Sunfonda Group Holdings Limited
新豐泰集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01771

ANNUAL REPORT 2021

CONTENTS

CORPORATE INFORMATION

CHINESE NAME OF THE COMPANY

新豐泰集團控股有限公司

ENGLISH NAME OF THE COMPANY

Sunfonda Group Holdings Limited

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Mr. Wu Tak Lam *(Chairman of the Board)*
Ms. Chiu Man *(Chief Executive Officer)*
Mr. Gou Xinfeng
Ms. Chen Wei

Independent Non-executive Directors

Mr. Liu Jie
Mr. Song Tao
Dr. Liu Xiaofeng

AUDIT COMMITTEE

Mr. Liu Jie *(Chairman)*
Mr. Song Tao
Dr. Liu Xiaofeng

NOMINATION COMMITTEE

Mr. Wu Tak Lam *(Chairman)*
Mr. Liu Jie
Mr. Song Tao
Dr. Liu Xiaofeng

REMUNERATION COMMITTEE

Mr. Song Tao *(Chairman)*
Mr. Liu Jie
Dr. Liu Xiaofeng

FINANCE AND INVESTMENT COMMITTEE

Mr. Wu Tak Lam *(Chairman)*
Ms. Chiu Man
Mr. Liu Jie

AUTHORISED REPRESENTATIVES

Mr. Wu Tak Lam
Ms. Chan Sze Ting

COMPANY SECRETARY

Ms. Chan Sze Ting *(ACG, HKACG)*

HEADQUARTERS

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Xi'an City, Shaanxi Province
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PRC

STOCK CODE

01771

WEBSITE

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FINANCIAL HIGHLIGHTS

Revenue for the year ended 31 December 2021 was RMB11,639.2 million, representing an increase of RMB1,004.8 million or 9.4% as compared with the year ended 31 December 2020, of which:

- Revenue from the sales of new vehicles increased by RMB531.8 million or 5.6% to RMB10,023.5 million as compared with the year ended 31 December 2020, and the sales volume of new vehicles reached 32,208 units;

- Revenue from the sales of used cars increased to RMB367.1 million as compared with the year ended 31 December 2020; and the transaction volume of used cars was 7,082 units, representing a year-on-year increase of 44.6%, of which 2,425 units were sold on commission; and

- Revenue from after-sales services increased by RMB105.9 million or 9.3% to RMB1,248.6 million as compared with the year ended 31 December 2020.

Gross profit for the year ended 31 December 2021 was RMB993.3 million, representing an increase of RMB244.5 million or 32.7% as compared with the year ended 31 December 2020, of which:

- Gross profit of new automobile sales business increased by RMB180.6 million or 70.3% to RMB437.5 million as compared with the year ended 31 December 2020;

- Gross profit of used car business increased to RMB16.3 million as compared with the year ended 31 December 2020; and

- Gross profit of after-sales services increased by RMB47.6 million or 9.7% to RMB539.5 million as compared with the year ended 31 December 2020.

Gross profit margin for the year ended 31 December 2021 was 8.5% (2020: 7.0%), of which gross profit margin of sales of new automobiles was 4.4% (2020: 2.7%).

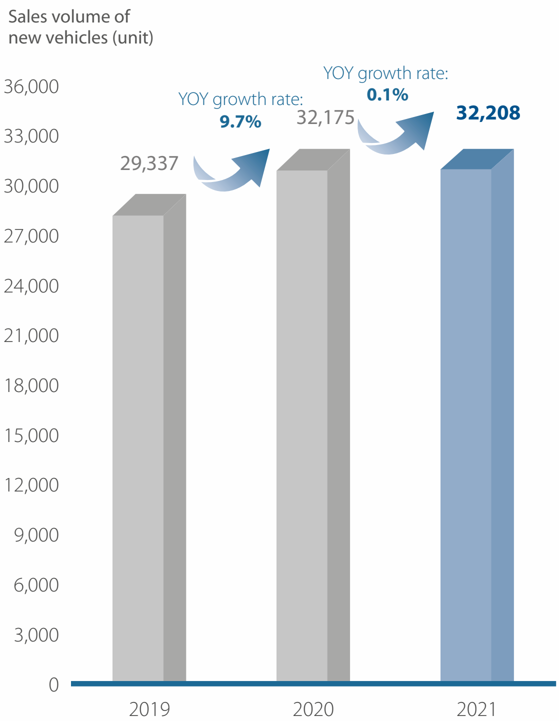
Profit for the year attributable to owners of the parent for the year ended 31 December 2021 was RMB345.9 million, representing an increase of RMB200.7 million or 138.2% as compared with the year ended 31 December 2020.

Basic and diluted earnings per share attributable to ordinary equity holders of the parent for the year ended 31 December 2021 was RMB0.58, representing an increase of RMB0.34 or 141.7% as compared with the year ended 31 December 2020.

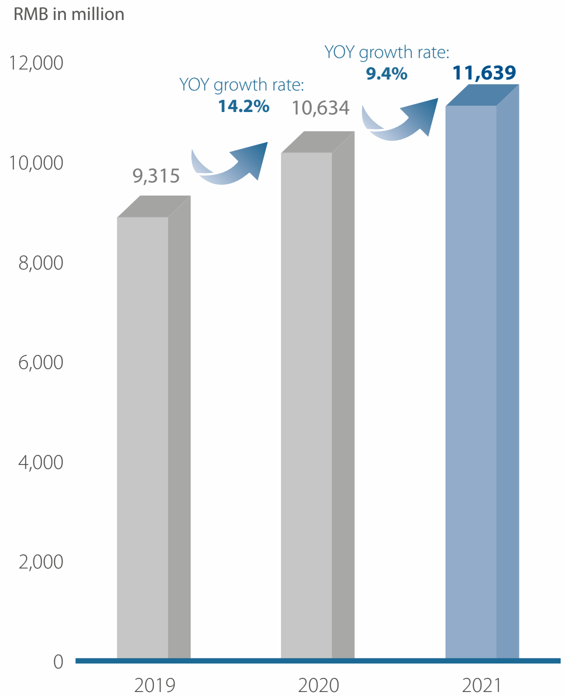
The Board of Directors of the Company recommends a final dividend of HK$0.08 (equivalent to RMB0.07) per ordinary share for the year ended 31 December 2021, together with the interim dividend for the six months ended 30 June 2021, the dividends for the year ended 31 December 2021 was HK$0.13 (equivalent to RMB0.11) per ordinary share, representing an increase of 62.5% as compared with the year ended 31 December 2020.

FINANCIAL HIGHLIGHTS

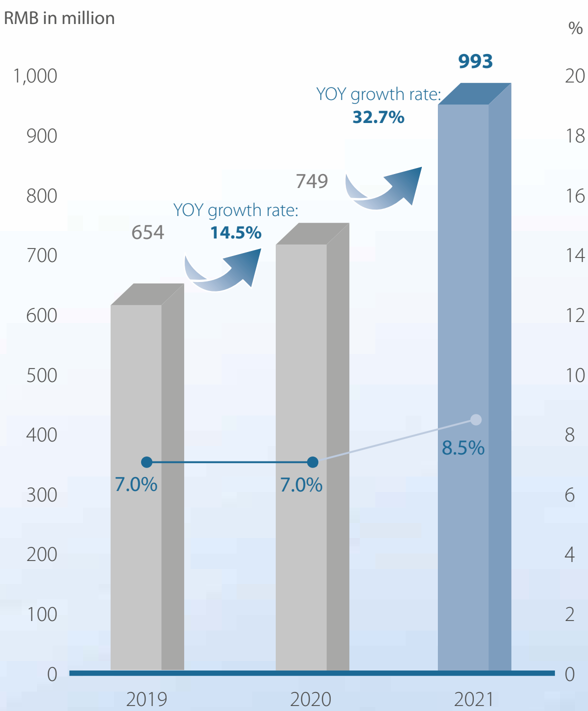
Sales volume of new vehicles



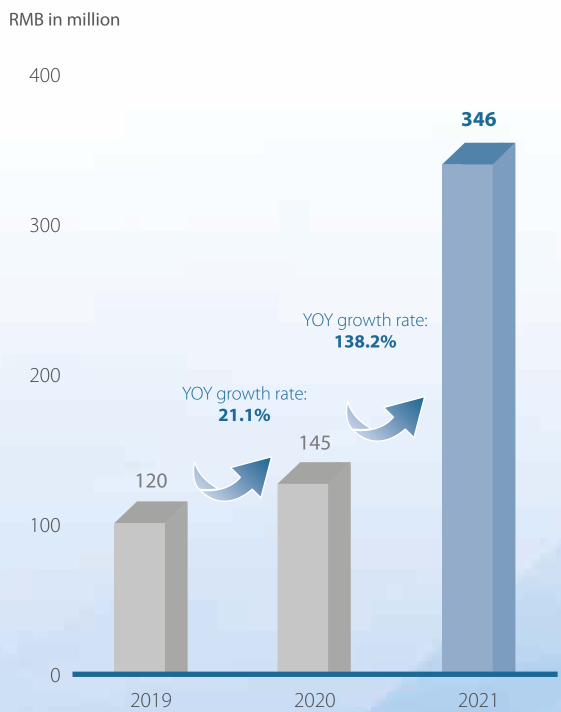
Revenue



Gross profit and gross profit margin



Equity attributable to owners of the parent



CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board of directors (the "**Board**") of Sunfonda Group Holdings Limited (the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (the "**Group**" or "**Sunfonda**") for the year ended 31 December 2021 (the "**Period**").

In 2021, although the global economic environment remained complex under the "new normal" of the global pandemic, China's national economy still realised high-quality development, and both economic development and pandemic prevention and control outperformed the rest of the world. China's annual gross domestic product continued to grow, living consumption achieved good growth, consumption upgrade was still being released, and the contribution of automobile consumption to China's economic development was increasingly prominent. Despite the impact of chip shortages, China's automobile production and sales achieved a year-on-year increase in 2021, ending the three consecutive years of decline. In particular, the sales volume of luxury and ultra-luxury cars still showed remarkable growth momentum. As an automobile dealership group focusing on luxury and ultra-luxury car brands, Sunfonda maintained close communication and cooperation with automobile manufacturers, to ensure high quality and stable supply of automobiles for sales, and also expanded and optimised operation network and enhanced strategic layout.

The Group capitalised on various favorable policies and embraced the booming internal circulation. Despite the impact of various unfavorable factors such as chip shortages and the sporadic outbreak of domestic pandemic, the Group still achieved record high performance.

Main Business Achieved Record High Growth

During the Period, the Group kept up with the market trend, improved operating efficiency and reduced operating costs through accurate inventory management and flexible sales schedule, resulting in further improved sales quality, and also strengthened customer retention by actively carrying out customer retention marketing to continuously improve after-sales profitability. In terms of performance, the Group's operating profit grew strongly, and revenue, gross profit and net profit all hit record highs. In 2021, the Group achieved new automobile sales volume of 32,208 units, representing a year-on-year increase of 0.1%, a revenue of RMB11,639.2 million, representing a year-on-year increase of 9.4%, and a year-on-year increase of 138.2% in profit for the Period to RMB345.9 million, hitting a record high. In addition, in order to reward the shareholders of the Company (the "**Shareholders**") in a timely manner, the Board declared an interim dividend for the first time in 2021, which, together with the final dividend for 2021, also reached a record high.

Expanded Business Network in an Orderly Manner

The Group continued to strengthen the network layout of superior luxury brands, and actively expanded the network of luxury brands to regional central cities, to build the Group's top-level brand series with good profitability. As at 31 December 2021, the Group had 42 sale points in operation covering 15 cities in eight provinces. In 2021, the Linxia GAC Toyota store in Gansu, the Wuhan BMW store, the Wuxi GAC Toyota store, etc. were successively put into operation, of which the Wuhan BMW Store was the first 4S store of the Group in Central China. In addition, the Group has been authorised to set up new stores including Xi'an Porsche, Yinchuan BMW and Xining BMW and pending commencement of business. This will further improve the coverage of the Group's brand sale points, enhance the Group's influence in key regions and markets, and further solidify its leading position as a luxury brand car dealer, so as to provide strong support for its future development.

Facing the ever-changing market, the Group is constantly optimising its business and seeking new growth momentum with its focus on the following key businesses:

CHAIRMAN'S STATEMENT

Accelerating the deployment of new energy vehicle business to seek continuous increase in sales scale. Currently, the global automobile industry is promoting zero emissions and embracing clean energy. Major time-honored automobile brands have also successively launched different models of new energy vehicles in response to market needs. In this prosperous year, while constantly strengthening cooperation with outstanding automobile manufacturers for electric vehicles, the Group also maintained close communication with emerging new energy vehicle manufacturers, to speed up the deployment of new energy vehicle business and continue to increase the sales scale. To this end, the Group set up a new energy vehicle sales department last year, and professional sales staff are equipped within each store to sell new energy vehicles and provide more attentive services to environmentally conscious customers. It is becoming increasingly clear that more revenue of the Group will be generated from new energy vehicles in the future.

Expanding the scale of used car business and improving sales quality. The used car business has changed, and particularly the central government has made great efforts to promote used car trading by introducing certain favorable policies such as the removal of the restrictions on used car transfer and registration, used car business has therefore became a "new blue ocean" of the market. The Group will also seize the opportunity to actively develop its used car business to cater for the different car needs of customers. Through the trading of new and used cars driven by customers' car replacement, the Group will further expand the scale of used car business. Meanwhile, the Group strives to develop the used car business into a boutique, and renders value-added services such as refurbishment and modification of high-end brand used cars to further enhance the sales quality, so as to supply new impetus for the future business growth of the Group.

Leveraging on the "FUN TIME LANE (豐泰里)" automobile fashion street zone ("FUN TIME LANE") to facilitate the main business and improve the consumer experience. No matter online or offline, the emphasis is attached to that the service and sales environment should keep up with the times. The "FUN TIME LANE" projects located in the core business districts of Xi'an and Lanzhou, for which the Group has been preparing for many years, are expected to be put into operation this year. Such brand new retail model is different from the traditional 4S stores, in addition to the provision of diversified automobile products and services, it also integrates other fashion elements such as new retail sales, and offers an all-encompassing experience and comfortable environment, which will bring a different experience to every automobile consumer, and generate stronger economies of scale for the Group, so as to improve its operating efficiency and further consolidate its leading position in the luxury car retail market in Northwestern China.

Finally, I would like to take this opportunity to express my sincere gratitude to all directors, management team and all staff for their contributions to the Group. At the same time, I would like to thank every customer, business partner and Shareholder for their continuous support over the years. In the past year, the Group is honoured to support and witness the 14th National Games and the Euro-Asia Economic Forum, and felt extremely excited and proud of these events. In the future, the Group will strive to be the first to energetically promote business growth and bring greater and long-term return to the Shareholders. I hope that the pandemic will come to an end soon, the world will be peaceful, and everything is promising. Let us work together, sail through challenges, and move forward steadily!

Wu Tak Lam
Chairman of the Board

23 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

I. MARKET REVIEW

In 2021, in the face of various challenges such as the complex and severe international environment and the sporadic outbreak of the domestic pandemic, China continued to maintain steady economic recovery, and stood out from the rest of the world in economic development and pandemic prevention and control, ensuring that the main indicators achieved the expected objectives. The basic living consumption maintained a good growth trend, and the consumer demand for upgraded categories continued to release. Particularly, the contribution of automobile consumption to China's economic development became increasingly prominent. In 2021, the places where the Group's main business is located, showed a good momentum of continuous economic recovery, optimised structure, accumulated impetus and improved quality and efficiency throughout the year.

Despite the global shortage of automobile chips and the high prices of upstream raw materials, automobile production and sales increased steadily, and luxury cars served as a main growth driver of automobile market in 2021. According to the statistics and analysis of the China Association of Automobile Manufacturers ("**CAAM**"), the production and sales volume of passenger vehicles was 21.408 million units and 21.482 million units, respectively, representing a year-on-year increase of 7.1% and 6.5%, ending the three consecutive years of decline since 2018. Among them, new energy vehicles have become the biggest bright spot, of which the annual sales volume exceeded 3.5 million units, and the market share increased to 13.4%. In 2021, the sales volume of high-end brand passenger vehicles was 3.472 million units, representing a year-on-year increase of 20.7%, which is analysed by brand as follows:

- The Porsche brand globally sold a total of 301,915 new automobiles in 2021, representing a year-on-year increase of 11%, of which a total of 95,671 automobiles were delivered in the Chinese market in 2021, representing a year-on-year increase of 8%. The Chinese market has been the largest single market for Porsche brand around the world for seven consecutive years. In terms of new energy vehicles, a total of 41,296 Taycan models were delivered globally, more than double that of last year.

- In 2021, affected by the global semiconductor supply shortage, Mercedes-Benz delivered more than 2.4 million new passenger vehicles and light commercial vehicles worldwide, and delivered 758,863 new branded vehicles to customers in the Chinese market. In 2022, Mercedes-Benz will continue to speed up the implementation of electric transformation in the Chinese market, and will launch 21 new products, including eight new energy vehicles.

- The BMW group (including BMW, MINI and Rolls-Royce) globally sold 2,521,525 automobiles in 2021, representing a year-on-year increase of 8.4%; of which BMW's sales volume was 2,213,795 units, hitting a record high, and representing a year-on-year increase of 9.1%; the sales volume of battery electric vehicles was 103,855 units, representing a year-on-year increase of 133.2%. In China, the BMW group achieved another record high in 2021, and continued to lead the high-end segment with a total of 846,237 BMW and MINI delivered, representing a year-on-year increase of 8.9%. In terms of new energy vehicles, the sales volume of new energy vehicles exceeded 48,000 units in 2021, representing a year-on-year increase of 69.6%.

- The Audi brand globally sold 1,680,512 vehicles in 2021, representing a decrease of approximately 0.7% from that of 2020. Audi sold a total of 81,894 battery electric models in 2021, representing a year-on-year increase of 57.5%. Audi delivered 701,289 automobiles in China, down 3.6% year-on-year. Audi plans to possess more than 20 battery electric models in its product portfolio by 2025. Starting in 2026, the brand will introduce certain new battery electric models to the market.

- The Lexus brand globally sold 760,012 vehicles in 2021, representing a year-on-year increase of 6%, and the sales volume of electrically energized models was about 260,000 units, representing a year-on-year increase of 10% and hitting a record high. The Mainland China and Hong Kong are Lexus' second largest regional market, with sales volume reaching a record high of 227,000 units, representing a year-on-year increase of 1%.

In 2021, China's used car market benefited from a series of favourable policies. The "inter-provincial government services" for used car transfer and registration was fully implemented, which systematically solved the problems of inconvenient used car trading and long ownership transfer period. Since the government report proposed to activate the used car market in 2016, policies related to used cars were frequently issued, such as lifting of restrictions on transfer, tax reduction, export promotion and simplification of trading process. A series of favorable policies have been introduced to promote free circulation of used cars in accordance with market rules, transform the strong potential energy stored in the used car market into a huge momentum for used car circulation, and fully unleash the potential of the used car market, thereby stimulating the sales of new vehicles and driving the development of maintenance, insurance and other related service sectors.

According to the statistics of the Ministry of Public Security of China, China's motor vehicle ownership volume reached 395 million units in 2021, of which the car ownership volume was 302 million units; and the number of newly registered motor vehicles in China amounted to 36.74 million units in 2021, representing an increase of 3.46 million units or 10.38% as compared with that of 2020. There are 79 cities with car ownership volume of more than 1 million units in China, representing a year-on-year increase of 9 cities. There are 35 cities with a car ownership volume of more than 2 million units and 20 cities with more than 3 million units. Specifically, Beijing, Chengdu and Chongqing have a car ownership volume of more than 5 million units, Xi'an, Suzhou, Shanghai and Zhengzhou have more than 4 million units, and 13 cities including Wuhan, Shenzhen and Dongguan have more than 3 million units. There is a huge market space for after-sales services of automobiles. In addition, in the past five years, the ratio of the number of used car transfer and registration over the number of new car registration has risen from 0.67 to 1.11, indicating that the number of new car registration was surpassed. Thanks to the supportive policies such as the lifting of the restriction on used car transfer and the registration of used car trading in different regions, the used car market has become increasingly active.

II. BUSINESS REVIEW

In 2021, under the guide of the annual targets, the Group improved various operating indicators and data, conducted benchmarking management by applying key monthly/quarterly KPI indicators, implemented whole process management and actively adjusted operating strategies in complex environments such as the pandemic and chip shortages, fully leveraged on the Group's brand and scale advantages, maintained close communication and cooperation with automobile manufacturers, employed digital management tools and new media sales methods, seized marketing opportunities, actively developed market resources, and strengthened the quality of operation and management, thereby achieving record high results in 2021.

New Auto Sales Business – the Operation Quality was improved and the Revenue Reached a New High

In 2021, the Group's revenue from sales of new automobiles was RMB10,023.5 million (2020: RMB9,491.7 million), representing an increase of 5.6% as compared with the same period of the previous year, the sales volume of new automobiles was 32,208 units (2020: 32,175 units), the gross profit of sales of new automobiles was RMB437.5 million (2020: RMB256.9 million), representing an increase of 70.3% as compared with the same period of the previous year, and the gross profit margin of sales of new automobiles was 4.4% (2020: 2.7%). In 2021, due to new vehicle supply shortage caused by certain factors such as automobile chip shortage and the impact of the pandemic, the Group took prior order execution measures by preparing sufficient inventories in advance and adjusting the sales schedule according to the demand. The increase in the average selling prices resulted in a significant increase in gross profit. In 2022, the Group will continue to improve service quality and customer experience through refined management based on the existing customer group and network layout, in order to further consolidate the regional advantages of core brands. By deeply cultivating the distribution network in the major regions in China, the Group will strive to climb to another new peak of profits.

As at 31 December 2021, the Group had 30 luxury brand stores in operation, accounting for 71.4%. The sales volume of luxury brands was 22,825 units, accounted for 70.9% of the sales volume of new vehicles of the Group. As the main source of sales revenue of the Group, the revenue of luxury brands was RMB8,594.5 million, accounting for 85.7% of the total revenue from sales of new automobiles.

As at 31 December 2021, the Group had 42 sale points in operation and three authorised sale points pending operation; of which the number and proportion of luxury brands are as follows:

	Northwestern China	Jiangsu	Other regions	Total
Number of sale points in operation	29	7	6	42
Of which: Number of luxury brands	20	4	6	30
Proportion of luxury brands	69.0%	57.1%	100%	71.4%
Number of authorised sale points pending operation	3	–	–	3

In 2021, the sales volume of new energy vehicles of the Group increased by 18.7% year-on-year, accounting for 3.5% of the sales volume of new vehicles of the Group.

Looking back at the automobile industry in 2021, it is also foreseeable that new energy vehicles have broad development prospects and market potential. Looking forward to 2022, the challenges from China's automobile circulation field will be accompanied with opportunities. The transformation of the automobile industry has generally trended towards electrification and intelligence, and battery electric vehicles will be highly intelligent. The Group will stick to market orientation, and make full use of its platform advantages and economies of scale, to tap into the new energy vehicle sector that has huge development potential.

Used Car Business – the Scale Increased Significantly, Which will be the Core Growth Driver in the Future

In 2021, the used car segment was one of the principal businesses and will also be the core impetus for the Group's future growth. Based on the development of sales and after-sales replacement business, the used car business structure has continued to be optimised. In 2021, the Group's transaction size of used cars increased by 44.6% as compared with the same period last year; and the replacement ratio increased by 3.1 percentage points as compared with the same period last year. The Group's brand network layout appeared in a stair-stepping shape, through mid-end, high-end and ultra-luxury comprehensive deployment, to provide all-round upgrading and replacement conditions for the basic customer group. In 2022, the Group will further promote the rapid growth of value-added services, derivative business and after-market business related to used cars, to provide customers with high-quality service experience, thereby improving the revenue from used car business. In 2021, new breakthroughs were achieved in the field of automobile circulation in China, which could be evidenced by the fact that the consumption potential of used cars has been gradually released as a result of the successive implementation of relevant policies such as the removal of restrictions on used car registration, inter-provincial government services for used car transfer and registration, and tax incentives. The Group will also further promote the nationwide sharing of used car resources, continue to carry out precision marketing and expand trading volume. It is expected that a provisional system for registration of property rights of used cars will be established in the near future. Benefiting from such policies, the used car business will witness explosive growth.

After-sales Services Business – the Profitability Continued to Improve Steadily

Adhering to the dual-brand operation strategy, the Group endeavors to build a new service brand named "Sunfonda" based on the brand image it operates. In respect of after-sales services, the Group build the service philosophy of "specialising in repairing cars that others can't do" through prior diagnosis, which emphasises the leading technical edge of 4S stores, thereby continuously improving the profitability of the after-sales services business. In 2021, the Group's revenue from after-sales services amounted to RMB1,248.6 million, representing an increase of 9.3% as compared with RMB1,142.7 million for the same period in 2020, and the gross profit of after-sales services was RMB539.5 million, representing an increase of 9.7% as compared with RMB491.9 million for the same period in 2020.

The fundamental customer group is the cornerstone of the business operations of stores, and the Group regards the expansion of the customer group within the service radius as an important strategy. The Group explores customer contact opportunities in an all-round and multi-channel way by strengthening customer retention to accurately attract customers back to stores; and actively carries out customer retention marketing by creating the 4S stores atmosphere to provide "warmer" service in luxury consumption. Thanks to the joint efforts of the Group's employees, the number of active customers of the Group increased by 18% from the same period last year, and the Group's customer retention rate increased from 73.2% in 2020 to 77.7% in 2021, retaining a large customer base, which laid a foundation for the future growth of after-sales business.

In terms of decoration business, the Group continued to meet the individual needs of customers by continuously introducing intelligent products. Through fully exploiting the sales potential of store-installed products for new vehicles, strengthening the interior modification of commercial vehicles, and effectively grasping the sales opportunities of front-end decoration. In the future, the Group will also continue to improve the professional competence in boutique businesses by strengthening the quality and frequency of training for front-line teams. At the same time, regarding the expected development trend and coverage of new energy vehicles in the future, the Group will focus on enhancing the development of automobile decoration projects in the after-sales segment.

Financing and Insurance Agency Businesses Continued to Grow Steadily

In 2021, the commission income from the Group's financing and insurance agency businesses increased by 31.8% as compared with the same period in 2020. Of which, in terms of insurance agency business, through strategic cooperation with large-scale insurance companies such as PICC and Ping An Insurance, the Group expanded multi-insurance cooperation, and further enhanced consolidated premium scale, achieving a year-on-year of 17% in premiums in 2021. The Group also established close cooperation with insurers for mutual benefits and win-win results, on the one hand, which was helpful to increase the commission income of the insurance agency business, and on the other hand, also promoted the growth of revenue from after-sales accident maintenance. Financing agency services provide customers with diversified purchasing options and more flexible payment methods to effectively promote new automobile sales. In 2021, the increase in the penetration rate of financial business was helpful to boost the growth of revenue from new automobile sales. In 2021, the Group established strategic partnerships with manufacturers, financial institutions and banks through its financial business. In 2022, the Group will continue to increase the financial penetration and deeply cultivate the structure of financial income, in a bid to further acquire income from the whole value chain brought by financial business during the customer lifetime cycle.

Expanded the Network Layout of Luxury Brands

The Group continued to strengthen the network layout of superior luxury brands to capture the development dividend of luxury brand market, and adapted to the adjustment of the national strategy for regional development by actively developing the network of luxury brands in new regional central cities and also expanding the number of sale points of luxury brands in major superior regions. The Group actively adapted to the market direction, development and changes, continued to cooperate with major automobile suppliers of popular brands in China, and continued to expand the number of sale points of the Group's key luxury brands, to build the Group's top brand series with good profitability.

In the second half of 2021, in accordance with the brand network development plan, the Group completed the construction of all new stores authorised in the first half of the year. In the second half of 2021, the Group successively obtained the authorisation to operate the sale points of three premium luxury car brands, namely Xi'an Porsche, Yinchuan BMW and Xining BMW, further consolidating its position as a leading luxury automobile dealer in Northwestern China. The Linxia GAC Toyota store, the Wuhan BMW store, the Wuxi GAC Toyota store, etc. were fully completed and opened for business. This will further improve the coverage of the Group's brand sale points, and enhance the Group's influence in key regions and markets, so as to provide strong support for its future development. In particular, the Wuhan BMW store will lay a solid foundation for the Group's deployment in Central China, connection with Eastern China and extension in Southern China.

III. FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2021 was RMB11,639.2 million, representing an increase of RMB1,004.8 million or 9.4% as compared to that for the corresponding period in 2020. Revenue from the sales of new automobiles was RMB10,023.5 million, representing an increase of RMB531.8 million or 5.6% as compared to that for the corresponding period in 2020; revenue from after-sales services business was RMB1,248.6 million, representing an increase of RMB105.9 million or 9.3% as compared to that for the corresponding period in 2020; and revenue from the sales of used cars was RMB367.1 million (2020: Nil).

A substantial portion of the revenue of the Group was generated from sales of new vehicles, accounting for 86.1% of its revenue for the year ended 31 December 2021 (2020: 89.3%). In addition, revenue generated from after-sales services business accounted for 10.7% of the revenue for the year ended 31 December 2021 (2020: 10.7%), and revenue from the sales of used cars accounted for 3.2% of the revenue for the year ended 31 December 2021 (2020: Nil). Revenue of the Group was mainly derived from our operations in the PRC.

The following table sets forth a breakdown of the Group's revenue and relevant information for the reporting periods:

	For the year ended 31 December					
	2021			2020		
	Amount (RMB'000)	**Sales volume (Unit)**	**Average selling price (RMB'000)**	Amount (RMB'000)	Sales volume (Unit)	Average selling price (RMB'000)
Sales of new vehicles						
Luxury and ultra-luxury brands	**8,594,522**	**22,825**	**376.5**	8,221,868	23,147	355.2
Mid-end market brands	**1,428,954**	**9,383**	**152.3**	1,269,831	9,028	140.7
Sub-total/Average	**10,023,476**	**32,208**	**311.2**	9,491,699	32,175	295.0
Sales of used cars	**367,100**	**2,425**	**151.4**	–	–	–
After-sales services	**1,248,645**			1,142,719		
Total	**11,639,221**			10,634,418		

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2021 was RMB10,645.9 million, representing an increase of RMB760.3 million or 7.7% as compared to that for the corresponding period in 2020. Among which, cost of sales of new automobiles for the year ended 31 December 2021 was RMB9,586.0 million, representing an increase of RMB351.2 million or 3.8% as compared to that for the corresponding period in 2020. Cost of after-sales services business for the year ended 31 December 2021 was RMB709.1 million, representing an increase of RMB58.3 million or 9.0% as compared to that for the corresponding period in 2020. Cost of sales of used cars for the year ended 31 December 2021 was RMB350.8 million (2020: Nil).

Gross Profit

Gross profit for the year ended 31 December 2021 was RMB993.3 million, representing an increase of RMB244.5 million or 32.7% as compared to that for the corresponding period in 2020. Of which, gross profit of sales of new automobiles was RMB437.5 million, representing an increase of RMB180.6 million or 70.3% as compared to that for the corresponding period in 2020. Gross profit of after-sales services business was RMB539.5 million, representing an increase of RMB47.6 million or 9.7% as compared to that for the corresponding period in 2020. For the year ended 31 December 2021, gross profit of after-sales services accounted for 54.3% of the total gross profit (2020: 65.7%). Gross profit of sales of used cars was RMB16.3 million (2020: Nil).

Gross profit margin for the year ended 31 December 2021 was 8.5% (2020: 7.0%).

Other Income and Gains, Net

Other income and gains, net mainly consist of commission income from automobile insurance agency and automobile financing agency businesses, logistics and storage income, net gains from disposal of property, plant and equipment, proceeds from disposal of equity investment, and interest income.

Other income and gains, net for the year ended 31 December 2021 amounted to RMB360.1 million, representing an increase of 92.4% as compared with RMB187.2 million for the year ended 31 December 2020. The increase was mainly due to: (1) the proceeds from disposal of equity investment (please refer to the announcement of the Company dated 17 May 2021 for details); and (2) the increase in commission income from automobile financing agency business as compared with the same period in 2020.

Selling and Distribution Expenses

Selling and distribution expenses for the year ended 31 December 2021 amounted to RMB521.9 million, representing an increase of RMB111.4 million or 27.1% as compared with RMB410.5 million for the year ended 31 December 2020. The increase was mainly attributable to the increase in payroll of sales staff and advertising and promotion expenses. As a percentage of revenue, the selling and distribution expenses increased as compared with the corresponding period last year, increased from 3.9% for the year ended 31 December 2020 to 4.5% for the year ended 31 December 2021, up by 0.6 percentage point.

Administrative Expenses

Administrative expenses for the year ended 31 December 2021 amounted to RMB271.5 million, representing an increase of RMB52.8 million or 24.1% as compared with RMB218.7 million for the year ended 31 December 2020. The increase was mainly attributable to the increase in compensation of non-sales personnel and the increase in administrative expenses for newly opened stores as compared with the corresponding period last year. As a percentage of revenue, the administrative expenses increased as compared with the corresponding period last year, increased from 2.1% for the year ended 31 December 2020 to 2.3% for the year ended 31 December 2021, up by 0.2 percentage point.

Finance Costs

Finance costs for the year ended 31 December 2021 amounted to RMB93.7 million, representing a decrease of 9.0% as compared with RMB103.0 million for the year ended 31 December 2020. The decrease was mainly due to the adherence to digital demand analysis by the Group and effective fund management, resulting in the improvement in the efficiency of fund use.

Profit Before Tax

As a result of the foregoing, profit before tax for the year ended 31 December 2021 amounted to RMB466.3 million, representing an increase of RMB262.6 million or 128.9% as compared with RMB203.7 million for the year ended 31 December 2020. Of which, profit before tax of the main business accounted for 66.5%.

Income Tax Expense

Income tax expense for the year ended 31 December 2021 amounted to RMB120.5 million, representing an increase of RMB62.0 million or 106.0% as compared with RMB58.5 million for the year ended 31 December 2020. The effective income tax rate of the Group for the year ended 31 December 2021 was approximately 25.8% (2020: 28.7%).

Profit for the Year

As a result of the foregoing, profit for the year ended 31 December 2021 amounted to RMB345.9 million, representing an increase of RMB200.7 million or 138.2% as compared with RMB145.2 million for the year ended 31 December 2020.

Profit for the Year Attributable to Owners of the Parent

For the year ended 31 December 2021, profit for the year attributable to owners of the parent amounted to RMB345.9 million, representing an increase of RMB200.7 million or 138.2% as compared with RMB145.2 million for the year ended 31 December 2020.

IV. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the year ended 31 December 2021, the Group's net cash inflow generated from operating activities was RMB136.0 million, as compared with RMB617.9 million of its net cash inflow generated from operating activities for the year ended 31 December 2020. The decrease in net cash inflow of operating activities was mainly attributable to the increase in cash paid for the purchase of inventories and the increase in prepayments related to the purchase of inventories.

For the year ended 31 December 2021, the Group's net cash outflow of investing activities was RMB216.5 million, as compared with RMB274.3 million of its net cash outflow of investing activities for the year ended 31 December 2020. The decrease in net cash outflow of investing activities was mainly attributable to the increase in cash proceeds from investment during the year ended 31 December 2021.

For the year ended 31 December 2021, the Group's net cash inflow of financing activities was RMB271.3 million, as compared with RMB480.4 million of its net cash outflow of financing activities for the year ended 31 December 2020. The increase in the net cash inflow of financing activities was mainly attributable to the expansion of its sales network during the year ended 31 December 2021.

Net Current Assets

As at 31 December 2021, the Group's net current assets amounted to RMB1,001.4 million, as compared to its net current assets of RMB351.9 million as at 31 December 2020.

Inventories

The Group's inventories primarily consist of new automobiles, spare parts and decoration accessories. As at 31 December 2021, the Group's inventories amounted to RMB1,054.4 million, representing an increase of 17.1% as compared with RMB900.4 million as at 31 December 2020, mainly attributable to the increase in inventories of newly opened stores and the concentration of vehicles in some stores towards the end of the year.

In 2021, the Group's average inventory turnover days (the average inventory turnover days = the average of opening and closing inventory balances divided by the cost of sales and services for that year and multiplied by 360 days) were 33.7 days, representing a relatively notable decrease as compared with 38.4 days in 2020, mainly attributable to the accelerated sales progress and the continuous improvement of refined inventory management during the year ended 31 December 2021.

Bank Loans and Other Borrowings

As at 31 December 2021, the Group's bank loans and other borrowings were RMB2,307.0 million, representing an increase of 24.0% as compared with RMB1,860.3 million as at 31 December 2020.

The following table sets forth the Group's bank loans and other borrowings as at the dates indicated:

	As at 31 December			
	2021		2020	
	Effective interest rate (%)	**Amount RMB'000**	Effective interest rate (%)	Amount RMB'000
CURRENT				
Bank loans	**3.6-5.8**	**1,152,576**	3.3-6.7	1,256,945
Other borrowings	**1.7-8.6**	**393,669**	3.0-8.6	406,011
Sub-total		**1,546,245**		1,662,956
NON-CURRENT				
Bank loans	**3.5-5.9**	**760,774**	3.5-6.7	192,626
Other borrowings	**4.5**	**–**	4.5	4,750
Sub-total		**760,774**		197,376
Total		**2,307,019**		1,860,332
Among which:				
Secured loans		**1,798,885**		1,662,610
Unsecured loans		**508,134**		197,722
Total		**2,307,019**		1,860,332

As at 31 December 2021, the Group's gearing ratio, which is net debt divided by total equity plus net debt, was 44.8% (2020: 42.5%). Net debt includes bank loans and other borrowings, trade and bills payables and other payables and accruals, less cash and cash at banks, short-term deposits, cash in transmit and pledged bank deposits.

Pledge of Assets

As at 31 December 2021, certain of the Group's bank loans were secured by charges or pledges over its assets. The Group's assets subject to these charges or pledges as at 31 December 2021 consisted of: (i) inventories amounting to RMB555.1 million; (ii) property, plant and equipment amounting to RMB369.1 million; (iii) land use rights amounting to RMB192.3 million; (iv) construction in progress amounting to RMB221.4 million; and (v) pledged bank deposits amounting to US$8.6 million (equivalent to RMB55.0 million) and RMB2.3 million.

As at 31 December 2021, certain of the Group's inventories amounting to RMB344.6 million and pledged bank deposits amounting to RMB226.0 million were pledged as securities for bills payable.

Capital Expenditures and Investment

The Group's capital expenditures comprise primarily expenditures on property, plant and equipment, land use rights and intangible assets. For the year ended 31 December 2021, the Group's total capital expenditures were RMB467.7 million, representing an increase of RMB162.8 million as compared with RMB304.9 million for the year ended 31 December 2020.

Contingent Liabilities

As at 31 December 2021, the Group did not have any material contingent liabilities or guarantees.

Staff Cost and Employee Remuneration Policy

As at 31 December 2021, the Group had 3,553 employees (as at 31 December 2020: 3,217). Staff cost of the Group increased by 36.4% from RMB288.5 million for the year ended 31 December 2020 to RMB393.5 million for the year ended 31 December 2021, mainly attributable to the increase in the number of employees as well as the increase in performance-based bonus paid to employees as a result of the increased sales volume and gross profit. The Group offers attractive remuneration packages according to market conditions, including competitive fixed salaries and performance-based bonuses, etc. The Group provides its automobile sales and after-sales staff with performance-based bonuses based on their contribution to revenue, technical skills, customer satisfaction and other results of their performance assessment according to their job nature. Our employees are subject to regular job reviews which determine their promotion prospects and remuneration packages. In order to keep up with the rapid development of the Group's network, the Group also continues to build up its quality talent pool and prudently manages its human resources and makes corresponding adjustments to the arrangement of positions based on the changes in overall business volume. Meanwhile, the Group attaches great importance to the reserve of talent and team building. Regular training in respect of business skills, expertise and professional qualifications have been provided to key personnel. The Group also pays close attention to the career development of its employees, so as to provide primary drivers for the future development of the Group.

V. MATERIAL ACQUISITIONS AND DISPOSALS

On 19 January 2021, Shaanxi Sunfonda Automobile Technology Development Co., Ltd.* (陝西新豐泰汽車技術開發有限責任公司) ("**Shaanxi Sunfonda ATD**"), an indirect wholly-owned subsidiary of the Company, entered into an equity acquisition agreement with Mr. YAN Yaping (閆亞平) and Ms. HUI Juan (惠娟) ("**Mr. YAN and Ms. HUI**"), pursuant to which, Shaanxi Sunfonda ATD agreed to acquire, and Mr. YAN and Ms. HUI agreed to dispose of 100% equity interests in Weinan Haizhong Car Sales Services Co., Ltd.* (渭南海眾汽車銷售服務有限公司) ("**Weinan Haizhong**"), with the aggregate consideration of RMB24.70 million (the "**Weinan Acquisition**"). The industrial and commercial registration of changes in respect of the Weinan Acquisition was completed on 29 January 2021, and Weinan Haizhong has become an indirect wholly-owned subsidiary of the Company. For details of the Weinan Acquisition, please refer to the voluntary announcement of the Company dated 19 January 2021.

On 10 May 2021, Shaanxi Sunfonda ATD entered into an equity transfer agreement with Xi'an Longbing Real Estate Co., Ltd.* (西安龍秉置業有限公司) ("**Xi'an Longbing**"), pursuant to which, Shaanxi Sunfonda ATD has agreed to purchase, and Xi'an Longbing agreed to dispose of 75% equity interest in Lanzhou Fengtai Rongjia Trading Co. Ltd.* (蘭州豐泰榮嘉商貿有限責任公司) ("**Lanzhou Fengtai**") held by Xi'an Longbing at a consideration of RMB22.50 million (the "**Lanzhou Acquisition**"). The industrial and commercial registration of changes in respect of the Lanzhou Acquisition was completed on 19 May 2021, and Lanzhou Fengtai has become an indirect wholly-owned subsidiary of the Company. For details of the Lanzhou Acquisition, please refer to the announcement of the Company dated 10 May 2021.

On 17 May 2021, each of the transferors, i.e Shaanxi Sunfonda Shangzhong Automobile Sales Service Co., Ltd.* (陝西新豐泰尚眾汽車銷售服務有限公司), Shaanxi Sunfonda ATD, Shaanxi Sunfonda Huixiang Automobile Sales Service Co., Ltd.* (陝西新豐泰匯翔汽車銷售服務有限公司), Suzhou Sunfonda Automobile Sales Services Co., Ltd.* (蘇州新豐泰汽車銷售服務有限公司), Suzhou Sunfonda Toyota Automobile Sales Services Co., Ltd.* (蘇州新豐泰豐田汽車銷售服務有限公司) and Yinchuan Shunchi Lujie Automobile Sales Service Co., Ltd.* (銀川順馳路捷汽車銷售服務有限公司) (collectively called the "**Transferors**"), all being indirect wholly-owned subsidiaries of the Company, entered into the equity transfer agreements with Xi'an Longbing and Xi'an Qinrui Real Estate Co., Ltd.* (西安秦睿置業有限公司) ("**Xi'an Qinrui**"), pursuant to which, the Transferors agreed to dispose of, and Xi'an Longbing agreed to purchase an aggregate of 25% equity interests in Xi'an Qinrui held by the Transferors at a total consideration of RMB152,704,450 (the "**Disposal**"). The industrial and commercial registration of changes in respect of the Disposal was completed on 25 May 2021, and the Transferors no longer hold any equity interest in Xi'an Qinrui. For details of the Disposal, please refer to the announcement of the Company dated 17 May 2021.

Save as the above, there was no material acquisitions and disposals of subsidiaries, associates and joint ventures for the Group during the year ended 31 December 2021.

* denotes English translation of the name of a Chinese company, and is provided for identification purposes only

VI. PRINCIPAL RISKS

Business Risk

The Group's rights on operating points of sales, the supply of automobiles and spare parts as well as other important aspects in the Group's businesses and operations are all subject to our dealership authorization agreements with automobile suppliers. The Group's dealership authorization agreements are non-exclusive, and generally have terms of one to three years with the option of renewal. The automobile suppliers may terminate the dealership authorization agreements by giving three to twelve months' written notice in general for various reasons or without reasons. Of course, the Group may terminate the dealership authorization agreements with the automobile suppliers based on reasons such as adjustment of business strategies of the Group or others. In case of any of the foregoing, the Group's business, operating conditions and future development may be affected. Accordingly, the Group communicated and exchanged views with each automobile supplier regularly with a view to achieving a win-win cooperation relationship.

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations at a floating interest rate. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

Exchange Rate Risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US$, Euro and HK$ and certain loans denominated in HK$.

The Group's assets and liabilities denominated in US$ and HK$ were mainly held by certain subsidiaries incorporated outside Mainland China which had HK$ as their functional currency, and the Group did not have material foreign currency transactions in Mainland China during the year. Therefore, the Group had immaterial foreign currency risk.

COVID-19 Pandemic Risk

The prolonged spread of the COVID-19 pandemic across the world continuously impacted the global economy and various industries. However, the Chinese government adopted various control measures to reduce the impact of the pandemic. During the pandemic, consumer demand in the domestic automobile market also ushered in a strong recovery, especially the bright performance of luxury automobiles.

Although some locations where the Group's sale points are located in were affected to a certain extent in 2021, the pandemic did not had a significant impact on the Group's operations, financial position and cash flow. On the contrary, after the pandemic was brought under control, various business segments experienced a strong rebound. Given that the development of the pandemic is still uncertain and unpredictable, the Group will continue to pay close attention to the dynamics of the pandemic, evaluate the impact of the pandemic and relevant response measures, and monitor the latest changes and challenges in the automobile dealer industry in the post-pandemic era, with an aim to ride on the market development trend and take responsive measures in a timely manner to further accelerate its pace of business development.

VII. FUTURE STRATEGY AND PROSPECTS

According to the analysis report of the Center for Forecasting Science, Chinese Academy of Sciences, China's economy will maintain steady growth in 2022, and the annual GDP growth rate is expected to be approximately 5.5%, showing a trend of eventual growth following its initial decline. With the gradual economic recovery, the enhancement of domestic emergency prevention capabilities, the continuous improvement of enterprises' business operation, and the gradual opening up of offline consumption scenarios, the domestic consumer market will be significantly improved. Accordingly, it is expected that China's final consumption will maintain continuous growth in 2022, which will be the main driving force for economic growth.

The CAAM predicts that the demand of the automobile market will remain stable in 2022, and the problems on supply side such as insufficient chip supply and raw material prices will be gradually alleviated. It is expected that the automobile market will continue to show a steadily improving trend in 2022 and the annual production and sales volume will be better than that of 2021. According to the forecast of CAAM, the total automobile sales volume in 2022 are expected to be 27.5 million units, representing an increase of 5.4%, of which the sales volume of passenger vehicles is expected to be 23 million units, representing an increase of 8%; and the sales volume of new energy vehicles is expected to be 5 million units, representing an increase of 47%. According to the analysis of the China Automobile Dealers Association, the automobile market will enter the peak period of additional purchase and replacement in 2022, and revitalising the stocking used cars will be the key to energise the entire automobile market. On the one hand, the replacement of used cars will boost the upgrading of automobile consumption, especially luxury cars and new energy vehicles are the main driving force for the growth of automobile market in 2021. On the other hand, the replacement and circulation of used cars will promote the transfer of vehicles from first- and second-tier cities to third-, fourth- and fifth-tier cities in economically underdeveloped areas, which can promote the penetration of automobile consumption into the rural market, and can also enhance the overall vitality of local economy. Therefore, revitalising the stocking used cars can really drive the incremental automobile market.

In the future, the Group will continue to seize market opportunities, maintain the rapid development of the luxury car business, continue to expand the brand layout by strengthening the layout of new energy vehicles and promoting the operation of key projects, and apply online tools to empower the sales of new vehicles and facilitate the growth of the used car business, so as to improve customer experience with a focus on innovative brand marketing projects.

To Constantly Optimise and Expand the Brand Layout and Strengthen the Development Plan for New Energy Vehicle Business

In 2022, the Group will continue to enhance exchanges with major branded automobile manufacturers to seek the dealership authorisation of more superior brands, thereby further optimising and improving the brand layout. While further consolidating the leading position in Northwestern China, the Group will improve its market share in key regions of Jiangsu Province, accelerate its development in Central China, and continue to expand its business footprint across China. Meanwhile, the Group will further increase the focus on new energy vehicles, and continue to strengthen the development and deployment of new energy vehicle business.

Key Projects under Construction are being Carried Out in an Orderly Manner, and the "FUN TIME LANE" in Xi'an is Expected to be put into Operation in 2022

For the innovative "FUN TIME LANE" automobile fashion street zone project created by the Group that integrates automobile consumption with multiple leisure and entertainment business patterns, the Group is actively soliciting branded automobile business for the "FUN TIME LANE" project in Xi'an, for which the business management team has begun to conduct project format planning and preparation for investment promotion. The Group has been accelerating the construction of the project, which is expected to be completed and put into operation in the fourth quarter of 2022. At that time, the project will produce echoing harmony with the Sunfonda Chanba Automobile Park which is located at the south side of Ouya No. 1 Road, and create automobile business concentration by contiguously developing the street zone adjacent to Ouya Avenue and the northeast side of Beichen Avenue, so as to provide customers with diversified services integrating automobile purchase, shopping and fashionable lifestyle to enhance and enrich customer experience. The construction of the "FUN TIME LANE" project in Lanzhou is also actively being carried out as scheduled.

To Enhance Customer Experience in Smart Digit-based and Innovative Marketing Approaches to Boost Business Growth

In order to adapt to market changes and meet customer needs, the Group has continuously strengthened refined management, and adhered to digital empowerment by introducing intelligent management. In 2021, the Group successfully achieved the systematic management of inbound customers, online clues, etc. At the same time, the visualised and systematic management of offline activities and marketing costs are also being constantly improved. The Group's self-developed "Sunfonda Group Membership Center" (the "**Membership Center**") mini program, featured with intelligent access, online model introduction, work hours-based appointment and automatic reminders, have recorded an accumulative push services of one million users. In order to explore opportunities for used car sales and replacement business, the Group officially launched a used car zone and a new car replacement zone in the Membership Center, which collects the car sources of the Group across the country, and assists customers in online inquiries and sales of used car and replacement businesses based on more than 200,000 customers in the Membership Center, thereby realising integrated online and offline development of used car and replacement businesses. With the official launch of channels such as Sunfonda's used car market and new car replacement, the Group has actively explored the cross-brand and cross-store sharing of customer data to improve the number of online clues for the main business of stores. The Group's data center has achieved preliminary effect, as evidenced by the fact that products such as customer churn warning and customer retention plan based on data analysis are assisting stores in accurate marketing and efficient operation. In addition, the Group actively expanded external cooperation, and products such as intelligent renewal of insurance and car manager have been launched one after another.

In addition, the Group continued to further develop customer interview column, through leveraging on the influence of star car owners in their respective industry, the Group achieved a word-of-mouth effect in relevant industry, which have gained unanimous praise from the brands and customers, expanded the influence and reputation of the Group, and conveyed the brand concept and culture of Sunfonda. In 2022, the Group will increase its efforts in the implementation and planning of innovative brand marketing activities, and place targeted advertisements in online media such as Douyin and Xiaohongshu. Furthermore, the Group will create experiential scenarios in the exhibition hall with a focus on the development of consumption patterns such as brand-based consumption, experiential consumption and co-creation consumption, so as to gain high popularity for Sunfonda Group in an all-round and three-dimensional manner.

DIRECTORS

Executive Directors

Mr. Wu Tak Lam (胡德林), aged 60, was appointed as the Chairman of the Board and an executive director of the Company on 13 January 2011. He is also the Chairman of both the Nomination Committee and the Finance and Investment Committee under the Board of the Company. Mr. Wu founded the Group with Ms. Chiu Man in November 2000 and has been primarily responsible for the strategic management, planning and business development of the Group as well as the development and maintenance of relationship with automobile suppliers of the Group. Mr. Wu serves as the chairman of the board and a director of each of the subsidiaries of the Company, and he has also been a director of Sunfonda (Hong Kong) Limited since April 1997. Prior to the establishment of the Group, Mr. Wu worked at China National Automotive Industry Sales Corp. (中國汽車工業銷售總公司) from July 1986 to December 1992. From August 1993 to March 1997, Mr. Wu was the managing director of Sunfonda Limited (新豐泰有限公司), which conducted import and export trade business and was dissolved in September 2002. He graduated from Wuhan Institute of Technology (武漢工學院, currently known as Wuhan University of Technology (武漢理工大學)) in Wuhan, China, majoring in automobile and tractor studies and obtained a bachelor's degree in engineering in July 1986. He is also the sole shareholder and director of Golden Speed Enterprises Limited ("**Golden Speed**", a controlling shareholder of the Company), a director of Top Wheel Limited ("**Top Wheel**", a controlled corporation of Golden Speed and a controlling shareholder of the Company), and the husband of Ms. Chiu Man (the chief executive officer of the Group, an executive director and a controlling shareholder of the Company).

Ms. Chiu Man (趙敏), aged 58, was appointed as the chief executive officer of the Group and an executive director of the Company on 13 January 2011. She is also a member of the Finance and Investment Committee under the Board of the Company. Ms. Chiu founded the Group with Mr. Wu Tak Lam in November 2000 and has been primarily responsible for the overall management and financial control of the Group. Ms. Chiu serves as a director in each of the subsidiaries of the Company and has also been a director of Sunfonda (Hong Kong) Limited since April 1997. Ms. Chiu graduated from Wuhan Institute of Technology (currently known as Wuhan University of Technology) in Wuhan, China, majoring in automobile and tractor studies and obtained a bachelor's degree in engineering in July 1986. She is also the sole shareholder and director of Win Force Enterprises Limited ("**Win Force**", a controlling shareholder of the Company), a director of Top Wheel (a controlled corporation of Win Force and a controlling shareholder of the Company), and the wife of Mr. Wu Tak Lam (the Chairman of the Board, an executive director and a controlling shareholder of the Company).

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

Mr. Gou Xinfeng (苟新峰), aged 48, was appointed as an executive director of the Company on 9 November 2016. Mr. Gou has over 23 years of experience in the operation and management of automobile brands, and he specializes in sales operation and overall store management. Mr. Gou joined the Group in July 2002, and successively served in the following positions in the subsidiaries of the Company: the sales deputy manager of Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) from July 2002 to February 2006 and the sales director of Xi'an Xinmingyang Toyota Automobile Sales Services Co., Ltd. (西安新銘洋豐田汽車銷售服務有限公司) from March 2006 to March 2009. Mr. Gou served as the general manager of Shaanxi Sunfonda Automobile Technology Development Co., Ltd. (陝西新豐泰汽車技術開發有限責任公司) from April 2009 to September 2014, during which the store and the team were awarded a number of honors from Volkswagen Group under his leadership, including World Diamond Dealers 2014 (2014年度全球鑽石經銷商), Five-starred Management Team Award 2014 (2014年度五星級管理團隊獎) and Sales Excellence Award 2014 (2014年度卓越銷售獎). From October 2014 to July 2017, he served as the general manager of Shaanxi Sunfonda Boao Automobile Co., Ltd. (陝西新豐泰博奧汽車有限責任公司) and was responsible for the sales operation and daily management of various brands under the Group. Mr. Gou served as the vice president of operations of the Group from August 2017 to November 2020. He has been the general manager of Shaanxi Sunfonda Automobile Co., Ltd. since November 2020. Mr. Gou has been a director of Grand Forever Enterprises Limited since 10 July 2018. Mr. Gou graduated from Wuhan Automotive Industry University (武漢汽車工業大學) (currently known as Wuhan University of Technology) and obtained a bachelor's degree in automotive applied engineering in July 1998.

Ms. Chen Wei (陳瑋), aged 47, was appointed as an executive director of the Company on 23 November 2018. Ms. Chen was appointed as the financial controller of the Group since May 2015. Ms. Chen has over 22 years of experience in accounting and financial management. She joined the Group in March 2007, and successively served in the following positions in the subsidiaries of the Company: the finance manager of Shaanxi Sunfonda Automobile Technology Development Co., Ltd. and Shaanxi Kaisheng Automobile Sales Services Co., Ltd. (陝西凱盛汽車銷售服務有限公司) from March 2007 to February 2009; and the finance manager of Shaanxi Sunfonda Automobile Co., Ltd. from March 2009 to April 2015. Ms. Chen graduated from Shaanxi Institute of Finance and Economics (陝西財經學院) (currently known as Xi'an Jiaotong University (西安交通大學)) in June 1996 with an associate degree in accounting.

Independent Non-executive Directors

Mr. Liu Jie (劉傑), aged 59, was appointed as an independent non-executive director of the Company on 30 June 2012. He is also the Chairman of the Audit Committee, a member of each of the Nomination Committee, the Remuneration Committee and the Finance and Investment Committee under the Board. Mr. Liu currently serves as the independent director of each of the following three companies listed on the Shenzhen Stock Exchange. He has served as an independent director of each of Tatwah Smartech Co., Ltd. (福州達華智能科技股份有限公司) (stock code: 002512) and Jiangsu Changbao Steeltube Co., Ltd. (江蘇常寶鋼管股份有限公司) (stock code: 002478) since April 2016, and an independent director of Dare Power Dekor Home Co., Ltd. (大亞聖象家居股份有限公司) (stock code: 000910) since May 2020. He has also served as an independent director of Shanghai Zhuoyue Ruixin Digital Technology Co., Ltd. (上海卓越睿新數碼科技股份有限公司) since December 2020 , and an independent director of Ecool Information Technology Co., Ltd.(衣科信息技術股份有限公司) since November 2021. Mr. Liu has been a professor and supervisor of Ph.D candidates at the School of Economics and Management of Tongji University (同濟大學) since July 2000, a professor and supervisor of Ph.D candidates at the School of Management of Fudan University (復旦大學) since April 2004, and a part-time professor and supervisor of Ph.D candidates at the School of Economics and Management of Tongji University since September 2005. Mr. Liu was an honorary professor in the Faculty of Business and Economics of the University of Hong Kong (香港大學) from September 2011 to March 2019.

From October 1995 to January 1998, Mr. Liu served as the deputy general manager of Shanghai Tongji Science & Technology Industrial Co., Ltd. (上海同濟科技實業股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600846). He served as a director of Shanghai Tongji Science & Technology Industrial Co., Ltd. from May 1997 to June 2005, an independent director of Shanghai Material Trading Co., Ltd. (上海物資貿易股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600822) from October 2001 to June 2007, an independent non-executive director of China Cyber Port (International) Company Limited (神州奧美網絡(國際)有限公司), currently known as Shentong Robot Education Group Company Limited and a company whose shares are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 08206) from February 2007 to October 2008, and a director and the general manager of Shanghai Fuli Management Consulting Co., Ltd. (上海復理管理諮詢有限公司) from January 2015 to May 2018. Mr. Liu also served as an independent director of Shanghai Di'an Technology Co., Ltd. (上海締安科技股份有限公司), a company whose shares are quoted on the National Equities Exchange and Quotations (stock code: 834047) from May 2015 to June 2018, an independent director of Goldcard Smart Group Co., Ltd. (金卡智能集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300349) from May 2017 to December 2018; an independent director of Zhongchang Big Data Corporation Limited, a company listed on the Shanghai Stock Exchange (stock code: 600242) from June 2017 to July 2020 ; and an independent director of Milkyway Chemical Supply Chain Service Co., Ltd. (密爾克衛化工供應鏈服務股份有限公司), a company listed on the Shanghai Stock Exchange (stock code 603713) from September 2015 to September 2021. Mr. Liu graduated from Tongji University in Shanghai, China, majoring in industrial automation, and obtained a bachelor's degree and a master's degree in engineering in July 1987 and December 1990, respectively. He graduated from the same university majoring in management science and engineering and obtained a doctoral degree in engineering in July 1995.

Mr. Song Tao (宋濤), aged 44, was appointed as an independent non-executive director of the Company on 26 May 2017. He is also the Chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee under the Board of the Company. Mr. Song has 21 years of experience in the automobile dealership industry, and currently serves as the Deputy Secretary-general of China Automobile Dealers Association. Mr. Song served as the financial manager of Beijing Parts Branch of FAW Jilin Light Automobile (一汽吉輕北京零部件) in 2001. He served as the Operation Director of Automotive Channel of CCTV International Network (央視國際網絡汽車頻道) in 2004. He acted as the Deputy Director of the Import and Export Working Committee of Automobile and Parts (汽車及零部件進出口工作委員會) of China Automobile Dealers Association in 2006. Mr. Song has been the Executive Deputy Director of the Imported Automobile Working Committee (進口汽車工作委員會) of China Automobile Dealers Association and the Director of the Expert Committee (專家委員會) of China Automobile Dealers Association since 2008. Mr. Song was a director of the Membership Affairs Department in 2008. Mr. Song established the Top 100 Office of China's Automobile Dealership Groups (中國汽車經銷商集團百強工作辦公室) in 2009 and served as the director; and he has established Dealers Association for various brands such as Benz, Faw-Volkswagen, Porsche, BMW, Audi and Jaguar Land Rover and acted as the vice chairman and secretary-general since 2010. In 2014, Mr. Song established Branch Auto Finance (汽車金融分會) of China Automobile Dealers Association and served as the secretary-general. In 2019, Mr. Song prepared for the establishment of the Branch Motorcycle (摩托車分會) of China Automobile Dealers Association and served as the vice president and secretary-general. Mr. Song is also a member of Chinese Advisory Committee of American Society of Association Executives (ASAE). Mr. Song graduated from Beihua University (北華大學), majoring in accounting computerization.

Dr. Liu Xiaofeng (劉曉峰), aged 60, was appointed as an independent non-executive director of the Company on 26 May 2017. He is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee under the Board of the Company. Dr. Liu has over 28 years of experience in corporate finance and has worked with various international financial institutions since 1993, including NM Rothschild & Sons, NM Rothschild & Sons (Hong Kong) Limited, JP Morgan Chase, DBS Asia Capital Limited and China Resources Capital Holdings Company Limited (華潤金融控股有限公司). Dr. Liu served as an independent non-executive director of each of Haier Electronics Group Co., Ltd. (海爾電器集團有限公司) (stock code: 1169) from June 2007 to June 2014, Hisense Kelon Electrical Holdings Company Limited (海信科龍電器股份有限公司) (currently known as Hisense Home Appliances Group Co., Ltd. (海信家電集團股份有限公司), stock code: 921) from September 2017 to August 2018 and Honghua Group Limited (宏華集團有限公 司) (stock code: 196) from January 2008 to November 2021, all of which are listed on the Stock Exchange. In addition, Dr. Liu is currently an independent director of each of Kunlun Energy Company Limited (昆侖能源有限公司) (stock code: 135) since April 2004, Cinda International Holdings Limited (信達國際控股有限公司) (stock code: 111) since July 2016 and AAG Energy Holdings Limited (亞美能源控股有限公司) (stock code: 2686) since August 2018, all of which are listed on the Stock Exchange. Dr. Liu is also currently an independent director of UBS Securities Co., Ltd. Dr. Liu obtained a master's degree and a Ph.D. from the Faculty of Economics, University of Cambridge in England in 1988 and 1994 respectively, a master's degree in development studies from the University of Bath, England, in 1987, and a bachelor of economics degree from Southwest University of Finance and Economics (西南財經大學) (previously known as Sichuan Institute of Finance and Economics (四川財經學院)) in 1983.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

SENIOR MANAGEMENT

Ms. Chiu Man (趙敏) was appointed as the chief executive officer of the Group on 13 January 2011. See "DIRECTORS – Executive Directors" of this section for profile of Ms. Chiu Man.

Mr. Xiao Jie (肖傑), aged 49, has served as the vice president of operations of the Group from 27 November 2020, and is mainly responsible for the operation and management of the Group. Before joining the Group, Mr. Xiao served as the general manager of the FAW Toyota brand and the general manager of the North and West project teams of Zhongsheng Group Holdings Limited (中升集團控股有限公司) from October 2015 to April 2020. From December 1999 to September 2015, Mr. Xiao held management positions in several subsidiaries of Zhongsheng Group Holdings Limited, including Yihui (Dalian) Financial Leasing Co., Ltd. (易惠(大連)融資租賃有限公司), Dalian Zhongsheng Huidi Automobile Sales Service Co., Ltd. (大連中升匯迪汽車銷售服務有限公司), Chongqing Zhongsheng Lexus Automobile Sales Service Co., Ltd. (重慶中升雷克薩斯汽車銷售服務有限公司), Dongguan Zhongsheng Lexus Automobile Sales Service Co., Ltd. (東莞中升雷克薩斯汽車銷售服務有限公司), Guangzhou Zhongsheng Toyota Automobile Sales Service Co., Ltd. (廣州中升豐田汽車銷售服務有限公司) and Dalian Zhongsheng Toyota Automobile Sales Service Co., Ltd. (大連中升豐田汽車銷售服務有限公司). He served as the vice chairman of the FAW Toyota National Dealer Advisory Committee (一汽豐田全國經銷商諮詢委員會) from February 2016 to May 2019. Mr. Xiao obtained a master's degree in business administration from California Institute of Technology & Management, United States in January 2005.

COMPANY SECRETARY

Ms. Chan Sze Ting (陳詩婷) was appointed as the company secretary of the Company on 18 June 2019. Ms. Chan is an associate director of the corporate services division of Tricor Services Limited, which is a global professional services supplier specializing in integrated business, corporate and investor services. Ms. Chan has over 15 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Chan is a Chartered Secretary (CS), a Chartered Governance Professional (CGP) and an Associate of both The Hong Kong Chartered Governance Institute (HKCGI) (formerly The Hong Kong Institute of Chartered Secretaries (HKICS)) and The Chartered Governance Institute (CGI) (formerly The Institute of Chartered Secretaries and Administrators (ICSA)) in the United Kingdom. Ms. Chan holds a bachelor of arts from Hong Kong Polytechnic University and a bachelor's degree in law from the University of London, Britain.

CORPORATE GOVERNANCE PRACTICE OF THE COMPANY

The Board believes that effective and reasonable corporate governance practices are essential to the development of the Group and can safeguard and enhance the interests of the shareholders. The Company has adopted the principles as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company regularly reviews its corporate governance practice to ensure the compliance with the CG Code.

The Board is of the view that the Company has complied with the code provisions set out in the CG Code during the period from 1 January 2021 to 31 December 2021 (the "**Reporting Period**"). The major corporate governance principles and practices of the Company are summarised as below.

The Company is aware that the Stock Exchange has amended Appendix 14 to the Listing Rules, which has come into effect from 1 January 2022, and the title has also been changed to "Corporate Governance Code". The relevant code provisions numbers of the CG Code disclosed in this Corporate Governance Report will be presented according to the revised version.

BOARD

The Board is jointly responsible to all shareholders for leading and overseeing the operations of the Group so as to ensure the achievement of the objective of value adding to shareholders. The Board is responsible for the overall development of the Group, approving and monitoring the overall development strategies of the Group, assessing, monitoring and controlling the operation and financial performance, ensuring the directors of the Company perform their duties properly and act in the best interests of the Group and hold discussions on various important and proper businesses of the Company in a timely manner. All directors are entitled to include any matter that needs to be submitted to the Board for discussion in the agenda of the Board meeting. The management shall provide members of the Board and specialised committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Company to facilitate the discharge of their duties and make informed assessment and decision.

The executive directors and the senior management are delegated the authority and responsibilities by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers. The Board fully supports the senior management to discharge their responsibilities.

The Board as a whole is responsible for performing the corporate governance functions set out in the Code Provision A.2.1 of the CG Code. The Board has reviewed and monitored the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules and the employees' written guidelines, and the Company's compliance with the CG Code and disclosures in this Corporate Governance Report.

BOARD COMPOSITION

The current Board composition of the Company are as follows:

Executive Directors:

Mr. Wu Tak Lam *(Chairman of the Board, Chairman of each of the Nomination Committee and the Finance and Investment Committee)*
Ms. Chiu Man *(Chief Executive Officer and member of the Finance and Investment Committee)*
Mr. Gou Xinfeng
Ms. Chen Wei

Independent Non-executive Directors:

Mr. Liu Jie *(Chairman of the Audit Committee, member of each of the Nomination Committee, the Remuneration Committee and the Finance and Investment Committee)*
Mr. Song Tao *(Chairman of the Remuneration Committee, member of each of the Audit Committee and the Nomination Committee)*
Dr. Liu Xiaofeng *(Member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee)*

The biographical details of the current directors and the relationship among them, if any, are set out on pages 29 to 33 of this annual report.

The appointment of independent non-executive directors strictly adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received an annual confirmation letter of independence from each of the independent non-executive directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the independent non-executive directors could bring his own relevant expertise to the Board and bring a wide range of business and financial expertise, experiences and independent judgement to the Board, and is also invited to join the Board committees of the Company. Through active participation in Board meetings and taking the lead in managing issues involving potential conflict of interests, all independent non-executive directors have made various contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and its shareholders.

BOARD MEETING

During the Reporting Period, the Board has convened four meetings. The Board has, by means of meetings and written resolutions, discussed and approved the overall strategies and policies of the Company, reviewed and approved the audited annual results of the Group for the year ended 31 December 2020, reviewed and approved the unaudited interim results of the Group for the six months ended 30 June 2021, discussed/approved the reporting and proposals of all Board committees, considered whether the continuing connected transactions for the year 2021 exceeded the annual caps set, reviewed the risk management and internal control systems of the Group, reviewed and approved the publication of the Company's Environmental, Social and Governance Report for the year ended 31 December 2020, etc. during the Reporting Period.

The attendance records of each director at the Board meetings during the Reporting Period are set out below:

Name of Directors	Attendance/ No. of meetings held	Attendance rate (%)
Executive Directors:		
Mr. Wu Tak Lam	4/4	100
Ms. Chiu Man	4/4	100
Mr. Gou Xinfeng	4/4	100
Ms. Chen Wei	4/4	100
Independent Non-executive Directors:		
Mr. Liu Jie	4/4	100
Mr. Song Tao	4/4	100
Dr. Liu Xiaofeng	4/4	100

The Company has adopted the code provisions of the CG Code to issue meeting notice of at least 14 days before convening a regular Board meeting and a reasonable notice for other Board meetings so that all directors can have sufficient time and plan to attend the meetings. All meeting papers will be sent to all directors no less than three days before a meeting is convened. Matters discussed and resolved at Board meetings will be recorded in detail and a summary of minutes will be made, and resolutions will also be filed.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company's Articles of Association contain provisions on the procedures and process of appointment and removal of directors.

According to the Company's Articles of Association, one-third of the directors for the time being (if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at an annual general meeting at least once every three years. In addition, any new director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting after appointment, and any new director appointed by the Board as an addition to the Board shall hold office until the next following annual general meeting of the Company. The retiring directors are eligible for re-election by the shareholders at the respective general meetings
Each director of the Company, including each of the independent non-executive directors, is engaged for a term of three years, subject to renewal upon expiry of the term. They are also subject to re-election in accordance with the Company's Articles of Association provisions as mentioned above.

Pursuant to the provisions of the Articles of Association of the Company, Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Song Tao and Dr. Liu Xiaofeng shall retire at the 2022 annual general meeting of the Company (the "**2022 AGM**"). All of the above four directors are eligible for re-election at the 2022 AGM, and have indicated that they will offer themselves for re-election at the 2022 AGM. The Board and the Nomination Committee recommended the re-appointment of the said four retiring directors standing for re-election at the 2022 AGM. The Company's circular, to be despatched together with this annual report, contains detailed information of these four directors pursuant to the requirements of the Listing Rules.

Pursuant to the CG Code, serving more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than 9 years, his further appointment will be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution shall include the reasons why the Board believes he is still independent and should be re-elected. It is noted that Mr. Song Tao and Dr. Liu Xiaofeng have not been in office for more than 9 years and are eligible for re-election at the 2022 AGM.

TRAINING FOR DIRECTORS

Each newly appointed director shall receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group, and that he/she is adequately aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The existing directors are continually updated with legal and regulatory developments, and the business and market changes to refresh their knowledge and to facilitate the discharge of their responsibilities. Continuing briefings and professional development to directors are arranged by the Company whenever necessary. To ensure all directors' continuous contributions to the Board are made with comprehensive and relevant information as well as the development and the update of knowledge and skills of all directors, the Company would arrange trainings and provide relevant funds. Training records for the directors of the Company during the Reporting Period are as follows:

- All directors (being Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Gou Xinfeng, Ms. Chen Wei, Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng) received regular briefings and updates from the senior management on the Group's business, operating position and corporate governance matters.

- All directors (being Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Gou Xinfeng, Ms. Chen Wei, Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng) read technical bulletins, periodicals and other publications in relation to the Group and those in relation to directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2021. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and other regulatory requirements. The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company in order to put forward such information to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

DIRECTORS' LIABILITY INSURANCE

The Company has purchased directors' liability insurance for all directors.

BOARD DIVERSITY POLICY

The Company believes that the diversification of the Board is beneficial for enhancing the performance of the Company. Therefore, the Company established the "Board Diversity Policy", and approved its amendments in March 2019, ensuring that, in reviewing and evaluating the composition of the Board and nominating directors, the Company will consider the diversification of members of the Board from various aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge, and industry and regional experience. All appointments to the Board shall follow the principle of meritocracy, taking into account objectively the benefits of diversification of members of the Board when considering the candidates.

The Nomination Committee will review the policy annually and set measurable targets and the achievement progress for implementing the policy when necessary, so as to ensure the effectiveness of the policy. The Nomination Committee will discuss any amendment to the policy that may need to be made and make recommendations to the Board for approval. Pursuant to the amended Rule 13.92 of the Listing Rules (effective from 1 January 2022), the Stock Exchange will not regard a single gender board of directors as achieving member diversity. As at the date of this report, the Board consists of two female directors and five male directors, which is in compliance with the requirement of appointing at least a director of a different gender under the Listing Rules and achieve the current measurable targets set by the Company.

DIRECTOR NOMINATION POLICY

The Board has delegated its responsibilities and authority for selection and appointment of directors of the Company to the Nomination Committee under the Board.

The Company established a "Director Nomination Policy" in March 2019 which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and ensure the Board continuity and appropriate leadership at Board level.

In evaluating and selecting candidate for directorship, the following criteria should be considered:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy and diversity aspects under the Board Diversity Policy;
- Any measurable objectives adopted for achieving diversity on the Board;
- Requirement for the Board to have independent non-executive directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules; and
- Willingness and ability to devote adequate time to discharging duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new directors and re-election of directors at general meetings. The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision C.2.1 of the CG Code stipulates that the roles of chairman of the board of directors and chief executive officer should be separate and should not be performed by the same individual. The Company had complied the relevant code provision during the Reporting Period.

Mr. Wu Tak Lam is the Chairman of the Board, who provides leadership for the Board and is responsible for chairing the meetings, managing the operations of the Board and ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. He is also responsible for setting the strategic vision, direction and goals of the Group and participates in the Group's strategic and key operational decision-making processes. He is the primary responsible person for ensuring that sound corporate governance practices and procedures are established, and that appropriate steps are taken to provide effective communication with shareholders so that their views are communicated to the Board as a whole. During the Reporting Period, Mr. Wu Tak Lam held one meeting with independent non-executive directors without the presence of other directors.

Ms. Chiu Man is the Chief Executive Officer, who performs the functions of the Chief Executive Officer and is responsible for overseeing our operations and investment, managing our relationship with automobile manufacturers and exploring new business opportunities for the Group.

To facilitate discussion of all key and appropriate issues by the Board in a timely manner, the Chairman of the Board coordinates with the senior management to provide adequate, complete and reliable information to all directors for consideration and review.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors (representing at least one-third of the Board), with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. Currently, the Company has appointed three independent non-executive directors, namely Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng.

BOARD COMMITTEES

The Board has established four committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Finance and Investment Committee, for overseeing particular aspects of the Company's affairs. All of these four committees are established with defined written terms of reference which are available at the websites of the Stock Exchange and the Company. All Board committees must report to the Board on their decisions or proposals.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in accordance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee currently consists of the three independent non-executive directors, namely Mr. Liu Jie (Chairman of the Committee), Mr. Song Tao and Dr. Liu Xiaofeng. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group.

The attendance records of each member of the Audit Committee at the Audit Committee meetings held during the Reporting Period are set out below:

Members of the Audit Committee	Attendance/ No. of meetings held	Attendance rate (%)
Mr. Liu Jie *(Chairman)*	2/2	100
Mr. Song Tao	2/2	100
Dr. Liu Xiaofeng	2/2	100

The external auditors have attended all the above-mentioned meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. There is no disagreement between the Board and the Audit Committee regarding the engagement of external auditors.

During the Reporting Period, the Audit Committee had performed the following major duties by means of meetings and written resolutions:

- Reviewed and discussed the annual financial statements, results announcement and report for the year ended 31 December 2020, relevant accounting principles and practices adopted by the Group and internal controls related matters, and the proposed re-appointment of the external auditors;

- Reviewed and discussed the interim financial statements, results announcement and interim report for the six months ended 30 June 2021, and relevant accounting principles and practices adopted by the Group;

- Reviewed the Group's continuing connected transactions;

- Reviewed and inspected the performance and effectiveness of risk management and internal control systems;

- Listened to and discussed the internal audit situation and proposed remedial measures of the Company reported by the internal audit department; and

- Reviewed the annual audit plan, including the nature and scope of audit, fees payable to the auditors, their reporting obligations and working plans.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with written terms of reference in accordance with Rule 3.25 of the Listing Rules and the CG Code set forth in Appendix 14 to the Listing Rules. The Remuneration Committee currently consists of the three independent non-executive directors, namely Mr. Song Tao (Chairman of the Committee), Mr. Liu Jie and Dr. Liu Xiaofeng. Major duties of the Remuneration Committee are to evaluate the remuneration policies for the directors and senior management of the Group as well as to make recommendations to the Board.

The attendance records of each member of the Remuneration Committee at the Remuneration Committee meeting held during the Reporting Period are set out below:

Members of the Remuneration Committee	Attendance/ No. of meeting held	Attendance rate (%)
Mr. Song Tao *(Chairman)*	1/1	100
Mr. Liu Jie	1/1	100
Dr. Liu Xiaofeng	1/1	100

During the Reporting Period, the Remuneration Committee had performed the following major duties by means of meetings and written resolutions:

- Generally reviewed and discussed the remuneration packages and benefits policies for the directors and senior management of the Group; and

- Reviewed the renewed service agreement of Ms. Chen Wei, an executive director of the Company.

Pursuant to Code Provision E.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended 31 December 2021 is set out below:

Remuneration bands (RMB)	Number of individuals
500,001-1,000,000	1
3,000,000-3,500,000	1

Details of the remuneration of all directors of the Company for the year ended 31 December 2021 are set out in Note 8 to the consolidated financial statements in this annual report.

NOMINATION COMMITTEE

The Company has established the Nomination Committee with written terms of reference in accordance with the CG Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee currently consists of the Chairman of the Board (who is an executive director) and the three independent non-executive directors of the Company, namely Mr. Wu Tak Lam (Chairman of the Committee), Mr. Liu Jie, Mr. Song Tao and Dr. Liu Xiaofeng. The primary duties of the Nomination Committee are to identify, screen and recommend to the Board appropriate candidates to serve as directors of the Company, to oversee the process for evaluating the performance of the Board, to develop recommendations to the Board, and to monitor nomination guidelines for the Company.

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria set out in the Director Nomination Policy (for summary of the Company's director nomination policy in force, please see the section headed "Director Nomination Policy" above), such as the character, integrity, qualifications (including professional qualifications, skills, knowledges and experience that is relevant to the Company's business and corporate strategy) of the candidate, the amount of time and efforts that the candidate will devote to discharging his/her duties and responsibilities, and diversity of the Board (for summary of the Company's board diversity policy in force, please see the section headed "Board Diversity Policy" above). External professionals might be engaged to carry out selection process when necessary.

The attendance records of each member of the Nomination Committee at the Nomination Committee meeting held during the Reporting Period are set out below:

Members of the Nomination Committee	Attendance/ No. of meeting held	Attendance rate (%)
Mr. Wu Tak Lam *(Chairman)*	1/1	100
Mr. Liu Jie	1/1	100
Mr. Song Tao	1/1	100
Dr. Liu Xiaofeng	1/1	100

During the Reporting Period, the Nomination Committee had performed the following major duties by means of meetings and written resolutions:

- Reviewed the structure, size, composition and diversity of the Board;
- Considered and made recommendation to the Board on the re-election of the retiring directors at the 2021 annual general meeting; and
- Assessed the independence of the independent non-executive directors.

The Nomination Committee believes that the composition of the Board is diversified. For example, there are two female directors, and there are also members with deep understanding of automotive dealers and members with extensive experience in corporate finance.

FINANCE AND INVESTMENT COMMITTEE

The Company has established the Finance and Investment Committee with written terms of reference. The Finance and Investment Committee currently consists of the Chairman of the Board (who is an executive director), an executive director and an independent non-executive director, namely Mr. Wu Tak Lam (Chairman of the Committee), Ms. Chiu Man and Mr. Liu Jie. The primary duties of the Finance and Investment Committee are to arrange, consider, review and approve the Group's bank financing and loans as well as the Company's guarantees and indemnities for its subsidiaries.

The attendance records of each member of the Finance and Investment Committee at the Finance and Investment Committee meeting held during the Reporting Period are set out below:

Members of the Finance and Investment Committee	Attendance/ No. of meeting held	Attendance rate (%)
Mr. Wu Tak Lam *(Chairman)*	1/1	100
Ms. Chiu Man	1/1	100
Mr. Liu Jie	1/1	100

During the Reporting Period, the Finance and Investment Committee had performed the following major duties:

- Reviewed the terms of reference and operation model of the Finance and Investment Committee, etc.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries to all Directors, all of the Directors have confirmed that they have complied with the required standards as set out in the Model Code during the year ended 31 December 2021.

The Company has established written guidelines for the relevant employees of the Company (the "**Relevant Employees**") in respect of their dealings in the securities of the Company (the "**Written Guidelines**") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employees" include any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company for the Reporting Period.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its directors and Relevant Employees in advance.

TRAINING FOR COMPANY SECRETARY

The company secretary of the Company is Ms. Chan Sze Ting from Tricor Services Limited, who has met the qualifications as required by the Listing Rules. The biography of Ms. Chan Sze Ting is set out in the section headed "Biographies of Directors, Senior Management and Company Secretary" of this annual report. The main contact person of Ms. Chan Sze Ting in the Company is Ms. Chiu Man (the Company's executive director).

During the year ended 31 December 2021, Ms. Chan Sze Ting has received relevant professional training of no less than 15 hours in accordance with the Listing Rules.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 92 to 97. The external auditors of the Company will be invited to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, and auditors' independence.

The fees to Ernst & Young, the Company's auditors, in respect of audit services and non-audit services provided for the year ended 31 December 2021 are analysed below:

Types of service provided by the external auditors	Fees paid/payable
Audit services (RMB'000)	
– audit fee for the year ended 31 December 2021	2,280
Non-audit services (RMB'000)	0

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility towards risk management and internal control systems and that it is responsible for reviewing their effectiveness, to safeguard shareholders' investments and the Company's assets. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board reviews the effectiveness of the risk management and internal control systems as well as internal audit department on an annual basis through the Audit Committee under the Board. The internal audit department of the Group is under the leadership of the Board with independent monitoring authority. During the Reporting Period, the internal audit department has maintained internal control systems in compliance with the principles of comprehensiveness, importance and applicability as well as cost-effective. Thereby, it is able to carry out effective risk management and internal control through internal control measures including routine supervision, special supervision, prior approval, in-process control and post verification. Generally, the measures are as follows:

1. Introducing the "Measures for Bidding and Tendering of the Group and Companies" (《集團公司招投標辦法》) to process tender management on the projects with qualified capital;

2. Developing appraisal rules of suppliers and carrying out management and control to admittance qualification of suppliers to maintain a strict standard of quality and price;

3. Optimising assets management practices by thoroughly monitoring assets safety from approval of their purchases until their disposals;

4. Enhancing the management and auditing of operation system. During the year, the Group redeveloped and improved report extraction of the ERP, OA and EAS operation systems operated by the Group's subsidiaries to ensure the accuracy, completeness and timeliness of corporate operation data; and

5. Controlling risks within a tolerable level by adopting a series of risk management measures, including property protection control, authorization and approval control, operation analysis control, performance appraisal control and budget control.

During the Reporting Period, the Board had conducted a review on the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2021. The review covered the financial, operational, compliance and risk management aspects of the Group.

According to the findings of the internal audit department, the conclusions made by the Board and the Audit Committee on risk management and internal control of the Group for the year ended 31 December 2021 are as follows: (i) the Group's risk management and internal control systems have been highly efficient and adequate; (ii) the Group has necessary control system in place for monitoring and rectifying any non-compliance incidents; and (iii) the Group has complied with the requirements as set out in the CG Code in respect of risk management and internal control.

There were no major breaches in the risk management and internal control systems of the Group that may have had an impact on shareholders' interests for the year ended 31 December 2021.

The Group conducts its affairs with close regard to the disclosure requirements under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Future Commission in June 2012, and established specialised agency and appointed personnel being responsible for registration and management of insiders. It also sets up internal management files for insiders management of the Company which is subject to regular updating. Meanwhile, regular training has been conducted and engaged by the insiders and management staff to enhance awareness of consciously observing relevant laws of insiders.

The Group has established the "System for Information Insiders Management" in respect of the Group's senior management and employees who are more likely to be familiar with inside information or other information unpublished by the Group in accordance with the "Guidelines on Disclosure of Inside Information", which stipulates that confidential and inside information shall not be used without authorisation.

The Company has adopted the disclosure policy intended to provide a general guidance for the Company's directors, officers, senior management and relevant employees with the aim to deal with the matters such as handling confidential information or monitoring information disclosure in accordance with applicable laws and rules.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company attaches great importance to the communication with Shareholders and promotes understanding and communication with Shareholders through various channels, such as general meetings, results announcement conferences, road show activities, receiving guests and telephone counseling.

The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions. The general meetings of the Company provide a forum for communication between the Board and the shareholders. The Chairman of the Board as well as the Chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee under the Board, or in their absence, other members of the respective committees will attend the annual general meeting and, where applicable, the Chairman of the Independent Board Committee will attend the general meetings to answer questions.

To promote effective communication, the Company maintains a website at www.sunfonda.com.cn, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

During routine operations, the Company also strives to receive visits from shareholders and investors, and arrange onsite visits for the Company. The management of the Group will also communicate in person with investors and analysts. Shareholders are welcome to make enquiries in writing directly to the Company at its principal place of business in Hong Kong. The Company will respond to all enquiries on a timely and proper basis.

During the year ended 31 December 2021, the Company held one Shareholders' general meeting, being the 2021 annual general meeting held on 25 May 2021. Details of individual attendance of each director at the aforesaid Shareholders' general meeting are set out below:

Name of directors	Attendance/ No. of meeting held	Attendance rate (%)
Executive Directors		
Mr. Wu Tak Lam	1/1	100
Ms. Chiu Man	1/1	100
Mr. Gou Xinfeng	1/1	100
Ms. Chen Wei	1/1	100
Independent Non-executive Directors		
Mr. Liu Jie	1/1	100
Mr. Song Tao	1/1	100
Dr. Liu Xiaofeng	1/1	100

Any Shareholders' enquiries regarding their shareholding, including transfer of shares, change of address, report of lost share certificates and dividend warrants, can be directed to Computershare Hong Kong Investor Services Limited, the Company's Hong Kong share registrar:

Address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Tel: (852)2862-8628
Fax: (852)2865-0990, (852)2529-6087
Website: www.computershare.com.hk

RIGHTS OF SHAREHOLDERS

The Board is committed to maintaining an on-going dialogue with shareholders and providing timely disclosure of information concerning the Company's material developments to shareholders and investors. The annual general meetings of the Company provide a good opportunity for communication between shareholders and the Board.

To safeguard shareholders' interests and rights, separate resolutions on each substantial issue, including the election of individual directors, are proposed at general meetings for shareholders' consideration and voting. Shareholders of the Company could convene extraordinary general meetings or propose resolutions at general meetings as follows:

1. Pursuant to Article 12.3 of the Articles of Association of the Company, shareholders holding no less than one-tenth of the paid up capital of the Company as at the date of lodgement of the requisition may lodge a written requisition to the Board or the company secretary at the head office/principal place of business in Hong Kong of the Company to request the Board to convene an extraordinary general meeting. The written requisition must state the purposes of the meeting.

2. If a shareholder wishes to propose a person other than a retiring director for election as a director at the general meeting, pursuant to Article 16.4 of the Articles of Association of the Company, the shareholder (other than the person to be proposed) eligible for attending and voting at the general meeting shall send a written notice, duly signed by the shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's principal place of business in Hong Kong to the company secretary. The period for lodgement of such proposal notices shall be 7 days from the day after the despatch of the notice of such general meeting (or such other period being a period commencing on the day after the despatch of the notice of such general meeting as determined by the Board from time to time) and end no later than 7 days prior to the date of such general meeting.

For the avoidance of doubt, the shareholder must provide his/her full name, contact details and identification in the duly signed written requisition, notice or statement (as the case may be), in order to give effect thereto. Information of the shareholder may be disclosed as required by law.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, there has been no material change in the constitutional documents of the Company. Please refer to the websites of the Company and the Stock Exchange for the latest version of the Company's Articles of Association. For more details of rights of shareholders, shareholders may refer to the Articles of Association of the Company.

All resolutions put forward at shareholders' meetings shall be voted by poll, on a one vote per share basis, pursuant to the Listing Rules. The poll voting results will be posted on the websites of the Stock Exchange and the Company after each shareholders' general meeting.

DIVIDEND POLICY

The Board adopted a dividend policy in March 2019. The Company aims at providing stable and sustainable returns to its shareholders. According to the dividend policy, the Company currently plans to pay dividends in amount of up to 30% of the distributable profit each fiscal year. In deciding whether to recommend the payment of a dividend and determining the amount of the dividend, the Board will consider the financial performance, cash flow status, business conditions and strategies, future operations and income, funding requirements and expenditure plans and shareholders' interests of the Group as well as any other factors. The Board will review the dividend policy from time to time. The Board may recommend and/or declare an interim dividend, a final dividend, a special dividend and any distribution of net profits as the Board considers appropriate for a financial year or period. Any final dividend is subject to approval by shareholders.

The Board is pleased to present this annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021 (the "**Financial Statements**").

PRINCIPAL ACTIVITIES

The Group is a leading luxury and ultra-luxury automobile dealership group in China. The comprehensive automobile sales and services offered by the Group include:

(i) sale of automobiles, both imported and domestically manufactured;

(ii) after-sales services, including:
   - a. maintenance and repair services;
   - b. sales of spare parts;
   - c. automobile detailing services; and

(iii) other value-added services, including:
   - a. automobile insurance agency services;
   - b. automobile financing agency services;
   - c. automobile licensing services; and
   - d. automobile survey services.

There was no significant change in the nature of the principal businesses of the Group during the year ended 31 December 2021.

BUSINESS REVIEW

Analysis on Results and Financial Key Performance Indicators

The Group's profits for the year ended 31 December 2021 and the financial position of the Company and the Group as at 31 December 2021 are set out in Financial Statements on pages 98 to 99 and pages 100 to 101 of this annual report.

A review of the Group's business during the year, which includes a discussion on the principal risks and uncertainties faced by the Group, an analysis on the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, significant events after the financial year end date, important relationships with its employees, customers and suppliers, and an indication of likely future developments in the Group's business, can be found in this Report of the Directors and the Management Discussion and Analysis as set out on pages 10 to 28 of this annual report.

Environmental Policies and Performance

During the year, the Group continued to focus on improving its performance in environmental protection, enhancing the awareness of environmental protection and proactively addressing the environmental issues. The Group endeavoured to adopt various energy saving and emission reduction measures in its business operation, so as to reduce the consumption of natural resources by using environmentally-friendly products and verified materials. Meanwhile, the Group engaged qualified and professional hazardous waste treatment organizations by way of public tender to carry out centralized collection and treatment of hazardous waste, with an aim to minimizing the environmental pollution. The department of general affairs of the Group regularly inspected and monitored the treatment results.

Please refer to the Environmental, Social and Governance Report as set out on pages 73 to 91 of this annual report for the details of environmental policies and performance of the Company.

Compliance with Laws and Regulations

The Board has attached great importance to the Group's compliance with domestic and foreign laws, regulations and regulatory requirements. The industry that the Group engages in is highly regulated. The Group is required to hold all specific approvals, licenses and permits necessary for automobile dealers and the operation of automobile maintenance and repair business, and carry out a number of filing procedures for its business, including but not limited to the followings:

- Approval and license for highway transportation;
- License for automobile insurance agency; and
- Filing procedures for distributing brand automobiles.

Any loss of or failure to obtain or renew of the approvals, licenses or permits could lead to interruption of its operation, and any fine or punishment imposed by the PRC government could materially and adversely affect the Group's results of operations, financial position and reputation.

For the year ended 31 December 2021, as far as the Board is aware, there was no material breach of the laws or regulations that have a significant impact on the Group's business and operation by the Group.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The Company's 2022 AGM will be held on Tuesday, 21 June 2022. In order to determine shareholders' entitlement to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Thursday, 16 June 2022 to Tuesday, 21 June 2022 (both days inclusive). In order to be entitled to attend and vote at the 2022 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Wednesday, 15 June 2022.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to propose the distribution of a final dividend of HK$0.08 (equivalent to approximately RMB0.07) per ordinary share for the year ended 31 December 2021 in an aggregate amount of RMB39.2 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders at the 2022 AGM of the Company.

Where the proposed distribution of final dividend is approved at the 2022 AGM, the dividend will be paid on Wednesday, 20 July 2022 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 30 June 2022. Therefore, the register of members of the Company will be closed from Tuesday, 28 June 2022 to Thursday, 30 June 2022 (both days inclusive). In order to be entitled to the final dividend, unregistered holders of shares of the Company should ensure that the share transfer documents together with the relevant share certificates are lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Monday, 27 June 2022.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group during the year are set out in Note 13 to the Financial Statements.

SHARE CAPITAL

As at the date of this report, the authorised share capital of the Company was US$100,000.00, divided into 1,000,000,000 shares of a par value of US$0.0001 each. There were no movements in the issued shares of the Company during the year. Details of the Company's share capital are set out in Note 30 to the Financial Statements.

RESERVES

Details of changes in the reserves of the Company and the Group during the year are set out in Notes 43 and 32 to the Financial Statements and in the consolidated statement of changes in equity, respectively. Of which, details of reserves available for distribution to shareholders are set out in Notes 43 and 32 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the distributable reserves of the Company available for distribution, calculated based on the Companies Act of the Cayman Islands (as revised), amounted to RMB161.2 million in aggregate, of which RMB39.2 million has been proposed as final dividend for 2021.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

MAJOR CUSTOMERS AND SUPPLIERS

Transaction amounts with five largest customers of the Group for 2021 accounted for less than 30% of the operating income of the Company for 2021. None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year. The Group's business is of retail nature with customers being relatively dispersed.

The purchase attributable to the Group's five largest suppliers and the largest supplier accounted for approximately 61.6% and 18.9% respectively of the Group's total purchase for the year ended 31 December 2021. The Group has established long-term cooperation relationships with automobile suppliers. The Group believes that its strong performance record demonstrates its excellent capability and in-depth market knowledge of the automobile distribution business in Northwestern China. The Group is confident that its operating capability and professional knowledge is conducive for the automobile suppliers to gain market shares in China and win customer loyalty. Therefore, the automobile suppliers have maintained close communication with the Group and sought out recommendations in respect of their development strategies in Northwestern China and Jiangsu region.

During the year under review, so far as the directors of the Company are aware, none of the directors of the Company, their close associates or the shareholders of the Company (which to the knowledge of the directors of the Company owned more than 5% of total number of issued shares of the Company) had any interest in the five largest suppliers or customers of the Company during the year.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and its subsidiaries as at 31 December 2021 are set out in Note 25 to the Financial Statements.

CHARITABLE DONATIONS

For the year ended 31 December 2021, the Group donated funds and supplies of approximately RMB142,000 in aggregate for charitable purposes.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and as at the date of this report were:

Executive Directors

Mr. Wu Tak Lam
Ms. Chiu Man
Mr. Gou Xinfeng
Ms. Chen Wei

Independent Non-executive Directors

Mr. Liu Jie
Mr. Song Tao
Dr. Liu Xiaofeng

Pursuant to Article 16.18 of the Articles of Association of the Company, Mr. Wu Tak Lam, Ms. Chiu Man, Mr. Song Tao and Dr. Liu Xiaofeng shall retire as directors of the Company by rotation at the 2022 AGM. All the four retiring directors mentioned above are eligible for re-election at the 2022 AGM.

BIOGRAPHIES OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the directors and the senior management are set out on pages 29 to 34 of this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into a service contract with each of the directors, the major particulars of which are as follows: (1) the renewed service contract entered into between Mr. Gou Xinfeng and the Company is for a term of three years starting from 9 November 2019; (2) the renewed service contract entered into between Ms. Chen Wei and the Company is for a term of three years starting from 23 November 2021; (3) the renewed service contracts entered into between each of Mr. Song Tao and Dr. Liu Xiaofeng and the Company are for a term of three years starting from 24 May 2020; (4) the renewed service contracts entered into between each of Mr. Wu Tak Lam, Ms. Chiu Man and Mr. Liu Jie and the Company are for a term of three years starting from 15 May 2020; and (5) being terminable in accordance with the terms of the respective contracts.

None of the directors of the Company who are proposed for re-election at the 2022 AGM has entered into a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF THE DIRECTORS

Details of remuneration of the directors of the Company are set out in Note 8 to the Financial Statements.

REMUNERATION OF THE FIVE HIGHEST PAID INDIVIDUALS

Details of remuneration of the five highest paid individuals of the Company are set out in Note 9 to the Financial Statements.

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that every director, auditor or other officer of the Company is entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a director, auditor or other officer of the Company in defending any proceedings, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for directors and officers of the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries or parent companies, or any subsidiaries of the parent companies of the Company was a party and in which any director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2021.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2021, none of the directors of the Company nor their associates has competing interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company.

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

As at 31 December 2021, the interests of the Company's directors in the shares of the Company or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) which were required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or as were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(A) Interests and short position in ordinary shares of the Company

Name of director	Capacity/Nature of interest	Notes	Number of shares	Approximate percentage* of shareholding in the Company
Mr. Wu Tak Lam	Interest held by controlled corporations	1 2	421,240,800 (L) 20,000,000 (S)	70.21% 3.33%
Ms. Chiu Man	Interest held by controlled corporations	1 2	421,240,800 (L) 20,000,000 (S)	70.21% 3.33%
Mr. Gou Xinfeng	Beneficiary of a trust	3	30,000 (L)	0.01%**
	Beneficial owner		170,000 (L)	0.03%**
			200,000 (L)	0.03%**
Ms. Chen Wei	Beneficiary of a trust	4	26,000 (L)	0.00%**
	Beneficial owner		138,000 (L)	0.02%**
			164,000 (L)	0.03%**

(L): Long position (S): Short position

Notes:

(1) These shares are held as to 417,000,000 shares by Top Wheel and 4,240,800 shares by Westernrobust Company Limited ("**Westernrobust**").

The issued share capital of Top Wheel is owned as to 70% by Golden Speed, a corporation wholly-owned and controlled by Mr. Wu Tak Lam, and 30% by Win Force, a corporation wholly-owned and controlled by Ms. Chiu Man. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, they are deemed to be interested in the 417,000,000 shares held by Top Wheel pursuant to Part XV of the SFO.

The entire issued share capital of Westernrobust is owned by a revocable discretionary trust (the "**Management Trust**") established for the purposes of recognizing and rewarding the contribution and performance of certain directors and senior management of the Group pursuant to the Pre-IPO Share Award Scheme adopted by the Company on 8 January 2014 (the "**Pre-IPO Share Award Scheme**"). Top Wheel is the settlor of the Management Trust and possesses all voting rights attached to the unawarded shares and awarded shares which have not been vested under the Management Trust. Thus, the Management Trust and Top Wheel are deemed to be interested in the 4,240,800 shares held by Westernrobust. As Top Wheel is a controlled corporation of Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed and Win Force, they are also deemed to be interested in the 4,240,800 shares of the Company held by Westernrobust pursuant to Part XV of the SFO.

(2) On 19 November 2020, Top Wheel, a company wholly and beneficially owned by Mr. Wu Tak Lam and Ms. Chiu Man, entered into two option agreements with Asian Equity Special Opportunities Portfolio Master Fund Limited ("**AESOP**"), pursuant to which, Top Wheel has agreed to grant (i) a call option (the "**Option I**") to AESOP over an aggregate of 10,000,000 shares in the Company (the "**Option I Shares**") held by Top Wheel, with the exercise price of HK$1.60 per Option I Share and exercise period of two years from the date of the grant of the Option I; and (ii) a call option (the "**Option II**") to AESOP over an aggregate of 10,000,000 shares in the Company (the "**Option II Shares**") held by Top Wheel, with the exercise price of HK$2.98 per Option II Share and exercise period of three years from the date of the grant of the Option II. For details, please refer to the Company's announcement dated 19 November 2020.

(3) Mr. Gou Xinfeng is deemed to be interested in these 30,000 awarded shares, which have been granted to him (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.

(4) Ms. Chen Wei is deemed to be interested in these 26,000 awarded shares, which have been granted to her (but not yet vested) pursuant to the Pre-IPO Share Award Scheme.

* The percentage represents the number of ordinary shares involved divided by the number of the Company's issued shares as at 31 December 2021.

** As the figures are the results of rounding adjustments, there is a discrepancy after aggregating the figures.

(B) Long position in the shares of associated corporations of the Company

Name of associated corporation	Name of director	Capacity/ Nature of interest	Number of shares	Approximate percentage* of shareholding in the associated corporation
Golden Speed Enterprises Limited	Mr. Wu Tak Lam	Beneficial owner	1	100%
	Ms. Chiu Man	Interest of spouse	1	100%
Top Wheel Limited	Mr. Wu Tak Lam	Interest held by a controlled corporation	14,000	70%
		Interest of spouse	6,000	30%
			20,000	100%
	Ms. Chiu Man	Interest held by a controlled corporation	6,000	30%
		Interest of spouse	14,000	70%
			20,000	100%

Notes: Mr. Wu Tak Lam holds the entire issued share capital of Golden Speed which holds 70% of the issued share capital of Top Wheel. The remaining 30% of the issued share capital of Top Wheel is indirectly held by his wife, Ms. Chiu Man (an executive director of the Company), through her wholly-owned investment company, Win Force. As Top Wheel holds more than 50% of the issued share capital of the Company and Golden Speed holds more than 50% of the issued share capital of Top Wheel, Top Wheel and Golden Speed are the associated corporations of the Company within the meaning of Part XV of the SFO.

* The percentage represents the number of ordinary shares involved divided by the number of issued shares of the associated corporation as at 31 December 2021.

Save as disclosed above, as at 31 December 2021, none of the directors or chief executive of the Company had an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the below sections headed "Share Option Scheme" and "Pre-IPO Share Award Scheme", neither at the end of nor at any time during the year there subsisted any arrangement to which the Company or any of its subsidiaries or its parent companies or its fellow subsidiaries was a party and the objectives of or one of the objectives of such arrangement are/is to enable the Company's directors, their respective spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2021, the following corporations had interests of 5% or more of the issued share capital of the Company which were required to be recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Interests and short positions in ordinary shares of the Company

Name of shareholder	Capacity/Nature of interest	Notes	Number of shares	Approximate percentage* of shareholding in the Company
Top Wheel Limited	Beneficial owner	1	417,000,000 (L) 20,000,000 (S)	69.50% 3.33%
	Founder of a discretionary trust	1	4,240,800 (L)	0.71%
			421,240,800 (L) 20,000,000 (S)	70.21% 3.33%
Win Force Enterprises Limited	Interest held by a controlled corporation	1	421,240,800 (L) 20,000,000 (S)	70.21% 3.33%
Golden Speed Enterprises Limited	Interest held by a controlled corporation	1	421,240,800 (L) 20,000,000 (S)	70.21% 3.33%
RAYS Capital Partners Limited	Investment manager	2	42,112,000 (L)	7.02%
Ruan David Ching Chi	Interest held by a controlled corporation	2	42,112,000 (L)	7.02%
Asian Equity Special Opportunities Portfolio Master Fund Limited	Beneficial owner	2	42,076,000 (L)	7.01%

(L): Long position (S): Short position

Notes:

(1) The above interests of Top Wheel, Win Force and Golden Speed were also disclosed as the interests of each of Mr. Wu Tak Lam and Ms. Chiu Man in the above section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures"

(2) Among the 42,076,000 (L) shares directly held by Asian Equity Special Opportunities Portfolio Master Fund Limited, 20,000,000 (L) shares are in the nature of unlisted derivative interest. Asian Equity Special Opportunities Portfolio Master Fund Limited is wholly-owned by RAYS Capital Partners Limited, which is in turn owned as to 45.60% by Ruan David Ching Chi. Accordingly, Ruan David Ching Chi is deemed to be interested in the equity interest of the Company owned by RAYS Capital Partners Limited and Asian Equity Special Opportunities Portfolio Master Fund Limited by virtue of the SFO.

* The percentage represents the number of ordinary shares involved divided by the number of the Company's issued shares as at 31 December 2021.

Save as disclosed above, as at 31 December 2021, no person, other than the directors whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had a registered interest or short position in the shares or underlying shares of the Company as recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

MANAGEMENT CONTRACTS

During the year ended 31 December 2021, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed.

SHARE OPTION SCHEME

The Share Option Scheme (as defined in the Company's prospectus) was conditionally adopted pursuant to a resolution of the shareholders of the Company on 18 January 2014 (the "**Adoption Date**") and became effective from 15 May 2014 when dealings in the shares of the Company on the Stock Exchange commenced and, unless otherwise cancelled or amended, will remain in force for 10 years from the Adoption Date. As at the date of this annual report, the remaining term of the Share Option Scheme was approximately 2 years.

The purpose of the Share Option Scheme is to recognize and acknowledge the contributions made by the qualified participants, to attract skilled and experienced personnel, to incentivize them to remain with the Company and to motivate them to strive for the future development and expansion of the Company and its subsidiaries, by providing them with the opportunity to acquire equity interest in the Company.

Qualified participants of the Share Option Scheme include the Company's directors (including non-executive directors and independent non-executive directors), employees (whether full-time or part-time) of the Group or any entity in which the Company or its subsidiary holds any equity interest (the "**Invested Entity**"), any such other persons (including but not limited to suppliers, customers, consultants, contractors, advisers, business partners or service providers of the Group or the Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group.

The maximum number of shares issuable under share options granted to each qualified participant under the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting of the Company.

A grant of share options under the Share Option Scheme to a connected person, a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted, to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting of the Company.

The offer of a grant of share options under the Share Option Scheme may be accepted within five business days from the date of offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, save that such a period shall not be more than 10 years from the date of offer of the share options subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the directors of the Company at their sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised.

The exercise price of the share options shall be the highest of: (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer of the share options; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer of the share options.

Details of the Share Option Scheme were disclosed in the Company's prospectus and Note 31 to the Financial Statements. The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 60,000,000, representing 10% of the shares of the Company in issue as at the date of approval of this report. No options have been granted under the Share Option Scheme since its adoption.

PRE-IPO SHARE AWARD SCHEME

The Pre-IPO Share Award Scheme was adopted by the Company on 8 January 2014. For the implementation of the Pre-IPO Share Award Scheme, the Management Trust was established on the same date for the benefit of certain employees with Cantrust (Far East) Limited acting as the trustee. 9,000,000 shares of the Company, representing 1.5% of the issued shares of the Company as at the approval date of this report, were transferred to the Management Trust for nil consideration on the same date pursuant to the Pre-IPO Share Award Scheme. As of 31 December 2021, a total of 5,254,400 shares of the Company had been awarded to the grantees in accordance with the Pre-IPO Share Award Scheme. Details of the Pre-IPO Share Award Scheme are disclosed in the Company's prospectus and Note 31 to the Financial Statements.

ISSUED DEBENTURES

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries issued any debentures.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the above sections headed "Share Option Scheme" and "Pre-IPO Share Award Scheme", no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

CONTRACT OF SIGNIFICANCE

No contract of significance has been entered into between the Company, or any of its subsidiaries and the controlling shareholder or any of its subsidiaries during the year ended 31 December 2021.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in Note 28 to the Financial Statements.

CORPORATE GOVERNANCE

Please refer to the Corporate Governance Report on pages 35 to 54 of this annual report for details.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors of the Company, not less than 25% of the Company's total issued shares were in the hands of the public as at the date of this report, which complied with the public float requirements under the Listing Rules.

MATERIAL LITIGATION

During the year ended 31 December 2021, the Group was neither involved in any material litigation or arbitration, nor may be brought up or accused of any pending material litigation or claims.

AUDIT COMMITTEE

The Audit Committee (consisting of the three independent non-executive directors of the Company) has reviewed the consolidated financial statements for the year ended 31 December 2021, and is of the view that the Group's consolidated financial statements for the year ended 31 December 2021 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2021 and up to the date of this annual report, the controlling shareholders of the Company, namely Mr. Wu Tak Lam, Ms. Chiu Man, Golden Speed, Win Force and Top Wheel (collectively referred to as the "**Controlling Shareholders**"), have no interests in any business which competes with or is likely to compete with the businesses of the Group.

The Company has obtained the annual written confirmations from the Controlling Shareholders in respect of their compliance with the Deed of Non-competition (the "**Deed of Non-Competition**") entered into between the Controlling Shareholders and the Company.

Based on the information and confirmations provided by or obtained from the Controlling Shareholders, the independent non-executive directors of the Company reviewed the compliance conditions in respect of the Deed of Non-Competition for the year ended 31 December 2021 and up to the date of this annual report, and believed that the Controlling Shareholders had fully complied with the Deed of Non-Competition.

CONNECTED TRANSACTIONS

Among the related party transactions disclosed in Note 40 to the Financial Statements, the following transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are required to be disclosed in this annual report in accordance with the requirements set out in Chapter 14A of the Listing Rules. Please see the below information disclosed in compliance with Chapter 14A of the Listing Rules.

On 9 December 2019, the Company entered into a new merchandise sale and purchase framework agreement (the "**MSP Framework Agreement**") with Yangzhou Sunfonda Automobile Co., Ltd. ("**Yangzhou Sunfonda**"), pursuant to which the Group may sell or purchase imported Volkswagen automobiles and related spare parts to or from Yangzhou Sunfonda from time to time. All transaction prices for the sale or purchase of imported Volkswagens automobiles and related spare parts between the Group and Yangzhou Sunfonda are equivalent to the transaction prices between the Group and Volkswagen Group Import (China) Co., Ltd., which is in line with the pricing policy of the transactions conducted by the Group with other independent automobile dealers. In the transactions under the MSP Framework Agreement, as the transaction prices are completely the same as those offered by or to Volkswagen Group Import (China) Co., Ltd. or other independent automobile dealers, neither the Group nor Yangzhou Sunfonda will profit from any price differentiation from the MSP Framework Agreement and transactions contemplated thereunder. The term of the MSP Framework Agreement is three years, commenced on 1 January 2020 and expiring on 31 December 2022. For details, please refer to the announcement of the Company dated 9 December 2019.

Yangzhou Sunfonda is held as to 96.69% equity interest by Mr. Zhao Yijian ("**Mr. Zhao**"), who is the brother-in-law and the brother of Mr. Wu Tak Lam and Ms. Chiu Man (both being directors of the Company) respectively, and 0.31% equity interest by Ms. Zhao Bailu ("**Ms. Zhao**"), who is the daughter of another brother-in-law and the daughter of another brother of Mr. Wu Tak Lam and Ms. Chiu Man (both being directors of the Company) respectively, hence Mr. Zhao, Ms. Zhao and Yangzhou Sunfonda are connected persons of the Company. As a result, the MSP Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions according to Chapter 14A of Listing Rules.

For the year ended 31 December 2021, the total actual transaction amount and annual cap of sales of imported Volkswagen automobiles and related spare parts to Yangzhou Sunfonda by the Group under the the MSP Framework Agreement were RMB4,991,100 and RMB16,500,000, respectively; the total actual transaction amount and annual cap of purchase of imported Volkswagen automobiles and related spare parts from Yangzhou Sunfonda by the Group were RMB1,072,400 and RMB16,500,000, respectively. For more information, please also see Note 40 to the Financial Statements.

Independent non-executive directors of the Company have confirmed that the above continuing connected transactions were entered into: (i) in the ordinary course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with relevant governance agreements (including the pricing principle and guidelines set out therein) and on terms that were fair and reasonable and in the interest of the Company and the shareholders as a whole.

Ernst & Young, the Company's independent auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued a letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with relevant provisions of Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

AUDITORS

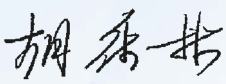
The consolidated financial statements have been audited by Ernst & Young who will retire and, being eligible, offer themselves for re-appointment at the 2022 AGM. A resolution for the re-appointment of Ernst & Young as the auditors of the Company is to be proposed at the 2022 AGM. The auditors of the Company have not been changed for the three years ended 31 December 2021.

SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END DATE

There were no significant subsequent events that had occurred from 1 January 2022 up to the date of this annual report.

Other parts, sections or notes of this annual report referred to in this section of the annual report (the Report of the Directors) constitute part of the Report of the Directors.

By order of the Board
Sunfonda Group Holdings Limited



Mr. Wu Tak Lam
Chairman

Hong Kong, 23 March 2022

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

BOARD STATEMENT

Sunfonda Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**", "**we**" or "**our**") is pleased to present its Environmental, Social and Governance (ESG) Report (the "**Report**" or the "**ESG Report**"), which aims to describe our development and performance in all aspects of ESG in 2021 in response to the expectations and concerns of stakeholders for the sustainable development of the Group.

The Board assumes the responsibility for the sustainable development of the Group and leads the Group to fulfill its social responsibilities. The Board firmly believes that measures such as protecting environment, improving occupational safety and health, attracting and developing talents, and focusing on quality will help the Group achieve its established mission and goals. The Board believes that emphasizing ESG management can enhance the corporate brand image, and promote the sustainable business development to increase revenue, reduce operating costs and improve the core competitiveness of the enterprises, as well as reduce related risks and enhance the Group's ability to comply with relevant laws and regulations.

The Board will, where applicable, consider inviting relevant experts to participate in the Board to enhance the relevant experience of the existing Board, and will also actively participate in relevant training to keep abreast of the latest developments. We have set up an ESG working group that is mandated by the Board to address relevant issues. By formulating a clear strategy, the Board gives the working group a clear direction to establish plans and goals, and regularly review the effectiveness of the plans.

The working group reports to the Board annually, and is tasked with developing ESG plans and goals, regularly reviewing the effectiveness of the plans, and conducting stakeholders engagement and materiality assessments. At the same time, the working group collects ESG information for reporting, and regularly update the Board on relevant information. The Board regularly reviews the performance of the plans and goals with the working group to monitor ESG performance, supports the sustainable development of the Group by approving the Group's ESG budgets, and reviews the stakeholders engagement and materiality assessments and ESG reports to ensure the the Group's development direction and disclosure meets the expectations of the stakeholders.

Risk management in ESG related areas is critical for the Board. In order to promote comprehensive risk management within the Group, through the extensive understanding of the business by the Board and communication with different stakeholders, we have made basic assessments on respective relevant risks and incorporated relevant risks into the risk management and internal control system. Although the risks in all areas are at a low level, we will pay special attention to the risks related to resource consumption side and supply side, and the increasing expectations of the society for diverse workplace.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board believes that the rational use of resources and a focus on occupational health and safety are particularly beneficial for the Group to achieve its goals of protecting environment and building an excellent corporate image. Therefore, the Group regularly evaluates our resource consumption and occupational safety statistics against predetermined targets. These goals and evaluations are valid indicators reflecting efficiency and control.

As the society has reached a more consistent consensus on moving towards carbon neutrality, the public's requirements for environmental performance of automobiles may be further improved, and the demand for consumers for new energy vehicles may further increase. The Group will adjust the product portfolios for sales to enable it to meet market changes and demands more quickly. Going forward, the Group is committed to providing high-quality automobile sales and after-sales service to move towards a more environmentally friendly economy.

ABOUT THE REPORT

The Report presents our continuous commitment to environment and social responsibility, with a focus on our performance, data and the effectiveness of existing measures in respect of environmental, social and governance issues of the Group. The Report is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.sunfonda.com.cn).

Reporting Scope

The Report presents the environmental, social and governance performance of the Group for the financial year from 1 January 2021 to 31 December 2021 (the "**Reporting Period**"), with a focus on the Group's environmental, social and governance performance of the principal operations in the PRC, including the sales and after-sales services, automobile aftermarket business and supply chain of luxury and ultra-luxury brand automobiles as well as other mid-end brand automobiles.

Basis of Preparation

The Report has been prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" to the Listing Rules issued by the Stock Exchange. The principles of preparation are as follow:

1. Materiality: This Report relates to environmental, social and governance matters that have a significant impact on investors and other related parties.

2. Quantitative: If there are key performance indicators ("**KPI**"), the indicators should be measurable and be compared effectively where appropriate. Purposes and impact must also be stated for the indicators.

3. Balance: This Report should impartially present the Group's environmental, social and governance performance and avoids the inappropriate misleading of readers and omission of important data.

4. Consistency: This Report adopts a consistent method of statistics disclosure so that meaningful comparisons of information regarding environment, society and governance may be made in the future. Any future changes in methodology should be indicated in the Report.

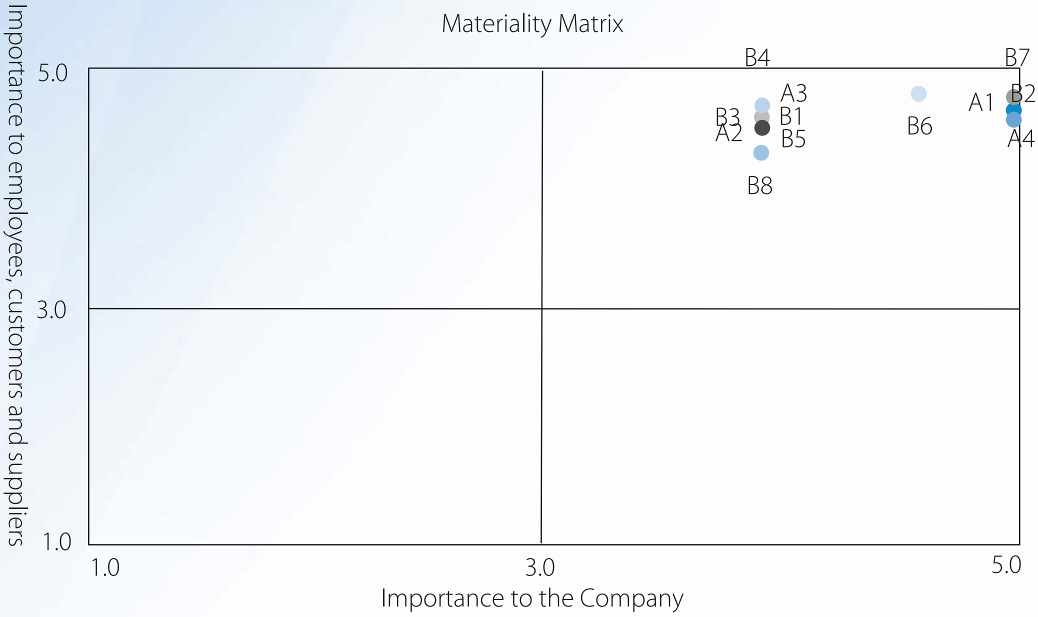
Stakeholders Engagement and Materiality Assessment

Stakeholders engagement and materiality assessment is one of the major reporting principles for preparing high-quality ESG reports. Therefore, the Group determines which topics are of great significance to its business through stakeholders engagement and materiality assessment, and accordingly prioritizes relevant content in the report.

The Group carried out online surveys on stakeholders engagement in December 2021, and invited external stakeholders such as customers and suppliers, as well as internal stakeholders such as directors and employees, including senior management, management and laborial staff, to participate in the survey, in which the reporting issues set out in the ESG Guidelines were rated according to their perceived importance to the Group or the stakeholder groups they represented.

The materiality of each reporting issue was then determined by aggregating the materiality levels given by all participants. The materiality level for each stakeholder category is the average of all respondents within that stakeholder category. The overall materiality level across multiple stakeholder categories is the average of the materiality levels for each category.

To clearly illustrate the results, a materiality matrix is used to place the importance rating given to each issue by directors and other stakeholders, including employees and external stakeholders. The materiality matrix clearly illustrates the results by assigning the materiality level (from 1 to 5) of each issue to the Group's directors and all other stakeholders. Issues in the upper right corner of the materiality matrix are considered important by directors and their stakeholders.



Mark:

A1 Green Operation – Reducing Emissions
A2 Use of Resources
A3 Environment and Natural Resources
A4 Climate Change
B1 Employment
B2 Health and Safety
B3 Development and Training
B4 Labour Standards
B5 Supply Chain Management
B6 Product Responsibility
B7 Integrity Operations
B8 Community Care

We received responses from all categories of stakeholders in our survey invitation. B2 Health and Safety and B7 Integrity Operations were identified as the most important issues in both stakeholder engagement and materiality assessment, while B8 Community Care was assessed as the least important issue. However, all issues are above the critical threshold of materiality (i.e., the materiality to the Group and its stakeholders is above 3.0), and are therefore disclosed in the Report.

The table below summarizes the most important ESG issues expressed by different stakeholders.

Stakeholder Category	Most Important Issue
Employees	B2 Health and Safety
Customers	B6 Product Responsibility B7 Integrity Operations
Suppliers	B5 Supply Chain Management

In response to the demands of relevant stakeholders, the policies and measures adopted by the Group for relevant stakeholders have been disclosed in the corresponding sections of the Report.

A ENVIRONMENT

A1 Green Operation – Reducing Emissions

The Group has always adhered to environmental protection and emission reduction, which are the major focuses of the current and future global crucial developments. The Group attaches great importance to fulfilling corporate environmental responsibility and realising the sustainable development concept. In addition, regarding operations, we have promoted a number of environmental protection initiatives to reduce greenhouse gas emissions as much as possible, including but not limited to Energy Conservation Policy, Business Travel Conservation Policy, procurement policy that supports local suppliers, Indoor Air Quality Policy, Water Conservation Policy, Waste Reduction Policy, Reducing Office Waste Policy and Waste Recycling Policy. The Group will conduct regular and annual review on the effectiveness of the measures, to ensure that the annual emissions growth will not exceed the growth of the main business, so as to ensure the smooth realization of various environmental goals. Specific activities promoted by the Group can be broadly divided into those in the day-to-day operations and workplace, including but not limited to:

Day-to-day Operations:

1) Preferential use of energy efficient products;
2) Preferential use of local suppliers so as to reduce carbon emissions due to long-distance transport;
3) The car repair business operations will consider prioritising the use of environmentally friendly paint and related environmentally friendly materials;
4) Preferential use of water-efficient equipment and remind all employees and visitors to conserve water;
5) Addition of air filters to the exhaust parts of the spray booths with the aim of reducing the impact on air quality;
6) For construction activities, reducing the use of plastic products;
7) Requiring suppliers that we cooperate with to adhere to relevant environmental protection standards and regulations, and obtain environmental protection certifications;
8) Actively cooperating with environmental authorities in organising various activities to educate and guide staff on environmental protection practices in their daily life and at work.

Workplace:

1) Ban on smoking to reduce air pollution and improve indoor air quality;
2) Promotion of "Green Travel" to encourage the use of staff transport to replace the individual use of private cars;
3) Avoiding long distance face-to-face meetings and replacing such with telephone or video conferencing to reduce carbon emissions stemming from transport usage;
4) Giving priority to energy-efficient products, recycling reusable resources and reducing the use of disposable products. For example, the employees' canteen used reusable tableware to reduce waste;
5) Planting green plants in the workplace, and at the same time, growing a variety of green plants in the office to enhance air quality;
6) Preferential use of environmentally friendly equipment such as LED lights for the lighting system and requiring employees to turn off the lights when there is sufficient sunlight in daily operation;
7) Affixing a reminder on air conditioners at the switch so that employees are reminded that the temperature should be set at 25 degrees and turned off in spring and autumn and the operating time is from 10:00 to 17:00;
8) Reducing office waste during daily work, avoiding paper waste, re-using ink cartridges and collecting discarded or remaining metal parts and accessories for other production use.

The implementation of the above measures has helped the Group continue to achieve good results in fulfilling its social responsibilities regarding environmental protection and emission reduction.

In order to strengthen the management of company cars and avoid long distance face-to-face meetings of the Company, employees are encouraged to communicate online through the Internet, video conferencing and other means to reduce offline communication and exchanges, especially during the pandemic. During the Reporting Period, the Group continued to manage and optimize the total number of kilometers travelled by vehicles and the employees' flight mileage. Specifically, the total number of kilometers travelled by vehicles was 4,805 thousand km, representing a year-on-year increase of 35.8%; the employees' flight mileage totalled 2,031 thousand km, representing a year-on-year decrease of 5.48%. As vehicle travel did not form part of its principal business in the scope of the Report, it has not been converted into individual pollutant emissions in the Report.

In the after-sales repair and maintenance of vehicles, a substantial amount of wastes have been inevitably generated. During the Reporting Period, the levels of waste discharged in the operation process are as follows:

Waste Types of waste	Waste in 2021	Waste in 2020
Non-hazardous waste	1,051 (tonnes)	1,005 (tonnes)
Non-hazardous waste intensity (based on the number of employees)	0.30 tonnes/person	0.31 tonnes/person
Hazardous waste	483 (tonnes)	453 (tonnes)
Hazardous waste intensity (based on the number of employees)	0.14 tonnes/person	0.14 tonnes/person

We treat the wastes in strict compliance with the requirements of laws and regulations. We classify waste into two categories, i.e., hazardous and non-hazardous waste, which are collected at a designated place. For non-hazardous waste, we can recycle and reuse them or sell them for reuse. As the Group has increased efforts in the management of non-hazardous waste discharge, and the volume of non-hazardous waste discharge for the Reporting Period was significantly reduced as compared with last year. Hazardous waste will be dealt with by qualified suppliers that are authorized by the bureau for environment protection with which we maintain long-term and stable co-operation. With the growth of the Group's business, the Group continues to step up efforts in the management of hazardous waste discharge. Although the discharge volume of hazardous waste increased for the Reporting Period as compared with the corresponding period last year, its increase rate was lower than the growth rate of the Group's principal business. In the future, the Group will continue to make efforts to achieve the goal of the growth rate of hazardous waste discharge not exceeding that of its main business.

During the Reporting Period, the levels of greenhouse gases (GHGs) emissions in the operation process are as follows:

Greenhouse Gases (GHGs) Emissions (t CO_2-e)*	Greenhouse Gases (GHGs) Emissions 2021	2020
Total GHG emissions	16,559	13,707
Direct GHG emissions	1,890	1,764
Energy indirect GHG emissions	14,306	11,560
Other indirect GHG emissions	364	383
Intensity (t CO_2-e/employee)	4.66	4.26

Notes: Direct emissions refer to the emissions from the Group's use of unleaded gasoline and diesel as well as natural gas

Energy indirect emissions only refer to the emissions from purchased electricity

Other indirect emissions only include emissions from the employees' air travels for business purposes

During the Reporting Period, the Group was committed to reducing carbon emissions. The total amount of greenhouse gas emissions during the Reporting Period decreased as compared with the corresponding period last year. The Group strictly complies with various environmental regulations of the PRC, and conducts annual environmental impact assessment and reporting to keep in line with the standards. There was no relevant non-compliance that may have a significant impact on the Group during the Reporting Period.

A2 Use of Resources

The Group mainly sources water from municipal pipelines, and there is no difficulty in obtaining water source. In order to effectively utilise resources, reduce wastage and protect the ecological environment, the Group encourages all employees to raise their awareness of environmental protection and the concept of green office to implement resources conservation and green documentation management in practice. The Group actively promotes the concept of "think before you use" to our employees to encourage them to save water, electricity and paper as well as recycling office supplies for reuse and to establish a computerised filing system to replace saving the original print copy.

We also use eco-friendly paint and eco-friendly materials in our vehicle repair business. When repairing a car, employees will adopt the principle of "saving electricity and water" to reduce environmental pollution and the use of resources. The Group aims to ensure that the growth rate of the use of resources, including water consumption, does not exceed that of its main business.

During the Reporting Period, the levels of the Group's energy consumption are as follows:

Type of energy	Unit	Energy consumption 2021	2020
Unleaded gasoline	litres	**531,967** (equivalent to **4,646,007** kWh)	479,463 (equivalent to 4,187,456 kWh)
Diesel	litres	**17,116** (equivalent to **168,313** kWh)	36,241 (equivalent to 356,382 kWh)
Gas	kJ	**234** (equivalent to **0.06** kWh)	290 (equivalent to 0.08 kWh)
Natural gas	m^3	**291,165** (equivalent to **3,148,707** kWh)	264,831 (equivalent to 2,863,927 kWh)
Electricity	kWh	**16,034,041**	12,728,658
Total	kWh	**23,997,068**	20,136,423
Intensity	kWh/employee	**6,754**	6,359

During the Reporting Period, the Group's water consumption is as follows:

	Unit/Intensity	Water consumption 2021	2020
Water consumption	m^3	**178,769**	163,192
Water consumption per person	m^3/employee/year	**50**	51

In addition, no amount of product packaging materials used is disclosed in the Report as no additional product packaging was required for automobile sales and after-sales service.

A3 Environment and Natural Resources

The Group is committed to reducing the adverse impact of operating activities on the environment and has been constantly improving environment management measures to reduce consumption of energy and other resources, minimize generation of wastes and increase recycle and reuse. Meanwhile, we have been constantly promoting and advocating environmental protection concepts by actively raising all staff's awareness on environmental protection, educating them to care for environment and to implement the concept of green office as well as encouraging them to cherish each unit of electricity, each drop of water, each sheet of paper and each litre of gasoline so as to make full use of natural resources. During the Reporting Period, the Group did not have any incidents which had a significant impact on the environment and natural resources.

A4 Climate Change

The Group has always paid attention to the issue of climate change, and has carefully studied the national laws, regulations and policies on climate change, to strive to take the best measures to reduce greenhouse gas emissions from business operations. According to its actual business situation, the Group has adopted a series of measures such as increasing the sales of new energy vehicles in response to the national carbon neutrality goal. In addition, the Group has formulated policies to cope with climate change and established the "Natural Disaster Emergency Plan", which ensures the maximum reduction of possible incident consequence in the event of severe natural disasters caused by weather changes, to assure the safety of the Company's properties and employees. In the actual operation process, the Group strives to take all kinds of best measures to reduce greenhouse gas emissions to combat climate change.

B PEOPLE ORIENTED – CHERISHING TALENT

Human capital is the driving force for corporate development, and talent is the key to corporate development. The Group attracts elite staff of the industry and provides them with a platform of fair competition so as to create a harmonious working environment and cooperative atmosphere, open a path for staff career development to realize their own values, and provide strong support for the Group's development. By providing competitive remuneration packages in the market, and based on the value of the position, the Group offers higher remuneration to employees with excellent performance to encourage continuous progress.

B1 Employment

The Group actively protects employees' basic rights and interests, understand their needs and enhances their physical and mental health so as to create a professional and efficient workforce.

In order to ensure that employees have legitimate and reasonable rights and interests, the Group has set up a scientific employment management system which covers "Recruitment and Hiring Administrative Measures", "Employee Movement Management Regulations", "Remuneration and Benefits Management System", "Employee Attendance, Leave and Overtime Management Regulations", "Employee Accidental Injury Insurance Management System", "Compensation and Benefits Management System", "Employee Resignation Management Regulations" and "Labour Contracts". The system regulates and supervises the employment and promotion of employees, labour relations, employee diversity, treatment and equal opportunities, welfare and anti-discrimination and strives to safeguard the legitimate rights and interests of employees.

The Group has established a culture of equal opportunities, work-life balance, anti-discrimination and employee diversity to create a "Zero Discrimination and Happy Workplace" for its employees.

The Group also aims to be a good corporate citizen, and will not tolerate any violations of employment regulations. During the Reporting Period, there was no non-compliance.

As of 31 December 2021, the Group had a total of 3,553 employees, of which 5 were from Hong Kong and the others were from Mainland China. The Group strives to maximize the benefits offered to employees. Save for the 9 temporary workers and the 50 apprentices or interns, the remaining 3,494 employees of the Group are full-time staff.

Certain employees left the Group for own reasons. The Group continued to increase its efforts in employee promotion and care. During the Reporting Period, the employee turnover rate was 29.69%, representing a decrease as compared with that of last year. All of the employees that departed were from Mainland China. The number of employees and employee turnover rate of the Group by different categories are as follows:

Category	Number of employees (person)	Employee turnover rate (%)
By Gender		
Male	2,213	28.92%
Female	1,340	30.97%
By Age Group		
15-24	400	57.25%
25-34	2,044	30.28%
35-44	882	17.46%
45-54	191	25.13%
55 and above	36	13.89%

Note: The calculation is based on the social KPI reporting guide issued by the Stock Exchange

B2 Health and Safety

Talents are one of the most valuable assets of a corporation. As such, the Group always places the health and safety of the employees as its top priority and strives to provide a safe working environment for employees to ensure their safety and avoid occupational hazards. We strictly comply with the Production Safety Law of the People's Republic of China, Prevention and Control of Occupational Diseases Law of the People's Republic of China and other relevant laws and regulations and formulates a number of policies covering areas such as occupational health and safety, the provision of safety and protective tools, employee safety monitoring and training, and job safety monitoring of contractors. On one hand, the Group strictly requires factory workers to give priority to "safety first", regularly reminds them to wear protective equipment and arranges dedicated personnel to monitor work arrangement and performance. On the other hand, the Group attaches great importance to both physical and mental health of employees. It advocates an effective working manner and a healthy life concept, cares for employees and helps them overcome difficulties in life, so that employees can feel the warmth of home at work. We also arrange body-check for employees on a regular basis to identify potential health risks in advance, and educate employees about health knowledge. During the Reporting Period, there was no incident that had an adverse impact on the health and safety of employees of the Group due to work, nor was there any major safety accident.

B3 Development and Training

With a view to improving the overall quality, business skills and professional capability of the employees, the Group formulates various career development policies to enhance employees' knowledge and skills and to provide them with more learning opportunities. In terms of career development, we engage experienced employees to lead new employees in their development to enhance mutual communication among employees and to enable them to improve their working abilities and skills through practice and exchange of ideas. In terms of staff development, we give priority to internal post promotions in case of vacancy to provide employees with better career development platform in the Group. Based on the business of the Group and in light of the requirements of different positions, the human resources department of the Group introduces various comprehensive and systematic programs. Vertically, the programs can be categorised into induction training for new recruits as well as training for supervisors, middle management and senior management. Horizontally, the training can be categorised into training for sales consultants, after-sales technicians and financial personnel, which focuses on soft skills and practical techniques. Based on its business needs, the Group delegates personnel to participate in various professional training organized by external institutions such as external manufactures, professional organizations and government departments from time to time, so as to get a better understanding of the changes in and trends of the market and external environment, thereby improving their quality in all aspects.

During the Reporting Period, the percentage of employees of the Group who have received training increased to more than 82% as compared with the corresponding period last year. The percentage of employees trained and the average training hours per employee of the Group by employee category are shown as follows:

	Percentage of employees trained (%)	Average training hours per employee (hour)
By Gender		
Male	74.99%	22
Female	25.01%	16
By Age Group		
Senior Management	2.05%	21
Middle Management	11.77%	23
Executive	7.40%	21
Laborial Staff	78.78%	20

Note: The calculation is based on the social KPI reporting guide issued by the Stock Exchange

As can be seen from the above graph, the proportion of the Group's employees who rank from executive and above and receive training was more than 92% during the Reporting Period. Both proportion of employee training and training hours by employee rank increased significantly as compared with the corresponding period of last year.

B4 Labour Standards

We strictly abide by the Employment Ordinance of Hong Kong and the Labour Contract Laws of the PRC, together with relevant regulations. Our labour policy forbids the employment of child labour or forced labour. In order to implement such policy more effectively, the Group requires all job applicants to have at least completed high school education, so that no children will be employed in labour recruitment. We also adopt open offices to prevent forced labour. As a result of our concerted efforts, the Group has not identified any non-compliance with the labour standards during the Reporting Period. No corrective action was required given that no violations of labour standards were identified during the Reporting Period.

B5 Supplier Management

The Group is well aware of the importance of supply chain management and continuously strives to build a win-win relationship with suppliers and to forge fair, open, efficient and mutual-trusting partnerships. We continuously optimize and improve the supplier management system and actively promote green procurement, which allow us to ensure smooth business operation and guarantee the quality and safety of all products and services through effective supplier management.

In accordance with the relevant national and local regulations, the Group has formulated corresponding management procedures for suppliers of various products and services, including the supplier code and the supplier bidding and evaluation mechanisms. When purchasing materials and engaging services, the Group will also give priority to the environmental performance of suppliers. Before establishing cooperation with us, suppliers must undergo a series of review procedures which comprehensively review their performance in quality, environment and safety, and can cooperate with us only after passing relevant review procedures. In addition, the Group annually conducts audit and risk rating on suppliers. If a supplier is found to have seriously violated the contracted responsibilities and operational rules, the cooperation will be terminated to ensure that the quality, environment and safety of the supply chain are in line with the Group's policy, so as to ensure legal compliance of the procurement process and to maintain high efficiency of selected suppliers in quality, environmental protection, social responsibility and safety management.

The Group requires all suppliers to possess the legal intellectual property rights for their product supply and relevant confidentiality clauses are included in the agreements with suppliers.

The Group carries out the bidding process for the actual selection of suppliers by establishing a bidding committee, and assigning specific persons to be responsible for organizing and completing the bidding review within the scope of their respective responsibilities. After confirming the bidding with a supplier, the Group will send the official "Notice of Successful Bidding" and the "Supplier Qualification Certificate" to the successful bidder. We will only commence cooperation with the supplier after it receives the above "Notice of Successful Bidding" and the "Supplier Qualification Certificate". In order to establish an open and orderly platform for healthy competition between suppliers, the Group also has the supplier termination mechanism in place, which helps maintain the high quality of suppliers' product and service offerings. Under the mechanism, we review suppliers' annual performance at the end of each year and assess the actual cooperation with them to determine whether to proceed with the collaboration.

During the Reporting Period, the Group's suppliers were mainly automobile related suppliers including automobile manufacturers, and the Group had 46 active automobile suppliers, all of which were from Mainland China. The above evaluation and management mechanism was applied to these 46 suppliers of the Group.

B6 Product Responsibility

Product responsibility is the foundation of our corporate development. The Group attaches great importance to product responsibility, sells products and provides services in strict accordance with the quality assurance policies of the respective manufacturers of each brand, provides products that meet national and industry standards and have product qualification certificates in the course of business operations, and formulates relevant management policies and measures that exceed the requirements of laws and regulations to ensure product quality and safety, the accuracy of product descriptions in promotional messages and the quality of after-sales services.

In respect of product quality control, the Group conducts business operations in strict accordance with manufacturers' quality assurance policy of various brands. Prior to the sale of products, we will carry out safety inspections and will only sell products that have passed testing. The Group resolutely refuses to produce or supply hazardous substances. The Group requires all sales staff to provide accurate and truthful information to customers at the time of sale. When providing after-sales services, we will provide customers with an interactive and open platform to make enquiries about product details and give feedback. For product recall procedures, in order to safeguard the interests of customers to the greatest extent, as an automobile dealer, the Group fully cooperates with automobile manufacturers in respect of their recall policies, and provides follow-up services for recalls in accordance with the manufacturer's policies.

The Group adhered to the service principle of "customer first", striving to fully respect the needs of the customers whilst providing sincere and quality services to them. The Group takes customer complaints seriously and regards each of them as an opportunity for us to make correction and improvement. When we receive complaints from customers, we will respond immediately to placate discontented customers and provide them with a satisfactory solution as soon as possible. In this regard, the Group has established comprehensive customer complaints procedures, pursuant to which customers can raise complaints and give us opinions through email, telephone, mail or in person. Complaints received via any of these channels will be handled by the responsible person of the respective department, who will then communicate with and propose solutions to the satisfaction of the customers. For handling of major customer complaints, the Group implements the mechanism of joint operation by customer service, operation, legal affairs and other departments. After resolving the complaints, the Group will attach great importance to the same and will conduct summary and analysis internally and organise special training and discussion. By drawing conclusion and learning from the experience, we will improve our service quality and enhance our service standard on a continuous basis. The Group received 10 complaints about product quality and services this year, which were resolved in accordance with the above-mentioned response measures.

The Group strictly complies with the Law of the People's Republic of China on Protection of Consumer Rights and Interests and other relevant regulations, and implements stringent confidentiality policies to protect customers' privacy. We have strengthened the management over customer information and formulated the corresponding system for the filing and access to customer information. During the Reporting Period, there was no significant event that constitutes a non-compliance with product responsibility regulations.

B7 Integrity Operations

The Group has established sound corporate governance and integrity operation systems with zero tolerance to corruption of any form. In this regard, we have formulated various anti-corruption policies, including anti-bribery policies, conflict of interest reporting policies, anti-fraud policies, open bidding policies, confidential policies and independent auditing policies. Meanwhile, the Legal Department and the Internal Audit Department of the Group have been assigned to supervise and put an end to any form of corruption, including extortion and money laundering. In addition, an external auditor and other external bodies are engaged to supervise the Group's integrity operations from time to time. The Group also provides appropriate anti-corruption training to directors and staff from time to time. During the Reporting Period, the Group did not have any cases of corruption or any other cases related to breaches of integrity operations.

B8 Community Care

Being part of the community, we see the support of local members as the driver of our success. Whilst pursuing business growth, we are devoted to giving back, so that the love and care in the community can benefit more people in need. To this end, the Group actively integrates into the community and maintains good communication and interaction therewith. For example, it has specially appointed the general administration department to be responsible for active response and involvement in community events, such as public welfare campaigns, study assistance, charitable donation, environmental protection events and fitness team building activities. During the Reporting Period, the Group donated materials worth RMB100,000 to Luonan County, Shaanxi Province for disaster relief, and donated materials worth RMB27,000 to the Shuxiang Sanqin-Daxiang Town Project through the Shaanxi Women and Children Development Foundation, and donated cooling supplies worth RMB15,000 to Chanba Fire Brigade in Xi'an.

PROSPECT

On top of actively expanding our business, the Group will remain devoted to the strict implementation of its management systems and conduct effective supervision and inspection. We aim to pay more attention to environmental protection, energy saving and emission reduction, while minimising the use of natural resources. Our staff is one of our key resources, hence the Group will continue to strengthen the health and safety management of employees and conduct training on professionalism and business skills on a scheduled and non-scheduled basis. We will also attach great importance to the long-term development of employees and offer them sustainable career paths. In terms of operations, the Group will have to enhance supplier management and monitoring on an ongoing basis, exercise reasonable control over operating costs and improve operational efficiency. More importantly, it will have to keep focusing on customer satisfaction, further identity demands from customers and spare no efforts to serve them well. The Group will foster better communication and interaction with stakeholders and provide them with better returns. In the course of development, it will stay true to its mission and keep on participating in community and public welfare activities, thereby continuously enhancing the sense of corporate social responsibility. The Group is confident that the above series of measures will continuously improve our environmental, social and governance performance in 2022.

HKEx ESG Reporting Guide Index

A	Environmental	Section/Disclosure
Aspect A.1	Emissions	
KPI A.1.1	The types of emissions and respective emissions data.	A1
KPI A.1.2	Direct (Scope 1) and energy indirect (Scope 2) Greenhouse gas emissions (in tonnes) and, where appropriate, intensity.	A1
KPI A.1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	A1
KPI A.1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	A1
KPI A.1.5	Description of emissions target(s) set and steps taken to achieve them.	A1
KPI A.1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	A1
Aspect A.2	Uses of Resources	
KPI A.2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	A2
KPI A.2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	A2
KPI A.2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	A2
KPI A.2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	A2
KPI A.2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	A2
Aspect A.3	The Environment and Natural Resources	
KPI A.3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	A3
Aspect A.4	Climate Change	
KPI A.4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	A4

B	Social	Section/Disclosure
Aspect B.1	Employment	B1
KPI B.1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	B1
KPI B.1.2	Employee turnover rate by gender, age group and geographical region.	B1
Aspect B.2	Health and Safety	
KPI B.2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	No work-related fatalities occurred in the past three years during the Reporting Period
KPI B.2.2	Lost days due to work injury.	There were a total of 100 lost days due to work injury during the Reporting Period
KPI B.2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	B2
Aspect B.3	Development and Training	
KPI B.3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	B3
KPI B.3.2	The average training hours completed per employee by gender and employee category.	B3
Aspect B.4	Labour Standards	
KPI B.4.1	Description of measures to review employment practices to avoid child and forced labour.	B4
KPI B.4.2	Description of steps taken to eliminate such practices when discovered.	B4
Aspect B.5	Supply Chain Management	B5
KPI B.5.1	Number of suppliers by geographical region.	B5
KPI B.5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	B5
KPI B.5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	B5
KPI B.5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	B5
Aspect B.6	Product Responsibility	
KPI B.6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	During the Reporting Period, the recall rate was 0.019% in line with the recall policies of automobile manufacturers
KPI B.6.2	Number of products and service related complaints received and how they are dealt with.	B6
KPI B.6.3	Description of practices relating to observing and protecting intellectual property rights.	B6
KPI B.6.4	Description of quality assurance process and recall procedures.	B6
KPI B.6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	B6
Aspect B.7	Integrity Operations	
KPI B.7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	B7
KPI B.7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	B7
KPI B.7.3	Description of anti-corruption training provided to directors and staff.	B7
Aspect B.8	Community Care	
KPI B.8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	B8
KPI B.8.2	Resources contributed (e.g. money or time) to the focus area.	B8

INDEPENDENT AUDITORS' REPORT

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To the shareholders of Sunfonda Group Holdings Limited

(Incorporated in the Cayman Islands as an exempted company with limited liability)

Opinion

We have audited the consolidated financial statements of Sunfonda Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 98 to 196, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements section* of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Vendor rebate receivables	
The Group recognised volume-related vendor rebates on an accrual basis according to the terms of the supplier contracts. As at 31 December 2021, the rebate receivables recognised were RMB207,035,000. The balance of rebate receivables was significant and the process of accruing the rebates was complex. Information of the rebate receivables is disclosed in note 20 to the financial statements.	Our audit procedures included, among others, checking the rebate policies adopted against the terms of the relevant supplier contracts and checking the calculation of the rebate receivables based on the rebate policies. We also checked the subsequent receipts of the rebates.
Deferred tax assets	
As at 31 December 2021, deferred tax assets recognised were RMB30,124,000. The deferred tax assets were recognised based on management's estimation of future taxable profits that would be available for utilising the deferred tax assets. As at 31 December 2021, deferred tax assets have not been recognised on accumulated tax losses of RMB52,996,000. The process of estimating the amount of the future taxable profits was complex, and involved estimates and judgements that would be affected by future actual operations, tax regulations, market or economic conditions. Information of the deferred tax assets and the unrecognised tax losses is disclosed in note 29 to the financial statements.	Our procedures included, among others, evaluating the assumptions and methodologies used by the Group in estimating future taxable profits. We evaluated and tested management assessment on available taxable profits by comparing to the Group's business plans approved by those charged with governance, expected future profit forecasts, associated growth rates, historical financial and tax information. We checked the adequacy of the relevant disclosures of deferred tax assets and unrecognised temporary differences.

Key audit matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of non-current non-financial assets (other than goodwill)	
As at 31 December 2021, the carrying amount of non-current non-financial assets (other than goodwill) amounted to RMB2,202,230,000, which was material to the consolidated financial statements. The management performed an impairment test, where an indication of impairment exists or when annual impairment testing for an asset is required. In assessing value in use, the discounted cash flow method was used with estimations and judgements. The Group's disclosures about the impairment of non-financial assets are included in note 3 to the financial statements, which explains the major judgements and estimations that management made in the assessment.	Our audit procedures, among others, included an evaluation of the determination of the cash-generating units, the key assumptions used in the cash flow forecast and other data used by the Group. We also involved our valuation specialists to assist us in evaluating the associated growth rates and the discount rates applied. We checked the adequacy of the relevant disclosures of non-financial assets (other than goodwill).

Other information included in the Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

(Continued)

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

(Continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
23 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5(a)	**11,639,221**	10,634,418
Cost of sales and services	6(b)	**(10,645,937)**	(9,885,623)
Gross profit		**993,284**	748,795
Other income and gains, net	5(b)	**360,082**	187,176
Selling and distribution expenses		**(521,868)**	(410,523)
Administrative expenses		**(271,467)**	(218,691)
Profit from operations		**560,031**	306,757
Finance costs	7	**(93,705)**	(103,022)
Profit before tax	6	**466,326**	203,735
Income tax expense	10	**(120,475)**	(58,546)
Profit for the year		**345,851**	145,189
Attributable to:			
Owners of the parent		**345,851**	145,189
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic and diluted (RMB)		**0.58**	0.24

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2021

	2021 RMB'000	2020 RMB'000
Profit for the year	**345,851**	145,189
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**3,328**	(1,596)
Other comprehensive income/(loss) for the year, net of tax	**3,328**	(1,596)
Total comprehensive income for the year	**349,179**	143,593
Attributable to:		
Owners of the parent	**349,179**	143,593

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,469,011**	1,296,304
Right-of-use assets	14	**722,542**	640,537
Intangible assets	15	**10,677**	11,034
Prepayments	16	**28,295**	28,420
Goodwill	17	**10,284**	10,284
Deferred tax assets	29	**30,124**	48,654
Total non-current assets		**2,270,933**	2,035,233
CURRENT ASSETS			
Inventories	18	**1,054,373**	900,432
Trade receivables	19	**30,671**	38,822
Prepayments, other receivables and other assets	20	**1,180,612**	841,069
Amount due from a related party	40(b)	**5,810**	7,890
Financial assets at fair value through profit or loss	21	**3,552**	–
Pledged bank deposits	22	**364,623**	378,523
Cash in transit	23	**4,782**	16,390
Short-term deposits	24	**127,579**	100,538
Cash and cash at banks	24	**836,227**	717,362
Total current assets		**3,608,229**	3,001,026
CURRENT LIABILITIES			
Bank loans and other borrowings	25	**1,546,245**	1,662,956
Trade and bills payables	26	**632,264**	596,764
Other payables and accruals	27	**375,323**	353,145
Lease liabilities	14(b)	**21,559**	7,277
Income tax payable		**31,398**	29,007
Total current liabilities		**2,606,789**	2,649,149
NET CURRENT ASSETS		**1,001,440**	351,877
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,272,373**	2,387,110

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	25	**760,774**	197,376
Lease liabilities	14(b)	**51,291**	13,572
Deferred tax liabilities	29	**21,487**	17,874
Total non-current liabilities		**833,552**	228,822
NET ASSETS		**2,438,821**	2,158,288
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	**377**	377
Reserves	32	**2,438,444**	2,157,911
Total equity		**2,438,821**	2,158,288

Director	*Director*
Wu Tak Lam	**Chiu Man**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2021

	Attributable to owners of the parent								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2021	377	229,842	118,045	121,006	157,947	11,396	32,276	1,487,399	2,158,288
Profit for the year	–	–	–	–	–	–	–	345,851	345,851
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	–	3,328	–	3,328
Total comprehensive income for the year	–	–	–	–	–	–	3,328	345,851	349,179
Transfer from retained profits	–	–	–	35,499	–	–	–	(35,499)	–
Final 2020 dividend declared	–	(42,240)	–	–	–	–	–	–	(42,240)
Interim 2021 dividend (note 11)	–	(26,400)	–	–	–	–	–	–	(26,400)
Equity-settled share award expense (note 31)	–	–	–	–	–	(6)	–	–	(6)
At 31 December 2021	377	161,202*	118,045*	156,505*	157,947*	11,390*	35,604*	1,797,751*	2,438,821

* These reserve accounts comprise the consolidated reserves of RMB2,438,444,000 (2020: RMB2,157,911,000) in the consolidated statement of financial position.

	Attributable to owners of the parent								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2020	377	250,962	118,045	100,703	157,947	10,773	33,872	1,362,513	2,035,192
Profit for the year	–	–	–	–	–	–	–	145,189	145,189
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(1,596)	–	(1,596)
Total comprehensive income for the year	–	–	–	–	–	–	(1,596)	145,189	143,593
Transfer from retained profits	–	–	–	20,303		–	–	(20,303)	–
Final 2019 dividend declared	–	(21,120)	–	–	–	–	–	–	(21,120)
Equity-settled share award expense (note 31)	–	–	–	–	–	623	–	–	623
At 31 December 2020	377	229,842*	118,045*	121,006*	157,947*	11,396*	32,276*	1,487,399*	2,158,288

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
Operating activities			
Profit before tax		**466,326**	203,735
Adjustments for:			
Depreciation and impairment of items of property, plant and equipment	13	**159,347**	150,556
Depreciation of right-of-use assets	14	**29,393**	22,447
Amortisation of intangible assets	15	**1,111**	1,007
Interest income	5(b)	**(6,322)**	(8,299)
Net loss on disposal of items of property, plant and equipment	5(b)	**1,226**	5,369
Equity-settled share award expense	6(a)	**(6)**	623
Fair value gains, net:			
Financial products	5(b)	**(102)**	–
Gain on disposal of equity investment	5(b)	**(145,204)**	–
Gain on disposal of a subsidiary	5(b)	**(10,827)**	–
Finance costs	7	**93,705**	103,022
(Reversal)/Accrual of impairment of inventories	6(c)	**(7,151)**	7,144
		581,496	485,604
Decrease in pledged bank deposits		**13,900**	4,682
Decrease in cash in transit		**11,608**	894
Decrease in trade receivables		**8,151**	8,429
Increase in prepayments, deposits and other receivables		**(300,821)**	(41,026)
Decrease in an amount due from a related party		**2,080**	3,979
(Increase)/Decrease in inventories		**(146,790)**	261,732
Increase/(Decrease) in trade and bills payables		**36,204**	(85,577)
Increase in other payables and accruals		**26,086**	25,940
Cash generated from operations		**231,914**	664,657
Tax paid		**(95,941)**	(46,738)
Net cash generated from operating activities		**135,973**	617,919

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		**(459,275)**	(304,055)
Proceeds from disposal of items of property, plant and equipment		**114,655**	94,018
Purchase of land use rights		**(7,661)**	–
Purchase of intangible assets		**(754)**	(809)
Interest received		**6,322**	8,299
Proceeds from disposal of equity investment designated at fair value through profit or loss		**44,008**	–
Purchase of financial assets at fair value through profit or loss, net		**(3,450)**	–
Disposal of a subsidiary net of cash		**47,836**	–
Decrease/(Increase) in time deposits with maturity over three months		**41,852**	(71,771)
Net cash used in investing activities		**(216,467)**	(274,318)
Financing activities			
Proceeds from bank loans and other borrowings		**8,102,238**	7,324,114
Repayment of bank loans and other borrowings		**(7,649,224)**	(7,667,120)
Principal portion of lease payments	14(b)	**(17,389)**	(10,942)
Interest paid for bank loans and other borrowings		**(95,733)**	(105,350)
Dividends paid		**(68,640)**	(21,120)
Net cash generated from/(used in) financing activities		**271,252**	(480,418)
Net increase/(decrease) in cash and cash equivalents		**190,758**	(136,817)
Cash and cash equivalents at the beginning of year		**743,542**	887,019
Effect of foreign exchange rate changes, net		**(3,000)**	(6,660)
Cash and cash equivalents at the end of year	24	**931,300**	743,542
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**836,227**	717,362
Short-term deposits with maturity less than three months		**95,073**	26,180
		931,300	743,542

1. CORPORATE AND GROUP INFORMATION

Sunfonda Group Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 January 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 May 2014.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the sale and service of motor vehicles in Mainland China.

In the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is Golden Speed Enterprises Limited, which is incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2021 are as follows:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
新豐泰(香港)有限公司 (Sunfonda (Hong Kong) Limited)	Hong Kong, the PRC 1997	Issued capital of HK$1,501,000	–	100%	Investment holding
Grand Forever Enterprises Limited	Tortola, the BVI 2011	Registered capital of US$50,000 and paid-in capital of US$2,001	100%	–	Investment holding
陝西新豐泰汽車有限責任公司* (Shaanxi Sunfonda Automobile Co., Ltd.)	Xi'an, the PRC 2000	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰汽車技術開發有限責任公司* (Shaanxi Sunfonda Automobile Technology Development Co., Ltd.)	Xi'an, the PRC 2001	Registered and paid-in capital of RMB531,284,500	–	100%	Sale and service of motor vehicles
西安新銘洋豐田汽車銷售服務有限公司* (Xi'an Xinmingyang Toyota Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2003	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
陝西凱盛汽車銷售服務有限公司* (Shaanxi Kaisheng Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2021 are as follows *(Continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
陝西信捷汽車有限責任公司* (Shaanxi Xinjie Automobile Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB13,000,000	–	100%	Sale and service of motor vehicles
西安鈞盛雷克薩斯汽車銷售服務有限公司* (Xi'an Junsheng Lexus Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2006	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
山西盈捷汽車銷售服務有限公司* (Shanxi Yingjie Automobile Sales Services Co., Ltd.)	Taiyuan, the PRC 2009	Registered and paid-in capital of RMB13,204,500	–	100%	Sale and service of motor vehicles
鄂爾多斯市新豐泰信捷汽車有限責任公司* (Ordos Sunfonda Xinjie Automobile Co., Ltd.)	Ordos, the PRC 2010	Registered and paid-in capital of RMB26,846,750	–	100%	Sale and service of motor vehicles
陝西新豐泰博奧汽車有限責任公司* (Shaanxi Sunfonda Boao Automobile Co., Ltd.)	Xi'an, the PRC 2010	Registered and paid-in capital of RMB55,199,805	–	100%	Sale and service of motor vehicles
鄂爾多斯市新豐泰凱盛汽車有限責任公司* (Ordos Sunfonda Kaisheng Automobile Co., Ltd.)	Ordos, the PRC 2010	Registered and paid-in capital of RMB29,733,148	–	100%	Sale and service of motor vehicles
西安新豐泰之星汽車銷售服務有限公司*** (Xi'an Sunfonda Zhixing Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2009	Registered and paid-in capital of HK$84,000,000	–	100%	Sale and service of motor vehicles
蘇州新豐泰汽車銷售服務有限公司* (Suzhou Sunfonda Automobile Sales Services Co., Ltd.)	Suzhou, the PRC 2011	Registered and paid-in capital of RMB43,614,850	–	100%	Sale and service of motor vehicles
蘭州新豐泰汽車銷售有限責任公司* (Lanzhou Sunfonda Automobile Sales Co., Ltd.)	Lanzhou, the PRC 2011	Registered and paid-in capital of RMB38,104,012	–	100%	Sale and service of motor vehicles
陝西新豐泰迎賓汽車銷售服務有限公司* (Shaanxi Sunfonda Yingbin Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2011	Registered and paid-in capital of RMB27,187,450	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2021 are as follows *(Continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
延安新豐泰博奥汽車有限責任公司* (Yan'an Sunfonda Boao Automobile Co., Ltd.)	Yan'an, the PRC 2011	Registered and paid-in capital of RMB36,408,200	–	100%	Sale and service of motor vehicles
陝西新豐泰駿美汽車銷售服務有限公司* (Shaanxi Sunfonda Junmei Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2012	Registered and paid-in capital of RMB50,000,000	–	100%	Sale and service of motor vehicles
無錫新豐泰汽車有限責任公司* (Wuxi Sunfonda Automobile Co., Ltd.)	Wuxi, the PRC 2013	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
揚州新豐泰博奥汽車銷售服務有限公司* (Yangzhou Sunfonda Boao Automobile Sales Services Co., Ltd.)	Yangzhou, the PRC 2013	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
西安新豐泰紅旗汽車銷售服務有限公司* (Xi'an Sunfonda Hongqi Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
寧夏新豐泰信捷汽車銷售服務有限公司* (Ningxia Sunfonda Xinjie Automobile Sales Services Co., Ltd.)	Yinchuan, the PRC 2013	Registered and paid-in capital of HK$38,886,130	–	100%	Sale and service of motor vehicles
陝西新豐泰尚眾汽車銷售服務有限公司* (Shaanxi Sunfonda Shangzhong Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB26,000,000	–	100%	Sale and service of motor vehicles
北京新豐泰博奥汽車銷售服務有限公司* (Beijing Sunfonda Boao Automobile Sales Services Co., Ltd.)	Beijing, the PRC 2014	Registered and paid-in capital of RMB70,000,000	–	100%	Sale and service of motor vehicles
渭南新豐泰博奥汽車銷售服務有限公司* (Weinan Sunfonda Boao Automobile Sales Services Co., Ltd.)	Weinan, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰福生汽車銷售服務有限公司* (Shaanxi Sunfonda Fusheng Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2021 are as follows *(Continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
新豐泰(中國)投資有限公司** (Sunfonda (China) Investment Co., Ltd.)	Shanghai, the PRC 2015	Registered and paid-in capital of US$89,232,599	–	100%	Investment holding
陝西新豐泰銘威汽車銷售服務有限公司* (Shaanxi Sunfonda Mingwei Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
銀川順馳路捷汽車銷售服務有限公司* (Yinchuan Shunchi Lujie Automobile Sales Service Co., Ltd.)	Yinchuan, the PRC 2014	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
延安新豐泰鈞盛雷克薩斯汽車銷售服務有限公司* (Yan'an Sunfonda Junsheng Lexus Automobile Sales Service Co., Ltd.)	Yan'an, the PRC 2015	Registered and paid-in capital of RMB15,000,000	–	100%	Sale and service of motor vehicles
揚州新豐泰鈞盛雷克薩斯汽車銷售服務有限公司* (Yangzhou Sunfonda Junsheng Lexus Automobile Sales Service Co., Ltd.)	Yangzhou, the PRC 2016	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
西安新豐泰涇河物流開發有限公司* (Xi'an Sunfonda Jinghe Logistics Development Co. Ltd.)	Xi'an, the PRC 2013	Registered and paid-in capital of RMB19,171,896	–	100%	Logistics service
陝西新豐泰金達實業開發有限公司* (Shaanxi Sunfonda Jinda Industrial Development Co. Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB5,000,000	–	100%	Storage service
西安豐泰信捷汽車銷售服務有限公司* (Xi'an Fun Time Xinjie Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2017	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
渭南市宗申寶泰汽車銷售服務有限公司* (Weinan Zongshen Baotai Automobile Sales & Service Co., Ltd.)	Weinan, the PRC 2012	Registered and paid-in capital of RMB63,000,000	–	100%	Sale and service of motor vehicles
蘇州新豐泰豐田汽車銷售服務有限公司* (Suzhou Sunfonda Fengtian Automobile Sales Services Co., Ltd.)	Suzhou, the PRC 2012	Registered and paid-in capital of RMB53,500,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2021 are as follows *(Continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
西安泰愛車網路技術開發銷售服務有限公司* (Xi'an Sunfonda Automobile Technology Development Co., Ltd.)	Xi'an, the PRC 2015	Registered and paid-in capital of RMB8,000,000	–	100%	Internet service and technology development
陝西新豐泰二手車交易市場有限公司* (Shaanxi Sunfonda Second-hand Car Transaction Market Co., Ltd.)	Xi'an, the PRC 2015	Registered and paid-in capital of RMB1,000,000	–	100%	Sale and service of second-hand cars
陝西新豐泰新能源汽車銷售服務有限公司* (Shaanxi Sunfonda New Energy Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2016	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
甘肅新豐泰汽車銷售服務有限公司* (Gansu Sunfonda Automobile Sales Services Co., Ltd.)	Qingyang, the PRC 2017	Registered and paid-in capital of RMB5,500,000	–	100%	Sale and service of motor vehicles
蘭州新豐泰華寶汽車銷售服務有限公司* (Lanzhou Sunfonda Huabao Automobile Sales Services Co., Ltd.)	Lanzhou, the PRC 2017	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰匯翔汽車銷售服務有限公司* (Shaanxi Sunfonda Huixiang Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2014	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
南京新豐泰汽車銷售服務有限公司* (Nanjing Sunfonda Automobile Sales Service Co., Ltd.)	Nanjing, the PRC 2018	Registered and paid-in capital of RMB40,000,000	–	100%	Sale and service of motor vehicles
西安新豐泰海寶汽車銷售服務有限公司* (Xi'an Sunfonda Haibao Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2019	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
西安鈞盛豐泰雷克薩斯汽車銷售服務有限公司* (Xi'an Junsheng Fun Time Lexus Automobile Sales Service Co., Ltd.)	Xi'an, the PRC 2020	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
西安新豐泰凱達汽車銷售有限公司*** (Xi'an Sunfonda Kaida Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2020	Registered capital of RMB45,000,000 and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2021 are as follows *(Continued)*:

Company name	Place and date of registration/ incorporation and place of business	Registered/ paid-in/issued capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
銀川鈞盛雷克薩斯汽車銷售服務有限公司* (Yinchuan Junsheng Lexus Automobile Sales Service Co., Ltd.)	Yinchuan, the PRC 2019	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
渭南海眾汽車銷售服務有限公司* (Weinan Haizhong Automobile Sales Services Co., Ltd.)	Weinan, the PRC 2017	Registered and paid-in capital of RMB25,000,000	–	100%	Sale and service of motor vehicles
陝西宗泰實業發展有限公司* (Shaanxi Zongtai Industrial Development Co., Ltd.)	Xi'an, the PRC 2018	Registered and paid-in capital of RMB100,000,000	–	100%	Sale and service of motor vehicles
蘭州豐泰榮嘉商貿有限責任公司* (Lanzhou Fengtai Rongjia Trading Co. Ltd.)	Lanzhou, the PRC 2020	Registered and paid-in capital of RMB30,000,000	–	100%	Sale and service of motor vehicles
武漢豐泰海寶汽車銷售服務有限公司* (Wuhan Sunfonda Haibao Automobile Sales Services Co., Ltd.)	Wuhan, the PRC 2021	Registered and paid-in capital of RMB20,000,000	–	100%	Sale and service of motor vehicles
臨夏豐泰凱達汽車銷售服務有限公司*** (Linxia Sunfonda kaida Automobile Sales & Services Co., Ltd.)	Linxia, the PRC 2021	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
西安金尚迪汽車銷售服務有限公司* (Xi'an Jinshangdi Automobile Sales Services Co., Ltd.)	Xi'an, the PRC 2021	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
北京金尚迪汽車銷售服務有限公司* (Beijing Jinshangdi Automobile Sales Services Co., Ltd.)	Beijing, the PRC 2021	Registered and paid-in capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
無錫豐泰凱達汽車銷售服務有限公司*** (Wuxi Sunfonda kaida Automobile Sales & Services Co., Ltd.)	Wuxi, the PRC 2021	Registered and paid-in capital of RMB22,000,000	–	100%	Sale and service of motor vehicles

* These companies are registered as limited liability companies under PRC law.

** This company is registered as wholly-foreign-owned enterprises under PRC law.

*** These companies are registered as a Sino-foreign equity joint venture under PRC law.

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all 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. They have been prepared under the historical cost convention except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)*

The nature and the impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate ("HIBOR") as at 31 December 2021. The Group expects that HIBOR will continue to exist and the interest rate benchmark reform has not had an impact on the Group's HIBOR-based borrowings. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the "economically equivalent" criterion is met. Additional information about the transition and the associated risks is disclosed in note 25 to the financial statements.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2, 5]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[2]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[1]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise a deferred tax asset and a deferred tax liability for deductible and taxable temporary differences associated with right-of-use assets and lease liabilities, and recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained profits at the beginning of the earliest comparative period presented.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment property, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives and residual values used for this purpose are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	10-20 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	–
Plant and machinery	5-10 years	5%
Furniture and fixtures	3-5 years	5%
Motor vehicles	4-5 years	5%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction or pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

Software	5-10 years
Dealership agreements	40 years

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Buildings and lands	2 to 11 years
Land use rights	36 to 66 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee *(Continued)*

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement *(Continued)*

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments*: *Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities mainly include trade and bills payables, other payables and bank loans and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the specific identification basis as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

- Sale of goods
  Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Revenue from other sources

Service income is recognised at the point in time when the services are fully rendered and accepted by customers.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Logistics income is recognised at the point in time when the services are fully rendered and accepted by customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from other sources *(Continued)*

Other income *(Continued)*

Storage income is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group.

Commission income is recognised at the point in time when the services are fully rendered and accepted by customers.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis based on the expected entitlement earned up to the reporting date for each relevant supplier contract.

Rebates relating to items purchased but still held at the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

Share-based payments

The Company operates a share award scheme and a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. Further details of the fair value are given in note 30 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 11 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currency of the Company and certain overseas subsidiaries is the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets was RMB30,124,000 as at 31 December 2021 (2020: RMB48,654,000). The amount of unrecognised tax losses at 31 December 2021 was RMB52,996,000 (2020: RMB82,065,000). Further details are contained in note 29 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was RMB10,284,000 (2020: RMB10,284,000). Further details are given in note 17.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets other than indefinite life assets and goodwill are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at the end of the reporting period.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the auto industry, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of the sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment, which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

Information about geographical areas

Since all of the Group's revenue and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's non-current assets and liabilities were located in Mainland China, no geographical segment information in accordance with HKFRS 8 *Operating Segments* is presented.

Information about major customers

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information in accordance with HKFRS 8 Operating Segments is presented.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

Revenue represents the net invoiced value of goods sold and the value of services rendered after allowances for returns and trade discounts, where applicable.

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers		
(i) Disaggregated revenue information		
Types of goods or services		
Revenue from sale of motor vehicles	**10,390,576**	9,491,699
Revenue from after-sales service	**1,248,645**	1,142,719
Total revenue from contracts with customers	**11,639,221**	10,634,418
Timing of revenue recognition		
At a point in time	**11,639,221**	10,634,418

5. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

(a) Revenue: *(Continued)*

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of motor vehicles

Each sale of motor vehicles is a single performance obligation. The transaction price for a vehicle sale is determined with the customer at the time of sale. The performance obligation is satisfied upon delivery of the motor vehicles. The Group generally receive payment directly from the customer at the time of sale or from the third-party financial institutions within 30 days following the sale.

After-sales services

Each after-sales service related to repairs and maintenance under manufacturer warranties or customer-paid repairs and maintenance is a single performance obligation. The transaction price for automotive repair and maintenance services is based on the parts used, the number of labour hours applied, and standardised hourly labour rates. The performance obligation is satisfied upon finalisation, delivery and acceptance upon the service completion. The Group generally receives payment on the delivery date for the customer-paid repairs and maintenance services and within two to three months for repairs and maintenance services under manufacturer warranties or covered by insurance companies.

The following table shows the amounts of revenue recognised that were included in the contract liabilities at the beginning of each of the reporting periods and recognised from performance obligations satisfied in previous periods:

	2021 **RMB'000**	2020 RMB'000
Sale of motor vehicles	**135,761**	116,002
After-sales services	**48,040**	49,993
Total contract liabilities	**183,801**	165,995

5. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

(b) Other income and gains, net:

	2021 RMB'000	2020 RMB'000
Commission income	**166,061**	136,339
Logistics and storage income	**25,675**	26,381
Interest income	**6,322**	8,299
Advertisement support received from motor vehicle manufacturers	**1,640**	2,869
Net loss on disposal of items of property, plant and equipment	**(1,226)**	(5,369)
Government grants	**3,470**	12,471
Gain on disposal of equity investment*	**145,204**	–
Gain on disposal of a subsidiary	**10,827**	–
Fair value gains, net:		
Financial assets at fair value through profit or loss – Financial product	**102**	–
Others	**2,007**	6,186
	360,082	187,176

* Gain on disposal of equity investment represents the gain from the disposal of Xi'an Qinrui Real Estate Co., Ltd.' s 25% equity interests.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

(a) Employee benefit expense (including directors' and chief executive's remuneration (note 8))

	2021 RMB'000	2020 RMB'000
Wages and salaries	**275,892**	200,628
Equity-settled share award expense	**(6)**	623
Other welfare	**49,905**	25,552
	325,791	226,803

6. PROFIT BEFORE TAX *(Continued)*

(b) Cost of sales and services

	2021 RMB'000	2020 RMB'000
Cost of sales of motor vehicles	**9,936,802**	9,234,839
Others*	**709,135**	650,784
	10,645,937	9,885,623

* Employee benefit expenses of RMB67,670,000 (2020: RMB61,647,000) were included in the cost of sales and services.

(c) Other items

	2021 RMB'000	2020 RMB'000
Depreciation of items of property, plant and equipment	**159,347**	150,556
Depreciation of right-of-use assets	**29,393**	22,447
Amortisation of intangible assets	**1,111**	1,007
Auditors' remuneration		
– statutory audit service	**2,280**	2,200
Advertising and business promotion expenses	**86,657**	73,855
Lease expense	**3,329**	3,880
Bank charges	**4,817**	4,978
(Reversal)/Accrual of impairment of inventories	**(7,151)**	7,144
Net loss on disposal of items of property, plant and equipment	**1,226**	5,369

7. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on bank borrowings and other borrowings	**90,600**	101,422
Interest expense on lease liabilities	**3,105**	1,600
	93,705	103,022

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation, is as follows:

	Year ended 31 December 2021				
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity–settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
– Mr. Wu Tak Lam	–	1,500	–	10	1,510
– Ms. Chiu Man[(i)]	–	800	–	10	810
– Mr. Gou Xinfeng	–	711	9	35	755
– Ms. Chen Wei	–	486	11	35	532
	–	3,497	20	90	3,607
Independent non-executive directors					
– Mr. Liu Jie	180	–	–	–	180
– Mr. Song Tao	180	–	–	–	180
– Dr. Liu Xiaofeng	204	–	–	–	204
	564	–	–	–	564
	564	3,497	20	90	4,171

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

	Year ended 31 December 2020				
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Equity–settled share award expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
– Mr. Wu Tak Lam	–	1,500	–	10	1,510
– Ms. Chiu Man[(i)]	–	800	–	10	810
– Mr. Gou Xinfeng	–	706	25	1	732
– Ms. Chen Wei	–	462	25	1	488
	–	3,468	50	22	3,540
Independent non-executive directors					
– Mr. Liu Jie	187	–	–	–	187
– Mr. Song Tao	186	–	–	–	186
– Dr. Liu Xiaofeng	224	–	–	–	224
	597	–	–	–	597
	597	3,468	50	22	4,137

(i) The Company's chief executive is Ms. Chiu Man, who is also an executive director of the Company.

During the year ended 31 December 2021, no share awards were granted. Details of the share award scheme are set out in note 31 to the financial statements. The fair value of share awards granted in previous year, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included two directors (2020: two), details of whose remuneration are disclosed in note 8 above. Details of the remuneration for the year of the remaining three (2020: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	**4,858**	2,515
Pension scheme contributions	**105**	6
	4,963	2,521

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2021	2020
HK$500,001 to HK$1,000,000	**2**	3
HK$4,000,001 to HK$4,500,000	**1**	–

During the year ended 31 December 2021, no share awards were granted. Details of are included in the disclosures in note 31 to the financial statements. The fair value of such share awards, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

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

	2021 RMB'000	2020 RMB'000
Current Mainland China corporate income tax	**98,332**	63,092
Deferred tax (note 29)	**22,143**	(4,546)
	120,475	58,546

Pursuant to Section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gain or appreciation shall apply to the Company or its operations.

The subsidiary incorporated in the BVI is not subject to income tax as this subsidiary does not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year.

According to the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), the income tax rate for the Mainland China subsidiaries is 25% from1 January 2008.

Certain subsidiaries of the Group enjoyed preferential CIT rates which were lower than 25% during the reporting period as approved by the relevant tax authorities or operated in designated areas with preferential CIT policies in the PRC.

10. INCOME TAX *(Continued)*

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

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the region in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2021 **RMB'000**	2020 RMB'000
Profit before tax	**466,326**	203,735
Tax at the applicable tax rate (25%)	**116,582**	50,934
Preferential tax rate reduction	**(2,541)**	(2,199)
Adjustment in respect of current tax of previous periods	**(547)**	1,588
Expenses not deductible for tax	**5,568**	3,122
Tax losses utilised from previous periods	**(2,888)**	(1,373)
Tax losses recognised from previous periods	**(5,134)**	(3,878)
Tax losses not recognised	**5,535**	7,752
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**3,900**	2,600
Tax charges	**120,475**	58,546

11. DIVIDENDS

	2021 **RMB'000**	2020 RMB'000
Interim – HK5.0 cents (2020: Nil) per ordinary share	**26,400**	–
Proposed final – HK8.0 cents (2020: HK8.0 cents) per ordinary share	**39,245**	40,399
	65,645	40,399

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 600,000,000 (2020: 600,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2021.

The calculations of basic and diluted earnings per share are based on:

	2021 RMB'000	2020 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**345,851**	145,189

	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year	**600,000,000**	600,000,000
Earnings per share		
Basic and diluted (RMB)	**0.58**	0.24

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 31 December 2020 and at 1 January 2021:							
Cost	1,126,334	80,162	180,295	101,741	210,723	261,985	1,961,240
Accumulated depreciation and impairment	(374,272)	(37,978)	(120,893)	(77,146)	(54,647)	–	(664,936)
Net carrying amount	752,062	42,184	59,402	24,595	156,076	261,985	1,296,304
At 1 January 2021, net of accumulated depreciation	752,062	42,184	59,402	24,595	156,076	261,985	1,296,304
Additions	34,910	34,178	16,631	18,665	147,772	212,859	465,015
Disposals	(6,900)	–	(681)	(363)	(88,030)	(19,907)	(115,881)
Depreciation provided during the year	(75,794)	(11,774)	(14,089)	(9,321)	(48,369)	–	(159,347)
Disposal of a subsidiary	(17,021)	–	–	–	(59)	–	(17,080)
Transfer	80,949	8,273	–	2,759	–	(91,981)	–
At 31 December 2021, net of accumulated depreciation	768,206	72,861	61,263	36,335	167,390	362,956	1,469,011
At 31 December 2021:							
Cost	1,195,406	122,613	194,865	120,465	234,716	362,956	2,231,021
Accumulated depreciation and impairment	(427,200)	(49,752)	(133,602)	(84,130)	(67,326)	–	(762,010)
Net carrying amount	768,206	72,861	61,263	36,335	167,390	362,956	1,469,011

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 31 December 2019 and at 1 January 2020:							
Cost	1,142,742	68,116	170,873	98,365	189,817	128,503	1,798,416
Accumulated depreciation and impairment	(300,491)	(32,590)	(108,767)	(72,211)	(49,734)	–	(563,793)
Net carrying amount	842,251	35,526	62,106	26,154	140,083	128,503	1,234,623
At 1 January 2020, net of accumulated depreciation	842,251	35,526	62,106	26,154	140,083	128,503	1,234,623
Additions	3,187	12,046	9,598	7,569	140,270	138,954	311,624
Disposals	(16,363)	–	(879)	(845)	(81,300)	–	(99,387)
Depreciation provided during the year	(80,029)	(5,388)	(13,879)	(8,283)	(42,977)	–	(150,556)
Transfer	3,016	–	2,456	–	–	(5,472)	–
At 31 December 2020, net of accumulated depreciation	752,062	42,184	59,402	24,595	156,076	261,985	1,296,304
At 31 December 2020:							
Cost	1,126,334	80,162	180,295	101,741	210,723	261,985	1,961,240
Accumulated depreciation and impairment	(374,272)	(37,978)	(120,893)	(77,146)	(54,647)	–	(664,936)
Net carrying amount	752,062	42,184	59,402	24,595	156,076	261,985	1,296,304

As at 31 December 2021, the application for the property ownership certificates of certain buildings with an aggregate net book value of approximately RMB240,558,000 (2020: RMB235,765,000) was still in progress.

At 31 December 2021, certain of the Group's buildings with an aggregate net book value of approximately RMB369,103,000 (2020: RMB415,357,000) were pledged as security for the Group's bank borrowings (note 25(a)).

At 31 December 2021, certain of the Group's construction in progress with an aggregate net book value of approximately RMB221,372,000 (2020: Nil) was pledged as security for the Group's bank borrowings (note 25(a)).

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings and lands used in its operations. Leases of buildings and lands generally have lease terms between 2 and 66 years. The rest of the leases have lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Buildings and lands RMB'000	**Land use rights** RMB'000	**Total** RMB'000
As at 1 January 2020	36,374	635,057	671,431
Depreciation charge	(11,459)	(17,150)	(28,609)
Including: amount capitalised	–	(6,162)	(6,162)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(2,285)	–	(2,285)
As at 31 December 2020 and 1 January 2021	22,630	617,907	640,537
Addition*	66,441	69,043	135,484
Depreciation charge	(15,367)	(18,526)	(33,893)
Including: amount capitalised	–	(4,500)	(4,500)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(206)	–	(206)
Deductions as a result of disposal of a subsidiary (note 33)	–	(19,380)	(19,380)
At 31 December 2021	73,498	649,044	722,542

14. LEASES *(Continued)*

(a) Right-of-use assets *(Continued)*

The lease prepayments of the Group represent the land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group range from 20 to 59 years.

At 31 December 2021, certain of the Group's land use rights with an aggregate net book value of approximately RMB192,321,000 (2020: RMB228,281,000) were pledged as security for the Group's bank borrowings (note 25(a)).

* The addition of land use rights were arising from the acquisitions of Weinan Haizhong Automobile Sales Services Co., Ltd. ("Weinan Haizhong") and Lanzhou Fengtai Rongjia Trading Co., Ltd. ("Fengtai Rongjia").

In January 2021, the Group entered into an equity transfer agreement with two individuals, pursuant to which the Group acquired 100% equity interests in Weinan Haizhong, for a total consideration of RMB24,700,000.

In May 2021, the Group entered into an equity transfer agreement with Xi'an Longbing Real Estate Co., Ltd., pursuant to which the Group acquired 75% equity interests in Fengtai Rongjia, for a total consideration of RMB22,500,000.

The acquisition of the subsidiary does not constitute a business. Therefore, the transaction was accounted for as acquisition of assets and liabilities through acquisition of subsidiaries rather than a business combination as defined in HKFRS 3 Business Combinations.

14. LEASES *(Continued)*

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2021 RMB'000	**2020** RMB'000
Carrying amount at 1 January	**20,849**	32,588
New leases	**66,441**	–
Accretion of interest recognised during the year	**3,105**	1,600
Payments	**(17,389)**	(10,942)
Revision of a lease term arising from a change in the non-cancellable period of a lease	**(156)**	(2,397)
Carrying amount at 31 December	**72,850**	20,849
Analysed into:		
Current portion	**21,559**	7,277
Non-current portion	**51,291**	13,572

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

As disclosed in note 2.2. to the financial statements, the Group has applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2021 RMB'000	**2020** RMB'000
Interest on lease liabilities	**3,105**	1,600
Depreciation charge of right-of-use assets	**29,393**	22,447
Expense relating to leases of short-term or low-value assets (included in selling and distribution expenses, and administrative expenses)	**3,329**	3,880
Total amount recognised in profit or loss	**35,827**	27,927

15. INTANGIBLE ASSETS

31 December 2021

	Software RMB'000	Dealership RMB'000	Total RMB'000
Cost at 1 January 2021, net of accumulated amortisation	**3,039**	**7,995**	**11,034**
Addition	**754**	**–**	**754**
Amortisation provided during the year	**(895)**	**(216)**	**(1,111)**
At 31 December 2021	**2,898**	**7,779**	**10,677**
At 31 December 2021			
Cost	**10,730**	**8,643**	**19,373**
Accumulated amortisation	**(7,832)**	**(864)**	**(8,696)**
Net carrying amount	**2,898**	**7,779**	**10,677**

31 December 2020

	Software RMB'000	Dealership RMB'000	Total RMB'000
Cost at 1 January 2020, net of accumulated amortisation	3,021	8,211	11,232
Addition	809	–	809
Amortisation provided during the year	(791)	(216)	(1,007)
At 31 December 2020	3,039	7,995	11,034
At 31 December 2020			
Cost	9,976	8,643	18,619
Accumulated amortisation	(6,937)	(648)	(7,585)
Net carrying amount	3,039	7,995	11,034

The Group's principal identifiable intangible asset represents a dealership agreement in Mainland China with a certain vehicle manufacturer acquired from a third party. The dealership agreement does not include a specified contract period or termination arrangement. The dealership agreement is amortised over 40 years, which is management's best estimation of its useful life.

16. PREPAYMENTS

	2021 RMB'000	2020 RMB'000
Prepaid lease payments for buildings and land use rights	**851**	256
Prepayments for purchase of land use rights	**15,500**	15,700
Prepayments for purchase of items of property, plant and equipment	**11,944**	12,464
	28,295	28,420

17. GOODWILL

	RMB'000
At 1 January 2020	
Cost	10,794
Accumulated impairment	(510)
Net carrying amount	10,284
Cost at 1 January 2020, net of accumulated impairment	10,794
Accumulated impairment	(510)
At 31 December 2020	10,284
At 31 December 2020:	
Cost	10,794
Accumulated impairment	(510)
Net carrying amount	10,284
Cost at 1 January 2021, net of accumulated impairment	10,794
Accumulated impairment	(510)
Cost and net carrying amount at 31 December 2021	10,284
At 31 December 2021	
Cost	10,794
Accumulated impairment	(510)
Net carrying amount	10,284

17. GOODWILL *(Continued)*

Impairment testing of goodwill

In the opinion of the Company's directors, the goodwill comprises the fair value of expected business synergies arising from acquisitions, which is not separately recognised.

Goodwill acquired through business combinations has been allocated to the relevant 4S dealership business from which the goodwill was resulted. The individual 4S dealership business is treated as a cash-generating unit for impairment testing.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period from the end of the reporting period is 3% (2020: 3%) for all years. The pre-tax discount rate applied to the cash flow projections beyond the one-year period is 12% (2020: 12%).

Assumptions used in the value in use calculation

The following describes the key assumptions of the cash flow projections.

Revenue from the sale and service of motor vehicles — the bases used to determine the future earnings from the sale and service of motor vehicles are historical sales and the average growth rate of similar 4S stores of the Group over the last two years.

Operating expenses — the bases used to determine the values assigned are cost of inventories, staff costs, depreciation, amortisation and other operating expenses. The values assigned to the key assumptions reflect past experience and management's commitment to maintain the Group's operating expenses at an acceptable level.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value, including goodwill, of the cash-generating unit to materially exceed the recoverable amount.

18. INVENTORIES

	2021 RMB'000	2020 RMB'000
Motor vehicles (at cost or at net realisable value)	**969,210**	823,353
Spare parts (at cost)	**85,163**	77,079
	1,054,373	900,432

At 31 December 2021, certain of the Group's inventories with an aggregate carrying amount of approximately RMB555,131,000 (2020: RMB548,393,000) were pledged as security for the Group's bank loans and other borrowings (note 25(a)).

At 31 December 2021, certain of the Group's inventories with an aggregate carrying amount of approximately RMB344,617,000 (2020: RMB248,717,000) were pledged as security for the Group's bills payable (note 26).

19. TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**30,671**	38,822

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over the trade receivable balances. Trade receivables are non-interest-bearing.

19. TRADE RECEIVABLES *(Continued)*

An ageing analysis of the trade receivables as at each reporting date (based on the invoice date) is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	**27,707**	33,987
More than 3 months but less than 1 year	**657**	3,475
Over 1 year	**2,307**	1,360
	30,671	38,822

As at 31 December 2021, no provision for impairment of trade receivables was accrued.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The information about the credit risk exposure on the Group's trade receivables using a provision matrix is disclosed in note 41 to the financial statements.

An ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	2021 RMB'000	2020 RMB'000
Neither past due nor impaired	**28,364**	37,462
Over 1 year past due but not impaired	**2,307**	1,360
	30,671	38,822

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 RMB'000	2020 RMB'000
Prepayments and deposits to suppliers	**772,418**	481,322
Vendor rebate receivables	**207,035**	200,627
VAT recoverable (i)	**78,763**	23,916
Others	**122,396**	135,204
	1,180,612	841,069

Note:

(i) The Group's sales of motor vehicles are subject to Mainland China Value Added Tax ("VAT"). Input VAT on purchases can be deducted from output VAT payable. The VAT recoverable is the net difference between output and deductible input VAT.

None of the above assets is past due. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

	2021 RMB'000	2020 RMB'000
Financial assets included in prepayments, other receivables and other assets	**329,431**	335,831

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 **RMB'000**	2020 RMB'000
Financial products	**3,552**	–

The financial products as at 31 December 2021 were issued by financial institutions. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

22. PLEDGED BANK DEPOSITS

	2021 **RMB'000**	2020 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks and bills payable	**364,623**	378,523

Pledged bank deposits earn interest at interest rates stipulated by financial institutions.

As at 31 December 2021, certain of the Group's pledged bank deposits with an aggregate carrying amount of approximately RMB226,011,000 (2020: RMB313,970,000) were pledged as security for the Group's bills payable (note 26).

As at 31 December 2021, certain of the Group's pledged bank deposits with aggregate carrying amounts of approximately HK$0 (equivalent to RMB0) (2020: HK$4,800,000 (equivalent to RMB4,040,000)) and US$8,630,000 (equivalent to RMB55,025,000) (2020: US$8,630,000 (equivalent to RMB56,313,000)) were pledged as security for the Group's bank loans and other borrowings (note 25(a)).

23. CASH IN TRANSIT

	2021 RMB'000	2020 RMB'000
Cash in transit	**4,782**	16,390

Cash in transit is the sales proceeds settled by credit cards, which have yet to be credited to the Group by the banks.

24. CASH AND CASH AT BANKS AND SHORT-TERM DEPOSITS

	2021 RMB'000	2020 RMB'000
Cash and cash at banks	**836,227**	717,362
Short-term deposits	**127,579**	100,538
	963,806	817,900
Time deposits with maturity of over three months	**32,506**	74,358
Cash and cash equivalents	**931,300**	743,542
Denominated in:		
RMB	**814,760**	644,316
HKD	**109,208**	58,706
USD	**5,933**	38,937
EUR	**475**	528
JPY	**924**	1,055
	931,300	743,542

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

As at 31 December 2021, the cash and cash at banks and short-term deposits of the Group denominated in RMB amounted to RMB814,742,000 (2020: RMB644,300,000) in Mainland China. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. BANK LOANS AND OTHER BORROWINGS

	2021 Effective interest rate (%)	2021 Amount RMB'000	2020 Effective interest rate (%)	2020 Amount RMB'000
CURRENT:				
Bank loans	**3.6-5.8**	**1,152,576**	3.3-6.7	1,256,945
Other borrowings	**1.7-8.6**	**393,669**	3.0-8.6	406,011
		1,546,245		1,662,956
NON-CURRENT:				
Bank loans	**3.5-5.9**	**760,774**	3.5-6.7	192,626
Other borrowings	**4.5**	**–**	4.5	4,750
		760,774		197,376
		2,307,019		1,860,332
Bank loans and other borrowings represent:				
– secured loans (a)		**1,798,885**		1,662,610
– unsecured loans		**508,134**		197,722
		2,307,019		1,860,332

25. BANK LOANS AND OTHER BORROWINGS *(Continued)*

	2021 RMB'000	2020 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**1,152,576**	1,256,945
In the second year	**541,250**	75,522
In the third to fifth years, inclusive	**191,324**	84,145
Over five years	**28,200**	32,959
	1,913,350	1,449,571
Other borrowings repayable:		
Within one year	**393,669**	406,011
In the second year	**–**	4,750
	393,669	410,761
	2,307,019	1,860,332

Notes:

(a) As at 31 December 2021, certain of the Group's bank loans and other borrowings are secured by:

(i) mortgages over the Group's land use rights situated in Mainland China, which had an aggregate carrying value of approximately RMB192,321,000 (2020: RMB228,281,000) (note 14);

(ii) mortgages over the Group's buildings, which had a net carrying value of approximately RMB369,103,000 (2020: RMB415,357,000) (note 13);

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB555,131,000 (2020: RMB548,393,000) (note 18);

(iv) mortgages over the Group's bank deposits, which had an aggregate carrying value of approximately US$8,630,000 (equivalent to RMB55,025,000) (2020: US$8,630,000 (equivalent to RMB56,313,000)) (note 22);

(v) mortgages over the Group's construction in progress, which had an aggregate carrying value of approximately RMB221,372,000 (2020: Nil) (note 13);

(vi) deposit which had an aggregate carrying value of approximately RMB2,257,500 (2020: RMB2,257,500).

(b) Except for the secured bank loan amounting to HK$178,400,000 (equivalent to RMB145,860,000) (2020: HK$224,700,000 (equivalent to RMB189,117,000)) which is denominated in Hong Kong dollars, all borrowings are in Renminbi.

26. TRADE AND BILLS PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	**62,897**	105,474
Bills payable	**569,367**	491,290
Trade and bills payables	**632,264**	596,764

An ageing analysis of the trade and bills payables as at each reporting date, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	**620,579**	508,336
3 to 6 months	**7,963**	72,123
6 to 12 months	**718**	11,986
Over 12 months	**3,004**	4,319
	632,264	596,764

The trade and bills payables are non-interest-bearing. The trade and bills payables are normally settled on 90 to180 days terms.

As at 31 December 2021, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB344,617,000. (2020: RMB248,717,000) (note 18).

As at 31 December 2021, the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB226,011,000 (2020: RMB313,970,000) (note 22).

27. OTHER PAYABLES AND ACCRUALS

		2021 RMB'000	2020 RMB'000
Payables for purchase of items of property, plant and equipment		**56,093**	60,505
Contract liabilities	(a)	**192,864**	183,801
Staff payroll and welfare payables		**71,326**	61,617
Tax payable (other than income tax)		**8,445**	9,863
Others		**46,595**	37,359
		375,323	353,145

(a) Details of contract liabilities are as follows:

	31 December 2021 RMB'000	31 December 2020 RMB'000	1 January 2020 RMB'000
Short-term advances received from customers			
Sale of motor vehicles	**129,100**	**135,761**	116,002
After-sales services	**63,764**	**48,040**	49,993
Total contract liabilities	**192,864**	**183,801**	165,995

Contract liabilities include short-term advances received to deliver new automobiles. The increase in contract liabilities in 2021 was mainly due to the increase in short-term advances received from customers in relation to the sales of new automobiles at the end of the year.

28. EMPLOYEE RETIREMENT BENEFITS

Under the People's Republic of China (the "PRC") state regulations, the employees of the Group's subsidiaries in Mainland China are required to participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. The subsidiaries in Mainland China are required to make contributions to the local social security bureau at 10% to 22% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the subsidiaries in Mainland China.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above.

29. DEFERRED TAX

Deferred tax assets

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Losses available for future taxable profits RMB'000	Inventory impairment RMB'000	Accrued payroll and social welfare RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	28,246	2,622	5,388	244	36,500
Deferred tax charged to the consolidated statement of profit or loss during the year (note 10(a))	8,538	2,450	1,222	(56)	12,154
At 31 December 2020	36,784	5,072	6,610	188	48,654
Deferred tax charged to the consolidated statement of profit or loss during the year (note 10(a))	(18,530)	(1,685)	1,464	221	(18,530)
At 31 December 2021	18,254	3,387	8,074	409	30,124

As at 31 December 2021, deferred tax assets have not been recognised in respect of tax losses arising in Mainland China of RMB52,996,000 (2020: RMB82,065,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probably that taxable profits will be available against which the tax losses can be utilised. These tax losses will expire in one to five years.

29. DEFERRED TAX *(Continued)*

Deferred tax liabilities

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value adjustment arising from acquisition of a subsidiary RMB'000	Depreciation charges in less than depreciation allowances RMB'000	Capitalisation of interest expense and others RMB'000	Withholding Tax RMB'000	Total RMB'000
At 1 January 2020	2,423	7,333	509	–	10,265
Deferred tax recognised in the consolidated statement of profit or loss during the year	(79)	4,105	983	2,600	7,609
At 31 December 2020	2,344	11,438	1,492	2,600	17,874
Deferred tax recognised in the consolidated statement of profit or loss during the year (note 10)	(79)	1,025	1,367	3,900	6,213
Realised during the year	–	–	–	(2,600)	(2,600)
At 31 December 2021	2,265	12,463	2,859	3,900	21,487

Pursuant to the PRC CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for 10% withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,936,130,000 and RMB1,705,420,000 at 31 December 2021 and 2020, respectively.

30. SHARE CAPITAL

Authorised

	2021 No. of shares of US$0.0001 each	2020 No. of shares of US$0.0001 each
Ordinary shares	**1,000,000,000**	1,000,000,000

Shares

	No. of shares of US$0.0001 each	Equivalent to RMB'000
Issued and fully paid: ordinary shares	**600,000,000**	377

	Number of issued and fully paid ordinary shares	**Nominal value of ordinary shares** US$'000	**Equivalent nominal value of ordinary shares** RMB'000
As at 1 January 2020 and 31 December 2020	600,000,000	60	377
As at 1 January 2021 and 31 December 2021	600,000,000	60	377

31. SHARE-BASED PAYMENTS

(a) Pre-IPO share award scheme

The Company's Pre-IPO Share Award Scheme was approved and adopted on 8 January 2014 for the purpose of recognising and rewarding the contribution of the selected employees of the Group and motivating their contribution to the future development of the Group.

For the implementation of the Pre-IPO Share Award Scheme, a Management Trust was established by Top Wheel Limited, which was fully owned by Mr. Wu Tak Lam and Ms. Chiu Man on 8 January 2014 with Cantrust (Far East) Limited acting as the trustee. On the same date, Top Wheel Limited transferred, for nil consideration, 9,000,000 shares in the Company to the Management Trust pursuant to the Pre-IPO Share Award Scheme. The vesting in full of the share award would, under the present capital structure of the Company, have no impact on the additional ordinary shares of the Company.

The following awarded shares were outstanding under the scheme during the year:

	2021 Number of awarded shares '000	2020 Number of awarded shares '000
At 1 January	**1,476**	2,299
Forfeited during the year	**(404)**	(118)
Vested during the year	**(597)**	(705)
At 31 December	**475**	1,476

Under the Pre-IPO Share Award Scheme, the vesting period is five years during which the awarded shares granted to any particular selected employee will vest on each anniversary of the grant date of the relevant awards in equal portions.

31. SHARE-BASED PAYMENTS *(Continued)*

(a) Pre-IPO share award scheme *(Continued)*

Particulars of the awarded shares as at 31 December 2021 and 2020 are as follows:

Vesting period	Dates of grant	Market price at grant dates HK$/share	Number of outstanding shares as at 31 December 2021 '000	2020 '000
5 years	15 May 2014	3.76	**–**	–
5 years	2 July 2015	2.95	**–**	–
5 years	6 February 2016	2.54	**–**	90
5 years	23 January 2017	2.19	**252**	512
5 years	8 February 2018	1.23	**223**	394
5 years	28 December 2018	1.00	**–**	480
			475	1,476

No share awards were granted for the year ended 31 December 2021.

The fair value of share awards granted was estimated, by reference to the market value of the share awards as at the date of grant, taking into account the terms and conditions upon which the share awards were granted.

The Group reversed a share award expense of RMB6,000 (2020: recognised a share award expense of RMB623,000) during the year ended 31 December 2021.

At the end of the reporting period, the Company had 475,000 (2020: 1,476,000) awarded shares outstanding under the Pre-IPO Share Award Scheme.

31. SHARE-BASED PAYMENTS *(Continued)*

(b) Share option scheme

On 18 January 2014, a share option scheme was approved and adopted by the then shareholder (the "Share Option Scheme") for the purposes of recognising and rewarding the contribution of the selected employees of the Group and motivating their contribution to the future development of the Group.

No share options were granted under the Share Option Scheme during the years ended 31 December 2021 and 2020.

32. RESERVES

(i) Statutory reserve

Pursuant to the relevant PRC rules and regulations, these PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profits after taxation, as determined under PRC company law, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of a dividend to shareholders.

(ii) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(iv) Capital reserve

The capital reserve of the Group represents the capital contributions from the equity holders of the Company and the excess of the carrying amount of the non-controlling interests acquired over the consideration.

33. DISPOSAL OF A SUBSIDIARY

On 31 July 2021, the Group disposed of 100% equity interests in Wuxi Sunfonda Shangzhong Automobile Sales & Service Co., Ltd. to four third party individuals for total consideration of RMB47,900,000.

	Note	2021 RMB'000
Net assets disposed of:		
Property, plant and equipment	13	**17,080**
Right-of-use assets	14	**19,380**
Cash and bank balances		**64**
Prepayments and other receivables		**1,343**
Trade payables		**(702)**
Other payable		**(92)**
		37,073
Gain on disposal of a subsidiary	5	**10,827**
		47,900
Satisfied by:		
Cash		**47,900**

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2021 RMB'000
Cash consideration	**47,900**
Cash and bank balances disposed of	**(64)**
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**47,836**

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB66,441,000 (2020: Nil) and RMB66,441,000 (2020: Nil), respectively, in respect of lease arrangements for plant and equipment.

(b) Changes in liabilities arising from financing activities

2021

	Bank and other loans RMB'000	Lease liabilities RMB'000	Dividends payable RMB'000
At 1 January 2021	1,860,332	20,849	–
Changes from financing cash flows	453,014	(17,389)	(68,640)
Revision of leasing term	–	(156)	–
New leases	–	66,441	–
Interest expense	–	3,105	–
Foreign exchange movement	(6,327)	–	–
Interim 2021 dividend	–	–	26,400
Final 2020 dividend declared	–	–	42,240
At 31 December 2021	2,307,019	72,850	–

2020

	Bank and other loans RMB'000	Lease liabilities RMB'000	Dividends payable RMB'000
At 1 January 2020	2,208,403	32,588	–
Changes from financing cash flows	(343,006)	(10,942)	(21,120)
Revision of leasing term	–	(2,397)	–
Interest expense	–	1,600	–
Foreign exchange movement	(5,065)	–	–
Final 2019 dividend declared	–	–	21,120
At 31 December 2020	1,860,332	20,849	–

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the reporting date were as follows:

Financial assets

	Financial assets at amortised cost	
	2021	2020
	RMB'000	RMB'000
Trade receivables	**30,671**	38,822
Financial assets included in prepayments, other receivables and other assets	**329,431**	351,531
Amount due from a related party	**5,810**	7,890
Pledged bank deposits	**364,623**	378,523
Cash in transit	**4,782**	16,390
Cash and cash at banks and short-term deposits	**963,806**	817,900
	1,699,123	1,611,056

Financial liabilities

	Financial liabilities at amortised cost	
	2021	2020
	RMB'000	RMB'000
Trade and bills payables	**632,264**	596,764
Financial liabilities included in other payables and accruals	**102,688**	97,864
Lease liabilities	**72,850**	20,849
Bank loans and other borrowings	**2,307,019**	1,860,332
	3,114,821	2,575,809

36. CONTINGENT LIABILITIES

As at 31 December 2021 and 2020, the Group did not have any significant contingent liabilities.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash at banks, short-term deposits, cash in transit, amounts due from related parties, pledged bank deposits, trade receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, which approximate to their carrying amounts. The Group's own non-performance risk for bank loans and other borrowings as at 31 December 2021 was assessed to be insignificant.

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		**Fair Values**	
	2021 **RMB'000**	2020 RMB'000	**2021** **RMB'000**	2020 RMB'000
Financial assets at fair value through profit or loss	**3,552**	–	**3,552**	–

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	**3,552**	**–**	**–**	**3,552**

38. COMMITMENTS

Capital commitments

Capital commitments of the Group at the reporting date not provided for in these financial statements are as follows:

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Buildings	**127,589**	176,055

39. PLEDGE OF ASSETS

Details of the Group's assets pledged for its bank loans and other borrowings and bills payable are disclosed in notes 13, 14, 18 and 22 to these financial statements.

40. RELATED PARTY TRANSACTIONS AND BALANCES

Mr. Wu Tak Lam and Ms. Chiu Man are collectively the Controlling Shareholders (the "Controlling Shareholders") of the Group. They are also the key management personnel and considered to be related parties of the Group.

Mr. Zhao Yijian is a close family member of the Controlling Shareholders and considered to be a related party of the Group.

The Group had the following transactions with related parties during the year:

(a) Transactions with a related party

The following transactions were carried out with a related company during the year:

		2021 RMB'000	2020 RMB'000
(i)	Sales of motor vehicles and spare parts		
	Yangzhou Sunfonda Automobile Co., Ltd.*	**4,991**	9,102
(ii)	Purchase of motor vehicles and spare parts		
	Yangzhou Sunfonda Automobile Co., Ltd.*	**1,072**	5,353

* Yangzhou Sunfonda Automobile Co., Ltd. is controlled by Mr. Zhao Yijian.

The related party transactions above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

40. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Balance with a related party

Due from a related party:

	2021 RMB'000	2020 RMB'000
Trade related		
Yangzhou Sunfonda Automobile Co., Ltd.	**5,810**	7,890

(c) Compensation of key management personnel of the Group

	2021 RMB'000	2020 RMB'000
Short-term employee benefits	**7,346**	4,301
Equity-settled share award expense	**20**	50
Post-employment benefits	**125**	22
Total compensation paid to key management personnel	**7,491**	4,373

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and other borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade and bills payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

The Group has no significant interest-bearing assets other than pledged bank deposits (note 22), short-term deposits, and cash and cash at banks (note 24).

The Group's interest rate risk arises from its borrowings, details of which are set out in note 25. Borrowings at variable rates expose the Group to the risk of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on long-term floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
Year ended 31 December 2021		
RMB	**50**	**(1,769)**
HKD	**50**	**(677)**
RMB	**(50)**	**1,769**
HKD	**(50)**	**677**
Year ended 31 December 2020		
RMB	50	(79)
HKD	50	(776)
RMB	(50)	79
HKD	(50)	776

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

The Group's businesses are located in Mainland China and all transactions are conducted in RMB. Most of the Group's assets and liabilities were denominated in RMB, except for certain bank balances denominated in US$ and HK$ and certain loans denominated in HK$.

The Group's assets and liabilities denominated in US$ and HK$ were mainly held by certain subsidiaries incorporated outside Mainland China which had HK$ as their functional currency and the Group did not have material foreign currency transactions in Mainland China during the year.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of pledged bank deposits, cash in transit, short-term deposits, cash and cash at banks, trade and other receivables, and an amount due from a related party included in the financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Maximum exposure and year-end staging *(Continued)*

As at 31 December 2021

	12-month ECLs	Lifetime ECLs	
	Stage 1 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables	–	30,671	30,671
Financial assets included in prepayments, other receivables and other assets	329,431	–	329,431
	329,431	30,671	360,102

As at 31 December 2020

	12-month ECLs	Lifetime ECLs	
	Stage 1 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables	–	38,822	38,822
Financial assets included in prepayments, other receivables and other assets	351,531	–	351,531
	351,531	38,822	390,353

For trade receivables to which the Group applies the simplified approach for impairment. For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, there was no recent history of default. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. No loss allowance was provided because management estimated that the expected credit loss rate was less than 1‰ and the expected credit losses as at 31 December 2021 were not significant.

As at 31 December 2021, all pledged bank deposits, short-term deposits, and cash and cash at banks were deposited in reputable financial institutions without significant credit risk.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2021					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	**–**	**750,362**	**873,030**	**770,933**	**138,245**	**2,532,570**
Lease liabilities	**–**	**4,929**	**16,631**	**20,506**	**30,784**	**72,850**
Trade and bills payables	**62,897**	**569,367**	**–**	**–**	**–**	**632,264**
Financial liabilities included in other payables and accruals	**46,595**	**14,023**	**42,070**	**–**	**–**	**102,688**
	109,492	**1,338,681**	**931,731**	**791,439**	**169,029**	**3,340,372**

	As at 31 December 2020					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Bank loans and other borrowings	–	464,729	1,275,689	186,648	40,829	1,967,895
Lease liabilities	–	3,213	5,101	11,856	3,282	23,452
Trade and bills payables	105,474	430,541	60,749	–	–	596,764
Financial liabilities included in other payables and accruals	37,359	15,126	45,379	–	–	97,864
	142,833	913,609	1,386,918	198,504	44,111	2,685,975

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2021.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes bank loans and other borrowings (other than convertible bonds), trade and bills payables and certain other payables and accruals, less cash and cash at banks, short-term deposits, cash in transit and pledged bank deposits. The gearing ratios as at the reporting dates were as follows:

	2021 RMB'000	2020 RMB'000
Bank loans and other borrowings	**2,307,019**	1,860,332
Trade and bills payables	**632,264**	596,764
Other payables and accruals	**375,323**	353,145
Less: Pledged bank deposits	**(364,623)**	(378,523)
Cash in transit	**(4,782)**	(16,390)
Short-term deposits	**(127,579)**	(100,538)
Cash and cash at banks	**(836,227)**	(717,362)
Net debt	**1,981,395**	1,597,428
Total equity	**2,438,821**	2,158,288
Total equity and net debt	**4,420,216**	3,755,716
Gearing ratio	**44.8%**	42.5%

42. EVENTS AFTER THE REPORTING PERIOD

There was no significant subsequent event undertaken by the Group after 31 December 2021.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**611,176**	701,003
CURRENT ASSETS		
Prepayments, other receivables and other assets	**84**	85
Cash and cash equivalents	**7,763**	27,785
Total current assets	**7,847**	27,870
CURRENT LIABILITIES		
Bank loans and other borrowings	**–**	20,200
Total current liabilities	**–**	20,200
NET CURRENT ASSETS	**7,847**	7,670
TOTAL ASSETS LESS CURRENT LIABILITIES	**619,023**	708,673
NON-CURRENT LIABILITIES		
Bank loans and other borrowings	**145,860**	168,917
NET ASSETS	**473,163**	539,756
EQUITY		
Share capital	**377**	377
Reserves (note)	**472,786**	539,379
Total equity	**473,163**	539,756

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2020	250,962	320,214	(8,799)	(10,288)	552,089
Total comprehensive income for the year	–	–	10,427	(2,017)	8,410
Final 2019 dividend declared	(21,120)	–	–	–	(21,120)
At 31 December 2020 and 1 January 2021	229,842	320,214	1,628	(12,305)	539,379
Total comprehensive income for the year	–	–	3,188	(1,141)	2,047
Interim 2021 dividend	(26,400)	–	–	–	(26,400)
Final 2020 dividend declared	(42,240)	–	–	–	(42,240)
At 31 December 2021	161,202	320,214	4,816	(13,446)	472,786

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2022.

FINANCIAL SUMMARY

31 DECEMBER 2021

	Year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**11,639,221**	10,634,418	9,314,733	8,948,414	7,687,005
Cost of sales and services	**(10,645,937)**	(9,885,623)	(8,660,514)	(8,280,456)	(7,091,568)
Gross profit	**993,284**	748,795	654,219	667,958	595,437
Other income and gains, net	**360,082**	187,176	183,711	342,043	206,459
Selling and distribution expenses	**(512,868)**	(410,523)	(375,335)	(385,947)	(320,777)
Administrative expenses	**(271,467)**	(218,691)	(213,640)	(245,987)	(179,861)
Profit from operations	**560,031**	306,757	248,955	378,067	301,258
Finance costs	**(93,705)**	(103,022)	(107,859)	(102,723)	(73,517)
Profit before tax	**466,326**	203,735	141,096	275,344	227,741
Income tax expense	**(120,475)**	(58,546)	(21,167)	(61,982)	(80,565)
Profit for the year	**345,851**	145,189	119,929	213,362	147,176
Attributable to:					
Owners of the parent	**345,851**	145,189	119,929	213,162	147,315
Non-controlling interests	**–**	–	–	200	(139)
	345,851	145,189	119,929	213,362	147,176

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS	Year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**5,879,162**	5,036,259	5,310,529	4,663,266	4,030,632
Total liabilities	**3,440,341**	2,877,971	3,275,337	2,710,163	2,233,611
Non-controlling interests	**–**	–	–	–	3,148
Equity attributable to owners of the parent	**2,438,821**	2,158,288	2,035,192	1,953,103	1,793,873