMB'000
Continuing operations:			
Service income		633,895	389,932
Interest income from bank deposits		37,443	14,126
Net gain on disposal of property, plant and equipment		100,728	261,737
Remeasurement gain on FVPL related to Dongfeng Logistics	17	424,271	—
Realised/unrealised gain/(loss) of other financial instruments		242,654	(116,775)
Gross rentals from investment properties	12	15,787	2,958
Others		51,538	4,656
		1,506,316	556,634
Discontinued operations:			
Government grants		—	3
Others		—	2,080
		—	2,083
		1,506,316	558,717

5 LOSS BEFORE TAXATION

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

		Note	For the year ended 31 December 2022 RMB'000	2021 RMB'000
(a)	**Finance costs:**			
	Continuing operations:			
	Interest on loans and borrowings and bonds payable		957,414	1,254,898
	Interest on lease liabilities		90,556	89,807
	Finance costs for consideration of business combination	(i)	9,083	16,048
	Other finance costs	(ii)	22,852	23,717
	Less: Interest capitalised*		(72,907)	(82,596)
			1,006,998	1,301,874
	Discontinued operations:			
	Interest on lease liabilities		—	1,276
			1,006,998	1,303,150

* The borrowing costs have been capitalised at a rate of 5.7%–5.8% per annum (2021: 5.9%–7.4%).

5 LOSS BEFORE TAXATION (Continued)

		For the year ended 31 December	
	Note	**2022 RMB'000**	2021 RMB'000
(b) Staff costs:			
Continuing operations:			
Salaries, wages and other benefits		**924,812**	1,009,023
Contributions to defined contribution retirement plans	(iii)	**58,640**	56,251
Equity settled share-based transactions	28	**1,867**	15,926
		985,319	1,081,200
Discontinued operations:			
Salaries, wages and other benefits		**—**	57,215
Contributions to defined contribution retirement plans	(iii)	**—**	5,529
		—	62,744
		985,319	1,143,944

(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.

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

5 LOSS BEFORE TAXATION (Continued)

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
(c) Other items:		
Continuing operations:		
Cost of inventories (note 18(b))	**20,454,963**	19,070,743
Depreciation		
— owned property, plant and equipment	**306,469**	361,024
— Right-of-use assets	**342,546**	379,291
— Investment properties	**3,955**	571
Amortisation of intangible assets	**160,999**	161,114
Operating lease charges	**6,878**	8,069
Net foreign exchange loss/(gain)	**398,206**	(181,000)
(Reversal of)/provision for impairment losses on		
— Goodwill	**—**	127,055
— Intangible assets (note 14)	**(232,426)**	189,562
— Property, plant and equipment (note 11)	**(21,239)**	311,777
Auditors' remuneration	**9,800**	9,800
Discontinued operations:		
Cost of interests*	**—**	63,449
Operating lease charges	**—**	135
Net foreign exchange gain	**—**	(1,068)
Impairment losses		
— Receivables from financial services	**—**	887,854
Auditors' remuneration	**—**	3,600
Loss in relation to loss of control in a subsidiary	**—**	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	
	2022 **RMB'000**	2021 RMB'000
Current tax:		
Provision for income tax for the year	**73,849**	113,148
Deferred tax:		
Origination and reversal of temporary differences (note 29)	**93,230**	(122,789)
	167,079	(9,641)

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

	For the year ended 31 December	
	2022 **RMB'000**	2021 RMB'000
Loss before taxation	**(130,342)**	(2,213,649)
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**(32,586)**	(553,412)
Non-deductible expenses, net of non-taxable income	**185,961**	191,570
Unused tax losses not recognised	**24,468**	363,536
Share of profits recognised under the equity method	**(10,764)**	(11,335)
Income tax	**167,079**	(9,641)

6 INCOME TAX (Continued)

(b) Discontinued operations

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

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Current tax:		
Provision for income tax for the year	–	(52,481)
Over-provision in respect of prior years	–	(143)
	–	(52,624)
Deferred tax:		
Origination and reversal of temporary differences	–	(289,072)
	–	(341,696)

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

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Loss before taxation	–	(1,918,455)
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	–	(479,614)
Effect of tax rate differential	–	180,030
Tax effect of consolidation adjustments	–	(42,114)
Non-deductible expenses	–	145
Over-provision in respect of prior years	–	(143)
Income tax	–	(341,696)

(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.

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25% (2021: 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 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows :

Year ended 31 December 2022

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Share-based payments (viii) RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Chairman						
Wang Mingcheng (i)	—	880	—	—	38	918
Executive directors						
Li Zhihuang (iii)	—	—	—	—	—	—
Zeng Tingyi (iv)	—	—	—	—	—	—
Independent non-executive directors						
Wong Tin Yau, Kelvin	295	—	—	—	—	295
Cao Tong	264	—	—	—	—	264
Wong Tantan	295	—	—	—	—	295
	854	880	—	—	38	1,772

Year ended 31 December 2021

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Share-based payments (viii) RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Chairman						
Wang Mingcheng (i)	—	200	—	—	10	210
Wang Muqing(ii)	—	—	—	—	—	—
Executive directors						
Li Zhihuang (iii)	—	—	—	—	—	—
Zeng Tingyi (iv)	—	—	—	—	—	—
Wang Kunpeng (v)	—	288	432	2,236	21	2,977
Li Zhubo (vi)	—	288	432	2,032	33	2,785
Wan To (vii)	—	264	396	1,524	32	2,216
Independent non-executive directors						
Wong Tin Yau, Kelvin	270	—	—	—	—	270
Cao Tong	264	—	—	—	—	264
Wong Tantan	270	—	—	—	—	270
	804	1,040	1,260	5,792	96	8,992

7 DIRECTORS' REMUNERATION (Continued)

Notes:

(i) On 31 August 2021, Mr. Wang Mingcheng was nominated as chairman of the Company, effective from 9 September 2021.

(ii) On 31 August 2021, Mr. Wang Muqing resigned as chairman of the Company, effective from 9 September 2021.

(iii) On 31 August 2021, Mr Li Zhihuang was nominated as an executive director of the Company, effective from 17 September 2021.

(iv) On 31 August 2021, Mr Zeng Tingyi was nominated as an executive director of the Company, effective from 1 September 2021.

(v) On 31 August 2021, Mr. Wang Kunpeng resigned as an executive director of the Company, effective from 17 September 2021.

(vi) On 31 August 2021, Mr. Li Zhubo resigned as an executive director of the Company, effective from 1 September 2021.

(vii) On 31 August 2021, Mr. Wan To resigned as an executive director of the Company, effective from 1 September 2021.

(viii) It represents the fair value of restricted shares granted to the directors under the Company's employee restricted shares plan. The value of these restricted shares is measured according to the Company's accounting policies for share-based payment transactions as set out in note 2(t)(ii). Details are disclosed in note 28.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2021: three) is a director whose emolument is disclosed in note 7. The aggregate of the emoluments in respect of the other four (2021: two) individuals are as follows:

	At 31 December	
	2022 RMB'000	2021 RMB'000
Salaries and allowances	**3,741**	1,542
Discretionary bonuses	**—**	614
Retirement scheme contributions	**69**	12
	3,810	2,168

The emoluments of the four (2021: two) individuals with the highest emoluments are within the following bands:

	2022 Number of individuals	2021 Number of individuals
RMB		
Nil–1,000,000	**3**	—
1,000,001–1,500,000	**1**	2

9 LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2022 was based on the loss attributable to equity shareholders of the Company of RMB296,285,000 from continuing operations (2021: loss attributable to equity shareholders of the Company of RMB2,200,181,000 from continuing operations and loss attributable to equity shareholders of the Company of RMB1,421,950,000 from discontinued operations) and the weighted average number of ordinary shares in issue during the year ended 31 December 2022 of 2,720,254,036 (2021: 2,707,891,078), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2022	2021
Issued ordinary shares at 1 January	**2,716,922,420**	2,697,442,420
Effect of restricted shares vested to employees	**3,331,616**	10,448,658
Weighted average number of ordinary shares at 31 December	**2,720,254,036**	2,707,891,078

The potential ordinary shares in respect of vesting of restricted shares on 12 June 2022 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 loss per share are equal to basic loss per share.

10 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following four major operating segments:

(1) 4S dealership business

4S dealership business mainly includes sales of motor vehicles and after-sales services through the Group's network of 4S dealerships in the PRC.

(2) Supply chain business

Supply chain business mainly includes provision of motor-related logistics services and trading of lubricant oil.

(3) Comprehensive properties business

Comprehensive properties business mainly includes development and sales of properties in the PRC.

(4) Financial services business

Financial services business mainly includes providing financial services to auto customers and dealers, which is included in the discontinued operations.

10 SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

— Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

— The measure used for reporting segment profit is profit before taxation. To arrive at profit before taxation, the Group's earnings are adjusted for items not specifically attributed to individual segments, such as head office and corporate administration costs, other revenue, other net income and finance costs.

— Segment assets include all current and non-current assets with the exception of intangible assets, goodwill, deferred tax assets and unallocated head office assets. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities and unallocated head office liabilities.

— In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment sales), loans and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	Continuing operation		Continuing operation		Continuing operation		Discontinued operation			
	4S dealership business		Supply chain business		Comprehensive properties business		Financial services business		Total	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000	**2022 RMB'000**	2021 RMB'000	**2022 RMB'000**	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
Revenue from external customers	**21,927,113**	20,102,465	**679,677**	883,064	**–**	–	**–**	282,069	**22,606,790**	21,267,598
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	93,334	**–**	93,334
Reportable segment revenue	**21,927,113**	20,102,465	**679,677**	883,064	**–**	–	**–**	375,403	**22,606,790**	21,360,932
Reportable segment (loss)/profit	**(330,867)**	(1,279,182)	**29,999**	9,187	**–**	–	**–**	(2,320,319)	**(300,868)**	(3,590,314)
Reversal of/(provision for) impairment losses of intangible assets	**232,426**	(189,562)	**–**	–	**–**	–	**–**	–	**232,426**	(189,562)
Depreciation and amortisation for the year	**782,911**	873,744	**31,058**	28,256	**–**	–	**–**	–	**813,969**	902,000
Reportable segment assets	**15,497,623**	12,340,423	**592,869**	553,729	**682,187**	612,387	**–**	–	**16,772,769**	13,506,539
Additions to non-current segment assets during the year	**845,831**	1,024,934	**200,554**	67,819	**–**	–	**–**	–	**1,046,385**	1,092,753
Reportable segment liabilities	**(20,027,854)**	(17,049,212)	**(221,904)**	(244,397)	**(682,187)**	(612,387)	**–**	–	**(20,931,945)**	(17,905,996)
Investment in associates	**15,341**	16,131	**–**	517,236	**–**	–	**–**	–	**15,341**	533,367

10 SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Revenue:		
Reportable segment revenue	**22,606,790**	21,360,932
Elimination of inter-segment revenue	**—**	(93,334)
Consolidated revenue	**22,606,790**	21,267,598
Loss before taxation:		
Reportable segment loss	**(300,868)**	(3,590,314)
Elimination of inter-segment loss	**—**	385,310
Unallocated head office expenses	**(561,218)**	134,757
Other income	**1,485,077**	868,411
Finance costs	**(1,006,998)**	(1,301,874)
Impairment loss of goodwill	**—**	(127,055)
Reversal of/(provision for) impairment loss on fixed assets	**21,239**	(311,777)
Reversal of/(provision for) impairment loss on intangible assets	**232,426**	(189,562)
Consolidated loss before taxation	**(130,342)**	(4,132,104)

	At 31 December	
	2022	2021
	RMB'000	RMB'000
Assets:		
Reportable segment assets	**16,772,679**	13,506,539
Intangible assets	**2,705,072**	2,631,734
Goodwill	**566,736**	566,736
Deferred tax assets	**673,051**	616,626
Unallocated head office assets	**7,015,221**	8,808,151
Consolidated total assets	**27,732,759**	26,129,786
Liabilities:		
Reportable segment liabilities	**(20,931,945)**	(17,905,996)
Income tax payables	**(394,662)**	(414,378)
Deferred tax liabilities	**(989,261)**	(839,606)
Unallocated head office liabilities	**(5,192,447)**	(6,429,185)
Consolidated total liabilities	**(27,508,315)**	(25,589,165)

(c) Geographic information

As the Group solely operates in the PRC, no geographical segment information has been presented.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2021	4,697,991	93,838	600,673	363,764	397,190	1,799,393	7,952,849
Additions	—	—	111,326	348,580	6,427	195,014	661,347
Transfer among items under property, plant and equipment	116,949	210	—	—	—	(117,159)	—
Transfer to properties under development for sale (note 11(c))	—	—	—	—	—	(55,232)	(55,232)
Transfer to investment properties	(62,940)	—	—	—	—	(53,797)	(116,737)
Disposals	(84,453)	—	(99,730)	(226,510)	(40,584)	—	(451,277)
At 31 December 2021, and 1 January 2022	4,667,547	94,048	612,269	485,834	363,033	1,768,219	7,990,950
Additions	—	—	22,057	206,386	21,138	609,783	859,364
Transfer among items under property, plant and equipment	179,697	122	—	—	—	(179,819)	—
Transfer to properties under development for sale (note 11(c))	—	—	—	—	—	(69,046)	(69,046)
Transfer to investment properties	(216,986)	—	—	—	—	—	(216,986)
Transfer from investment properties	19,463	—	—	—	—	15,380	34,843
Disposals	(239,887)	—	(209,235)	(316,778)	(65,051)	—	(830,951)
At 31 December 2022	**4,409,834**	**94,170**	**425,091**	**375,442**	**319,120**	**2,144,517**	**7,768,174**
Accumulated depreciation:							
At 1 January 2021	741,960	86,587	321,652	161,914	306,710	—	1,618,823
Charge for the year	172,401	1,262	76,823	83,047	27,491	—	361,024
Transfer to investment properties	(21,267)	—	—	—	—	—	(21,267)
Written back on disposals	(19,934)	—	(35,977)	(64,267)	(22,448)	—	(142,626)
At 31 December 2021, and 1 January 2022	873,160	87,849	362,498	180,694	311,753	—	1,815,954
Charge for the year	136,311	863	45,824	98,087	25,384	—	306,469
Transfer to investment properties	(37,825)	—	—	—	—	—	(37,825)
Transfer from investment properties	11,453	—	—	—	—	—	11,453
Written back on disposals	(64,785)	—	(84,269)	(105,602)	(57,504)	—	(312,160)
At 31 December 2022	**918,314**	**88,712**	**324,053**	**173,179**	**279,633**	**—**	**1,783,891**
Accumulated impairment losses							
At 1 January 2021	235,628	—	—	—	—	—	235,628
Additions	311,777	—	—	—	—	—	311,777
Written back on disposals	(61,269)	—	—	—	—	—	(61,269)
At 31 December 2021, and 1 January 2022	486,136	—	—	—	—	—	486,136
Reversal of impairment losses (note 11(d))	(21,239)	—	—	—	—	—	(21,239)
Written back on disposals	(246,920)	—	—	—	—	—	(246,920)
At 31 December 2022	**217,977**	**—**	**—**	**—**	**—**	**—**	**217,977**
Net book value:							
At 31 December 2022	**3,273,543**	**5,458**	**101,038**	**202,263**	**39,487**	**2,144,517**	**5,766,306**
At 31 December 2021	3,308,251	6,199	249,771	305,140	51,280	1,768,219	5,688,860

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group's buildings are located in the PRC. The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB193,864,000 as at 31 December 2022 (2021: RMB201,898,000). Notwithstanding this, the directors of the Company are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2022.

(b) Property, plant and equipment with carrying amount of RMB730,344,000 (2021: RMB807,141,000) are pledged for bank loans (note 24) as at 31 December 2022.

(c) To fully utilise the potential value of the land use rights held by the Group's subsidiaries engaged in 4S dealership business, the Group commenced construction of comprehensive property projects since 2019. The Group obtained pre-sale permits for two service apartments projects in December 2019 and for one service apartments projects in May 2020. During the year ended 31 December 2022, construction in progress of RMB69,046,000 (2021: RMB55,232,000), related to such service apartments, were transferred to properties under development for sale.

(d) As disclosed in note 14, the management of the Group consider that there are indications that impairment loss recognised in prior periods for several 4S dealership stores, which were independent cash generating units (CGUs), may no longer exist or may have decreased. Therefore, management engaged an external valuer to assist with an impairment test to determine the recoverable amount of the aforementioned CGUs as at 30 June 2022, with the result of reversal of impairment loss of property, plant and equipment of RMB21,239,000 (31 December 2021: Nil).

For property, plant and equipment, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

12 INVESTMENT PROPERTIES

	2022 RMB'000
Cost:	
At 1 January 2021	—
Transfer out from property, plant and equipment and right-of-use assets	143,539
At 31 December 2021, and 1 January 2022	143,539
Transfer out from property, plant and equipment and right-of-use assets	267,406
Transfer out to property, plant and equipment and right-of-use assets	(42,682)
At 31 December 2022	368,263
Accumulated depreciation:	
At 1 January 2021	—
Charge for the year	571
Transfer out from property, plant and equipment and right-of-use assets	27,337
At 31 December 2021	27,908
Charge for the year	3,955
Transfer out from property, plant and equipment and right-of-use assets	48,245
Transfer out to property, plant and equipment and right-of-use assets	(15,438)
At 31 December 2022	64,670
Net book value:	
At 31 December 2022	303,593
At 31 December 2021	115,631

Investment properties comprise land use rights, buildings and construction in progress that are leased to third parties. The Group leases out investment properties under operating leases. The leases carry rentals determined based on the lease contract with third parties.

During the year ended 31 December 2022, rental income of RMB15,787,000 (2021 : RMB2,958,000) were recognised as "Other income" in the consolidated statement of profit or loss.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	At 31 December 2022 RMB'000	At 31 December 2021 RMB'000
Within 1 year	14,885	11,420
After 1 year but within 5 years	62,912	53,777
After 5 years	54,093	6,228
	131,890	71,425

13 RIGHT-OF-USE ASSETS

	Land use rights carried at cost (i) RMB'000	Properties and land leased for own use carried at cost (ii) RMB'000	Total RMB'000
Cost:			
At 1 January 2021	1,867,943	2,143,631	4,011,574
Additions	—	428,592	428,592
Disposals	(50,046)	(371,121)	(421,167)
Transfer to investment properties	(26,802)	—	(26,802)
At 31 December 2021, and 1 January 2022	1,791,095	2,201,102	3,992,197
Additions	—	185,110	185,110
Disposals	—	(195,786)	(195,786)
Transfer to investment properties	(50,420)	—	(50,420)
Transfer from investment properties	7,839	—	7,839
At 31 December 2022	1,748,514	2,190,426	3,938,940
Accumulated depreciation:			
At 1 January 2021	217,983	757,179	975,162
Charge for the year	41,106	338,185	379,291
Written back on disposals	(12,001)	(259,997)	(271,998)
Transfer to investment properties	(6,070)	—	(6,070)
At 31 December 2021, and 1 January 2022	241,018	835,367	1,076,385
Charge for the year	42,896	299,650	342,546
Written back on disposals	—	(80,141)	(80,141)
Transfer to investment properties	(10,420)	—	(10,420)
Transfer from investment properties	3,985	—	3,985
At 31 December 2022	277,479	1,054,876	1,332,355
Net book Value:			
At 31 December 2022	1,471,035	1,135,550	2,606,585
At 31 December 2021	1,550,077	1,365,735	2,915,812

13 RIGHT-OF-USE ASSETS (Continued)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

(a) Continuing operations

	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights(i)	42,896	41,106
Properties and land leased for own use (ii)	299,650	338,185
	342,546	379,291
Interest on lease liabilities (note 5(a))	90,556	89,807
Expense relating to short-term leases (note 5(c))	6,878	8,069
COVID-19-related rent concessions received in a form of a discount on fixed lease payments	(1,806)	(554)

(b) Discontinued operations

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities (note 5(a))	—	1,276
Expense relating to short-term leases (note 5(c))	—	135

During the year, additions to right-of-use assets were RMB185,110,000. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in note 23(d) and note 25, respectively.

(i) Land use rights

Land in respect of land use rights are all located in the PRC with a lease period of 23 to 50 years when granted.

Land use rights with net book value of RMB406,110,000 are pledged as security for bank loans (note 24) as at 31 December 2022 (2021: RMB829,558,000).

(ii) Properties and land leased for own use

The Group has obtained the right to use other properties and land through tenancy agreements. The leases typically run for an initial period of 2 to 20 years.

None of the leases include an option to renew the lease, or an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

14 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 2021	4,848,553	36,904	362,732	23,470	363	5,272,022
Additions	–	–	–	2,814	–	2,814
At 31 December 2021, and 1 January 2022	4,848,553	36,904	362,732	26,284	363	5,274,836
Additions	–	–	–	1,911	–	1,911
At 31 December 2022	**4,848,553**	**36,904**	**362,732**	**28,195**	**363**	**5,276,747**
Accumulated amortisation:						
At 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, and 1 January 2022	1,383,979	36,887	–	11,252	–	1,432,118
Additions	154,305	11	–	6,683	–	160,999
At 31 December 2022	**1,538,284**	**36,898**	**–**	**17,935**	**–**	**1,593,117**
Accumulated impairment losses						
At 1 January 2021	905,758	–	115,664	–	–	1,021,422
Additions	159,599	–	29,963	–	–	189,562
At 31 December 2021, and 1 January 2022	1,065,357	–	145,627	–	–	1,210,984
Reversal of impairment losses	(232,426)	–	–	–	–	(232,426)
At 31 December 2022	**832,931**	**–**	**145,627**	**–**	**–**	**978,558**
Net book Value:						
At 31 December 2022	**2,477,338**	**6**	**217,105**	**10,260**	**363**	**2,705,072**
At 31 December 2021	2,399,217	17	217,105	15,032	363	2,631,734

Impairment assessment of intangible assets— car dealerships and goodwill

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.

As disclosed in note 13 to the Company's annual financial statements for the year ended 31 December 2020, due to the operational disruption and the liquidity strain brought about by the COVID-19 at that time, certain automakers alleged that the Group had damaged their brands and threatened to terminate the dealership agreements with the Group. Certain major dealerships remained suspended as at 31 December 2020 and the management of the Group expected at the time that the related stores would only focus on after-sale services without any further revenue from the sales of motor vehicles.

14 INTANGIBLE ASSETS (Continued)

Impairment assessment of intangible assets— car dealerships and goodwill (Continued)

Since then the Group had been in active negotiation with the related automakers. In early 2021, some of these automakers agreed to offer short-term dealership agreements ranging from six months to a year, with more stringent performance targets taking into account the Group's operation and financial performance at that time for further observation. Those short-term dealership agreements for six months were extended for another six months in later 2021.

During the year ended 31 December 2022, the Group has seen continual improvement in the operating performance of its dealership stores. A specific automaker among those as mentioned above, which had previously threatened to terminate the dealership and offered short-term dealership agreements to the Group, has informed the Group with the decision to resume the Group's long-term dealership agreements, as the relevant performance targets set by the automaker in short-term dealership agreements have been met. Therefore, certain of the Group's dealership stores had regained the original long-term dealership agreements during the period and resumed normal sale operations, contributing to the increase in the amount of estimated future cash inflow.

As such, the management of the Group considers that there are indications that impairment loss recognised in prior periods for these 4S dealership stores that have resumed normal operations, which were independent CGUs, may no longer exist or may have decreased. The impairment losses of intangible assets — car dealership recognised for these resumed 4S dealership stores in prior years amounted to approximately RMB250 million, after which the remaining carrying amount of these intangible assets were RMB105 million as at 31 December 2021. The management engaged an external valuer to assist with the determination of the recoverable amount of the aforementioned CGUs, with the result of reversal of impairment losses of intangible assets — car dealerships of approximately RMB232 million during the year ended 31 December 2022 (2021: Nil).

For intangible assets — car dealerships, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

In addition, the external valuer assisted the management with an impairment test to determine the recoverable amount of the remaining CGUs containing intangible assets — car dealerships and/or goodwill other than the aforementioned CGUs as at 31 December 2022. No further impairment loss of intangible assets — car dealerships or goodwill was recognised with respect to these other CGUs (2021: impairment losses of RMB160 million and RMB127 million, respectively).

Impairment testing of intangible assets— car dealerships and goodwill

The recoverable amounts of CGUs have been determined based on the value-in-use calculations using 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% (2021: 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 12% to 15% (2021: from 13% to 14%).

14 INTANGIBLE ASSETS (Continued)

Key assumptions used in the value-in-use calculation for CGUs containing intangible assets — car dealerships and/or goodwill

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 2022 and 2021 are listed as follows:

As at 31 December 2022

Inputs	2023	2024	2025~2027
Annual Revenue Growth Rate	**3.0%~46.4%**	**3.0%~48.9%**	**3.0%~30.0%**
Gross Profit Margin	**5.1%~13.0%**	**5.2%~14.0%**	
Working Capital as a% of Revenue	**-11.4%~7.4%**	**-11.4%~14.2%**	

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%	

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 that have resumed normal operations for the year as mentioned above, a significant growth rate in estimated revenue for 2023 through 2027 was expected as explained below.

b) For the other dealership stores, the estimated revenue growth rates for 2023 through 2027 were consistent with the value-in-use calculations prepared by the management for the year ended 31 December 2021.

— Gross profit margin was mainly estimated based on the historical performance of each store (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 2022.

— 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.

14 INTANGIBLE ASSETS (Continued)

Key assumptions used in the value-in-use calculation for CGUs containing intangible assets — car dealerships and/or goodwill (Continued)

The pre-tax discount rate applied to the impairment test had been adjusted to a range from 12% to 15% (2021: 13% to14%) which reflected current market assessment of the time value of money and the risk specific to CGUs.

Among the key inputs and assumptions highlighted above, the main changes compared to 31 December 2021 related to the changes in estimates of revenue growth. As mentioned above, for those dealership stores that have resumed normal operations during the year ended 31 December 2022, a significant revision to the growth rate in the estimated revenue for 2023 through 2027 was expected from a relatively low base in 2021 due to the purchase quota limitation caused by the short-term dealership agreements; under the revised projection, the estimated revenue for the sales of passenger motor vehicles is expected to gradually return to a level comparable to the periods before COVID-19, and reflecting the extension of the duration of certain dealership agreements from short-term agreements to long-term agreements, and the effect of easement on the situation of insufficient supply by automakers. Such impacts were not fully reflected in the inputs and assumptions used in the assessment for the year ended 31 December 2021, as both the extension of dealership agreements and the easement on the situation of insufficient supply by automakers occurred in the year ended 31 December 2022 were non-adjusting subsequent events for the year ended 31 December 2021. There have been no changes in the valuation methods used compared with those adopted in the year ended 31 December 2021.

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.

Management engaged an external valuer to assist with an impairment assessment on the carrying amount of the trademark. No impairment of trademark was recognised for the year ended 31 December 2022 (2021: impairment loss of RMB29,963,000).

15 GOODWILL

	RMB'000
Cost:	
At 1 January 2021, 31 December 2021 and 31 December 2022	2,006,335
Accumulated impairment losses:	
At 1 January 2021	1,312,544
Impairment during the year ended 31 December 2021 (note 14)	127,055
At 31 December 2021, 1 January 2022 and 31 December 2022	**1,439,599**
Carrying amount:	
At 31 December 2022	**566,736**
At 31 December 2021	566,736

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

	At 31 December	
	2022	2021
	RMB'000	RMB'000
4S dealership business	**566,736**	566,736

16 INTEREST IN SUBSIDIARIES

As of 31 December 2022, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Continuing operations						
Big Glory International Limited (浩榮國際有限公司)	(iv)	British Virgin Islands ("**BVI**") 22 June 2006 Private limited company	US$100	100%	–	Investment holding
Top Globe Limited (同方有限公司)	(iv)	British Virgin Islands ("**BVI**") 27 August 2007 Private limited company	US$100	100%	–	Investment holding
Acme Joy Group Limited	(iv)	British Virgin Islands ("**BVI**") 28 April 2011 Limited liability company	US$50,000	–	100%	Investment holding
Chang Jun Limited (昌駿有限公司)	(iv)	British Virgin Islands ("**BVI**") 16 June 2011 Limited company	US$100	–	100%	Investment holding
Silver Journey Global Limited	(iv)	British Virgin Islands ("**BVI**") 6 July 2011 Limited liability company	US$50,000	–	100%	Investment holding

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hong Kong Nettime Investment Co., Ltd. (香港強時投資有限公司)	(iv)	British Virgin Islands ("**BVI**") 03 December 2018 Limited liability company	US$1	–	100%	Investment holding
Rising Wave Development Limited (升濤發展有限公司)	(iv)	Hong Kong 21 April 2006 Private limited company	HK$100	–	100%	Investment holding
Hong Kong Newspeed Technology Co., Ltd. (香港祥馳科技有限公司)	(iv)	Hong Kong 18 December 2018 Limited liability company	HK$1	–	100%	Investment holding
Wealth Fame Holdings Limited (佳名集團有限公司)	(iv)	Hong Kong 19 July 2007 Private limited company	HK$1	–	100%	Investment holding
Tongda Group (China) Co., Ltd. (通達集團(中國) 有限公司)	(iv)	Hong Kong 10 November 2008 Limited liability company	HK$10,000	–	100%	Investment holding
Wuhan Zhengtong United Industrial Investment Group Co., Ltd. (武漢正通聯合實業投資集團有限公司)		The PRC 22 November 2002 Limited liability company	RMB1,410,000,000	–	100%	Investment holding
Shanghai Shenxie Automobile Trading Co., Ltd. (上海紳協汽車貿易有限公司)		The PRC 21 April 1999 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Shanghai Yige Science & Technology Trading Co., Ltd. (上海繹格科工貿有限公司)	(ii)	The PRC 25 September 2002 Limited liability company	RMB15,000,000	–	50%	Distribution of lubricant oil
Hubei Dingjie Automobile Sales Services Co., Ltd. (湖北鼎杰汽車銷售服務有限公司)		The PRC 12 December 2002 Limited liability company	RMB55,000,000	–	100%	Automobile dealership
Inner Mongolia Dingjie Automobile Trading Co., Ltd. (內蒙古鼎杰汽車貿易有限公司)		The PRC 23 January 2003 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Hubei Bocheng Automobile Sales Services Co., Ltd. (湖北博誠汽車銷售服務有限公司)		The PRC 30 May 2003 Limited liability company	RMB20,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Wuhan Kaitai Automobile Sales Services Co., Ltd. (武漢開泰汽車銷售服務有限公司)		The PRC 20 October 2003 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Hubei Xinrui Automobile Sales Services Co., Ltd. (湖北欣瑞汽車銷售服務有限公司)		The PRC 18 March 2004 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Wuhan Baoze Automobile Sales Services Co., Ltd. (武漢寶澤汽車銷售服務有限公司)		The PRC 26 May 2004 Limited liability company	RMB70,000,000	–	100%	Automobile dealership
Inner Mongolia Dingze Automobile Sales Services Co., Ltd. (內蒙古鼎澤汽車銷售服務有限公司)		The PRC 27 October 2009 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Shantou Hongxiang Materials Co., Ltd. (汕頭市宏祥物資有限公司)		The PRC 12 July 2000 Limited liability company	RMB5,000,000	–	100%	Automobile dealership
Zhengzhou Dingwo Automobile Sales Services Co., Ltd. (鄭州鼎沃汽車銷售服務有限公司)		The PRC 3 June 2010 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
ZhengTong Automobile Investment Holding(Wuhan) Co., Ltd. (正通汽車投資控股(武漢) 有限公司)	(i)	The PRC 29 March 2011 Limited liability company	RMB600,000,000	–	100%	Investment holding
Chengdu Qibao Automobile Sales Services Co., Ltd. (成都祺寶汽車銷售服務有限公司)		The PRC 13 July 2011 Limited liability company	RMB210,000,000	–	100%	Automobile dealership
Qingyuan SCAS Hezhong Automobile Sales Services Co., Ltd. (清遠南方合眾汽車銷售服務有限公司)		The PRC 31 December 2009 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Goldrich Holdings Limited (啟富集團有限公司)		Hong Kong 16 January 2014 Private limited company	HK$1	–	100%	Investment holding

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Zhengtong Baozehang Automobile Sales Services Co., Ltd. (北京正通寶澤行汽車銷售有限公司)		The PRC 7 January 2014 Limited liability company	RMB80,000,000	—	100%	Automobile dealership
Wuhan Luze Automobile Sales Services Co., Ltd. (武漢路澤汽車銷售服務有限公司)		The PRC 6 January 2014 Limited liability company	RMB78,000,000	—	100%	Automobile dealership
Shenzhen Dingwo Automobile Sales Services Co., Ltd. (深圳鼎沃汽車銷售服務有限公司)		The PRC 3 September 2014 Limited liability company	RMB50,000,000	—	100%	Automobile dealership
Yiwu Xinhui Automobile Sales Service Co., Ltd (義烏市新徽汽車銷售服務有限公司)		The PRC 17 December 2015 Limited liability company	RMB60,000,000	—	100%	Automobile dealership
Shenzhen Chance Cloud Technology Co., Ltd. (深圳強時科技有限公司)		The PRC 11 February 2019 Limited liability company	RMB10,000,000	—	100%	Investment holding
Beijing Zhengtonglingze Automobile Sales Services Co., Ltd. (北京正通凌澤汽車銷售服務有限公司)		The PRC 08 August 2019 Limited liability company	RMB10,000,000	—	100%	Automobile dealership
Shanghai Qize Automobile Sales Services Co., Ltd. (上海旗澤汽車銷售服務有限公司)		The PRC 30 September 2017 Limited liability company	RMB20,000,000	—	100%	Automobile dealership
Jieyang Baotaihang Automobile Sales Services Co., Ltd. (揭陽寶泰行汽車銷售服務有限公司)		The PRC 20 September 2017 Limited liability company	RMB20,000,000	—	100%	Automobile dealership
Dalian Hengyuehang Automobile Sales Services Co., Ltd. (大連恒悅行汽車銷售服務有限公司)		The PRC 09 April 2018 Limited liability company	RMB50,000,000	—	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Foshan Baoyunhang Automobile Sales Services Co., Ltd. (佛山寶運行汽車銷售服務有限公司)		The PRC 20 September 2017 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Shiyan Shenxie Automobile Trading Co., Ltd. (十堰紳協汽車貿易有限公司)		The PRC 18 June 2004 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Shanghai Luda Automobile Sales Services Co., Ltd. (上海陸達汽車銷售服務有限公司)		The PRC 8 November 2004 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Changsha Ruibao Automobile Sales Services Co., Ltd. (長沙瑞寶汽車銷售服務有限公司)		The PRC 21 June 2005 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Hubei Jierui Automobile Sales Services Co., Ltd. (湖北捷瑞汽車銷售服務有限公司)		The PRC 24 June 2005 Limited liability company	RMB22,000,000	–	100%	Automobile dealership
Huhhot Qibao Automobile Sales Services Co., Ltd. (呼和浩特市祺寶汽車銷售服務有限公司)		The PRC 23 February 2006 Limited liability company	RMB18,000,000	–	100%	Automobile dealership
Yichang Baoze Automobile Sales Services Co., Ltd. (宜昌寶澤汽車銷售服務有限公司)		The PRC 13 June 2006 Limited liability company	RMB15,000,000	–	100%	Automobile dealership
Chenzhou Ruibao Automobile Sales Services Co., Ltd. (郴州瑞寶汽車銷售服務有限公司)		The PRC 6 September 2006 Limited liability company	RMB8,000,000	–	100%	Automobile dealership
Shanghai Shenxie Shentong Automobile Sales Services Co., Ltd. (上海紳協紳通汽車銷售服務有限公司)		The PRC 31 January 2007 Limited liability company	RMB15,000,000	–	100%	Automobile dealership
Nanchang Baoze Automobile Sales Services Co., Ltd. (南昌寶澤汽車銷售服務有限公司)		The PRC 2 June 2008 Limited liability company	RMB29,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhuhai Baoze Automobile Sales Services Co., Ltd. (珠海寶澤汽車銷售服務有限公司)		The PRC 27 June 2008 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Shanghai Aohui Automobile Sales Services Co., Ltd. (上海奧匯汽車銷售服務有限公司)		The PRC 4 December 2008 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Guangzhou Baoze Automobile Sales Services Co., Ltd. (廣州寶澤汽車銷售服務有限公司)		The PRC 20 April 2009 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Dongguan Jieyunhang Automobile Sales Services Co., Ltd. (東莞捷運行汽車銷售服務有限公司)		The PRC 6 July 2009 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Baotou Baoze Automobile Sales Services Co., Ltd. (包頭市寶澤汽車銷售服務有限公司)		The PRC 6 August 2009 Limited liability company	RMB26,000,000	–	100%	Automobile dealership
Beijing Baozehang Automobile Sales Services Co., Ltd. (北京寶澤行汽車銷售服務有限公司)		The PRC 16 October 2009 Limited liability company	RMB90,000,000	–	100%	Automobile dealership
Shangrao Baoze Automobile Sales Services Co., Ltd. (上饒市寶澤汽車銷售服務有限公司)		The PRC 2 November 2010 Limited liability company	RMB36,000,000	–	100%	Automobile dealership
Ganzhou Baoze Automobile Sales Services Co., Ltd. (贛州寶澤汽車銷售服務有限公司)		The PRC 3 December 2010 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Xiangyang Baoze Automobile Sales Services Co., Ltd. (襄陽寶澤汽車銷售服務有限公司)		The PRC 1 November 2010 Limited liability company	RMB10,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xiangtan Baoze Automobile Sales Services Co., Ltd. (湘潭寶澤汽車銷售服務有限公司)		The PRC 9 November 2010 Limited liability company	RMB14,000,000	–	100%	Automobile dealership
Wuhan Shengtong Investment Management Co., Ltd. (武漢升通投資管理有限公司)		The PRC 22 April 2011 Limited liability company	RMB10,000,000	–	100%	Investment holding
Baotou Luze Automobile Sales Services Co., Ltd. (包頭市路澤汽車銷售服務有限公司)		The PRC 4 May 2011 Limited liability company	RMB33,000,000	–	100%	Automobile dealership
Ganzhou Yizezhiye Co., Ltd. (贛州益澤置業有限公司)		The PRC 19 November 2010 Limited liability company	RMB10,000,000	–	100%	Real estate development
Xiangtan Yizezhiye Co., Ltd. (湘潭益澤置業有限公司)		The PRC 18 November 2010 Limited liability company	RMB10,000,000	–	100%	Real estate development
Shangrao Yizezhiye Co., Ltd. (上饒市益澤置業有限公司)		The PRC 18 November 2010 Limited liability company	RMB10,000,000	–	100%	Real estate development
Hubei Aoze Automobile Sales Services Co., Ltd. (湖北奧澤汽車銷售服務有限公司)		The PRC 25 May 2011 Limited liability company	RMB60,000,000	–	100%	Automobile dealership
Lhasa Jinsheng Automobile Trading Co., Ltd. (拉薩金勝汽貿有限公司)		The PRC 13 April 2011 Limited liability company	RMB20,000,000	–	100%	Automobile parts sales
Qingdao Huacheng Automobile Services Co., Ltd. (青島華成汽車服務有限公司)		The PRC 8 March 2001 Limited liability company	RMB8,800,000	–	100%	Automobile dealership
Shantou Lujie Automobile Sales Services Co., Ltd. (汕頭市路杰汽車銷售服務有限公司)		The PRC 2 September 2011 Limited liability company	RMB46,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lhasa Hongjin Automobile Sales Co., Ltd. (拉薩弘進汽貿有限公司)		The PRC 12 April 2011 Limited liability company	RMB15,000,000	–	100%	Automobile parts sales
Henan Jintangsheng Automobile Co., Ltd. (河南省錦堂盛汽車有限公司)		The PRC 7 May 2008 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Guangzhou Baotaihang Automobile Sales Services Co., Ltd. (廣州寶泰行汽車銷售服務有限公司)		The PRC 18 December 2017 Limited liability company	RMB90,000,000	–	100%	Automobile dealership
Foshan Dingbaohang Automobile Sales Services Co., Ltd. (佛山鼎寶行汽車銷售服務有限公司)		The PRC 19 September 2017 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Shenzhen Huashunbao Automobile Sales Services Co., Ltd. (深圳華順寶汽車銷售服務有限公司)		The PRC 14 September 2017 Limited liability company	RMB60,000,000	–	100%	Automobile dealership
Shenzhen Huashunbao Automobile Services Co., Ltd. (深圳華順寶汽車服務有限公司)		The PRC 15 September 2017 Limited liability company	RMB40,000,000	–	100%	Automobile dealership
Foshan Zheng Tong Zhong Rui Automobile Sales Services Co., Ltd. (佛山正通眾銳汽車銷售服務有限公司)		The PRC 18 April 2011 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Baotou Zhongrui Automobile Sales Service Co., Ltd. (包頭眾銳汽車銷售服務有限公司)		The PRC 21 September 2010 Limited liability company	RMB55,000,000	–	100%	Automobile dealership
ZhengTong Automobile Services Co., Ltd. (正通汽車服務有限公司)		The PRC 1 September 2011 Limited liability company	RMB50,000,000	–	100%	Automobile parts sales

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangxi Deao Automobile Sales Services Co., Ltd. (江西德奧汽車銷售服務有限公司)		The PRC 17 September 2002 Limited liability company	RMB5,000,000	–	100%	Automobile dealership
Huhhot Jieyun Automobile Sales Services Co., Ltd. (呼和浩特市捷運行汽車銷售服務有限公司)		The PRC 29 December 2011 Limited liability company	RMB90,000,000	–	100%	Automobile dealership
Jieyang Dingjie Automobile Sales Services Co., Ltd. (揭陽鼎杰汽車銷售服務有限公司)		The PRC 19 July 2011 Limited liability company	RMB31,000,000	–	100%	Automobile dealership
Shenzhen Roadmate Technology Co., Ltd. (深圳路美特科技有限公司)	(iii)	The PRC 15 March 2004 Limited liability company	US$2,100,000	–	100%	Investment holding
Shenzhen SCAS Investment Group Co., Ltd. (深圳市中汽南方投資集團有限公司)		The PRC 21 May 2001 Limited liability company	RMB50,000,000	–	100%	Investment holding
Shenzhen Yama Automobile Trading Co., Ltd. (深圳野馬汽車貿易有限公司)		The PRC 15 June 1993 Limited liability company	RMB15,000,000	–	100%	Investment holding
Shenzhen SCAS Electric Machinery Co., Ltd. (深圳市中汽南方機電設備有限公司)		The PRC 25 November 1996 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Shenzhen SCAS Automobile Maintenance Co., Ltd. (深圳市中汽南方汽車維修有限公司)		The PRC 14 August 2000 Limited liability company	RMB5,000,000	–	100%	Provision of Automobile Maintenance services
Guangdong SCAS Automobile Sales Services Co., Ltd. (廣東中汽南方汽車銷售服務有限公司)		The PRC 21 July 2004 Limited liability company	RMB20,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Dongguan SCAS Automobile Sales Services Co., Ltd. (東莞中汽南方汽車銷售服務有限公司)		The PRC 30 July 2004 Limited liability company	RMB5,000,000	–	100%	Automobile dealership
Zhongshan SCAS Automobile Sales Services Co., Ltd. (中山中汽南方汽車銷售服務有限公司)		The PRC 29 April 2011 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Zhuhai SCAS Automobile Sales Services Co., Ltd. (珠海中汽南方汽車銷售服務有限公司)		The PRC 10 March 2005 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Dalian Jieyuehang Real Estate Development Co., Ltd. (大連捷悅行房地產開發有限公司)		The PRC 28 March 2018 Limited liability company	RMB100,000,000	–	100%	Property management
Xiamen ZhengTong Automobile Group Co., Ltd. (廈門正通汽車集團有限公司)		The PRC 01 April 2022 Limited liability company	RMB200,000,000	–	100%	Automobile dealership
Chengdu Hengyuehang Automobile Sales Service Co., Ltd. (成都恒悦行汽車銷售服務有限公司)		The PRC 26 December 2017 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Shenzhen Baotaihang Automobile Sales Services Co., Ltd. (深圳寶泰行汽車銷售服務有限公司)		The PRC 15 September 2017 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Hunan SCAS Automobile Sales Services Co., Ltd. (湖南中汽南方汽車銷售服務有限公司)		The PRC 26 May 2005 Limited liability company	RMB10,000,000	–	90%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hainan SCAS Automobile Sales Services Co., Ltd. (海南中汽南方汽車銷售服務有限公司)		The PRC 23 May 2008 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Fujian SCAS Automobile Sales Services Co., Ltd. (福建中汽南方汽車銷售服務有限公司)		The PRC 29 April 2005 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Beijing SCAS North China Automobile Services Co., Ltd. (北京中汽南方華北汽車服務有限公司)		The PRC 2 July 2001 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Beijing BWWR Automobile Sales Services Co., Ltd. (北京百旺沃瑞汽車銷售服務有限公司)		The PRC 27 March 2008 Limited liability company	RMB15,000,000	–	100%	Automobile dealership
Beijing Dewanlong Trading Co., Ltd. (北京德萬隆經貿有限公司)		The PRC 9 September 1999 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Beijing SCAS Zhongguan Automobile Sales Co., Ltd. (北京中汽南方中關汽車銷售有限公司)		The PRC 19 March 2010 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Tianjin SCAS Automobile Sales Services Co., Ltd. (天津中汽南方汽車銷售服務有限公司)		The PRC 21 May 2004 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Tianjin Automobile Industry SCAS Sales Co., Ltd. (天津汽車工業銷售深圳南方有限公司)		The PRC 28 November 1995 Limited liability company	RMB20,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen SCAS Tengxing Automobile Sales Services Co., Ltd. (深圳市南方騰星汽車銷售服務有限公司)		The PRC 15 May 2006 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Shenzhen SCAS Infiniti Automobile Sales Services Co., Ltd. (深圳市南方英菲尼迪汽車銷售服務有限公司)		The PRC 19 October 2006 Limited liability company	RMB40,000,000	–	100%	Automobile dealership
Shenzhen SCAS Changfu Automobile Sales Co., Ltd. (深圳市中汽南方長福汽車銷售有限公司)		The PRC 10 December 2004 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tengtian Automobile Sales Services Co., Ltd. (深圳市南方騰田汽車銷售服務有限公司)		The PRC 24 March 2006 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Shenzhen SCAS Tenglong Automobile Sales Services Co., Ltd. (深圳市南方騰龍汽車銷售服務有限公司)		The PRC 5 December 2005 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Shenzhen SCAS Toyota Automobile Sales Services Co., Ltd. (深圳南方豐田汽車銷售服務有限公司)		The PRC 9 April 2002 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Shenzhen Qianhaichichang International Trading Co., Ltd. (深圳前海馳暢國際貿易有限公司)		The PRC 09 May 2018 Limited liability company	RMB100,000,000	–	100%	Automobile parts sales
Qingyuan SCAS Toyota Automobile Sales Services Co., Ltd. (清遠南方豐田汽車銷售服務有限公司)		The PRC 17 October 2008 Limited liability company	RMB10,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Baotou Lizhongyou Materials Co., Ltd. (包頭市利中友物資有限公司)		The PRC 6 November 2003 Limited liability company	RMB1,000,000	–	100%	Automobile parts sales
Changchun Shengze Jietong Transportation Co., Ltd. (長春聖澤捷通物流有限公司)		The PRC 24 October 2008 Limited liability company	RM30,000,000	–	100%	Provision of auto-mobile related logistic services
Wuhan Yuntong Investment Management Co., Ltd. (武漢運通行投資管理有限公司)		The PRC 1 March 2012 Limited liability company	RMB10,000,000	–	100%	Investment holding
Dongguan Liaobu SCAS Automobile Sales Services Co., Ltd. (東莞寮步中汽南方汽車銷售服務有限公司)		The PRC 15 May 2012 Limited liability company	RMB15,000,000	–	100%	Automobile dealership
Guangdong SCAS Shengwo Automobile Sales Services Co., Ltd. (廣東中汽南方勝沃汽車銷售服務有限公司)		The PRC 11 June 2012 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Wuhan Baozehang Automobile Maintenance Co., Ltd. (武漢寶澤行汽車維修服務有限公司)		The PRC 12 June 2012 Limited liability company	RMB20,000,000	–	100%	Provision of Automobile Maintenance Services
Jingdezhen Shengtong Trading Co., Ltd. (景德鎮升通貿易有限公司)		The PRC 20 June 2012 Limited liability company	RMB10,000,000	–	100%	Automobile parts sales
Zhuhai SCAS Jielu Automobile Sales Services Co., Ltd. (珠海中汽南方捷路汽車銷售服務有限公司)		The PRC 21 June 2012 Limited liability company	RMB10,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hunan SCAS Xingsha Automobile Sales Services Co., Ltd. (湖南中汽南方星沙汽車銷售服務有限公司)		The PRC 27 June 2012 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Dongguan Zhengtong Kaidi Automobile Sales Services Co., Ltd. (東莞正通凱迪汽車銷售服務有限公司)		The PRC 29 October 2012 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Jiangxi Zhengtong Zetian Automobile Sales Services Co., Ltd. (江西正通澤田汽車銷售服務有限公司)		The PRC 19 November 2012 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Shanghai Qibao Automobile Sales Services Co., Ltd. (上海祺寶汽車銷售服務有限公司)		The PRC 6 June 2013 Limited liability company	RMB47,000,000	–	100%	Automobile dealership
Zhanjiang Zhengtong Kaidi Automobile Sales Services Co., Ltd. (湛江正通凱迪汽車銷售服務有限公司)		The PRC 15 April 2013 Limited liability company	RMB40,000,000	–	100%	Automobile dealership
Shenzhen Zhengyuan Automobile Technology Co., Ltd. (深圳正源汽車科技有限公司)		The PRC 25 December 2017 Limited liability company	RMB500,000,000	80%	–	Financial services
Shenzhen Chixing Automobile Sales Services Co., Ltd. (深圳馳星汽車銷售服務有限公司)		The PRC 07 November 2018 Limited liability company	RMB15,000,000	–	100%	Automobile dealership
Wuhan Zhengtong Yuechi Automobile Sales Services Co., Ltd. (武漢正通悅馳汽車銷售服務有限公司)		The PRC 14 May 2013 Limited liability company	RMB40,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Shantou Baoze Automobile Sales Services Co., Ltd. (汕頭市寶澤汽車銷售服務有限公司)		The PRC 2 September 2013 Limited liability company	RMB40,000,000	–	100%	Automobile dealership
Jingmen Baoze Automobile Sales Services Co., Ltd. (荊門寶澤汽車銷售服務有限公司)		The PRC 11 October 2013 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Weihai Luze Automobile Sales Services Co., Ltd. (威海路澤汽車銷售服務有限公司)		The PRC 31 October 2013 Limited liability company	RMB40,000,000	–	100%	Automobile dealership
Baotou Baozehang Automobile Maintenance Services Co., Ltd. (包頭寶澤行汽車維修服務有限公司)		The PRC 18 December 2013 Limited liability company	RMB40,000,000	–	100%	Provision of Automobile Maintenance Services
Shantoushi Luze Automobile Sales Services Co., Ltd. (汕頭市路澤汽車銷售服務有限公司)		The PRC 20 November 2013 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Shenzhenshi Qianhaizhengtong Logistic Equipment Services Co., Ltd. (深圳市前海正通物流設備服務有限責任公司)	(i)	The PRC 24 May 2013 Limited liability company	US$5,000,000	–	100%	Provision of auto-mobile related logistic services
Changsha Ruize Real Estate Development Co., Ltd. (長沙瑞澤房地產開發有限公司)		The PRC 4 March 2013 Limited liability company	RMB20,000,000	–	100%	Property management
Shantoushi Ruize Real Estate Development Co., Ltd. (汕頭市瑞澤房地產開發有限公司)		The PRC 14 August 2013 Limited liability company	RMB160,000,000	–	100%	Property management
Dingze Insurance Agency Co., Ltd. (鼎澤保險代理有限公司)		The PRC 16 September 2013 Limited liability company	RMB50,000,000	–	100%	Insurance agency services

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Wuhan Jiewo Advisory Services Limited (武漢捷沃諮詢服務有限公司)		The PRC 6 August 2013 Limited liability company	RMB1,000,000	–	100%	Consulting services
Sky Wonder Limited (天悅有限公司)		Hong Kong 14 March 2014 Private limited company	HK$1	–	100%	Investment holding
Shenzhenshi Zhuoruixiang Information Advisory Co., Ltd. (深圳市卓瑞翔信息諮詢有限公司)		The PRC 31 December 2013 Limited liability company	RMB32,000,000	–	100%	Consulting services
ChengTong Developments Limited (成通發展有限公司)		British Virgin Islands BVI") 1 April 2014 Limited company	US$1	–	100%	Investment holding
Landtime International Limited (裕泰國際有限公司)		Hong Kong 7 April 2014 Private limited company	US$1	–	100%	Investment holding
Wuhan Jieyuehang Supply Chain Co., Ltd. (武漢捷悅行供應鏈有限公司)		The PRC 17 July 2017 Limited liability company	RMB60,000,000	–	100%	Provision of auto-mobile related logistic services
Shanghai Taishijie Automobile Sales Services Co., Ltd. (上海泰士杰汽車銷售有限公司)		The PRC 23 February 2004 Limited liability company	RMB48,800,000	–	100%	Automobile dealership
Yiwu Dongtai Health Food Co., Ltd. (義烏市東太保健食品有限公司)		The PRC 19 June 2003 Limited liability company	RMB5,000,000	–	100%	Automobile trading agency
Shangraoshi Luze Automobile Sales Services Co., Ltd. (上饒市路澤汽車銷售服務有限公司)		The PRC 17 February 2014 Limited liability company	RMB41,000,000	–	100%	Automobile dealership
Langfangshi Luze Automobile Sales Services Co., Ltd. (廊坊市路澤汽車銷售服務有限公司)		The PRC 23 May 2014 Limited liability company	RMB55,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Yichun Baoze Automobile Sales Services Co., Ltd. (宜春寶澤汽車銷售服務有限公司)		The PRC 6 March 2014 Limited liability company	RMB40,000,000	–	100%	Automobile dealership
Qingdao Aoze Automobile Sales Services Co., Ltd. (青島奧澤汽車銷售服務有限公司)		The PRC 9 May 2014 Limited liability company	RMB70,000,000	–	100%	Automobile dealership
Shengzhou Aoze Automobile Sales Services Co., Ltd. (嵊州奧澤汽車銷售服務有限公司)		The PRC 30 May 2014 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Dongguan Zhengtong Kaize Automobile Sales Services Co., Ltd. (東莞正通凱澤汽車銷售服務有限公司)		The PRC 17 February 2014 Limited liability company	RMB5,000,000	–	100%	Automobile dealership
Shanghai Chichang Trading Co., Ltd. (上海馳暢貿易有限公司)	(i)	The PRC 24 July 2014 Limited liability company	RMB100,000,000	–	100%	Automobile parts sales
Beijing Zhengtong Baoze Automobile Sales Services Co., Ltd. (北京正通寶澤汽車銷售服務有限公司)		The PRC 14 July 2014 Limited liability company	RMB50,000,000	–	100%	Provision of Automobile Maintenance Services
Shenzhen Aoze Automobile Sales Services Co., Ltd. (深圳奧澤汽車銷售服務有限公司)		The PRC 2 July 2014 Limited liability company	RMB60,000,000	–	100%	Automobile dealership
Dongguan Aoze Automobile Sales Services Co., Ltd. (東莞奧澤汽車銷售服務有限公司)		The PRC 21 July 2014 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Foshan Aoze Automobile Sales Services Co., Ltd. (佛山奧澤汽車銷售服務有限公司)		The PRC 5 September 2014 Limited liability company	RMB50,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhengzhou Aoze Automobile Sales Services Co., Ltd. (鄭州奧澤汽車銷售服務有限公司)		The PRC 25 July 2014 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Baoding Aoze Automobile Sales Services Co., Ltd. (保定奧澤汽車銷售服務有限公司)		The PRC 18 September 2014 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Fuzhou Dingwo Automobile Sales Services Co., Ltd. (福州鼎沃汽車銷售服務有限公司)		The PRC 19 August 2014 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Chengdu Dingbaohang Second Hand Automobile Sales Services Co., Ltd. (成都鼎寶行二手車銷售服務有限公司)		The PRC 12 June 2016 Limited liability company	RMB10,000,000	–	100%	Automobile trading agency
Yongkang Guobang Automobile Sales Co., Ltd. (永康市國邦汽車銷售有限公司)		The PRC 8 August 2012 Limited liability company	RMB80,000,000	–	100%	Automobile dealership
Jieyang Luze Automobile Sales Services Co., Ltd. (揭陽路澤汽車銷售服務有限公司)		The PRC 14 August 2014 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Shenzhen Luze Automobile Sales Services Co., Ltd. (深圳路澤汽車銷售服務有限公司)		The PRC 15 August 2014 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Yichang Baozehang Automobile Sales Services Co., Ltd. (宜昌寶澤行汽車銷售服務有限公司)		The PRC 22 August 2014 Limited liability company	RMB70,000,000	–	100%	Automobile dealership
Shenzhenshi SCAS Huawo Automobile Sales Services Co., Ltd. (深圳市中汽南方華沃汽車銷售服務有限公司)		The PRC 11 June 2014 Limited liability company	RMB50,000,000	–	100%	Automobile dealership

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen Hengyiyingtong Investment Management Co., Ltd. (深圳恒毅盈通投資管理有限公司)		The PRC 3 April 2014 Limited liability company	RMB100,000,000	–	100%	Investment holding
Shenzhenshi Huianqi Investment Advisory Co., Ltd. (深圳市匯安啟投資諮詢有限公司)		The PRC 13 May 2014 Limited liability company	HK$500,000	–	100%	Consulting services
Shenzhen Baoze Automobile Sales Services Co., Ltd. (深圳寶澤汽車銷售服務有限公司)		The PRC 31 March 2015 Limited liability company	RMB44,000,000	–	100%	Automobile dealership
Beijing Zhengtong Dingwo Automobile Sales Services Co., Ltd. (北京正通鼎沃汽車銷售服務有限公司)		The PRC 30 January 2015 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Hengyang Luze Automobile Sales Services Co., Ltd. (衡陽路澤汽車銷售服務有限公司)		The PRC 2 July 2014 Limited liability company	RMB50,000,000	–	100%	Automobile dealership
Huhhot Yingfei Automobile Sales Services Co., Ltd. (呼和浩特市英菲汽車銷售服務有限公司)		The PRC 27 May 2015 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Beijing Hengyiyingtong Advertising Media Co., Ltd. (北京恒毅盈通廣告傳媒有限公司)		The PRC 21 May 2015 Limited liability company	RMB5,000,000	–	100%	Consulting services
Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. (上海正通鼎澤融資租賃有限公司)		The PRC 29 July 2014 Limited liability company	US$100,000,000	–	100%	Financial services
Shengze Jietong Supply Chain Co., Ltd. (聖澤捷通供應鏈有限公司)		The PRC 15 January 2016 Limited liability company	RMB200,000,000	–	100%	Provision of auto- mobile related logistic services

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tianjin Chichang International Trading Co., Ltd. (天津馳暢國際貿易有限公司)		The PRC 11 June 2015 Limited liability company	RMB100,000,000	–	100%	Automobile parts sales
Yunnan Chixing Automobile Sales Services Co., Ltd. (雲南馳星汽車銷售服務有限公司)		The PRC 25 May 2016 Limited liability company	RMB200,000,000	–	100%	Automobile dealership
Hubei Changze Automobile Sales Services Co., Ltd. (湖北長澤汽車銷售服務有限公司)		The PRC 20 September 2017 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Beijing Zhengtong Tengxing Automobile Sales Services Co., Ltd. (北京正通騰星汽車銷售服務有限公司)		The PRC 12 December 2016 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Beijing Baoze Exhibition Co., Ltd. (北京寶澤會展有限公司)		The PRC 16 March 2016 Limited liability company	RMB10,000,000	–	100%	Consulting services
Suzhou Anzhixing Automobile Sales Services Co., Ltd. (宿州安之星汽車銷售服務有限公司)		The PRC 16 July 2014 Limited liability company	RMB20,000,000	–	100%	Automobile dealership
Guangzhoushi Hengyuehang Automobile Sales Services Co., Ltd. (廣州市恒悦行汽車銷售服務有限公司)		The PRC 21 June 2016 Limited liability company	RMB100,000,000	–	100%	Automobile dealership
Qingyuan Aoze Automobile Sales Services Co., Ltd. (清遠奥澤汽車銷售服務有限公司)		The PRC 10 August 2016 Limited liability company	RMB30,000,000	–	100%	Automobile dealership
Shenzhen Hengshuo Advisory Services Co., Ltd. (深圳恒爍諮詢服務有限公司)		The PRC 17 August 2016 Limited liability company	RMB1,000,000	–	100%	Consulting services

16 INTEREST IN SUBSIDIARIES (Continued)

Name of company	Note	Place and date of incorporation/establishment	Registered/issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Foshan Tengxing Automobile Sales Services Co., Ltd. (佛山騰星汽車銷售服務有限公司)		The PRC 17 August 2016 Limited liability company	RMB40,000,000	–	100%	Automobile dealership
Shantou Hengshuo Services Co., Ltd. (汕頭市恒爍商務諮詢服務有限公司)		The PRC 7 September 2016 Limited liability company	RMB1,000,000	–	100%	Consulting services
Nanjing Qi'ao Automobile Sales Services Co., Ltd. (南京祺奧汽車銷售服務有限公司)		The PRC 3 May 2017 Limited liability company	RMB10,000,000	–	100%	Automobile dealership
Zhuhai Zhengtong Tengxing Automobile Sales Services Co., Ltd. (珠海正通騰星汽車銷售服務有限公司)		The PRC 6 March 2017 Limited liability company	RMB70,000,000	–	100%	Automobile dealership
Chongqing Qibao Automobile Sales Services Co., Ltd. (重慶祺寶汽車銷售服務有限公司)		The PRC 14 June 2016 Limited liability company	RMB80,000,000	–	100%	Automobile dealership
Wuhan Tengxing Automobile Sales Services Co., Ltd. (武漢騰星汽車銷售服務有限公司)		The PRC 1 August 2017 Limited liability company	RMB20,000,000	–	100%	Automobile dealership

Notes:

(i) These entities are incorporated in the PRC as wholly foreign-owned enterprises by Rising Wave Development Limited.

(ii) This entity is considered a subsidiary of the Group because the Group has rights to variable returns from its involvement with the entity and has the ability to affect those returns by virtue of an agreement signed with another equity shareholder which holds 50% interest in this entity, that results in the Group has the power to appoint the sole director of the entity.

(iii) This entity is incorporated in the PRC as a wholly foreign-owned enterprise by Wealth Fame Holdings Limited.

(iv) Except for Big Glory International Limited, Rising Wave Development Limited, Tongda Group (China) Co., Ltd., Silver Journey Global Limited, Acme Joy Group Limited, Chang Jun Limited, Top Globe Limited, Wealth Fame Holdings Limited, Hong Kong Nettime Investment Co., Ltd., and Hong Kong Newspeed Technology Co., Ltd., the English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

The directors of the Company are of the view that the Group had no individually material non-controlling interest as at 31 December 2022.

17 INTEREST IN ASSOCIATES

(i) Interest in Dongfeng Logistics

Dongfeng Logistics is an unlisted entity incorporated in the PRC and is principally engaged in the provision of logistics services. Since 16 January 2020, the Group has held 14.43% equity interest in Dongfeng Logistics. And before the developments outlined below, the Group has had significant influence over Dongfeng Logistics through its representation on the board of directors and had been equity-accounting for the interest as an interest in an associate.

After ITG Holding became the controlling shareholder of the Company in 2021, the Group decided to focus on its core 4S dealership business based on the Group's 2021–2025 development strategy plan and commenced its divestment plan on other non-core businesses, including the equity interest in Dongfeng Logistics. In this connection, the Group has engaged a financial adviser to assist with the potential disposal of its entire equity interest in Dongfeng Logistics ("**Potential Disposal**") and has been actively identifying and negotiating with potential buyers with an objective of achieving a completed sale within 2023, subject to fulfilment of any relevant regulatory requirements. As of 31 December 2022, the Group entered into non-binding agreements with two potential buyers. However, the interest in Dongfeng Logistics has not been classified as held-for-sale because the various regulatory and shareholder approvals required for the sale transaction are outside the Group's control, and as such the directors of the Company considered that it is not highly probable that the sale would be completed within one year notwithstanding the Group's objective stated above.

In addition, since the Group has commenced its plan to dispose its entire equity interest in Dongfeng Logistics, the controlling shareholder of Dongfeng Logistics considered that the Group was no longer suitable for participating in the financial and operation policy decisions of Dongfeng Logistics. Accordingly, on 6 December 2022 the director nominated by and representing the Group in Dongfeng Logistics resigned. On 29 December 2022, the resignation of the director nominated by the Group has been approved by the extraordinary general meeting of Dongfeng Logistics and, on the same date, the Group irrevocably given up its related right in the articles of Dongfeng Logistics to nominate a board representative.

In view of the aforementioned developments, in particular the loss of the Group's right to participate in the financial and operation policy decisions of Dongfeng Logistics, the Group has concluded that there was a significant change in circumstances about how significant influence can be exercised over Dongfeng Logistics and that the Group lost significant influence over Dongfeng Logistics in December 2022. Consequently, since then the Group has ceased the use of the equity method of accounting in respect of its investment in Dongfeng Logistics and has recognised its interests in Dongfeng Logistics as a financial asset at fair value through profit or loss. In accordance with the valuation report issued by an external valuer on 27 March 2023, the fair value of the equity interest held by the Group in Dongfeng Logistics at the date when significant influence was lost was RMB944,947,000, the valuation methods and inputs used in the fair value measurements are set out in note 32(e). Accordingly, upon the loss of significant influence the Group has recognised a remeasurement gain of RMB424,271,000 in the "Other income" for the year ended 31 December 2022, representing the difference between the fair value and carrying amount of the Group's interest in Dongfeng Logistics at the date when significant influence over Dongfeng Logistics was lost. A corresponding deferred tax expense amounting to RMB106,068,000 was accrued against the fair value remeasurement gain accordingly.

17 INTEREST IN ASSOCIATES (Continued)

(i) Interest in Dongfeng Logistics (Continued)

For the period from 1 January 2022 to the date of loss of significant influence over Dongfeng Logistics, the Group accounted for its investment in Dongfeng Logistics as an associate using the equity method and recorded share of profit of an associate of RMB43,845,000 accordingly. Summarised financial information for Dongfeng Logistics up to the date of loss of significant influence, adjusted for any differences in accounting policies, are disclosed below:

	For the period up to the date of loss of significant influence RMB'000	For the year ended 31 December 2021 RMB'000
Revenue	4,374,626	5,304,961
Profit from continuing operations	303,850	312,862
Total comprehensive income	303,850	312,862

(ii) Interest in another associate

Associate is accounted for using the equity method in the consolidated financial statements. Information of another associate that is not individually material:

	At 31 December	
	2022 RMB'000	2021 RMB'000
Amounts of the Group's share of the associate		
(Loss)/profit from continuing operations	**(790)**	1,210
Total comprehensive income	**(790)**	1,210
Carrying amount of individually immaterial associate in the consolidated financial statements	**15,341**	16,131
Carrying amount of Dongfeng Logistics	**—**	517,236
Total carrying amount of interest in associates	**15,341**	533,367

18 INVENTORIES

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

	At 31 December 2022 RMB'000	2021 RMB'000
4S dealership business		
Motor vehicles	**3,044,340**	1,796,851
Automobile spare parts	**313,179**	216,724
Others	**46,166**	43,917
	3,403,685	2,057,492
Comprehensive properties business		
Properties under development for sale	**660,585**	591,539
	4,064,270	2,649,031

Inventories with carrying amount of RMB1,048,425,000 have been pledged as security for the bills payable as at 31 December 2022 (2021: RMB565,866,000).

Inventories with carrying amount of RMB1,121,577,000 have been pledged as security for loans and borrowings from banks and other financial institutions (note 24) as at 31 December 2022 (2021: RMB901,237,000).

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

	Note	For the year ended 31 December 2022 RMB'000	2021 RMB'000
Carrying amount of inventories sold		**20,426,938**	18,975,817
Write down of inventories		**54,386**	54,352
Reversal of write-down of inventories	(i)	**(26,361)**	(8,270)
Re-assessment of rebate receivables		**—**	48,844
		20,454,963	19,070,743

(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.

19 TRADE AND BILLS RECEIVABLES

	At 31 December	
	2022	2021
	RMB'000	RMB'000
Trade receivables	**907,123**	1,004,158
Bills receivable	**319**	908
	907,442	1,005,066

All of the trade and bills receivables are expected to be recovered within one year. Details of the Group's credit policy are set out in note 32(a).

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	
	2022	2021
	RMB'000	RMB'000
Within 3 months	**900,002**	976,505
More than 3 months but within 1 year	**2,178**	7,565
Over 1 year	**5,262**	20,996
	907,442	1,005,066

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		At 31 December	
	Note	**2022** **RMB'000**	2021 RMB'000
Prepayments	(i)	**402,403**	583,669
Deposits		**399,940**	475,735
Other receivables	(ii)	**3,261,174**	3,235,069
		4,063,517	4,294,473

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

(ii) The Group earns vendor rebates under various and differing arrangements with automobile manufacturers. Rebates based on purchase or sales volumes are granted by vendors if certain purchase or sales targets are met. Performance rebates are granted by vendors in accordance with the vendors' comprehensive assessment of the Group's business performance.

21 OTHER FINANCIAL ASSETS/LIABILITIES

		At 31 December	
	Note	**2022** **RMB'000**	2021 RMB'000
Other financial assets carried at FVPL			
Current			
Wealth management products	(i)	**89,969**	122,589
Forward contracts	(ii)	**13,592**	—
		103,561	122,589
Non-current			
Equity investment in Dongfeng Logistics	17	**944,947**	—
		1,048,508	122,589
Other financial liabilities carried at FVPL			
Forward contracts	(ii)	**(91,516)**	—

(i) Other financial assets mainly included investment in wealth management products purchased from Western Trust Co., Ltd.. The underlying assets of these wealth management products are a wide range of government and corporate bonds, bank deposits, as well as money market funds, etc. During the year, the Group has redeemed part of these wealth management products with proceeds of RMB37,220,000. An unrealised gain for the investment of RMB4,600,000 was recognised as a gain in other income for the year ended 31 December 2022.

(ii) Forward contracts are used to mitigate the effect of the Group's foreign currency exposure arising from the loans and borrowings. A financial asset or a financial liability is recognised for each unsettled forward contract as at 31 December 2022 and cannot be offset in the financial position, as the Group did not has a legally enforceable right to set off the amounts among different forward contracts. The fair value of the forward contracts was determined with a method shown in note 32(e). For the year ended 31 December 2022, net realised/unrealised gain of RMB228,208,000 from the forward contracts was recognised in other income in the consolidated financial statements of profit or loss.

22 PLEDGED BANK DEPOSITS

	Note	At 31 December 2022 RMB'000	2021 RMB'000
Bank loans (note 24)	(i)	2,543,328	1,075,695
Bills payable (note 26)	(i)	1,413,887	1,620,765
		3,957,215	2,696,460

(i) The bank deposits pledged for banks loans and bills payables will be released upon the settlement of relevant bank loans and bills payable.

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 December 2022 RMB'000	2021 RMB'000
Deposits with banks within 3 months of maturity	—	2,051
Cash at banks and on hand	734,086	206,720
Cash and cash equivalents in the consolidated statement of cash flow	734,086	208,771

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	For the year ended 31 December 2022 RMB'000	2021 RMB'000
Loss for the year		(297,421)	(3,780,767)
Add back: Income tax		167,079	(351,337)
Adjustments for:			
— Depreciation of owned property, plant and equipment	5(c)	306,469	361,024
— Depreciation of right-of-use assets	5(c)	342,546	379,291
— Amortisation of investment properties	5(c)	3,955	571
— Amortisation of intangible assets	5(c)	160,999	161,114
— Net gain on disposal of property, plant and equipment	4	(100,728)	(261,737)
— Net (gain)/loss on disposal of right-of-use assets		(17,367)	32,909
— Finance costs	5(a)	1,006,998	1,303,150
— Share of profit of associates		(43,055)	(45,340)
— Interest income from bank deposits	4	(37,443)	(14,126)
— Equity settled share-based transactions	5(b)	1,867	15,926
— Impairment losses of receivables from financial services	5(c)	—	887,854
— Write down of inventories, net of reversal	18(b)	28,025	46,082
— Realised/unrealised (gain)/loss of financial instruments		(232,808)	116,775
— Realised gain on disposal of a former subsidiary	31	(9,846)	—
— Remeasurement gain on FVPL related to Dongfeng Logistics	17	(424,271)	—
— Foreign exchange loss/(gain)		398,206	(177,245)
— Impairment of goodwill	15	—	127,055
— (Reversal of)/provision for impairment losses on intangible asset	14	(232,426)	189,562
— (Reversal of)/provision for impairment losses on property, plant and equipment	11	(21,239)	311,777
— Loss in relation to loss of control in a subsidiary	5(c)	—	1,200,197
Cash generated from operations		999,540	502,735
Changes in working capital, include reclassification to held for sale:			
— Increase in inventories		(1,374,218)	(838,113)
— Decrease in trade and bills receivables		97,624	49,271
— Decrease in prepayments, deposits and other receivables		363,859	1,714
— Decrease/(increase) in pledged bank deposits		206,878	(1,079,068)
— (Decrease)/increase in trade and other payables		(41,331)	1,596,255
— Decrease in receivables from financial services		—	2,098,132
— Decrease in loans and borrowings for financial services		—	(2,022,776)
Cash generated from operations		252,352	308,150
Income tax paid		(93,565)	(152,518)
Net cash generated from operating activities		158,787	155,632

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(c) Reconciliation of liabilities arising from financing activities

	Bank loans and borrowings RMB'000 (note 24)	Bonds payable RMB'000 (note 27)	Interest payables RMB'000 (i)	Derivative financial instruments: Forward contracts RMB'000 (note 21)	Lease liabilities RMB'000 (note 25)	Total RMB'000
At 31 December 2021, and 1 January 2022	16,295,984	365,936	49,627	–	1,478,811	18,190,358
Changes from financing cash flows:						
Proceeds from loans and borrowings	28,531,553	–	–	–	–	28,531,553
Repayment of loans and borrowings	(26,552,141)	(367,294)	–	–	–	(26,919,435)
Capital element of finance lease rentals paid	–	–	–	–	(305,467)	(305,467)
Interest element of finance lease rentals paid	–	–	–	–	(90,556)	(90,556)
Interest paid	–	(26,538)	(964,432)	–	–	(990,970)
Total changes from financing cash flows	1,979,412	(393,832)	(964,432)	–	(396,023)	225,125
Exchange adjustments	398,491	(285)	–	–	–	398,206
Changes in fair value	–	–	–	91,516	–	91,516
Increase in lease liabilities from entering into new leases during the year	–	–	–	–	283,984	283,984
Interest expenses	–	28,181	888,261	–	90,556	1,006,998
Capitalised borrowing costs (note 5(a))	–	–	72,907	–	–	72,907
Effect of early termination of lease contracts	–	–	–	–	(112,762)	(112,762)
Total other changes	–	28,181	961,168	–	261,778	1,251,127
At 31 December 2022	18,673,887	–	46,363	91,516	1,344,566	20,156,332

(i) Interest payables is recorded in trade and other payables.

23 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(c) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans and borrowings RMB'000 (note 24)	Bonds payable RMB'000 (note 27)	Interest payables RMB'000 (i)	Derivative financial instruments: Capped cross currency swap RMB'000	Lease liabilities RMB'000 (note 25)	Total RMB'000
At 31 December 2020, and 1 January 2021	11,556,203	1,417,105	48,237	32,383	1,690,832	14,744,760
Changes from financing cash flows:						
Proceeds from loans and borrowings	21,830,870	–	–	–	–	21,830,870
Repayment of loans and borrowings	(18,372,326)	(1,025,291)	–	–	–	(19,397,617)
Capital element of finance lease rentals paid	–	–	–	–	(466,113)	(466,113)
Interest element of finance lease rentals paid	–	–	–	–	(89,807)	(89,807)
Interest paid	–	(161,632)	(1,130,969)	(36,439)	–	(1,329,040)
Total changes from financing cash flows	3,458,544	(1,186,923)	(1,130,969)	(36,439)	(555,920)	548,293
Exchange adjustments	(158,807)	(26,550)	–	–	–	(185,357)
Changes in fair value	–	–	–	4,056	–	4,056
Increase in lease liabilities from entering into new leases during the year	–	–	–	–	370,352	370,352
Interest expenses	–	162,304	1,049,763	–	89,807	1,301,874
Capitalised borrowing costs (note 5(a))	–	–	82,596	–	–	82,596
Disposal of right-of-use assets	–	–	–	–	(116,260)	(116,260)
Impacts arising from loss of control in a subsidiary	1,440,044	–	–	–	–	1,440,044
Total other changes	1,440,044	162,304	1,132,359	–	343,899	3,078,606
At 31 December 2021	16,295,984	365,936	49,627	–	1,478,811	18,190,358

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2022 RMB'000	2021 RMB'000
Within operating cash flows	**6,878**	8,069
Within financing cash flows	**396,023**	566,986
	402,901	575,055

These amounts relate to the following:

	2022 RMB'000	2021 RMB'000
Lease rentals paid	**402,901**	575,055

24 LOANS AND BORROWINGS

The analysis of the carrying amount of loans and borrowings is as follows:

	Note	At 31 December 2022 RMB'000	2021 RMB'000
Current			
Unsecured bank loans	(i)	**2,421,475**	436,000
Current portion of unsecured long-term bank loans	(i)	**947,899**	1,853,990
Unsecured interest-bearing borrowings from other financial institution	(ii)	**647,900**	1,440,044
Unsecured interest-bearing borrowings due to related parties	35	**1,566,849**	5,766,123
Secured bank loans	(iii)	**4,093,049**	2,865,997
Current portion of secured long-term bank loans	(iii)	**271,355**	192,691
Secured interest-bearing borrowings from other financial institutions	(iv)	**2,285,503**	2,221,682
Sub-total		**12,234,030**	14,776,527
Non-current			
Unsecured bank loans	(v)	**1,452,792**	1,187,538
Unsecured interest-bearing borrowings from other financial institutions	(vi)	**510,300**	—
Unsecured interest-bearing borrowings due to related parties	35	**3,194,941**	—
Secured bank loans	(vii)	**713,950**	331,919
Secured interest-bearing borrowings from other financial institutions	(viii)	**567,874**	—
Sub-total		**6,439,857**	1,519,457
Total		**18,673,887**	16,295,984

(i) Current unsecured bank loans carried interest at annual rates ranging from 3.70% to 8.72% as at 31 December 2022 (2021: from 5.00% to 9.50%).

(ii) Unsecured interest-bearing borrowings from other financial institution carried interest at annual rates ranging from 8.80% to 11.00% as at 31 December 2022 (2021: 6.50%).

(iii) Current secured bank loans and current portion of secured long-term bank loans carried interest at annual rates ranging from 1.10% to 8.40% as at 31 December 2022 (2021: from 1.10% to 9.50%).

(iv) Secured borrowings from other financial institutions mainly represent loans obtained from the auto finance companies of the respective automobile manufacturers for purchase of motor vehicles, which are secured, interest-bearing with annual rates ranging from 4.26% to 15.00% as at 31 December 2022 (2021: from 5.96% to 15.00%).

(v) The non-current unsecured bank loans bearing interest rate from 5.20% to 8.72% per annum as at 31 December 2022 (2021: 3.15% to 5.225%) will mature on 12 January 2024, 8 October 2024 and 9 November 2024, respectively.

24 LOANS AND BORROWINGS (Continued)

(vi) The non-current unsecured borrowings from other financial institution bearing interest rate from 6.50% to 8.80% per annum as at 31 December 2022 will mature on 23 March 2024 and 16 December 2024, respectively.

(vii) The non-current secured bank loans bearing interest rate from 4.05% to 6.50% per annum as at 31 December 2022 (2021: 3.00% to 8.40%) will mature on 8 April 2024, 30 May 2024, 30 November 2025 and 24 May 2030, respectively.

(viii) The non-current secured borrowings from other financial institution bearing interest rate from 4.00% to 8.00% per annum as at 31 December 2022 will mature on 20 September 2024 and 16 September 2026, respectively.

As at 31 December 2022, the following assets of the Group had been pledged, together with certain intra-group guarantees, to secure for the Group's banking facilities totaling RMB20,975,565,000 (2021: RMB17,895,433,000).

	At 31 December	
	2022	2021
	RMB'000	RMB'000
Inventories	**1,121,577**	901,237
Pledged bank deposits	**2,543,328**	1,075,695
Property, plant and equipment	**730,344**	807,141
Right-of-use assets- land use rights	**406,110**	829,558
Equity of subsidiaries	**739,394**	277,600
Time deposits	**—**	231,800
Total	**5,540,753**	4,123,031

As of 31 December 2022, the above banking facilities were utilised to the extent of RMB13,912,097,000 and RMB574,162,000 out of the remaining available facilities can be drawn down at the Group's discretion without designated purposes.

Certain borrowings from other parties were borrowed with pledge of equity in certain subsidiaries of the Group, with pledged value capped to the borrowing amount of approximately RMB739,394,000 as at 31 December 2022 (2021: RMB277,600,000).

Certain banking facilities of the Group's subsidiaries are subject to the fulfilment of covenants relating to the subsidiaries' balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the subsidiaries were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 32(b). As at 31 December 2022, none of the covenants relating to drawn down facilities had been breached (2021: None).

(ix) As of 31 December 2022, unsecured loans and borrowings amounting to RMB5,870,366,000 were intragroup guaranteed (2021: RMB5,759,587,000).

25 LEASE LIABILITIES

At 31 December 2022, the lease liabilities were repayable as follows:

	At 31 December 2022 RMB'000	At 31 December 2021 RMB'000
Within 1 year	**363,493**	309,477
After 1 year but within 2 years	**300,212**	296,633
After 2 years but within 5 years	**459,336**	548,428
After 5 years	**221,525**	324,273
	981,073	1,169,334
	1,344,566	1,478,811

26 TRADE AND OTHER PAYABLES

	Note	At 31 December 2022 RMB'000	At 31 December 2021 RMB'000
Current			
Trade payables		**358,737**	1,102,712
Bills payable	(i)	**3,481,434**	2,829,084
		3,840,171	3,931,796
Contract liabilities	(ii)	**1,215,170**	1,150,320
Other payables and accruals		**771,927**	891,626
Payables due to related parties	35(c)	**507**	938
		5,827,775	5,974,680
Non-current			
Long-term payables		**186,648**	219,770
		6,014,423	6,194,450

(i) Bills payable of RMB2,574,097,000 as at 31 December 2022 (2021: RMB2,473,639,000) were secured by pledged bank deposits amounting to RMB1,413,887,000 (2021: RMB1,620,765,000) (note 22).

Bills payable of RMB3,481,434,000 as at 31 December 2022 (2021: RMB2,578,301,000) were secured by inventories amounting to RMB1,048,425,000 (2021: RMB565,866,000) (note 18).

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 2022 RMB'000	At 31 December 2021 RMB'000
Within 3 months	**3,379,485**	3,715,365
Over 3 months but within 6 months	**454,091**	211,543
Over 6 months but within 12 months	**6,595**	4,888
	3,840,171	3,931,796

(ii) The amount of revenue recognised in the year that was included in the contract liabilities balance at the beginning of the year was RMB1,129,473,000 (2021: RMB890,824,000).

27 BONDS PAYABLE

	At 31 December	
	2022	2021
	RMB'000	RMB'000
Bonds payable:		
Current	**—**	365,936
Details of the bonds payable are as follows:		
Principal amount	**1,488,497**	1,488,497
Bonds issue costs	**(21,944)**	(21,944)
Proceeds received	**1,466,553**	1,466,553
Accumulated amortised amounts of discount on issue and issue costs	**20,535**	18,892
Exchange differences	**(82,009)**	(81,724)
Repayments	**(1,405,079)**	(1,037,785)
As at 31 December	**—**	365,936

On 24 March 2017, the Group issued corporate bonds with an aggregate principal amount of RMB300 million (the "**PRC Bonds**"). The PRC bonds bear interest from 24 March 2017 (inclusive) at the initial rate of 6% per annum and were issued at their principal amount. Interest on the PRC Bonds is payable annually in arrears. The PRC bonds have been listed on Shenzhen Stock Exchange and was matured and fully repaid on 24 March 2022. From 25 March 2020 (inclusive), the PRC Bonds coupon rate had been adjusted to 7.5% per annum due to the re-sale of the bonds put back by certain investors.

On 16 January 2020, the Group issued first batch of senior notes with an aggregate principal amount of USD (United States Dollar) 160 million (the "**First Batch of USD Bonds**").The First batch of USD bonds bear interest from 16 January 2020 (inclusive) at the rate of 12.0% per annum and were issued at their principal amount. On 11 February 2020, the Group issued second batch of senior notes with an aggregate principal amount of USD13 million (the "**Second Batch of USD Bonds**", together with the First Batch of USD Bonds, the "**USD Bonds**"), consolidated and formed a single class with the First Batch of USD bonds. The Second Batch of USD bonds bear interest from 16 January 2020 (inclusive) at the rate of 12.0% per annum and were issued at 99.98% of their principal amount. Interest on the USD Bonds is payable semi-annually in arrears. The USD bonds have been listed on Hong Kong Stock Exchange, and was mature on 16 January 2022. On 24 November 2021, the Group repaid the bonds of USD162 million in advance. On 16 January 2022, the above bonds have been fully repaid.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the restricted shares award scheme ("**Share Award Scheme**") on 12 June 2020 ("**Grant Date**"), 47,100,000 restricted shares of the Company ("**Restricted Shares**") were approved for granting to core employees of the Group. The fair value of the Restricted Shares granted under the respective grant dates is RMB1.13 per share, as determined based on the average market price at the Grant Date and the subscription price is nil.

The Restricted Shares are subject to various lock-up period (The "**Lock-Up period**") of 1 year, 2 years, 3 years and 4 years, respectively, immediately from the Grant Date. During the Lock-Up Period, these shares are not transferrable, nor subject to any guarantee or indemnity.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

Subject to fulfilment of all service and performance conditions under the Share Award Scheme which include participants' individual performance appraisal (referred to as "**vesting conditions**"), the restriction over the Restricted Shares will be removed after the expiry of the corresponding lock-up period for each tranche and the participants will be fully entitled to these incentive shares. If the vesting conditions are not fulfilled and hence the Restricted Shares cannot be unlocked, all the unvested or outstanding Restricted Shares not yet vested shall be immediately forfeited.

(a) The terms and conditions of the grants are as follows:

	Number of restricted shares	Vesting conditions
Restricted shares granted to employee work less than 5 years		
— on 12 June 2020	5,580,000	Two years from the date grant
— on 12 June 2020	5,580,000	Three years from the date grant
— on 12 June 2020	5,580,000	Four years from the date grant
Restricted shares granted to employee work more than 5 years, within 10 years		
— on 12 June 2020	5,320,000	One year from the date grant
— on 12 June 2020	5,320,000	Two years from the date grant
— on 12 June 2020	5,320,000	Three years from the date grant
Restricted shares granted to employee work more than 10 years		
— on 12 June 2020	14,400,000	One year from the date grant
Total restricted shares granted	47,100,000	

(b) The number and weighted average exercise prices of restricted shares are as follows:

	2022		2021	
	Weighted average exercise price	Number of restricted shares	Weighted average exercise price	Number of restricted shares
Outstanding at the beginning of the year	**RMB0**	**17,480,000**	RMB0	41,160,000
Exercised during the year	**RMB0**	**(6,020,000)**	RMB0	(19,480,000)
Forfeited during the year	**RMB0**	**(4,500,000)**	RMB0	(4,200,000)
Outstanding at the end of the year	**RMB0**	**6,960,000**	RMB0	17,480,000

Total expenses of RMB1,867,000 were recognised as personnel expenses during the year ended 31 December 2022 (2021: RMB15,926,000).

29 DEFERRED TAX ASSETS AND LIABILITIES

The components of deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value adjustment arising from business combination RMB'000	Depreciation allowances in excess of depreciation charges RMB'000	Future benefits of tax losses RMB'000	Fair value change of financial instruments and other fair value remeasurement RMB'000	Deferred revenue and rebate receivable RMB'000	Inventory provision, and impairment of property, plant and machinery RMB'000	Withholding taxes RMB'000	Capitalisation of interest RMB'000	Charge of right-of-use assets RMB'000	Total RMB'000
Deferred tax (liabilities)/assets arising from:										
At 1 January 2021	(680,343)	(3,452)	1,014,457	(33,351)	(650,260)	27,490	(136,746)	(94,429)	52,870	(503,764)
Credited/(charged) to profit or loss (note 6(a))	78,687	20	107,969	30,208	(31,464)	2,928	136,746	(20,075)	(24,235)	280,784
At 31 December 2021, and 1 January 2022	(601,656)	(3,432)	1,122,426	(3,143)	(681,724)	30,418	–	(114,504)	28,635	(222,980)
(Charged)/credited to profit or loss (note 6(a))	(19,448)	(318)	10,591	(128,179)	56,741	(2,065)	–	(17,832)	7,280	(93,230)
At 31 December 2022	**(621,104)**	**(3,750)**	**1,133,017**	**(131,322)**	**(624,983)**	**28,353**	**–**	**(132,336)**	**35,915**	**(316,210)**

	At 31 December	
	2022 RMB'000	2021 RMB'000
Representing:		
Net deferred tax assets	**673,051**	616,626
Net deferred tax liabilities	**(989,261)**	(839,606)
	(316,210)	(222,980)

Deferred tax liabilities not recognised:

The PRC Corporate Income Tax Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. The Group has not recognised deferred tax liabilities as at 31 December 2022 in respect of undistributed earnings of RMB5,678,464,000 (2021: RMB5,188,257,000) as the Company controls the dividend policy of the subsidiaries and it has determined that these profit will not be distributable in the foreseeable future.

30 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in component of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	The Company				
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2021	231,265	6,327,409	95,203	(6,531,401)	122,476
Loss and total comprehensive income for the year	—	—	—	(538,493)	(538,493)
Issues of ordinary shares held as treasury shares for Share Award Scheme	3,938	—	(3,938)	—	—
Equity settled share-based transactions	—	19,740	(3,814)	—	15,926
Balance at 31 December 2021, and 1 January 2022	235,203	6,347,149	87,451	(7,069,894)	(400,091)
Loss and total comprehensive income for the year	—	—	—	(787,766)	(787,766)
Equity settled share-based transactions	—	6,922	(5,055)	—	1,867
Balance at 31 December 2022	**235,203**	**6,354,071**	**82,396**	**(7,857,660)**	**(1,185,990)**

(b) Dividends

(i) No final dividend was proposed or paid after the end of reporting periods of years ended 31 December 2022 and 2021.

(ii) No dividend was proposed in respect of the previous financial years, approved and paid during the years ended 31 December 2022 and 2021.

(c) Share capital

Movements in the authorised share capital of the Company during the year are as follows:

	2022		2021	
	Number of shares (thousand)	**Amount HK$('000)**	Number of shares (thousand)	Amount HK$('000)
Ordinary shares, authorised:				
Ordinary shares of HK$0.10 each	**20,000,000**	**2,000,000**	20,000,000	2,000,000
Ordinary shares, issued and fully paid:				
At 1 January	**2,744,542**	**274,454**	2,697,442	269,744
Issue of ordinary shares for equity settled share-based transactions (note 28)	**—**	**—**	47,100	4,710
At 31 December	**2,744,542**	**274,454**	2,744,542	274,454
RMB equivalent ('000)		**235,203**		235,203

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves

(i) PRC statutory reserve

PRC Statutory reserve was established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserve were approved by the respective board of directors' meetings.

For the entity concerned, statutory reserve can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(ii) Exchange reserve

Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations which are dealt with in accordance with the accounting policies as set out in note 2(y).

(iii) General reserve

Pursuant to the relevant notices issued by regulatory bodies, a former subsidiary of the Group in the financial services segment in the Mainland China are required to set aside a general reserve to cover potential losses.

(e) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, the Group defines net debt as interest-bearing loans and borrowings, obligations under finance leases, bills payable, bonds payable and unaccrued proposed dividends less cash and cash equivalents, time deposits and pledged bank deposits, and capital is defined as the total equity less unaccrued proposed dividends.

30 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(e) Capital risk management (Continued)

The adjusted net debt-to-capital ratios at 31 December 2022 and 2021 were as follows:

	Note	At 31 December 2022 RMB'000	2021 RMB'000
Loans and borrowings	24	**18,673,887**	16,295,984
Bonds payable	27	**—**	365,936
Bills payable	26	**3,481,434**	2,829,084
Lease liabilities	25	**1,344,566**	1,478,811
Total borrowings		**23,499,887**	20,969,815
Less: Pledged bank deposits	22	**(3,957,215)**	(2,696,460)
Time deposits		**—**	(413,841)
Cash and cash equivalents	23	**(734,086)**	(208,771)
Adjusted net debt		**18,808,586**	17,650,743
Total equity		**224,444**	540,621
Adjusted net debt-to-capital ratio		**83.80**	32.65

The Group is subject to capital requirements imposed by certain banks.

31 ASSET HELD FOR SALE

As disclosed in note 31 to the Company's consolidated financial statements for the year ended 31 December 2021, the Company concluded that by the end of 2021 it has lost control over and ceased to consolidate the assets, liabilities and activities of Shanghai Dongzheng Automotive Finance Co., Ltd. ("**Dongzheng**"), and has since recognised its interests in Dongzheng as a financial asset at FVPL. This was in view of a number of developments, including an administrative decision against the Company from the Shanghai Office of the China Banking and Insurance Regulatory Commission (the "**CBIRC**") and a subsequent ruling by the Shanghai Financial Court of the People's Republic of China on the compulsory liquidation of the Company's interests in Dongzheng by way of judicial auction.

On 19 May 2022, the judicial auction was conducted and completed. On 12 August 2022, the final amount of RMB1,410,560,000 have been received by the Company (31 December 2021: the fair value was RMB1,400,714,000).

The difference of RMB9,846,000 between the final amount received and the fair value as at 31 December 2021 was recognised as gain of financial instruments in "Other income" for the year ended 31 December 2022.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to cash and cash equivalents, pledged bank deposits, time deposits, trade and bills receivables, deposits and other receivables and long-term receivables.

The Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits and time deposits is limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk.

Trade receivables

Credit risk in respect of trade and bills receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent receivables from individual customers, who obtain mortgages from their financial institutions and used the drawn-down mortgage principal to settle the Group's trade receivables within one month when the mortgages were granted by their financial institutions, and warranty receivables from automobile manufacturers. For the receivables from automobile manufacturers, risk of default is considered low, as these are companies with good credit rating. Based on past experience, the Group was of the opinion that no provision for impairment was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. Normally, the Group does not obtain collateral from customers.

At 31 December 2022, 3.68% (2021: 1.33%) and 1.45% (2021: 0.76%) of the total trade and bills receivables were due from the Group's five largest customers and the largest single customer respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs. Based on historical loss ratios, The Group assessed that there is no significant loss allowance recognised in accordance with HKFRS 9 for trade receivables as at 31 December 2022.

Other receivables

Credit risk in respect of other receivables is limited since the counterparties are of good reputation and their receivables are settled on a regular basis.

The Group measures loss allowances for other receivables at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The Group assessed there is no significant loss allowance recognised in accordance with HKFRS 9 for other receivables as at 31 December 2022.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Deposits and long-term receivables

Credit risk in respect of deposits and long-term receivables is limited since the counterparties are mainly certain landlords and their receivables are settled on a regular basis.

The Group measures loss allowances for deposits and long-term receivables at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

(b) 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 2022					At 31 December 2021				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Loans and borrowings	12,260,131	6,889,521	22,095	19,171,747	18,673,887	15,232,831	1,588,420	–	16,821,251	16,295,984
Lease liabilities	369,019	939,532	394,460	1,703,011	1,344,566	372,157	1,129,605	643,928	2,145,690	1,478,811
Other financial liabilities	91,578	–	–	91,578	91,516	–	–	–	–	–
Bonds payable	–	–	–	–	–	374,286	–	–	374,286	365,936
Trade and other payables	5,827,775	355,000	–	6,182,775	6,014,423	5,974,680	284,000	71,000	6,329,680	6,194,450
Total liquidity exposure other than the financial guarantees issued	18,548,503	8,184,053	416,555	27,149,111	26,124,392	21,953,954	3,002,025	714,928	25,670,907	24,335,181

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

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 company indirectly controlled by a family member of Mr. Wang Muqing. Wang Muqing and Wang Muqing's family member had been the controlling shareholder of the Group when the 2020 Shortfall Agreements were entered into until 31 August 2021, and ceased to be a related party of the Group from 23 June 2022, as disclosed in note 35(b). 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 (the "**Equity Investment First Instance Judgement**");

— 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 "**Loan First Instance Judgement**").

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

Financial guarantees issued (Continued)

Wuhan Zhengtong filed appeals against the First Instance Judgement through Zhejiang, Jiangsu Higher People's Court, respectively (the "**Appeals**").

The Company received the second instance judgement in respect of the Equity Investment First Instance Judgement from Zhejiang Higher People's Court on 23 June 2022, pursuant to which, Zhejiang Higher People's Court disagreed with and overturned the first instance judgement that Wuhan Zhengtong was jointly and severally liable for the amounts involved. Pursuant to the second instance judgement, Wuhan Zhengtong was the guarantor but not an obligor who was jointly and severally liable for the amounts owed by Beijing Guangze (i.e. Wuhan Zhengtong was responsible for only the shortfalls if Beijing Guangze fails to fulfill its repayment obligations), and after paying Yuchen Fengze under its guarantee obligations, Wuhan Zhengtong shall be entitled to claim a repayment from Beijing Guangze to the extent of the guarantee obligation it has performed.

On 12 January 2023, Wuhan Zhengtong and Yuchen Fengze entered into a settlement agreement (the "**Settlement Agreement**") pursuant to which Wuhan Zhengtong withdrew its appeal against the Loan First Instance Judgement and Yuchen Fengze agreed to facilitate the disposal of the collateral assets, including the Pledged Assets, in satisfaction of the debt owed to it.

According to the PRC legal opinion issued by an external legal advisor, the Group is only obliged to pay the shortfall based on the 2020 Shortfall Agreements and the Settlement Agreement, if any, when Yuchen Fengze has shortfalls to recover the debt owed to it, by collecting the proceeds of disposal of the collateral assets.

Accordingly, cash shortfalls for the Group are the expected payments to reimburse Yuchen Fengze for any shortfall after Yuchen Fengze has collected the proceeds of the disposal of the collateral assets to recover the debt owed to it.

The maximum amount guaranteed by Wuhan Zhengtong with the 2020 Shortfall Agreements as at 31 December 2022 was RMB1.93 billion (31 December 2021: RMB1.83 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 2022 were RMB2.79 billion and RMB1.97 billion (31 December 2021: RMB2.88 billion and RMB2.01 billion), respectively, according to the valuation reports issued by an external valuer on 27 March 2023.

The initial fair value of the financial guarantees 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, as well as a discount factor. Subsequently, the financial guarantee contract was measured at the higher of the initial recognised amount, minus accumulated amortisation (which was nil accordingly), and the expected credit loss allowance. As at 31 December 2022 and 2021, the expected credit loss allowances for the financial guarantees, based on the Group's expected net cash outflows, 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.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

(i) Interest rate profile

Cash at bank, time deposits, pledged bank deposits, interest-bearing borrowings and lease liabilities are the major types of the Group's financial instruments subject to interest rate risk. Cash at bank are with floating or fixed interest rates ranging from 0.00% to 5.37% per annum as at 31 December 2022 (2021: 0.05% to 2.75%). Pledged bank deposits are placed to satisfy conditions for issuance of commercial bills and bank loans granted to the Group, with fixed interest rates ranging from 1.50% to 2.75% per annum as at 31 December 2022 (2021: 1.35% to 3.10%).

The Group's interest-bearing borrowings and interest rates as at 31 December 2022 are as follows:

	Interest rate	At 31 December 2022 RMB'000
Fixed rate		
— borrowings	**1.10%~15.00%**	**15,225,757**
— lease liabilities	**5.92%**	**1,344,566**
Variable rate		
— borrowings	**3.00%~8.72%**	**3,448,130**
31 December 2022		**20,018,453**

	Interest rate	At 31 December 2021 RMB'000
Fixed rate		
— borrowings	1.10%~15.00%	11,975,982
— lease liabilities	6.25%	1,478,811
Variable rate		
— borrowings	3.60%~8.80%	4,685,938
31 December 2021		18,140,731

(ii) Sensitivity analysis

A general increase/decrease of 100 basis points in interest rates prevailing at 31 December 2022, with all other variables held constant, would decrease/increase the Group's profit after tax and retained earnings by approximately RMB153,506,000(2021: RMB138,429,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for 2021.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(d) Foreign currency risk

The Group is exposed to currency risk primarily through borrowings and cash balances that are dominated in a foreign currency. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of reporting period.

	2022			2021		
	United Sates Dollars RMB'000	**Euro RMB'000**	**Hong Kong Dollars RMB'000**	United Sates Dollars RMB'000	Euro RMB'000	Hong Kong Dollars RMB'000
Prepayments, deposits and other receivables, net of trade and other payables	**(1,059)**	**—**	**(3,953)**	8,694	(11)	(1,050)
Cash and cash equivalents	**56,896**	**80**	**2,356**	42,577	78	5,035
Forward contracts	**(77,924)**	**—**	**—**	—	—	—
Loans and borrowings	**(4,525,367)**	**—**	**(401,255)**	(5,384,320)	—	(583,685)
Bonds payable	**—**	**—**	**—**	(67,582)	—	—
Net exposure	**(4,547,454)**	**80**	**(402,852)**	(5,400,631)	67	(579,700)

The Group has entered into certain forward contracts to mitigate the effect of its foreign currency exposure arising from the loans and borrowings denominated in USD, in which the Group agrees to buy USD at a specified exchange rate on a specified future date.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(d) Foreign currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2022		2021	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	**5%**	**(220,777)**	5%	(260,237)
	(5)%	**220,777**	(5)%	260,237
Euro	**5%**	**4**	5%	3
	(5)%	**(4)**	(5)%	(3)
Hong Kong Dollars	**5%**	**(20,127)**	5%	(29,003)
	(5)%	**20,127**	(5)%	29,003

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the profit after tax and retained profit of each entity of the Group measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk as at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for 2021.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The fair value of the Group's financial instruments are categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair Value measurement*. The level, into which a fair value measurement is classified, is determined with the reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets and liabilities at the measurement date.

— Level 2 valuations: Fair values measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data at not available.

— Level 3 valuations: Fair values measured using significant unobservable inputs.

The following table presents the Group's assets/(liabilities) that are measured at fair value.

		Fair value measurement as at 31 December 2022 categorised into				Fair value measurement as at 31 December 2021 categorised into		
	Fair value at 31 December 2022 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Fair value at 31 December 2021 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements								
Assets:								
Forward contracts (note (i))	13,592	–	13,592	–	–	–	–	–
Wealth management products (note (ii))	89,969	–	–	89,969	122,589	–	–	122,589
Equity investment in Dongfeng Logistics (note (ii))	944,947	–	–	944,947	–	–	–	–
Asset held for sale	–	–	–	–	1,400,714	–	–	1,400,714
	10,485,08	–	13,592	1,034,916	1,523,303	–	–	1,523,303
Liability:								
Forward contracts (note (i))	(91,516)	–	(91,516)	–	–	–	–	–

During the years ended 31 December 2021 and 2022, there were no transfers between Level 1 and Level 2. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Notes:

(i) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the forward contracts is determined by forward exchange rate and discounted cash flow method. The discount rate used is the risk-free rate.

(ii) Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of wealth management products is determined with reference to the net assets value report of the wealth management products as provided by the fund manager.

The fair value of equity investment in Dongfeng Logistics is determined with reference to the price/sales ratio of the comparable listed companies and adjusted for lack of marketability discount.

Below is a summary of significant unobservable inputs to the valuation of the financial instruments together with an analysis for the relationship of unobservable inputs to the fair value measurements at the end of reporting period:

31 December 2022

Assets	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to the input
Wealth management products	Net assets value	Net assets value of the wealth management products	The fair value changes as the net assets value of the wealth management products changes
Equity investment in Dongfeng Logistics (note 17)	Market approach	Price/sales ratio of the comparable listed companies Discounts for lack of marketability	The fair value changes as the price/sales ratio and discounts for lack of marketability

31 December 2021

Assets	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to the input
Wealth management products	Net assets value	Net assets value of the wealth management products	The fair value changes as the net assets value of the wealth management products changes
Asset held for sale	Market approach	Discounts for lack of marketability Control premium	The fair value changes as the discounts for lack of marketability and control premium changes

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Notes: (Continued)

(ii) Valuation techniques and inputs used in Level 3 fair value measurements (Continued)

The movements during the year in the balance of these Level 3 fair value measurements was as follows:

	2022 RMB'000	2021 RMB'000
Wealth management products:		
At 1 January	122,589	285,000
Redemption of investment	(37,220)	(41,580)
Fair value change	4,600	(120,831)
At 31 December	89,969	122,589
Asset held for sale:		
At 1 January	1,400,714	—
Addition due to loss of control over Dongzheng	—	1,400,714
Disposal proceeds (note 31)	(1,410,560)	—
Realised gain during the year (note 31)	9,846	—
At 31 December	—	1,400,714
Equity investment in Dongfeng Logistics:		
At 1 January	—	—
Addition due to loss of significant influence over Dongfeng Logistics (note 17)	944,947	—
At 31 December	944,947	—
Total gains/(loss) for the year included in profit or loss for assets held at the end of the year (i)	14,446	(120,831)

(i) The fair value remeasurement gain of RMB424 million in relation to equity investment in Dongfeng Logistics as disclosed in note 17 was excluded (2021: the fair value remeasurement loss of RMB1,200 million in relation to equity investment in Dongzheng was excluded).

Any gain or loss arising from the remeasurement of the wealth management products, assets held for sale and equity investment in Dongfeng Logistics are presented in the "Other income" line item in the consolidated statement of profit or loss.

33 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2022 not provided for in the financial statements were as follows:

	At 31 December	
	2022 RMB'000	2021 RMB'000
Contracted for	1,348,320	1,238,065

34 CONTINGENT LIABILITIES

In 2018, Wuhan ZhengTong, a subsidiary of the Company, and Beijing Guangze entered into a general contractor agreement (the "**General Contractor Agreement**") pursuant to which Wuhan ZhengTong engaged Beijing Guangze to undertake the development, establishment, re-establishment and expansion of 4S stores and relevant commercial projects owned by the Group. The contract consideration shall be utilized by Beijing Guangze as the general contractor for such costs as consultant fees for hiring professional service companies, approval and construction application fees, construction and installation fees and ancillary facilities fees. Details of the General Contractor Agreement had been disclosed in the Company's announcement dated 13 March 2018.

In July 2022, the Group received a payment request of RMB6 million from one of the sub-contractors that had been involved in certain 4S Stores and commercial projects (the "**Subcontractor**"), as Beijing Guangze failed to fulfil its obligations under the General Contractor Agreement.

In accordance with the PRC legal opinion obtained by the Company from an external legal advisor, Beijing Guangze is the primary obligor for the relevant construction payments taking into account such facts and circumstances among others (i) Beijing Guangze had undertaken its general contractor role for the projects since the establishment of relevant contracts in prior years and the Group had entrusted Beijing Guangze with the projects and (ii) the Group had already fulfilled its obligations including the payment made to Beijing Guangze in accordance with the General Contractor Agreement. The historical payments to Beijing Guangze in relation to the Subcontractor is assessed to be approximately RMB236 million.

While the Subcontractor has not initiated any formal legal proceedings against the Group in this connection and the future development cannot be estimated with certainty, the directors of the Company, having given due consideration to the legal advice and the relevant facts and circumstances, are of the opinion that it is not probable that the Group will be sued by the Subcontractor and will need to make payments to the Subcontractor. Therefore, no provision has been made in respect of this matter as at 31 December 2022.

In January 2023, the Group commenced a lawsuit against Beijing Guangze for its failure in fulfilling its obligations under the General Contractor Agreement.

As of 31 December 2022, except for the aforementioned contingencies associated with certain construction payments, the Group did not have any material contingent liabilities.

35 MATERIAL RELATED PARTY TRANSACTIONS

Name of party	Relationship
ITG Holding 廈門國貿控股集團有限公司	Controlling Shareholder since 17 September 2021
ITG Holding Investment (HK) Limited ("**ITG HK**") 國貿控股投資(香港)有限公司	Controlled by Controlling Shareholder
Xiamen Xindeco Ltd. ("**Xindeco**") 廈門信達股份有限公司	Controlled by Controlling Shareholder
International Trade Yingtai Financial Leasing (Xiamen) Co., Ltd. ("**IT Yingtai**") 國貿盈泰融資租賃(廈門)有限公司	Controlled by Controlling Shareholder
Tianxiada Finance Leasing (Xiamen) Co., Ltd. ("**Tianxiada**") 天下達融資租賃(廈門)有限公司	Controlled by Controlling Shareholder
Xiamen International Trade Development Co., Ltd. ("**IT Development**") 廈門國貿發展有限公司	Controlled by Controlling Shareholder
Shandong Xinda IOT Application Technology Co., Ltd. ("**Shandong Xindeco**") 山東信達物聯應用技術有限公司	Controlled by Controlling Shareholder
Wang Muqing and Wang Muqing's family member 王木清及王木清家屬	Other related parties (up to 22 June 2022)
Beijing Guangze 北京廣澤房地產開發有限公司	Controlled by Wang Muqing's family members and ceased to be a related party since 23 June 2022
Hubei Xike Industry Co., Ltd. ("**Hubei Xike**") 湖北熙可實業有限公司	Controlled by Wang Muqing's family members and ceased to be a related party since 23 June 2022
Beijing Baoze 北京寶澤汽車科技發展有限公司	Controlled by Wang Muqing's family members and ceased to be a related party since 23 June 2022
Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd. ("**Inner Mongolia Dingjie Automobile Trading**") 內蒙古聖澤鼎傑汽車貿易有限公司	Controlled by Wang Muqing's family members and ceased to be a related party since 23 June 2022
Changsha Shengze Ruibao Electronics Trading Co., Ltd. ("**Changsha Shengze**") 長沙聖澤瑞寶電子產品貿易有限公司	Controlled by Wang Muqing's family members and ceased to be a related party since 23 June 2022
Wuhan Shengze Jieyun Trading Co., Ltd. ("**Wuhan Shengze Jieyun**") 武漢聖澤捷運貿易有限公司	Controlled by Wang Muqing's family members and ceased to be a related party since 23 June 2022
Wuhan Shengze Jiezhong Logistics Co., Ltd. ("**Wuhan Shengze Jiezhong**") 武漢聖澤捷眾物流有限公司	Controlled by Wang Muqing's family members and ceased to be a related party since 23 June 2022
Wuhan Jiangrong Investment Co., Ltd. ("**Wuhan Investment**") 武漢江融投資有限公司	Controlled by Wang Muqing's family members and ceased to be a related party since 23 June 2022

Note: The English translation of the company names is for reference only. The official names of the companies established in the PRC are in Chinese.

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Recurring transactions

	For the year ended 31 December	
	2022 RMB'000	2021 RMB'000
Accrued property management expense:		
Beijing Baoze, a related party up to 22 June 2022	3,360	6,316
Technical support and construction design services:		
Shandong Xindeco	1,211	—
Interest-bearing borrowings — (repayments to)/proceeds from related parties, net effect:		
ITG Holding	(1,445,725)	4,299,625
IT Development	341,041	—
Tianxiada	(300,000)	300,000
IT Yingtai	300,000	—
ITG HK	100,351	1,166,498
	(1,004,333)	5,766,123

As of 31 December 2022, the Group have obtained financial guarantees from ITG Holding for banking facilities and bank loans and borrowings of RMB5,736 million.

(b) Rental services

The Group leases certain premises as its 4S dealership stores from Hubei Xike and certain wholly-owned subsidiaries of Beijing Guangze which are controlled by Mr. Wang Muqing (the "Premises Lessors").

While the fixed terms of these lease agreements expired on 31 December 2021, in accordance with the relevant laws and regulations in the PRC, the original lease arrangements continue to be valid and the leases become non-fixed term leases.

The Group continues to use these leased properties after the expiry of the original fixed terms while it is negotiating the new terms with the Premises Lessors. In accordance with HKFRS 16, the Group has assessed that it is reasonably certain that it would exercise the renewal options and continue the leases for certain years, considering all relevant facts and circumstances including the Group's operational needs.

In addition, in accordance with a legal opinion the Group has obtained from an external legal advisor, Mr. Wang Muqing and Joy Capital Holdings Limited (the entire voting share capital of which was previously held by Bright Brilliant Holdings Limited, which in turn was wholly-owned by Credit Suisse Trust Limited in Guernsey as trustee of a family discretionary trust of which Mr. Wang Muqing was one of the founders) ceased to have any notifiable interest in the shares of the Company with effect from 22 June 2022. Therefore, since then Mr. Wang Muqing and the Premises Lessors are no longer related parties of the Group for the purposes of HKAS 24 Related party disclosures.

35 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Rental services (Continued)

Consequently, the right-of-use assets and lease liabilities in connection with the Group's use of these leased properties were not regarded as outstanding balances with related parties as at 31 December 2022. During the period from 1 January 2022 to 22 June 2022, in which the Premises Lessors were related parties of the Group, the Group recognised depreciation of right-of use assets of RMB51,731,000 (for the year ended 31 December 2021: RMB114,163,000) and interest expenses of RMB8,258,000 (for the year ended 31 December 2021: RMB2,642,000) in its consolidated statement of profit or loss.

(c) Balances with related parties

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Other payables due to related parties:		
Xindeco	**84**	938
Shandong Xindeco	**423**	—
	507	938
Interest-bearing borrowings due to related parties:		
ITG Holding	**2,853,900**	4,299,625
IT Development	**341,041**	—
Tianxiada	**—**	300,000
IT Yingtai	**300,000**	—
ITG HK	**1,266,849**	1,166,498
	4,761,790	5,766,123

(d) Key management personnel remuneration

Key management personnel remuneration is disclosed in note 7 and note 8.

(e) Other connected transactions

Wuhan Zhengtong, the indirect wholly-owned subsidiary of the Company had entered into the 2020 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 2020 Shortfall Agreements were entered into until 31 August 2021, and ceased to be a related party of the Group from 23 June 2022.

36 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	At 31 December	
	2022	2021
Non-current assets		
Property, plant and equipment	**5,627**	6,477
Right-of-use assets	**441**	3,135
Interest in subsidiaries	**4,170,763**	3,408,194
	4,176,831	3,417,806
Current assets		
Prepayments, deposits and other receivables	**40,768**	37,106
Asset held for sale	**—**	1,400,714
Other financial assets	**5,920**	—
Cash and cash equivalents	**56,481**	40,832
	103,169	1,478,652
Current liabilities		
Loans and borrowings	**5,279,939**	3,890,321
Trade and other payables	**84,939**	30,979
Lease liabilities	**156**	3,167
Bonds payable	**—**	66,118
	5,365,034	3,990,585
Net current liabilities	**(5,261,865)**	(2,511,933)
Total assets less current liabilities	**(1,085,034)**	905,873
Non-current liabilities		
Loans and borrowings	**100,671**	1,305,964
Lease liabilities	**285**	—
	100,956	1,305,964
NET DEFICITS	**(1,185,990)**	(400,091)
Equity		
Share capital	**235,203**	235,203
Reserves	**(1,421,193)**	(635,294)
TOTAL DEFICITS	**(1,185,990)**	(400,091)

37 ULTIMATE CONTROLLING PARTY

At 31 December 2022, the directors of the Company consider the ultimate controlling party of the Group to be ITG Holding, which is incorporated in the PRC.

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 17, *Insurance contracts*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023
Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*	1 January 2024
Amendments to HKFRS 16, *Lease Liability in a Sale and Leaseback*	1 January 2024
Amendments to HKAS 1, *Non-current Liabilities with Covenants*	1 January 2024
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

39 ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing these consolidated financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of these consolidated financial statements.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any, in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

39 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

(c) Provision for inventories

The Group reviews the carrying amounts of the inventories at the respective balance sheet dates to determine whether the inventories are carried at lower of cost and net realisable value. Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down and affect the Group's net asset value.

(d) Impairment of goodwill and intangible assets — car dealerships

The Group determines whether goodwill and intangible assets acquired through business combinations are impaired requires an estimation of the value in use of the cash generating units (i.e. entities acquired by the Group) to which the relevant goodwill and intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units and suitable discount rates in order to calculate their present values. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculations are disclosed in notes 14 and 15.

(e) Accrual of vendor rebate

The Group manually calculates rebates and recognises them to the extent that the management estimates it is probable that the associated conditions will be met and the amount can be estimated reliably.

Specific factors management considered included the recent historical sales volume patterns, the rebate rates applied, overriding and ongoing performance metrics and any other available information concerning the credit worthiness of suppliers.

(f) Useful lives of intangible assets

The intangible assets are depreciated on a straight-line basis by taking into account the residual value. The Group reviews the estimated useful lives periodically to determine the related amortisation charges for its intangible assets. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market condition.

39 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(g) 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, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2. In addition, if the fair value less costs to sell of a disposal group is below its carrying amount, but the carrying amount of the non-current assets (other than those assets subject to the exceptions above) within the disposal group is insufficient to absorb the impairment loss, then the amount of impairment loss recognised is limited to the carrying amount of those non-current assets.

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.

40 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 28 February 2023, The board of directors of the Company had approved a proposed plan to dispose of the Group's 100% equity interest in Shenzhenshi Huianqi Investment Advisory Co., Ltd., an indirect wholly-owned subsidiary of the Company, which holds the property interests in a parcel of land located in Shenzhen. The disposal is intended to be conducted by way of public tender at the SUPX and the initial price is preliminarily set at approximately RMB800 million.

41 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Mingcheng *(Chairman)*
Mr. Li Zhihuang
Mr. Zeng Tingyi
Mr. Wang Muqing *(resigned on 10 January 2022)*

Independent Non-executive Directors

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

COMPANY WEBSITE

www.zhengtongauto.com

COMPANY SECRETARY

Ms. Fung Wai Sum (ACG, HKACG)

AUTHORIZED REPRESENTATIVES

Mr. Wang Mingcheng
Mr. Zeng Tingyi

AUDIT COMMITTEE

Dr. Wong Tin Yau, Kelvin *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

NOMINATION COMMITTEE

Mr. Wang Mingcheng *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

REMUNERATION COMMITTEE

Dr. Cao Tong *(Chairman)*
Mr. Li Zhihuang
Dr. Wong Tin Yau, Kelvin

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111 Cayman Islands

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited, Wuhan Branch
China Construction Bank Co., Ltd., Hubei Branch
Bank of Communications Co., Ltd., Hubei Branch
Industrial Bank Co., Ltd., Wuhan Branch
China CITIC Bank Corporation Limited, Wuhan Branch
China Zheshang Bank Co., Ltd., Wuhan Branch
China Guangfa Bank Co., Ltd., Shanghai Branch
Ping An Bank Company Limited, Shanghai Branch
The Bank of East Asia (China) Limited

AUDITORS

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road,
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HONG KONG LEGAL COUNSEL

Reed Smith Richards Butler LLP

STOCK CODE

1728

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