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China ZhengTong Auto Services Holdings Limited

中國正通汽車服務控股有限公司

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

(Stock Code: 1728)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

HIGHLIGHT OF RESULTS

Despite the enormous challenges of the market environment, the Group achieved good performance in the recovery of its principal business, the maintenance of its authorizations, business expansion, obtaining financing facilities, internal control management and talent cultivation under the guidance of its five-year strategic plan and the strong support of its state-owned shareholder, and recorded a significant decrease in loss which provided a solid foundation for the sustainable and quality development.

For the year ended 31 December 2022:

- The Group's revenue was approximately RMB22,607 million, representing an increase of approximately 7.7% as compared to the revenue of approximately RMB20,986 million in 2021.

- Overall gross profit was approximately RMB1,587 million, representing an increase of approximately 28.4% as compared to approximately RMB1,236 million in 2021. The overall gross profit margin was approximately 7.0% in 2022, representing an increase of approximately 1.1 percentage points as compared to approximately 5.9% in 2021.

- Profit from operations was approximately RMB834 million, representing an increase of approximately RMB1,791 million as compared with a loss from operations of approximately RMB957 million in 2021.

- Finance costs was approximately RMB1,007 million, representing a decrease of approximately 22.7% as compared to approximately RMB1,302 million in 2021.
- Loss for the year decreased by approximately 92.1% to approximately RMB297 million from approximately RMB3,781 million in 2021.

As at 31 December 2022:

- Net assets presented in the Company's financial statements was approximately RMB224 million, and the adjusted net assets, a non-GAAP financial measure*(note)*, was approximately RMB1,224 million (for reference only).

Note: 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 Xiamen ITG Holding Group Co., Ltd. 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 these non-GAAP financial measures has limitations as an analytical tool. These unaudited non-GAAP financial measures 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, these non-GAAP financial measures may be defined differently from similar terms used by other companies.

The board (the "**Board**") of directors (the "**Directors**") of China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (the "**Company**" or "**ZhengTong**", together with its subsidiaries, the "**Group**") is pleased to announce the Group's annual consolidated results for the year ended 31 December 2022:

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)	8、9	**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			
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)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)
For the year ended 31 December 2022
(Expressed in RMB'000)

	Note	For the year ended 31 December 2022 RMB'000	2021 RMB'000
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	*7*		
from continuing operations (RMB cents)		**(10.9)**	(81.3)
from discontinued operations (RMB cents)		**—**	(52.5)
		(10.9)	(133.8)

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)

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		**5,766,306**	5,688,860
Investment properties		**303,593**	115,631
Right-of-use assets		**2,606,585**	2,915,812
Intangible assets	*8*	**2,705,072**	2,631,734
Goodwill	*9*	**566,736**	566,736
Interest in associates	*10*	**15,341**	533,367
Deferred tax assets		**673,051**	616,626
Long-term receivables		**321,037**	270,075
Other financial assets		**944,947**	—
		13,902,668	13,338,841
Current assets			
Inventories	*11*	**4,064,270**	2,649,031
Trade and bills receivables	*12*	**907,442**	1,005,066
Prepayments, deposits and other receivables	*13*	**4,063,517**	4,294,473
Other financial assets		**103,561**	122,589
Pledged bank deposits		**3,957,215**	2,696,460
Time deposits		**—**	413,841
Cash and cash equivalents		**734,086**	208,771
Asset held for sale		**—**	1,400,714
		13,830,091	12,790,945
Current liabilities			
Loans and borrowings		**12,234,030**	14,776,527
Bonds payable		**—**	365,936
Lease liabilities		**363,493**	309,477
Trade and other payables	*14*	**5,827,775**	5,974,680
Income tax payables		**394,662**	414,378
Other financial liabilities		**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
At 31 December 2022
(Expressed in RMB'000)

		At 31 December	
	Note	**2022**	2021
		RMB'000	*RMB'000*
Non-current liabilities			
Loans and borrowings		**6,439,857**	1,519,457
Lease liabilities		**981,073**	1,169,334
Deferred tax liabilities		**989,261**	839,606
Trade and other payables	*14*	**186,648**	219,770
		8,596,839	3,748,167
NET ASSETS		**224,444**	540,621
CAPITAL AND RESERVES			
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

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; and

— derivative financial instruments.

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) Credit losses from financial guarantees issued

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

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

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

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

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

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

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

		For the year ended 31 December	
	Note	**2022**	2021
		RMB'000	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	*10*	**424,271**	—
Realised/unrealised gain/(loss) of other financial instruments		**242,654**	(116,775)
Gross rentals from investment properties		**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%).

	Note	For the year ended 31 December 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		**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.

	For the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
(c) Other items:		
Continuing operations:		
Cost of inventories *(note 11(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 8)*	**(232,426)**	189,562
— Property, plant and equipment	**(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	2021
	RMB'000	*RMB'000*
Current tax:		
Provision for income tax for the year	**73,849**	113,148
Deferred tax:		
Origination and reversal of temporary differences	**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	2021
	RMB'000	*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)

(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 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 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.

8 INTANGIBLE ASSETS

	Car dealerships & Dealership operation rights *RMB'000*	Favourable lease contracts *RMB'000*	Trademark *RMB'000*	Software *RMB'000*	Others *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 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.

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%).

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.

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).

9 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 8)*	**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

10 INTEREST IN ASSOCIATES

(i) Interest in Dongfeng Logistics Group Co., Ltd ("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. 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.

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	**For the year ended 31 December 2021**
	RMB'000	*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	2021
	RMB'000	*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

11 INVENTORIES

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

	At 31 December	
	2022	2021
	RMB'000	*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 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:

		For the year ended 31 December	
	Note	**2022**	2021
		RMB'000	*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.

12 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.

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

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		At 31 December	
	Note	**2022**	2021
		RMB'000	*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.

14 TRADE AND OTHER PAYABLES

	Note	At 31 December 2022 RMB'000	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		**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).

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).

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	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).

15 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.

16 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Liquidity risk

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

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

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

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

	At 31 December 2022					At 31 December 2021				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand	**More than 1 year but less than 5 years**	**More than 5 years**	**Total**	**Balance sheet carrying amount**	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	**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

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 and until 31 August 2021, and ceased to be a related party of the Group from 23 June 2022. Beijing Guangze holds 8.6758% and 4.3478% equity interest in Beijing Zunbaocheng and Beijing Baoze, respectively.

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

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

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

Pursuant to the First Instance Judgement, Beijing Guangze shall:

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

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.

17 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.

18 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.

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 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 the sustainable and quality development of the Group.

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.

I. 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 commercial vehicle 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.

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 distribution 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 the dealership stores.

(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 the 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 realize 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 warn 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 generating 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 generating 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 benefiting from 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 fact that 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 as disclosed in "Note 17 to the consolidated financial statements — Contingent liabilities" above.

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 Xiamen ITG Holding Group Co., Ltd. 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 these non-GAAP financial measures has limitations as an analytical tool. These unaudited non-GAAP financial measures 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, these non-GAAP financial measures 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.

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 in exchange rate.

Important Events After the End of the Financial Year

Other than as disclosed elsewhere in this announcement, 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 in a parcel of land located at the eastern side of Heping Road, Longhua Street, Longhua District in Shenzhen with a site area of approximately 31,260.44 square metres. 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.

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 for 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 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 stablises, 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 shall actively respond to and actively adapt to the development trends and directions of the automobile dealership industry, paying attention to the market opportunities arising from new energy and new dealership models, and taking the opportunity 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 expand on 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.

DIVIDEND

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

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.

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 and had achieved the goal of completing the 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 announcement, 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.

PROGRESS OF THE MATERIAL LEGAL PROCEEDINGS

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, who has resigned on 10 January 2022.

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, 30 March 2022, 24 June 2022, 20 July 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 27 to 29 of this announcement.

CORPORATE GOVERNANCE

The Company has adopted the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**CG Code**"). So far as the Board is aware, during the year ended 31 December 2022, the Company has complied with the provisions set out in the CG Code, except for the following deviations:

Code Provision C.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Wang Ming Cheng 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 Ming Cheng subsequently resigned as the Chief Executive Officer on 10 March 2022 and the role of Chief Executive Officer was taken up by Mr. Chen Hong. Save for their current and/or former employment with certain subsidiaries of the single largest shareholder of the Company, details of which are set out in the announcements of the Company in relation to their respective appointment dated 31 August 2021 and 10 March 2022, Mr. Wang Ming Cheng 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 period from 17 September 2021 to 10 March 2022 when the new Chief Executive Officer was appointed, the powers and authorities have not been concentrated as all major decisions have been made in consultation with the Board and appropriate Board committees, as well as senior management. In addition, there are three independent non-executive Directors on the Board offering their experience, expertise, independent advice and views from different perspectives. The Board is therefore of the view that there were adequate balance of power and safeguards in place. Since Mr. Chen Hong was appointed as the new Chief Executive Officer on 10 March 2022, there has been segregation of duties between the Chairman of the Board and the Chief Executive Officer.

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 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.

REVIEW OF ANNUAL RESULTS

The audit committee of the Board ("**Audit Committee**") comprises three independent non-executive Directors, namely, Dr. Wong Tin Yau, Kelvin (Chairman of the Audit Committee), Dr. Cao Tong and Ms. Wong Tan Tan. The Group's annual results for the year ended 31 December 2022 have been reviewed by the Audit Committee.

The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF RESULTS ANNOUNCEMENT

This results announcement is available for viewing on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com) and the annual report for the year ended 31 December 2022 of the Company containing all the information required by the Listing Rules will be despatched to the shareholders and published on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 30 March 2023

As at the date of this announcement, the Board comprises Mr. WANG Ming Cheng (Chairman), Mr. LI Zhi Huang and Mr. ZENG Ting Yi as executive Directors; and Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan as independent non-executive Directors.

* For identification purposes only