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China MeiDong Auto Holdings Limited

中國美東汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1268)

2021 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Revenue increased to RMB23,576.7 million, representing a growth of 16.7% as compared to the same period last year.
- Gross profit increased by 36.1% year on year to RMB2,770.5 million.
- Gross profit margin increased by 1.7 percentage points to 11.8%.
 - The gross profit margin of passenger vehicles sales increased by 1.3 percentage points to 6.8%.
 - The gross profit margin of after sales services increased by 2.8 percentage points to 49.1%.
- Profit for the year increased to RMB1,213.3 million, representing a growth of 57.4% compared to the same period last year.
- Net profit margin increased by 1.3 percentage points year on year to 5.1%.
- Inventory turnover days decreased to 5.8 days, a drop of 3.1 days from 8.9 days during the same period last year.
- Proposed final dividend of RMB0.6991 per ordinary share. The interim dividend of RMB0.1293 per ordinary share was paid. Total dividend for the year amounted to RMB0.8284 per ordinary share, representing a dividend payout ratio of approximately 90.0%.

RESULTS

The board (the “**Board**”) of directors (the “**Director(s)**”) of China MeiDong Auto Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2021.

The audited consolidated results of the Group for the year ended 31 December 2021 together with the comparative figures of 2020 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

(Expressed in RMB'000)

	<i>Note</i>	2021	2020
Revenue	2	23,576,689	20,207,446
Cost of sales		<u>(20,806,155)</u>	<u>(18,171,987)</u>
Gross profit		2,770,534	2,035,459
Other revenue and other net income/(loss)	3	247,004	95,608
Distribution costs		(741,039)	(546,048)
Administrative expenses		<u>(578,478)</u>	<u>(439,021)</u>
Profit from operations		1,698,021	1,145,998
Finance costs	4(a)	(133,277)	(136,940)
Share of profits of a joint venture		<u>48,019</u>	<u>43,162</u>
Profit before taxation	4	1,612,763	1,052,220
Income tax	5(a)	(399,423)	(281,642)
Profit for the year		1,213,340	770,578
Other comprehensive income for the year		<u>—</u>	<u>—</u>
Profit and total comprehensive income for the year		<u>1,213,340</u>	<u>770,578</u>
Profit and total comprehensive income attributable to:			
Equity shareholders of the Company		1,165,640	750,558
Non-controlling interests		<u>47,700</u>	<u>20,020</u>
Profit and total comprehensive income for the year		<u>1,213,340</u>	<u>770,578</u>
Earnings per share			
Basic (<i>RMB cents</i>)	6(a)	93.62	62.19
Diluted (<i>RMB cents</i>)	6(b)	<u>92.38</u>	<u>61.36</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

(Expressed in RMB'000)

	<i>Note</i>	31 December 2021	31 December 2020
Non-current assets			
Property, plant and equipment	7	1,381,418	1,119,936
Right-of-use assets	8	1,568,809	1,286,289
Intangible assets	9	546,121	61,445
Interest in a joint venture		61,942	56,348
Other non-current assets	10	422,113	75,301
Goodwill	11	178,691	—
Deferred tax assets		80,459	61,410
		4,239,553	2,660,729
Current assets			
Inventories	12	355,256	495,302
Trade and other receivables	13	1,817,159	1,517,716
Pledged bank deposits		768,964	558,572
Cash and cash equivalents		2,621,741	2,538,030
		5,563,120	5,109,620
Current liabilities			
Loans and borrowings		989,490	729,225
Trade and other payables	15	2,787,598	2,081,911
Lease liabilities		132,421	121,760
Income tax payables	5(c)	179,941	127,751
		4,089,450	3,060,647
Net current assets		1,473,670	2,048,973
Total assets less current liabilities		5,713,223	4,709,702

	<i>Note</i>	31 December 2021	31 December 2020
Non-current liabilities			
Loans and borrowings		299,388	222,182
Lease liabilities		1,159,972	1,135,975
Deferred tax liabilities		137,270	6,970
		<u>1,596,630</u>	<u>1,365,127</u>
NET ASSETS		<u>4,116,593</u>	<u>3,344,575</u>
EQUITY			
Share capital	<i>16(b)</i>	99,520	99,245
Reserves		3,847,104	3,127,421
		<u>3,946,624</u>	<u>3,226,666</u>
Total equity attributable to equity shareholders of the Company		3,946,624	3,226,666
Non-controlling interests		169,969	117,909
		<u>4,116,593</u>	<u>3,344,575</u>
TOTAL EQUITY		<u>4,116,593</u>	<u>3,344,575</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

(Expressed in RMB'000)

	Note	2021	2020
Operating activities:			
Cash generated from operations		2,189,769	1,445,794
Income tax paid	5(c)	<u>(377,848)</u>	<u>(254,687)</u>
Net cash generated from operating activities		<u>1,811,921</u>	<u>1,191,107</u>
Investing activities:			
Payment for the purchase of property, plant and equipment		(362,858)	(318,422)
Proceeds from disposal of property, plant and equipment		148,726	126,605
Payment for acquisition of subsidiaries, net of cash acquired	17	(613,335)	—
Payment for assets acquisition, net of cash acquired	14	(268,379)	—
Payment for acquisition deposits	10	(350,000)	—
Prepayment for purchase of right-of-use assets		—	(17,138)
Dividends received from a joint venture		42,425	41,954
Interest received		21,363	22,026
Payment for other investing activities		<u>—</u>	<u>(397)</u>
Net cash used in investing activities		<u>(1,382,058)</u>	<u>(145,372)</u>

	<i>Note</i>	2021	2020
Financing activities:			
Capital element of lease rentals paid		(54,320)	(53,754)
Interest element of lease rentals paid		(78,243)	(69,886)
Proceeds from loans and borrowings		8,483,368	5,666,907
Repayment of loans and borrowings		(8,166,627)	(5,824,106)
(Increase)/Decrease in pledged bank deposits		(5,898)	20,943
Dividends declared and paid to equity shareholders	<i>16(a)</i>	(460,916)	(412,939)
Dividends paid to non-controlling interests	<i>16(a)</i>	(13,640)	(6,726)
Proceeds from exercise of share options		11,104	16,110
Interest paid		(55,007)	(70,923)
Proceeds from changes in interests in subsidiaries without change in control		—	2,900
Advances from a related party		4,685	—
Proceeds from issuance of new shares, net of issuance expense		—	1,150,058
Capital injection by non-controlling interests		18,000	30,000
		<hr/>	<hr/>
Net cash (used in)/generated from financing activities		(317,494)	448,584
		<hr/>	<hr/>
Net increase in cash and cash equivalents		112,369	1,494,319
Cash and cash equivalents at 1 January		2,538,030	1,123,892
Effect of foreign exchange rate changes		(28,658)	(80,181)
Cash and cash equivalents at 31 December		2,621,741	2,538,030
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Notes to the financial statements

1 General information

China MeiDong Auto Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 24 February 2012 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in 4S dealership business in the People’s Republic of China (the “**PRC**”).

(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 (the “**HKICPA**”), accounting principles generally accepted in Hong Kong and the requirement 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 set out below.

The HKICPA has issued certain amendments HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries and the Group’s interests in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

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

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

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

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

The Group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022. The Group has early adopted the 2021 amendment in this financial year. There is no impact on the opening balance of equity at 1 January 2021.

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

2 Revenue and segment reporting

(a) Revenue

(i) *Disaggregation of revenue*

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— Sales of passenger vehicles	20,829,418	17,956,191
— After-sales services	2,747,271	2,251,255
	<u>23,576,689</u>	<u>20,207,446</u>

All revenue was recognised at a point in time.

(b) Segment reporting

HKFRS 8, *Operating Segments*, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the sales of passenger vehicles and provision of after-sales services.

(i) *Information about geographical area*

All of the Group's revenue is derived from the sales of passenger vehicles and provision of after-sales services in mainland China and the principal non-current assets employed by the Group are located in mainland China. Accordingly, no analysis by geographical segments has been provided for the reporting period.

(ii) *Information about major customers*

The Group's customer base is diversified and no customer with whom transactions have exceeded 10% of the Group's revenues.

3 Other revenue and other net income/(loss)

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Other revenue		
Insurance commission	134,998	118,953
Interest income	20,960	22,293
Management service income	12,100	10,720
	<u>168,058</u>	<u>151,966</u>
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Other net income/(loss)		
Net gain on disposal of property, plant and equipment	44,311	28,122
Net foreign exchange loss	(20,197)	(95,541)
Gain on a bargain purchase	29,714	—
Government subsidy	8,313	4,023
Penalty income	6,918	4,404
Others	9,887	2,634
	<u>78,946</u>	<u>(56,358)</u>
	<u>247,004</u>	<u>95,608</u>

4 Profit before taxation

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

	<i>Note</i>	2021 RMB'000	2020 RMB'000
(a) Finance costs:			
Interest on			
— loans and borrowings		44,370	54,938
— lease liabilities		78,243	69,886
Total interest expense		122,613	124,824
Other finance cost	<i>(i)</i>	10,664	12,116
		133,277	136,940
(b) Staff costs:			
Salaries, wages and other benefits		868,350	668,960
Equity settled share-based payment expenses	<i>(ii)</i>	4,130	10,046
Contributions to defined contribution retirement plans	<i>(iii)</i>	36,069	2,557
		908,549	681,563

- (i) It represents the interest expenses borne by the Group arising from discount of bills issued to automobile manufacturers.
- (ii) The Group recognised an expense of RMB4,130,000 for the year ended 31 December 2021 (2020: RMB10,046,000) in relation to share options granted to certain employees of the Group pursuant to a share option scheme.
- (iii) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

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 Group's contributions made to the defined contribution retirement scheme are non-refundable and cannot be used to reduce the future or existing level of contribution of the Group should any forfeiture be resulted from the schemes.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

(c) **Other items:**

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories	20,620,241	18,013,558
Depreciation		
— owned property, plant and equipment	160,538	134,983
— right-of-use assets	108,013	89,878
Amortisation of intangible assets	18,802	4,261
Lease expenses	6,037	6,051
Net foreign exchange loss	20,197	95,541
Auditors' remuneration	7,240	5,930
	<u><u> </u></u>	<u><u> </u></u>

5 Income tax in the consolidated statement of comprehensive income

(a) **Taxation in the consolidated statement of comprehensive income represents:**

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax:		
Provision for PRC income tax for the year	422,709	290,311
Deferred tax:		
Origination of temporary differences	(23,286)	(8,669)
	<u><u> </u></u>	<u><u> </u></u>
	<u><u>399,423</u></u>	<u><u>281,642</u></u>

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before taxation	<u>1,612,763</u>	<u>1,052,220</u>
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (i)	415,326	295,060
Tax effect of non-deductible expenses	4,560	2,316
Tax effect of non-taxable income on share of profits of a joint venture	(12,005)	(10,791)
Tax effect of unused tax losses not recognised, net of utilisation of tax losses for which no deferred tax asset was recognised in previous periods	(1,029)	(4,943)
Tax effect of non-taxable income on gain on bargain purchase	<u>(7,429)</u>	<u>—</u>
Actual tax expense	<u>399,423</u>	<u>281,642</u>

- (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.

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

The Group's PRC subsidiaries are subject to income tax at the statutory tax rate of 25%.

(c) Current taxation in the consolidated statement of financial position represents:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At the beginning of the year	127,751	92,127
Acquisition through business combination	7,329	—
Provision for current income tax for the year	422,709	290,311
Payment during the year	<u>(377,848)</u>	<u>(254,687)</u>
At the end of the year	<u>179,941</u>	<u>127,751</u>

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB1,165,640,000 (2020: RMB750,558,000) and the weighted average of 1,245,142,000 ordinary shares in issue (2020: 1,206,967,000 shares) during the year ended 31 December 2021.

Weighted average number of ordinary shares

	2021	2020
Issued ordinary shares at 1 January	1,244,521,000	1,158,169,000
Effect of exercise of share options	621,000	3,651,000
Effect of issuance of new shares	—	45,147,000
	<hr/>	<hr/>
Weighted average number of ordinary shares at 31 December	<u>1,245,142,000</u>	<u>1,206,967,000</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB1,165,640,000 (2020: RMB750,558,000) and the weighted average of 1,261,760,000 ordinary shares (2020: 1,223,261,000 ordinary shares) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's employee share option scheme during the year ended 31 December 2021.

Weighted average number of shares (diluted)

	2021	2020
Weighted average number of ordinary shares for the year ended 31 December	1,245,142,000	1,206,967,000
Effect of deemed issue of shares under the employee share option scheme	16,618,000	16,294,000
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted) at 31 December	<u>1,261,760,000</u>	<u>1,223,261,000</u>

7 Property, plant and equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Passenger vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2020	519,099	339,750	177,529	187,773	106,821	24,063	1,355,035
Additions	—	46,723	34,063	179,483	19,135	38,939	318,343
Transfer	—	36,117	5,972	—	—	(42,089)	—
Disposals	—	(61)	(2,868)	(134,940)	(1,321)	—	(139,190)
At 31 December 2020	519,099	422,529	214,696	232,316	124,635	20,913	1,534,188
At 1 January 2021	519,099	422,529	214,696	232,316	124,635	20,913	1,534,188
Additions	9,115	83,726	22,173	204,912	25,734	29,429	375,089
Acquisitions of subsidiaries (note 17)	68,640	—	2,558	12,788	4,764	—	88,750
Acquisition of asset (note 14)	61,212	—	33	592	759	—	62,596
Transfer	—	37,151	1,898	—	—	(39,049)	—
Disposals	(2,616)	(113)	(1,048)	(147,896)	(5,006)	—	(156,679)
At 31 December 2021	655,450	543,293	240,310	302,712	150,886	11,293	1,903,944
Accumulated depreciation:							
At 1 January 2020	115,490	61,727	55,248	39,587	47,924	—	319,976
Charge for the year	19,916	29,190	18,792	47,963	19,122	—	134,983
Written back on disposals	—	(27)	(2,200)	(37,403)	(1,077)	—	(40,707)
At 31 December 2020	135,406	90,890	71,840	50,147	65,969	—	414,252
At 1 January 2021	135,406	90,890	71,840	50,147	65,969	—	414,252
Charge for the year	23,616	33,481	21,634	61,368	20,439	—	160,538
Written back on disposals	(670)	(42)	(712)	(46,558)	(4,282)	—	(52,264)
At 31 December 2021	158,352	124,329	92,762	64,957	82,126	—	522,526
Net book value:							
At 31 December 2021	497,098	418,964	147,548	237,755	68,760	11,293	1,381,418
At 31 December 2020	383,693	331,639	142,856	182,169	58,666	20,913	1,119,936

The Group's property, plant and equipment are located in the PRC.

The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB248,379,000 as at 31 December 2021 (2020: RMB248,361,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2021.

Property, plant and equipment with net book value of RMB65,130,000 are pledged as security for bank loans as at 31 December 2021 (2020: RMB65,694,000).

8 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 2020	117,514	773,079	890,593
Additions	—	550,391	550,391
At 31 December 2020	117,514	1,323,470	1,440,984
Additions	191	97,597	97,788
Acquisitions of subsidiaries (<i>note 17</i>)	53,757	—	53,757
Acquisition of asset	244,504	—	244,504
Derecognition	—	(8,611)	(8,611)
At 31 December 2021	415,966	1,412,456	1,828,422
Accumulated amortisation:			
At 1 January 2020	(3,402)	(61,415)	(64,817)
Charge for the year	(3,491)	(86,387)	(89,878)
At 31 December 2020	(6,893)	(147,802)	(154,695)
Charge for the year	(9,089)	(98,924)	(108,013)
Reversal for derecognition	—	3,095	3,095
At 31 December 2021	(15,982)	(243,631)	(259,613)
Net book value:			
At 31 December 2021	399,984	1,168,825	1,568,809
At 31 December 2020	110,621	1,175,668	1,286,289

In May 2021, the Group entered into an agreement with a third party, pursuant to which the Group agreed to acquire 100% equity interest in Dongguan Jielin Property Investment Co., Ltd. (“**Dongguan Jielin**”). The transaction was completed on 1 July 2021 with a total consideration of RMB317,428,000. Given that the acquisition only included the land use right and other identifiable assets with no critical process and workforce with skills acquired, the transaction was recognised as an asset acquisition instead of business combination in accordance with the accounting policy. Further details of the transaction are set out in note 14.

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

	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights	9,089	3,491
Properties and land leased for own use	98,924	86,387
	<u>108,013</u>	<u>89,878</u>
Interest on lease liabilities (<i>note 4(a)</i>)	78,243	69,886
Expense relating to short-term leases and other leases with remaining lease term ended on or before 31 December 2020 (<i>note 4(c)</i>)	6,037	7,194
COVID-19-related rent concessions received	—	(1,143)
Derecognition of right-of-use assets	3,338	—

During the year, additions to right-of-use assets were RMB396,049,000 (2020: RMB550,391,000). This amount included the additions to land use rights through acquisitions of subsidiaries and asset acquisition of RMB298,261,000 and the remainder primarily related to the capitalised lease payments payable under new tenancy agreements.

As disclosed in note 1(c), the Group has early adopted the Amendment to HKFRS 16, Leases, Covid-19-Related Rent Concessions, and applies the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period.

(i) Land use rights

Land in respect of land use rights are all located in the PRC with a remaining lease period of 33–40 years when acquired.

Land use rights with net book value of RMB54,411,000 are pledged as security for bank loans as at 31 December 2021 (2020: RMB64,433,000).

(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.

Some leases include an option to terminate the lease before the end of the contract term. The Group considers it reasonably certain not to exercise the option to early terminate at lease commencement date.

9 Intangible assets

The Group

	Car dealership <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At 1 January 2020	73,047	8,648	81,695
Additions	<u>—</u>	<u>398</u>	<u>398</u>
At 31 December 2020	73,047	9,046	82,093
At 1 January 2021	73,047	9,046	82,093
Acquisitions of subsidiaries (<i>note 17</i>)	<u>503,478</u>	<u>—</u>	<u>503,478</u>
At 31 December 2021	576,525	9,046	585,571
Accumulated amortisation:			
At 1 January 2020	(12,481)	(3,906)	(16,387)
Charge for the year	<u>(3,652)</u>	<u>(609)</u>	<u>(4,261)</u>
At 31 December 2020	(16,133)	(4,515)	(20,648)
At 1 January 2021	(16,133)	(4,515)	(20,648)
Charge for the year	<u>(18,179)</u>	<u>(623)</u>	<u>(18,802)</u>
At 31 December 2021	(34,312)	(5,138)	(39,450)
Net book value:			
At 31 December 2021	<u><u>542,213</u></u>	<u><u>3,908</u></u>	<u><u>546,121</u></u>
At 31 December 2020	<u><u>56,914</u></u>	<u><u>4,531</u></u>	<u><u>61,445</u></u>

The car dealership arises from the Group's relationship with the automobile manufacturer, with an estimated useful life of 20 years. The fair value of the car dealership as at the acquisition date was determined by using the multiple-period excess earning method.

10 Other non-current assets

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Prepayments for property, plant and equipment, intangible assets and right-of-use assets	5,191	11,368
Long-term deposits and receivables	66,922	63,933
Prepayments for acquisition (<i>note 18(d)</i>)	350,000	—
	<u>422,113</u>	<u>75,301</u>

The prepayment for acquisition represented non-refundable deposit paid to Wearnes-StarChase Limited, which would be deducted from the consideration for the acquisition of Starchase Motorsports Limited as mentioned in note 18 (d).

11 Goodwill

	<i>RMB'000</i>
Cost:	
At 1 January 2020, 31 December 2020 and 1 January 2021	—
Goodwill arising from business combinations:	
— Guangan Zongshen (<i>note 17</i>)	—
— Tangshan Lexus (<i>note 17</i>)	32,924
— Nanjing Meidong (<i>note 17</i>)	145,767
	<u>178,691</u>
At 31 December 2021	<u>178,691</u>
Accumulated impairment losses:	
At 31 December 2021	<u>—</u>
Carrying amount:	
At 31 December 2021	<u>178,691</u>

Impairment tests for cash-generating units containing goodwill

The goodwill arose from the acquisition of following business is allocated to the following CGU.

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Tangshan Lexus	32,294	—
Nanjing Meidong	145,767	—

As at 31 December 2021, management performed impairment tests for the goodwill and the recoverable amounts of the respective CGUs have been determined based on the value-in-use calculations.

The recoverable amount of CGUs are determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year-period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2.5% which does not exceed the long-term average growth rate for the business in which the GGUs operates. The cash flows are discounted using discount rate of 15.0% for both Tangshan Lexus and Nanjing Meidong, which reflect specific risks relating to the relevant business.

12 Inventories

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Motor vehicles	222,853	375,721
Others	132,403	119,581
	<u>355,256</u>	<u>495,302</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Carrying amount of inventories sold	<u>20,620,241</u>	<u>18,013,558</u>

13 Trade and other receivables

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	181,230	129,076
Prepayments	921,918	671,657
Other receivables and deposits	709,147	711,907
	<hr/>	<hr/>
Amounts due from third parties	1,812,295	1,512,640
Amounts due from related parties	4,864	5,076
	<hr/>	<hr/>
Trade and other receivables	<u><u>1,817,159</u></u>	<u><u>1,517,716</u></u>

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group, insurance commission receivables from insurance companies and warranty receivables from automobile manufacturers. The mortgage is normally settled within one month directly by major financial institutions. While for the receivables from insurance companies and automobile manufacturers, risk of default is considered low, as these are either reputable companies or 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.

Credit risk in respect of prepayments and other receivables and deposits is limited since the counterparties are mainly reputable automobile manufacturers.

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables) based on the invoice date that are neither individually nor collectively considered to be impaired is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 1 month	170,114	115,010
1 to 2 months	8,986	8,348
2 to 3 months	1,145	1,570
Over 3 months	985	4,148
	<hr/>	<hr/>
	<u><u>181,230</u></u>	<u><u>129,076</u></u>

14 Net cash outflow arising from asset acquisition

The recognised amounts of assets acquired and liabilities at the date of acquisition comprise the followings:

	2021 RMB'000
Land use right (<i>note 8</i>)	244,504
Buildings (<i>note 7</i>)	61,212
Trade and other receivables	120
Other payables and accrued charges	(7,841)
Cash	18,049
Other equipments	1,384
	<hr/>
Total consideration	317,428
Less: consideration payable	(31,000)
	<hr/>
Consideration paid in cash	286,428
	<hr/>
Less: cash acquired	(18,049)
	<hr/>
	268,379

15 Trade and other payables

	2021 RMB'000	2020 RMB'000
Trade payables	167,988	190,274
Bills payable	1,501,292	905,771
	<hr/>	<hr/>
	1,669,280	1,096,045
	<hr/>	<hr/>
Contract liabilities	711,100	763,082
Other payables and accruals	396,184	216,406
	<hr/>	<hr/>
Amounts due to third parties	2,776,564	2,075,533
	<hr/>	<hr/>
Amounts due to related parties	11,034	6,378
	<hr/>	<hr/>
Trade and other payables	2,787,598	2,081,911

(a) All trade and other payables are expected to be settled within one year.

- (b) As of the end of the reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2021	2020
	RMB'000	<i>RMB'000</i>
Within 3 months	1,603,975	1,005,784
After 3 months but within 6 months	65,305	90,261
	<u>1,669,280</u>	<u>1,096,045</u>

16 Capital, reserves and dividends

(a) Dividends

- (i) Dividends payable to equity shareholders of the Company attributable to the year:

	2021	2020
	RMB'000	<i>RMB'000</i>
Interim dividend for the year, approved and paid during the year, of RMB0.1293 per ordinary share (2020: RMB0.1451 per ordinary share)	<u>160,986</u>	<u>180,435</u>

	2021	2020
	RMB'000	<i>RMB'000</i>
Final dividend proposed after the statement of financial position date of RMB0.6991 per ordinary share (2020: RMB0.241 per ordinary share)	<u>888,114</u>	<u>299,930</u>

The final dividend proposed after the statement of financial position date has not been recognised as a liability at the statement of financial position date.

- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2021	2020
	RMB'000	<i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.241 per ordinary share (2020: RMB0.2 per ordinary share)	<u>299,930</u>	<u>232,504</u>

(iii) Other dividends

During the year ended 31 December 2021, subsidiaries of the Group declared and paid dividends of RMB13,640,000 (2020: RMB6,726,000) in cash to non-controlling interests.

(b) Share capital

The share capital of the Group as at 31 December 2021 represented the amount of issued and paid-up capital of the Company with details set out below:

Authorised:

			2021		2020	
			Number of	Nominal value	Number of	Nominal value
	Note	Par value	shares	of ordinary	shares	of ordinary
		HK\$	(thousand)	shares	(thousand)	shares
				HK\$'000		HK\$'000
At 31 December	(i)	0.1	<u>20,000,000</u>	<u>2,000,000</u>	<u>20,000,000</u>	<u>2,000,000</u>

Ordinary shares, issued and fully paid:

	Number of	Nominal value of
	ordinary shares	ordinary shares
	(thousand)	HK\$'000
At 1 January 2020	1,158,169	115,817
Issue of ordinary shares upon exercise of share options	5,352	535
Issuance of new shares	<u>81,000</u>	<u>8,100</u>
At 31 December 2020 and 1 January 2021	1,244,521	124,452
Issue of ordinary shares upon exercise of share options	3,346	335
At 31 December 2021	<u>1,247,867</u>	<u>124,787</u>
RMB equivalent ('000) at 31 December 2021		<u>99,520</u>
RMB equivalent ('000) at 31 December 2020		<u>99,245</u>

(i) *Authorised share capital*

The Company was incorporated on 24 February 2012 with an authorised share capital of HK\$10,000,000 divided into 100,000,000 ordinary shares of HK\$0.1 each. Pursuant to a resolution dated 16 October 2013 passed by its sole shareholder, Apex Sail Limited, the authorised share capital of the Company was increased from HK\$10,000,000 to HK\$2,000,000,000 by the creation of 19,900,000,000 new share of HK\$0.1 each.

17 Acquisition of subsidiaries

(a) **Acquisition of Guangan Zhongshan Baotai Automotive Sales and Service Co., Ltd.**

In January 2021, the Group entered into an agreement with a third party, Zongshen Industrial Group Co., Ltd., (“**Zongshen Group**”), pursuant to which the Group agreed to acquire 100% equity interest in Guangan Zongshen Baotai Automotive Sales and Service Co., Ltd. (“**Guangan Zongshen**”). The transaction was completed on 22 January 2021 with a total consideration of RMB60,270,000.

The principal activity of Guangan Zongshen is 4S dealership business. The acquisition was accounted for under the acquisition method. The acquisition of Guangan Zongshen was aimed at allowing the Group to diversify its business locations and broaden the revenue in BMW dealership business.

(i) The acquisition had the following effect on the Group’s assets and liabilities:

	Pre-acquisition Carrying amount <i>RMB'000</i>	Fair value adjustment <i>RMB'000</i>	Recognised value on acquisition <i>RMB'000</i>
Car dealership (<i>note 9</i>)	—	71,940	71,940
Land use right (<i>note 8</i>)	5,611	10,729	16,340
Buildings (<i>note 7</i>)	20,393	407	20,800
Other net identifiable assets	(334)	2,676	2,342
Deferred tax liabilities	—	(21,438)	(21,438)
	<u>25,670</u>	<u>64,314</u>	<u>89,984</u>
Net identified assets			<u>89,984</u>
Percentage attributable to the Group			100%
Net identified assets attributable to the Group			89,984
Gain on a bargain purchase (<i>note 3</i>)			(29,714)
Total consideration in cash			<u>60,270</u>
Analysis of the net cash flow in respect of the acquisition			
Less: cash acquired			<u>(7,689)</u>
Net cash outflow in acquisition			<u>52,581</u>

The gain on a bargain purchase arising from the acquisition of Guangan Zongshen was RMB29,714,000.

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

(ii) *Impact of acquisition on the results of the Group*

The post-acquisition revenue and profit that Guangan Zongshen contributed to the Group during the year ended 31 December 2021 are RMB257,632,000 and RMB7,948,000, respectively.

Had the acquisition occurred on 1 January 2021, management estimates that the Group's consolidated revenue and consolidated profit for the year ended 31 December 2021 would have been RMB23,600,690,000 and RMB1,214,131,000 respectively.

(b) *Acquisition of Nanjing Tangshan Xiezhong Lexus Automotive Sales and Service Co., Ltd.*

In January 2021, the Group entered into an agreement with a third party, Yueqing Chenyou Technology Development Co., Ltd. ("**Yueqing Chenyou**"), pursuant to which the Group agreed to acquire 100% equity interest in Nanjing Tangshan Xiezhong Lexus Automotive Sales and Service Co., Ltd. ("**Tangshan Lexus**"). The transaction was completed on 9 February 2021 with a consideration of RMB250,000,000, of which RMB50,000,000 was provisional upon transfer of legal entities of certain land use rights to the Group pursuant to the agreement.

The above provisional consideration was initially presented as a financial liability and measured at its fair value at the acquisition date.

As at 30 June 2021, legal titles of certain land use rights had not been transferred to the Group as agreed, and the Group reached a supplementary agreement with Yueqing Chenyou to extend the fulfilment of such transfer to the end of July 2021. As at 31 July 2021, Yueqing Chenyou did not manage to transfer legal titles of certain land use rights to the Group and consequently the provisional consideration of RMB50,000,000 ceased to be payable.

The principal activity of Tangshan Lexus is 4S dealership business. The acquisition was accounted for under the acquisition method. The acquisition of Tangshan Lexus was aimed at allowing the Group to extend its business locations in east area and generate more revenue in Lexus dealership business.

- (i) The acquisition had the following effect on the Group’s assets and liabilities, after taking into account the measurement period adjustment:

	Pre-acquisition Carrying amount <i>RMB'000</i>	Fair value adjustment <i>RMB'000</i>	Recognised value on acquisition <i>RMB'000</i>
Car dealership (<i>note 9</i>)	—	128,133	128,133
Land use right (<i>note 8</i>)	17,629	19,788	37,417
Buildings (<i>note 7</i>)	24,574	246	24,820
Other net identifiable assets	13,129	825	13,954
Deferred tax liabilities	—	(37,248)	(37,248)
	<u>55,332</u>	<u>111,744</u>	<u>167,076</u>
Net identified assets			<u>167,076</u>
Percentage attributable to the Group			100%
Net identified assets attributable to the Group			167,076
Goodwill (<i>note 11</i>)			32,924
Total consideration in cash			<u>200,000</u>
Analysis of the net cash flow in respect of the acquisition			
Cash consideration paid			200,000
Less: cash acquired			<u>(8,082)</u>
Net cash outflow in acquisition			<u>191,918</u>

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

(ii) ***Impact of acquisition on the results of the Group***

The revenue and profit that Tangshan Lexus contributed to the Group during the year ended 31 December 2021 are RMB141,027,000 and RMB7,144,000 respectively.

Had the acquisition occurred on 1 January 2021, management estimates that the Group’s consolidated revenue and consolidated profit for the year ended 31 December 2021 would have been RMB23,583,317,000 and RMB1,211,258,000 respectively.

(c) **Acquisition of Nanjing Xiezhong Lexus Automotive Sales and Service Co., Ltd**

In August 2021, the Group entered into an agreement with a third party, Yueqing Youxu Industrial Co., Ltd., (“**Yueqing Youxu**”), pursuant to which the Group agreed to acquire 100% equity interest in Nanjing Xiezhong Lexus Automotive Sales and Service Co., Ltd. (“**Nanjing Xiezhong**”). The transaction was completed on 25 August 2021 with a total consideration of RMB420,000,000 and then Nanjing Xiezhong changed the name to Nanjing Meidong Lexus Automobile Sales and Service Co., Ltd. (“**Nanjing Meidong**”).

The principal activity of Nanjing Meidong is 4S dealership. The acquisition was accounted for under the acquisition method. The acquisition of Nanjing Meidong was aimed at allowing the Group to expand Lexus market share in east area.

(i) The acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition Carrying amount	Fair value adjustment	Recognised value on acquisition
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Car dealership (<i>note 9</i>)	—	303,405	303,405
Buildings (<i>note 7</i>)	23,020	—	23,020
Other net identifiable assets	23,659	—	23,659
Deferred tax liabilities	—	(75,851)	(75,851)
	<u>46,679</u>	<u>227,554</u>	<u>274,233</u>
Net identified assets			<u>274,233</u>
Percentage attributable to the Group			100%
Net identified assets attributable to the Group			274,233
Goodwill (<i>note 11</i>)			145,767
Total consideration in cash			<u>420,000</u>
Analysis of the net cash flow in respect of the acquisition			
Cash consideration payable			42,000
Cash consideration paid			378,000
Less: cash acquired			<u>(9,164)</u>
Net cash outflow in acquisition			<u>368,836</u>

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

(ii) ***Impact of acquisition on the results of the Group***

The revenue and profit that Nanjing Meidong contributed to the Group during the year ended 31 December 2021 are RMB140,905,000 and RMB11,085,000 respectively.

Had the acquisition occurred on 1 January 2021, management estimates that the Group's consolidated revenue and consolidated profit for the year ended 31 December 2021 would have been RMB23,914,039,000 and RMB1,219,190,000 respectively.

18 Non-adjusting events the reporting period

(a) Final dividend

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 16(a).

(b) Placement of new shares

On 6 January 2022, the Company placed 22,500,000 new ordinary shares with at the subscription price of HK\$34.63 per share. The Company completed placement on 13 January 2022 and received approximately HK\$771.09 million after deducting the relevant placement costs.

(c) Issue of convertible bonds

On 14 January 2022, Sail vantage Limited, a subsidiary of the Company issued Hong Kong dollar-denominated zero coupon convertible bonds to third parties in an aggregate principal amount of HK\$2,750,000,000 guaranteed by the Company and with a maturity period of five years to 13 January 2027.

The convertible bonds can be converted (unless previously redeemed, converted or purchased and cancelled) on or after 23 February 2022 up to the 10th day prior to 13 January 2027 (both days inclusive) into fully paid ordinary shares of the Company with a nominal value of HK\$0.10 each at an initial conversion price of HK\$46.75 per share.

(d) Business acquisition

Pursuant to an acquisition agreement signed with a third party, namely Wearnes-StarChase Limited on 13 December 2021, the Company has conditionally agreed to acquire all issued shares of Starchase Motorsports Limited for a total cash consideration of RMB3,700,000,000, adjusted subject to the terms and conditions of the acquisition agreement. In December, the Company has paid an acquisition deposit of RMB350,000,000. Transaction is currently in progress.

MANAGEMENT DISCUSSION AND ANALYSIS

2021 was a year full of challenges for the automobile industry. The lingering impact of the pandemic and the shortage of chips during the year have put enormous pressure on automobile companies. Sales volume of passenger vehicles fell sharply in the third quarter as a result of the low chips supply, yet sales began to pick up in the fourth quarter. According to the data from the China Association of Automobile Manufacturers, the cumulative sales volume of China's overall passenger vehicles market in 2021 increased by 6.5% year-over-year (yoy) to 21.482 million units, ending the three-year downward trend since 2018. Among them, the sales of basic passenger cars (sedans) increased by 7.1% yoy to 9.934 million units, and sports utility vehicles (SUVs) increased by 6.8% yoy to 10.101 million units. The premium brands that have been growing rapidly in recent years were also affected by the shortage of chips, and their sales slowed down. According to the data of the China Passenger Car Association, the sales volume of premium brand vehicles in China in 2021 increased by 4.9% yoy to 2.652 million units.

BUSINESS AND FINANCIAL REVIEW

For the year ended 31 December 2021 (the “**Year**”), the Company maintained its growth momentum despite the volatile economic environment. During the Year, the Group recorded satisfactory growth across revenue, gross profit, net profit and operating cash flow. Its inventory turnover days also reached a historic low, reflecting the benefits of its efficiency-driven operating strategies.

Revenue

During the Year, the Group recorded a revenue of approximately RMB23,576.7 million (2020: approximately RMB20,207.4 million), representing an increase of approximately 16.7% yoy. Revenue from new passenger vehicles sales increased by approximately 16.0% yoy to approximately RMB20,829.4 million (2020: approximately RMB17,956.2 million), accounting for approximately 88.3% (2020: approximately 88.9%) of total revenue. Revenue from after-sales services increased by approximately 22.0% yoy to approximately RMB2,747.3 million (2020: approximately RMB2,251.3 million), accounting for approximately 11.7% (2020: approximately 11.1%) of total revenue.

Cost of Sales

Cost of sales increased by approximately 14.5% from approximately RMB18,172.0 million in 2020 to approximately RMB20,806.2 million for the Year. The increase in cost of sales was mainly due to the growth of the Group's two major business segments, namely new passenger vehicles sales and after-sales services. Among which, the cost of sales for new passenger vehicles sales and after-sales services increased by approximately 14.4% and 15.5% respectively.

Gross Profit

During the Year, gross profit increased by approximately 36.1% yoy from approximately RMB2,035.5 million in 2020 to approximately RMB2,770.5 million, driven by the steady growth in total revenue and the significant growth in the gross profit margins of new passenger vehicles sales and after-sales services. Overall gross profit margin increased by approximately 1.7 percentage points to approximately 11.8% (2020: approximately 10.1%). Among which, gross profit margin of new passenger vehicles sales increased significantly by approximately 1.3 percentage point to approximately 6.8% (2020: 5.5%), and that of after-sales services also increased substantially by approximately 2.8 percentage points from approximately 46.3% for 2020 to approximately 49.1%.

Costs and Expenses

During the Year, the Group continued to enhance its operational efficiency. Distribution costs amounted to approximately RMB741.0 million. Administrative expenses amounted to approximately RMB578.5 million. Finance costs amounted to approximately RMB133.3 million. The increase in costs and expenses was far lower than the growth of profit.

Taxation

During the Year, the Group's income tax expenses amounted to approximately RMB399.4 million, representing an increase of approximately 41.8% as compared to approximately RMB281.6 million for the same period of last year. The increase in income tax expenses was mainly due to the increase in profit before tax.

Profit for the Year

Leveraging its efficient inventory management and extensive management experience, coupled with effective cost control initiatives, the Group was able to achieve significant growth amidst the complex and ever-changing automobile market. Profit for the Year increased by approximately 57.4% to approximately RMB1,213.3 million (2020: approximately RMB770.6 million). Net profit margin for the Year increased substantially by 1.3 percentage point from approximately 3.8% for 2020 to approximately 5.1%.

Dividend

The interim dividend for 2021 was RMB0.1293 per ordinary share (“**Share**”). The Board recommended a final dividend of RMB0.6991 per Share for the year ended 31 December 2021 (2020: RMB0.2410 per Share). Taking into account the final dividend recommended, the dividend paid for the Year increased significantly to RMB0.8284 (2020: RMB0.3861), 2.15 times of the prior year, representing a payout ratio of approximately 90.0% (2020: 64.0%).

A Joint Venture

During the Year, share of profit of a joint venture amounted to approximately RMB48.0 million, representing an increase of approximately 11.1% as compared to approximately RMB43.2 million for the same period of the prior year.

New Passenger Vehicles Sales

During the Year, benefiting from the improved sales efficiency and remarkable performance of sales of premium brand vehicles, however, constrained by the supply shortage, the revenue of new passenger vehicles sales amounted to approximately RMB20,829.4 million (2020: approximately RMB17,956.2 million), indicating an increase of approximately 16.0% as compared to the same period of the prior year. Sales of vehicles of premium brand remained as the major revenue source of the Group, accounting for approximately 86.6% of total new passenger vehicles sales. BMW, Porsche and Lexus recorded sales of new passenger vehicles sales of approximately RMB8,792.2 million, RMB4,852.7 million and RMB4,270.3 million respectively, accounting for approximately 42.2%, 23.3% and 20.5% of total new passenger vehicles sales respectively. In terms of sales volume, despite of the supply shortage, the Group sold 61,595 new passenger vehicles in total, representing an increase of 7.7% yoy. BMW, Porsche and Lexus recorded sales volume of 24,964 units, 5,708 units and 11,699 units, respectively.

After-Sales Services

During the Year, driven by new stores and same store growth, the after-sales service business of the Group continued to grow. Revenue of after-sales services was approximately RMB2,747.3 million, representing an increase of approximately 22.0% as compared to that for the prior year (2020: approximately RMB2,251.3 million). The contribution from after-sales services increased to approximately 11.7% of the total revenue (2020: approximately 11.1%). The total number of vehicles served was 651,375 units, representing an increase of approximately 26.9% yoy. The gross profit margin from after-sales services recorded a strong increase by approximately 2.8 percentage points yoy to approximately 49.1%.

Current Network

The Group continued to implement its highly effective premium brand focus and expanded its distribution network in line with its “Single City Single Store” strategy. In 2021, the Group opened 4 new stores and acquired 3 new stores, with 70 self-operated stores as of 31 December 2021, situated in provinces and cities such as Beijing, Hebei, Hubei, Hunan, Jiangxi, Fujian, Guangdong, Gansu and Anhui, including a joint venture operated by the Group.

As at 31 December 2021, the number of stores operated by the Group (including a joint venture operated by the Group) was as follows:

Number of stores under operation	2021	2020	Change
Porsche	9	7	+2
BMW	27	26	+1
Lexus	19	16	+3
Toyota	13	12	+1
Hyundai	1	1	—
Audi	1	1	—
	<hr/>	<hr/>	<hr/>
Total	70	63	+7

Liquidity, Financial Resources and Position

As at 31 December 2021, total equity of the Group amounted to approximately RMB4,116.6 million (31 December 2020: approximately RMB3,344.6 million), current asset amounted to approximately RMB5,563.1 million (31 December 2020: approximately RMB5,109.6 million), and current liabilities amounted to approximately RMB4,089.5 million (31 December 2020: approximately RMB3,060.6 million).

As at 31 December 2021, the Group’s loans and borrowings amounted to approximately RMB1,288.9 million, representing an increase of approximately 35.5% as compared to approximately RMB951.4 million as of 31 December 2020, of which, comprising short-term loans and borrowings amounted to approximately RMB989.5 million, long-term loans and borrowings amounted to approximately RMB299.4 million.

As at 31 December 2021, cash and cash equivalents and pledged bank deposits amounted to approximately RMB3,390.7 million. Most of the cash and cash equivalents and pledged bank deposits were denominated in Renminbi and Hong Kong Dollars. Apart from part of the cash that is denominated in Hong Kong Dollars, the Group's business operations locate principally in China and a majority of its transactions are all denominated in Renminbi. Therefore, the Group expects its foreign exchange risks will have minimal effect on its normal operations and business. For the Year, the Group did not employ any significant financial instruments such as forward foreign exchange contracts, nor did it employ any major financial instruments for hedging purposes.

The operating and capital expenditure of the Group is funded by cash flow from operations, internal cash flow and financing agreements with banks and financing companies of automobile manufacturers. The Group has adequate financial resources to meet all contractual obligations and operating requirements.

Contingent Liabilities

As at 31 December 2021, the Group did not have any significant contingent liabilities.

Significant Investments, Material Acquisition and Disposals

During the Year, the Group entered into the following material acquisitions.

On 12 August 2021, Dongguan Meixin Business Consulting Co., Ltd. (an indirect wholly-owned subsidiary of the Company) acquired 100% equity interests in Nanjing Xiezhong Lexus Automobile Sales and Services Co., Ltd. ("**Nanjing Xiezhong**") (南京協眾雷克薩斯汽車銷售服務有限公司) for a total cash consideration of RMB420 million. Nanjing Xiezhong is an automobile dealership company in the PRC and operates automobile brand of Lexus. Its principal business activities include (i) sales of Lexus-branded automobiles; (ii) after-sale services; (iii) sales of automobiles parts and accessories; (iv) renovation and modification of automobiles; and (v) organizing exhibition and promotion. The acquisition has completed in August 2021 and Nanjing Xiezhong has become an indirect wholly-owned subsidiary of the Company.

On 13 December 2021, the Company entered into a sale and purchase agreement with Wearnes-StarChase Limited, pursuant to which the Company has conditionally agreed to acquire all issued shares of Starchase Motorsports Limited (the “**Target Company**”, together with its subsidiaries the “**Target Group**”) at a consideration of RMB3,700,000,000 (subject to adjustment). The Target Group is an automobile dealership group in the PRC, which operates Porsche automobile brand and has 7 4S dealership stores in seven cities of in the PRC, namely, Nanjing, Qingdao, Tianjin, Chongqing, Weifang, Jinan and Zhengzhou. The Target Company will become a wholly-owned subsidiary of the Company upon completion of the acquisition. For further information, please refer to the announcement of the Company dated 13 December 2021.

Pledged Assets of the Group

As at 31 December 2021, the Group used property, plant and equipment, right-of-use assets, inventories, trade and other receivables, and total pledged bank deposits of RMB326.7 million (31 December 2020: approximately RMB434.8 million) as collateral for certain loans and borrowings.

PROSPECTS

Looking forward to 2022, chip shortage and geopolitical environment will continue to bring uncertainties to the supply chain. The Group will continue to improve operational efficiency, optimize revenue structure, enhance service standards, and strictly manage its balance sheet as well as cash flow through efficient data management, so as to ensure long-term stable development of the Group. The Group will also continue to adopt a prudent management approach to gradually implement the merger and acquisition strategy based on factors including (1) familiar brands, (2) reasonable valuation, and (3) appropriate locations, so as to further expand its business scope and maintain sustainable growth. In addition to focusing on its core business development, the Group has formulated long-term ESG strategies to ensure sustainable development, including but not limited to, (1) the promotion of environment conservation, (2) the establishment of a responsible supply chain, (3) the creation of a diverse workplace, (4) care for the underprivileged community, etc. The Group will make its best efforts in the environment, society and corporate governance areas to become a socially responsible corporate. The Group will continue to maintain its interactions and cooperation with employees, investors, suppliers and the community for a sustainable and promising future.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year until the date of this announcement.

USE OF PROCEEDS FROM PRIOR YEAR

In June 2020, the Company placed 81,000,000 new Shares at the subscription price of HK\$15.84 per Share. The Company received approximately HK\$1,262,000,000 after deducting placement cost in respect of it. It was intended the said net proceeds from the subscription would be used as follows: (i) approximately HK\$883,400,000 (representing approximately 70% of the net proceeds) for opportunistic mergers and acquisitions purpose; and (ii) approximately HK\$378,600,000 (representing approximately 30% of the net proceeds) as general working capital of the Group. As at the date of this announcement, none of the net proceeds from the subscription has been used.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions as set out in the Corporate Governance Code (the “**Code**”) as contained in Appendix 14 to the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) in force during the Year. Details of the corporate governance of the Group will be set out in the section headed “Corporate Governance Report” in the annual report of the Company for the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as the code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiries by the Company, that they have complied with the required standards set out in the Model Code throughout the Year.

AUDIT COMMITTEE

The Company has an audit committee (the “**Audit Committee**”) which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process, risks management and internal controls. The Audit Committee has three members comprising three independent non-executive directors, being Mr. CHEN Guiyi, Mr. WANG, Michael Chou and Mr. JIP Ki Chi. The Audit Committee has reviewed the annual results of the Company for the year ended 31 December 2021.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated cash flow statement and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year. Pursuant to the Hong Kong Standards of on Auditing, Hong Kong Standard on Review Engagement or Hong Kong Standard on Assurance Engagements issued by the Auditing and Assurance Standards Committee of the Hong Kong, the work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the auditor on this announcement.

ANNUAL GENERAL MEETING

An annual general meeting of the Company (the "AGM") will be held on 24 May 2022. For details of the AGM, please refer to the notice of the AGM which is expected to be published on or about 21 April 2022.

FINAL DIVIDEND

The Board recommended the payment of a final cash dividend of RMB0.6991 per share (2020: RMB0.2410 per share) to shareholders whose names are on the register of members of the Company on 18 July 2022 (Monday), which is subject to approval by shareholders at the AGM and compliance with the Companies Law of the Cayman Islands. It is expected that the cheques for cash dividends will be sent by ordinary mail to shareholders at their own risk on 18 August 2022.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

1. from 19 May 2022 (Thursday) to 24 May 2022 (Tuesday), both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to attend and vote at the AGM. All completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 18 May 2022 (Wednesday); and

- from 15 July 2022 (Friday) to 18 July 2022 (Monday), both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to the final dividend to be approved at the AGM. All completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at the above address not later than 4:30 p.m. on 14 July 2022 (Thursday).

EVENTS AFTER THE REPORTING PERIOD

Issue of convertible bonds

In January 2022, Sail Vantage Limited (“**CB Issuer**”, a wholly-owned subsidiary of the Company) issued zero coupon guaranteed convertible bonds due 2027 with an aggregate principal amount of HK\$2,750,000,000 (convertible into Shares with an initial conversion price of HK\$46.75 per Share (subject to adjustments)), on the terms and conditions of a subscription agreement dated 6 January 2022 entered into between the CB Issuer, the Company, Goldman Sachs (Asia) L.L.C. and Morgan Stanley & Co. International plc. The Company has agreed to guarantee payment of all sums payable by the CB Issuer in relation to these convertible bonds. Listing of these convertible bonds commenced on the Stock Exchange on 14 January 2022.

Issue of shares under general mandate

On 6 January 2022, the Company, Apex Sail Limited (“**Apex Sail**”, as vendor of Shares), Goldman Sachs (Asia) L.L.C. and Morgan Stanley & Co. International plc (both as placing agent) entered into a placing and subscription agreement, under which (i) Apex Sail agreed to place 22,500,000 existing Shares at a placing price of HK\$34.63 per Share to places procured by the placing agents, and (ii) the Company agreed to issue 22,500,000 Shares to Apex Sail at a subscription price of HK\$34.63 per Share. The share placement and subscription have been completed in January 2022.

The net proceeds from the issue of convertible bonds and the issue of Shares under general mandate (after deducting applicable costs and expenses, including commission and levies) were approximately HK\$3,460 million in aggregate. The Company intends to use the net proceeds for business expansion, working capital and other general corporate purposes, including strategic investments and acquisitions. For further information, please refer to the announcement of the Company dated 6 January 2022.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2021 ANNUAL REPORT

This annual results announcement was published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) and on the website of the Company (<http://www.meidongauto.com>). The annual report of the Group for the year ended 31 December 2021, which contains all the information required under the Listing Rules, will be despatched to Shareholders and available on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to all the staff and management team for their contribution during the Year. I would also like to express my appreciation to the continuous support of our shareholders and investors.

By Order of the Board
YE Tao
Chief Executive Officer

Hong Kong, 30 March 2022

As at the date of this announcement, the Board comprises:

Executive Directors:

Mr. YE Fan (*Chairman*)
Mr. YE Tao (Chief Executive Officer)
Ms. LUO Liuyu

Independent Non-executive Directors:

Mr. CHEN Guiyi
Mr. WANG, Michael Chou
Mr. JIP Ki Chi