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 2022

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

INVESTOR INQUIRIES

Tel: +852 2565 9898
Fax: +852 2565 9221
Website: www.sunfonda.com.cn
E-mail: irhk@sunfonda.com.cn

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Tak Lam *(Chairman of the Board)*
Ms. Chiu Man *(Chief Executive Officer)*
Ms. Chen Wei
Mr. Deng Ning *(appointed on 9 November 2022)*
Mr. Gou Xinfeng *(resigned on 9 November 2022)*

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

Sunfonda Automobile Center
No. 1555 Ouya 1st Road
Beichen Avenue
Chanba Ecological District
Xi'an City,
Shaanxi Province
PRC

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3, 22/F, Sino Plaza
255-257 Gloucester Road
Causeway Bay, Hong Kong

REGISTERED OFFICE

Grand Pavilion, Hibiscus Way
802 West Bay Road
P.O. Box 31119, KY1-1205
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai,
Hong Kong

LEGAL ADVISERS

PRC Law

Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District, Beijing
PRC

Hong Kong Law

Jingtian & Gongcheng LLP
Suites 3203-3207, 32nd Floor
Edinburgh Tower
The Landmark
15 Queens Road Central
Central, Hong Kong

AUDITORS

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

PRINCIPAL BANKERS

Nanyang Commercial Bank, Limited
151 Des Voeux Road Central
Central, Hong Kong

China CITIC Bank Corporation Limited, Xi'an Branch
No. 1, Zhuque Avenue
Xi'an City, Shaanxi Province
PRC

Bank of China Limited, Shaanxi Branch
No. 18, North Section of Tangyan Road
Xi'an City, Shaanxi Province
PRC

STOCK CODE

01771

WEBSITE

www.sunfonda.com.cn

FINANCIAL HIGHLIGHTS

HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2022

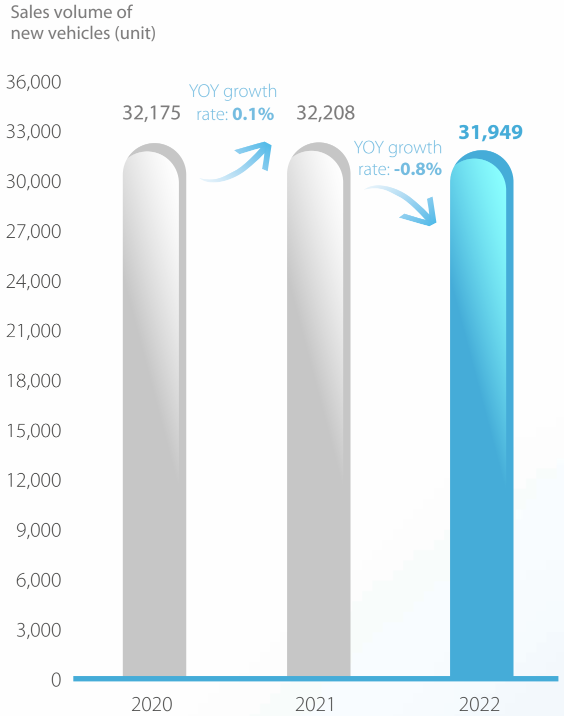
During the year ended 31 December 2022, the Group has recorded:

- Operating revenue of RMB10,923.7 million, which was down by 6.1% from the same period in 2021, including:
  - Sales volume of new vehicles down by 0.8% to 31,949 units, and revenue from the sales of new vehicles down by 6.0% to RMB9,418.0 million;
  - Revenue from after-sales services down by 8.6% to RMB1,141.4 million; and
  - Revenue from the sales of used cars down by 0.8% to RMB364.3 million, and the transaction volume of used cars was 6,982 units, representing a year-on-year decrease of 1.4%, of which 2,321 units were sold on commission.
- Gross profit of RMB715.7 million, which was down by 27.9% from the same period in 2021.
- Gross profit margin was 6.6% (2021: 8.5%), of which gross profit margin of sales of new vehicles was 2.3% (2021: 4.4%).
- Profit before tax for the Period decreased by 72.2% to RMB129.4 million (2021: RMB466.3 million, including the one-off investment gains of approximately RMB145.2 million arising from the disposal of the equity investment in a company which was not engaged in main business, accounting for approximately 31.1% of the profit before tax for 2021).

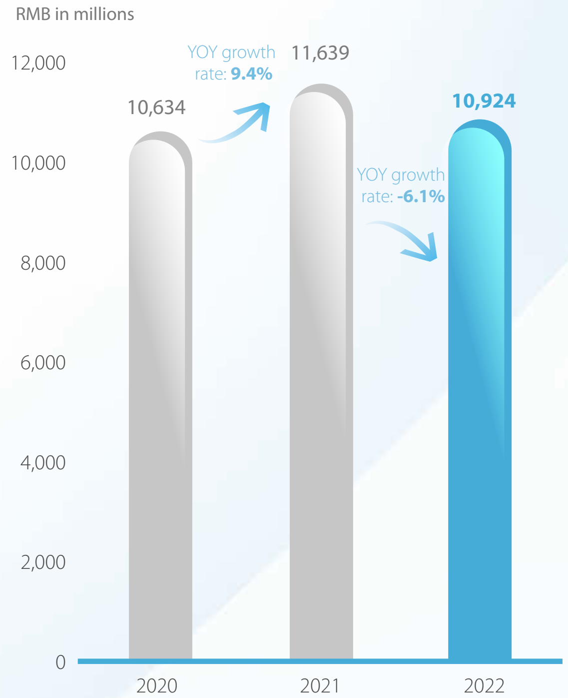
Profit attributable to owners of the parent for the Period was down by 76.5% to RMB81.3 million (2021: RMB345.9 million).

Basic and diluted earnings per share attributable to ordinary equity holders of the parent amounted to RMB0.14 for the Period (2021: RMB0.58). The board of directors of the Company recommended a final dividend of HK$0.02 (equivalent to approximately RMB0.02) per ordinary share for the year ended 31 December 2022. Together with the interim dividend for the six months ended 30 June 2022 of HK$0.04 (equivalent to RMB0.03) which was paid on 26 September 2022, the total dividends proposed for the year ended 31 December 2022 were HK$0.06 (equivalent to RMB0.05) per ordinary share (the year ended 31 December 2021: HK$0.13 (equivalent to RMB0.11) per ordinary share).

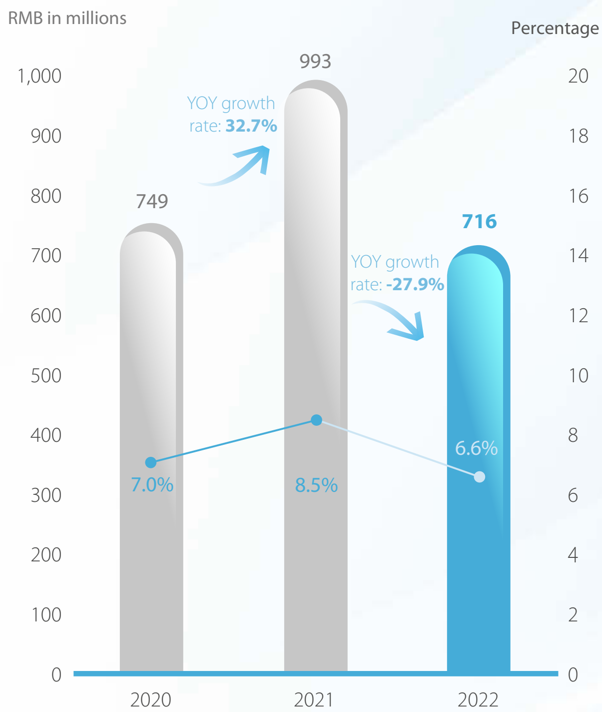
Sales volume of new vehicles



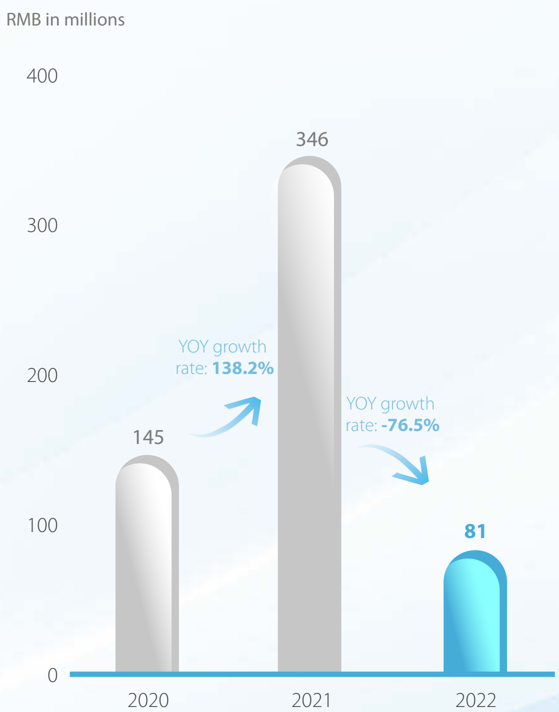
Revenue



Gross profit and gross profit margin



Equity attributable to owners of the parent



Note: "YOY" refers to year-on-year.

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 2022 (the "**Period**").

Business Review

In the past year, the COVID-19 pandemic brought challenges to the entire automobile industry, and domestic automobile production and supply chains were also interrupted. In the case of abnormal fluctuations in demand and supply, the Group has actively adjusted its operating strategy to focus on the three indicators of sales volume, inventory and profitability.

Due to the frequent outbreaks of the COVID-19 pandemic, the Group's sale points were shut down for several months or intermittently. At the same time, local livelihood activities and the travel rate of automobiles also decreased, which seriously affected the daily operation and sales of each store. After the release of pandemic control, the Group's new automobile sales volume also improved immediately due to the release of consumption capacity. In the end, the sales volume of new automobiles and the transaction volume of used cars of the Group for the full year remained stable as compared to 2021.

In 2022, automobile dealers also faced many difficulties in financial conditions. Sunfonda has always emphasised the importance of steady progress, its financial position has remained sound, and its cash flow and gearing ratio have also sustained at a healthy level. Under such favorable conditions, the Group has also increased its dividend per share and made interim and final distributions since 2021, and has maintained this policy of rewarding shareholders throughout 2022.

In terms of brand network development, the Group completed the construction of the Yinchuan BMW store and smoothly put it into operation by the end of 2022 as scheduled. The Xi'an Chanba Porsche Center has also been put into operation in the first quarter of 2023. The Group has maintained steady progress in a complex and changing economic environment.

Future Development and Blueprint

Although the pandemic has caused severe difficulties in various decision-making processes, the Group has consistently aimed at the general direction of business development, and timely adjusted strategies, thereby achieving steady development. Focusing on core brands and improving structure and layout, the Group has obtained new authorisation of the Xi'an BMW store and the Lanzhou GAC Toyota store in Gansu Province. In the field of new energy vehicles, the Group has also made new attempts, and obtained the automobile brand authorisation of Beijing XPeng Motors and Weinan AITO, respectively. Especially for XPeng Motors, the Group will set up its first showroom, delivery and after-sales service center for new energy vehicles in Beijing.

In line with the government's policies for used cars, the Group will promote the trading of new automobiles and used cars through customers' automobile replacement demand, and will actively expand the scale of used car business. In addition, through vehicle reconditioning, refurbishing, retrofitting and upgrading, the used car business will improve the quality and competitiveness of and customer satisfaction with used car products, so as to capture higher value profits.

Finally, for the Group's key development projects – the "FUN TIME LANE (豐泰里)" automobile fashion street zones located in Xi'an and Lanzhou, respectively, the original project progress was impacted due to the frequent outbreaks of the COVID-19 pandemic in affected areas. At present, the infrastructure construction of the projects has been completed and the projects are in the progress of investment promotion.

The past year has tested us at every turn and put a lot of pressure on every member of the Group. However, the management and front-line staff responded to the changing business environment in a timely manner to ensure the normal operation of the Group and that customer service was not affected. I am grateful to shareholders and investors of Sunfonda for their continuous trust and support to the management, as well as to every employee for their efforts and dedications last year. In the future, the Group will strive with great courage and determination for better performance.

Wu Tak Lam
Chairman of the Board

24 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

I. MARKET REVIEW

In 2022, Economic Development Improved in Both Quantity and Quality, and Was Highlighted with Overall Operational Resilience

In 2022, under the strong leadership of the Central Committee of the Communist Party of China with Chairman Xi Jinping at its core, all regions and departments in China conscientiously implemented the decisions and arrangements of the Party's Central Committee and the State Council, adhered to the general principle of pursuing progress while ensuring stability, and efficiently balanced pandemic prevention and control with economic and social development. According to preliminary calculations, the annual gross domestic product (the "**GDP**") of China amounted to approximately RMB121,020.7 billion, representing a year-on-year increase of 3.0% at constant prices calculation. Translated at the annual average exchange rate, China's GDP was approximately US$18.0 trillion, ranking second in the world. The total retail sales of consumer goods for 2022 amounted to approximately RMB43,973.3 billion, representing a year-on-year decrease of 0.2%. Among which, the retail sales of automobile consumables were approximately RMB4,577.2 billion, representing a year-on-year increase of 0.7%.

Shaanxi Province, where the Group's main business is located, has made remarkable achievements in economic and social development. In 2022, Shaanxi's GDP was approximately RMB3,277.268 billion, representing a year-on-year increase of 4.3% at constant prices calculation, and ranking 14th in China. In 2022, the automobile industry chain in Shaanxi has been rapidly expanded and extended, and the automobile industry has become the main engine for Shaanxi's industrial economic growth in 2022. In 2022, the total retail sales of consumer goods in Shaanxi amounted to approximately RMB1,040.161 billion, representing a year-on-year increase of 1.5%. Among which, the retail sales of consumer goods of enterprises (entities) above designated size were approximately RMB537.767 billion, representing a year-on-year increase of 4.0%, and the demand for upgraded goods rebounded. The annual retail sales of urban consumer goods were approximately RMB907.127 billion, representing a year-on-year increase of 0.8%.

According to preliminary calculations, in Jiangsu Province, another place where the Group's main business is located, the GDP reached approximately RMB12,287.56 billion in 2022, representing a year-on-year increase of 2.8% at constant prices calculation, and stepping up to a new level calculated by RMB1 trillion. Among the top ten industries in terms of increase value of the province, the automobile industry grew by 14.8%, and maintained a double-digit growth throughout the year. In 2022, the total retail sales of consumer goods in Jiangsu amounted to approximately RMB4,275.21 billion, representing a year-on-year increase of 0.1%. By commodity category and value, automobile consumption remained stable, and the annual retail sales of automobile commodities above designated size increased by 2.8% year on year; while the consumption prices of Jiangsu residents for the year increased by 2.2% year on year.

Review of China's Automobile Market in 2022

In 2022, the automobile market also encountered unprecedented barriers in production, transportation, sales and after-sales service due to the disruption of logistics transportation and real economic activities caused by COVID-19 pandemic. China has launched a series of policies and measures which are favourable to the automobile industry to promote the recovery of market confidence. Chen Shihua, deputy secretary-general of the China Association of Automobile Manufacturers ("**CAAM**"), said: "The preferential policy for the purchase tax of fuel vehicles was implemented for the third time in 2022, which has obviously stimulated passenger vehicle consumption. The sales volume of passenger vehicles rose significantly in June 2022; and in December 2022 when the policy expired, it directly contributed to the 'year-end increase' in sales volume." At the same time, Chen Shihua also pointed out that local policies to stimulate automobile consumption, such as the issuance of vehicle purchase coupons and other measures, also played a very important role in the end consumption of passenger vehicles.

In 2022, automobile production and sales increased while maintaining stability, and major economic indicators continued to improve, showing strong development resilience and playing an important role in stabilising industrial economic growth. From the perspective of annual development, according to the data released by CAAM, automobile production and sales in 2022 reached 27.021 million units and 26.864 million units, respectively, representing a year-on-year increase of 3.4% and 2.1%, respectively, and the growth trend of last year continued. Among which, passenger vehicles achieved rapid growth driven by certain policies for stabilising growth and promoting consumption, contributing significantly to the slight increase of the year. The production and sales volume of passenger vehicles was 23.836 million units and 23.563 million units, respectively, representing a year-on-year increase of 11.2% and 9.5%, respectively.

According to the statistics of the Ministry of Public Security of China, China's motor vehicle ownership volume reached 417 million units in 2022, of which the automobile ownership volume was 319 million units, accounting for 76.59% of the total number of motor vehicles, and representing an increase of 17.52 million units or 5.81% as compared with that of 2021. There were 84 cities with an automobile ownership volume of more than 1 million units in China, representing a year-on-year increase of 5 cities. 39 cities each had an automobile ownership volume of more than 2 million units, and 21 cities each had more than 3 million units. Among which, Beijing, Chengdu, Chongqing and Shanghai each had more than 5 million units, Suzhou, Zhengzhou, Xi'an and Wuhan each had more than 4 million units, and 13 cities including Shenzhen, Dongguan, Tianjin, Hangzhou, Qingdao, Guangzhou, Foshan, Ningbo, Shijiazhuang, Linyi, Changsha, Jinan and Nanjing each had more than 3 million units.

Fuel Vehicle Consumption Was Upgraded, and New Energy Vehicles Continued to Grow Explosively

In 2022, the passenger vehicle market showed very obvious characteristics of consumption upgrading and structural adjustment. Data show that in terms of traditional fuel passenger vehicles, consumption structure presents a development trend of consumption upgrading. Sales volume of passenger vehicles priced at RMB200,000 – RMB250,000, RMB300,000 – RMB350,000 and more than RMB500,000 all achieved positive growth year on year, among which sales volume of passenger vehicles priced at more than RMB500,000 achieved the biggest growth.

Mainland China is the most important passenger vehicle market in the world. In order to adapt to the market development trend, in addition to consolidating their advantages in high-end market, luxury brand automobile manufacturers also entered the field of electrification by launching a variety of products in 2022, obviously accelerating the progress of comprehensive electrification in an active manner.

According to the official sales data released by Porsche, the Porsche brand delivered 309,884 vehicles to customers worldwide in 2022, representing an increase of 3% as compared with 2021. Of which, Porsche delivered 93,286 new vehicles in the Chinese market, which still maintained its position as the largest single sales market in the world. As at the end of 2022, Porsche has introduced a total of 21 battery electric and plug-in hybrid models in the Chinese market, launched Porsche's "Premium Charging" service at 122 Porsche Centres in 29 cities in China, and established 117 premium charging stations in 20 cities. In addition, 43 "destination charging stations" have been set up in 23 cities.

According to the data released by the BMW Group, in 2022, the BMW Group delivered 791,985 BMW and MINI vehicles in the Chinese market. Battery electric vehicles provided an important support for BMW to achieve good sales performance in China. In 2022, the BMW Group launched five battery electric models in the Chinese market, namely the innovative BMW i7, the brand new BMW i3, BMW i4, BMW iX and BMW iX3. The annual sales volume of battery electric vehicles was 41,886 units, representing a year-on-year increase of 91.6%. In 2023, BMW will go all out to promote electrification, and will introduce 11 battery electric models to Chinese consumers to prepare for the arrival of "new generation" models in 2025.

In 2022, Mercedes-Benz also realised good sales results in the Chinese market by delivering a total of 751,714 new vehicles throughout the year, of which the annual delivery of Mercedes-Benz's new energy vehicle portfolio (including battery electric models and plug-in hybrid models) increased by 143% year on year; Mercedes-Benz S-Class, a luxury flagship model, achieved double-digit growth in its annual delivery; and core luxury models continued to capture strong market demand, with GLC SUV achieving nearly double-digit growth in its annual delivery. In order to meet the ever-upgrading diversified needs of Chinese customers for luxury travel modes, Mercedes-Benz will continue to implement the strategy of "parallel operation of both fuel and electric models" in 2023 by launching 16 new products, including the brand new battery electric SUV of EQS, the brand new battery electric SUV of EQE, the brand new long-wheelbase GLC SUV, and the brand new long-wheelbase E-Class vehicles.

According to the official data released by Audi, Audi delivered a total of 1.61 million vehicles worldwide in 2022, representing a year-on-year decrease of 3.9% from that of 2021; among which the global delivery of Audi's battery electric vehicles was 118,000 units, representing a year-on-year increase of 44%, and the Audi Sport division delivered more than 45,000 performance cars, representing a year-on-year increase of 15.6%. Audi delivered 643,000 vehicles in the Chinese market in 2022, representing a year-on-year decrease of 8.4%. In the face of the severe and complex market environment in 2022 and focusing on the wave of industrial change, FAW Audi insisted on promoting electric transformation, continuously improving the experience in car purchase, energy replenishment, after-sales and other aspects, expanding the number of authorised dealers of new energy vehicles to 129, and working with partners to establish more than 8,000 charging terminals.

According to the official sales data released by Cadillac, Cadillac's annual sales volume was 185,300 vehicles in 2022, representing a year-on-year decrease of 20.5%. For new energy models, the cumulative sales volume of Cadillac LYRIQ since its delivery started in 2022 has reached 2,538 units. Cadillac officials said that the delivery of LYRIQ would be accelerated in a high-quality manner with the gradual stabilisation of production capacity.

Lexus has announced its sales volume for 2022 in China, showing that the annual sales volume was 183,900 units, down by 18.6% year on year. Lexus will further expand its electrified product portfolio, and plans to launch more than 10 electrified models worldwide by 2025. It is expected that Lexus will launch electrified versions for all vehicle models by 2025, and the proportion of sales volume of its electrified models will exceed that of its traditional gasoline-powered models.

According to the data from CAAM, the production and sales volume of new energy vehicles in 2022 reached 7.058 million units and 6.887 million units, respectively, representing a year-on-year increase of 96.9% and 93.4%, respectively, and the market share reached 25.6%, 12.1 percentage points higher than that of 2021. China's new energy vehicle sector has developed rapidly in the past two years, ranking first in the world for eight consecutive years. As at the end of 2022, the new energy vehicle ownership volume in China reached 13.10 million units, accounting for 4.10% of the total volume of automobiles, and representing an increase of 5.26 million units or 67.13% over 2021 after deducting scrapped and deregistered vehicles. Among which, the battery electric vehicle ownership volume was 10.45 million units, accounting for 79.78% of the total number of new energy vehicles. In 2022, 5.35 million new energy vehicles were newly registered nationwide, accounting for 23.05% of the total number of newly registered automobiles, and representing an increase of 2.40 million units or 81.48% as compared with the previous year. The number of newly registered new energy vehicles has increased rapidly from 1.07 million units in 2018 to 5.35 million units in 2022.

Continuously Increasing Automobile Transfer and Registration Supported an Active Used Car Trading Market

In 2022, the development environment of the used car industry was extremely complex, but favorable policies for used cars were frequently introduced. The State Council has clearly put forward policies and measures to get rid of the obstacles in used car circulation through issuing notices and holding executive meetings of the State Council. Seventeen departments, including the Ministry of Commerce, also issued the "Notice on Several Measures for Activating Automobile Circulation and Expanding Automobile Consumption", further clarifying the policies on used car circulation in three aspects. First, unreasonable restrictions on used car dealership have been removed, the business scope of enterprises engaged in new automobile sales and used car sales shall be uniformly registered as "automobile sales", and enterprises have been allowed to reverse invoicing and implement separate endorsement management since 1 October 2022; second, used cars purchased for sales should be accounted for as "inventories"; third, restrictions on transfer and registration of used cars that meet the National Fifth Stage Vehicle Emission Standards have been abolished nationwide since 1 August 2022, and since 1 January 2023, a natural person has been restricted from selling 3 or more used cars held for less than 1 year in a calendar year. Luo Lei, deputy secretary-general of the China Automobile Dealers Association, publicly stated that a brand new model in respect of structure and trading method would be applied in the used car market, used car enterprises and automobile dealership groups adopting the new model would gradually replace those using traditional individual and brokerage model, and the used car trading method would also change from mainly private transaction to corporate operation.

In 2022, the Ministry of Public Security, together with the Ministry of Commerce and other departments, introduced a series of new reform measures to facilitate the registration of used car transactions by fully implementing "separate endorsement, review and issuance of temporary licenses" for used car dealership, and directly handling transaction registration in different regions. According to the statistics of the China Automobile Dealers Association, a total of 16.028 million used cars were traded nationwide in 2022, representing a year-on-year decrease of 8.86%, and the total transaction amount was RMB1,059.59 billion. As at the end of 2022, public security and traffic control departments in China have handled a total of 30.27 million cases of motor vehicle transfer and registration, among which 28.69 million cases were automobile transfer and registration, accounting for 94.80% of all the cases. 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 0.77 to 1.24, indicating that the number of new car registration was surpassed.

II. BUSINESS REVIEW

In 2022, under certain complex circumstances such as frequent outbreaks of COVID-19 pandemic in China, large-scale outbreaks in some areas, several months of lockdown and control management, as well as the impact of supply chain difficulties, the Group actively adjusted its operation strategy, maintained good liquidity, paid attention to the market and customers, and enhanced operational capabilities while reducing costs and improving efficiency, thereby effectively taking the impact of the pandemic under control within a reasonable range. In 2022, the Group achieved operating income and operating gross profit of RMB10,923.7 million and RMB715.7 million, respectively.

As at 31 December 2022, the Group had a total of 43 sale points in operation.

	Northwestern China	Jiangsu	Other regions	Total
Number of sale points	30	7	6	43
Of which: Number of sale points for luxury brands	21	4	6	31
Number of authorised sale points pending operation	5	0	1	6

The Operational Capacity of New Automobile Sales Business Remained Stable, and New Energy Vehicle Business Continued to Improve

Although the chip shortage in 2022 has eased a lot as compared with last year, the impact of tight supply still existed due to the influence of frequent outbreaks of COVID-19 pandemic across China. In 2022, the Group implemented the national policy of halving the passenger vehicle purchase tax and local subsidy policies, and adopted a series of management measures to minimise the negative impact of tight supply and market fluctuations on sales volume. Thanks to the advantages of brand structure and the joint efforts of all colleagues, the Group's sales volume of new vehicles was 31,949 units, representing a year-on-year decrease of 0.8%.

At present, all sales points of the Group are selling new energy vehicles of their distributed brands. After the Group has identified the sales of new energy vehicles as its important strategic direction, through the establishment of a special sales team for new energy vehicles, high-frequency sharing and training on new energy vehicles, etc., the Group's sales volume of new energy vehicles in 2022 increased by 40.0% year on year, accounting for 5.0% of the total sales volume of new vehicles, an increase of 1.5 percentage points year on year. As major automobile manufacturers adopt zero emissions, carbon neutrality and electrification as their future development direction, the Group will grasp the transitional stage of industrial upgrading to cooperate with major partners to implement the timetable for full electrification, and also provide new energy vehicle products and services to our customer groups.

The Group continued to work intensively in the field of sales, adjusted the sales schedule according to supply and demand, and adopted prior order execution strategy to ensure sound inventory turnover. The Group also directed, followed up and inspected the operation of each brand store through process management. Currently, the Group's order coverage rate is at a good level in the industry, and the inventory ratio falls within a reasonable range, which has improved the gross profit margin of new vehicles. At the same time, through intensive cultivation of customer portraits, the Group carried out targeted invitations, and the second time invitation rate increased steadily, which expanded transaction opportunities; strengthened circle marketing through customer referral from existing customer base, customer retention rate and referrals significantly increased accordingly, which further enlarged customer base and improved sales volume, and continuously enhanced the recognition of existing customers to Sunfonda; and focused on online marketing, such as live streaming on Douyin and platform operation on Xiaohongshu.

The After-sales Service Business Turned "Crisis" into "Opportunity" and Built the Service Brand Image of Sunfonda

In 2022, the complex situation of COVID-19 pandemic infection and the changeable prevention and control policies in various places have seriously affected the mobility of passenger vehicles, thus severely reducing the volume of passenger vehicle maintenance business. The Group's revenue from after-sales services in 2022 was RMB1,141.4 million, down by 8.6% from RMB1,248.6 million during the same period in 2021, and the gross profit of after-sales services reached RMB478.7 million, down by 11.3% from RMB539.5 million during the same period in 2021.

Affected by the pandemic control, convenience has become an important demand of customers in terms of service pattern. The Group vigorously carried out backup car services and door-to-door pick-up and delivery services to meet customer needs, and strove to build a new service brand of Sunfonda by relying on the brands operated by stores. In terms of service quality, the Group's after-sales services strengthened prior technical diagnosis and highlighted the leading technical advantages of 4S stores. Through strengthening fast repair and fast warranty services, the Group improved its after-sales service efficiency and customer experience, which won customer recognition while increasing the output value of single vehicle, thereby continuously improved the profitability of after-sales services.

Fundamental customers are the cornerstone of the business operations of stores. The Group organised and established a customer management center to explore customer contact opportunities through multiple channels, strengthened customer maintenance to accurately attract customers, and created good 4S stores atmosphere to provide "warmer" store services. In addition, a digital platform was introduced to strengthen customer retention and solicitation, thereby improving the efficiency of solicitation. Through the joint efforts of the Group's employees, the number of active fundamental customers of the Group increased by 7.7% as compared with the same period last year. Consistently improving customer retention will retain a large customer base and lay a foundation for the future growth of after-sales business.

The Group paid close attention to the integration of terminal business with the Internet to adjust its business operation model in a timely manner by conducting online booking service, selling attractive products online, and strengthening online insurance renewal.

In terms of decoration business, aiming at meeting the personalised needs of customers, the Group continued to meet the personalised needs of customers by continuously introducing intelligent products, focused on improving the penetration rate of upgraded products, and fully exploited the business space of decoration. In addition, the Group reinforced the marketing promotion of decoration to demonstrate the diversified service concept of the enterprise. 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, in line with 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.

The Scale of the Used Car Business Increased Significantly, Becoming the Core Growth Driver in the Future

Since 2021, the Group has regarded the used car business as a new engine for performance growth and continuously strengthened the strategic significance of the used car business. In 2022, the Group further improved the construction of the professional teams for the used car business and optimised the assessment and remuneration system. Through the implementation of the digital benchmarking system, focusing on resource allocation, and making full use of the advantages of the Group's network distribution, the Group realised the optimisation of used car resources nationwide, and the proportion of the existing products and the retail sales of the existing products increased significantly. At the same time, the Group continued to expand the brand influence of Sunfonda certified used cars.

In 2022, the Group opened several auction platforms and intranet auction business, which significantly increased the inventory turnover rate of used cars. The Group optimised used car resources by using intranet auctions, increased the proportion of retail sales of existing products, and drove the growth of extended business such as transfer, finance, insurance, insurance renewal, and decoration. In order to further improve customer needs, the Group expanded its consignment business, and at the same time promoted the development of consigned vehicle refurbishment business, creating a diversified used car business including replacement, acquisition, used car sales, consignment, and refurbishment. Although the industry was greatly impacted by the pandemic and other macro factors in 2022, through the diversified expansion of the used car business, the improvement of professional teams and the optimisation of various operation systems, the Group's used car evaluation rate increased by 7 percentage points as compared with 2021, and the replacement rate increased by 2 percentage points.

In 2023, in the face of new opportunities and challenges, the Group will take advantage of customer retention to maintain loyal customers and provide customers with one-stop services for buying and selling vehicles. The core objective of the used car business is to promote the sale of new vehicles and the retail of existing products, realise the value chain circulation of customers' vehicles during the lifetime cycle, and become a new profit growth point of the Group.

Automobile Financing and Insurance Agency Businesses

In 2022, the Group further optimised its financial services, and the penetration rate of its financial business increased by 2 percentage points year on year. Customers were provided with diversified purchase options and more flexible payment methods, to promote the growth of new automobile sales business, and further acquire income from the whole value chain brought by financial business during the customer lifetime cycle. In 2022, commission income from the Group's automobile financing agency business increased by 45% year on year.

During the frequent outbreaks of COVID-19 pandemic, the Group adjusted its business operation model in a timely manner by conducting online renewal for the insurance renewal business in response to the development of the situation. As a result, the number of renewed policies increased by 23.4% year on year, and the amount of premium increased by 24.2% year on year. The continued increase of total premium also ensured the stable growth of the after-sales sheet metal spray business.

Achieved "Best Customer Experience" and Continuously Improved Profit Margin in Adherence to Customer-Centric Principle

The customer management center is an important bridge for the Group to connect with customers. In light of the changes of the current market environment, the Group has been oriented by the understanding of customer needs and transformed its philosophy to being customer-centric in order to achieve "best customer experience". In 2022, the Group completed the transformation of organisational structure, the development of digital platforms, and the integration and upgrading of relevant resources of business departments. Concentrating on the three key aspects of personnel, process and system, through the four functions of customer data management, satisfaction management, customer care, and clue invitation management, the Group improved the customer lifetime cycle management in terms of reminder, invitation and care by combining online and offline methods, and maintained good customer relationships.

The Membership Center of the Group can make timely and effective communication with customers through telephone and network media, actively provide customers with the service experience before, during and after vehicle purchase, meet the timeliness requirements of customer follow-up and return visits, and improve the establishment, update, screening and application of databases. During the process of vehicle maintenance and use, the Group can maintain customer relationships through remote contact points on the digital platform, and timely and accurately obtain customer information, vehicle information and communication records. The Group can exploit potential opportunities in multi-dimensional processes, and contact customers through multiple channels, to understand customer needs, improve customer conversion, and increase customer stickiness and profit margins.

Steadily Promoted the Network Expansion in Key Regions, and Enhanced the Network Layout of Luxury Brands and New Energy Brands in Superior Regions

The Group continued to focus on core brands and key regions, while paying attention to the rapid development and changes of the new energy vehicle market, continuously strengthening the network layout of dominant luxury brands and new energy brands with good growth space, constantly increasing the number of sale points for the Group's key luxury brands, proactively developing new energy brands with competitive advantages, capturing the dividends generated from the development and changes of the automobile market in the post-pandemic era, continually cooperating with major popular brand automobile suppliers in China, and actively promoting brand network expansion in regions with competitive advantages. The Group actively followed the direction and development of the automobile market, and adapted to the changes in automobile consumption demand in the Chinese market by constantly optimising the Group's brand portfolio structure, so as to maintain the good profitability of the Group's brands.

Since 2022, in line with the new normal in the market under the impact of the pandemic, the Group actively and steadily promoted the brand network development plan, and pushed forward the construction of newly authorised stores such as Yinchuan BMW store and Xi'an Porsche store, of which the Yinchuan BMW store has successfully opened for business, thereby further consolidating the Group's leading position among luxury brand dealers in Northwestern China. In 2022, the Group obtained the authorisation of Lanzhou GAC Toyota store and Xi'an BMW store, and also made breakthroughs in the field of new energy vehicles by respectively obtaining the authorisation of two automobile brands' sale points including Beijing XPeng and Weinan AITO, by which the Group will establish XPeng's brand experience center, and delivery & after-sales service center in Beijing to improve the Group's brand structure in the Beijing market. The cooperation with such two emerging new energy vehicle manufacturers with strong market competitiveness will enhance the influence of the Group's new energy brands.

As at 31 December 2022, the Group had a total of 43 sale points in operation.

III. FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2022 was RMB10,923.7 million, representing a decrease of RMB715.5 million or 6.1% as compared to that for the corresponding period in 2021. Among which, revenue from the sales of new automobiles was RMB9,418.0 million, representing a decrease of RMB605.5 million or 6.0% as compared to that for the corresponding period in 2021; revenue from after-sales service business was RMB1,141.4 million, representing a decrease of RMB107.2 million or 8.6% as compared to that for the corresponding period in 2021; and revenue from the sales of used cars was RMB364.3 million, representing a decrease of RMB2.8 million or 0.8% as compared to that for the corresponding period in 2021.

A substantial portion of the revenue of the Group was generated from sales of new vehicles, accounting for 86.2% of its revenue for the year ended 31 December 2022 (2021: 86.1%). In addition, revenue generated from after-sales service business accounted for 10.5% of the revenue for the year ended 31 December 2022 (2021: 10.7%), and revenue from the sales of used cars accounted for 3.3% of the revenue for the year ended 31 December 2022 (2021: 3.2%). 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					
	2022			2021		
	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	**7,521,478**	**20,165**	**373.0**	8,594,522	22,825	376.5
Mid-end market brands	**1,896,555**	**11,784**	**160.9**	1,428,954	9,383	152.3
Sub-total/Average	**9,418,033**	**31,949**	**294.8**	10,023,476	32,208	311.2
Sales of used cars	**364,272**	**2,321**	**156.9**	367,100	2,425	151.4
After-sales services	**1,141,373**			1,248,645		
Total	**10,923,678**			11,639,221		

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2022 was RMB10,207.9 million, representing a decrease of RMB438.0 million or 4.1% as compared to that for the corresponding period in 2021. Among which, cost of sales of new automobiles for the year ended 31 December 2022 was RMB9,197.0 million, representing a decrease of RMB389.0 million or 4.1% as compared to that for the corresponding period in 2021. Cost of after-sales service business for the year ended 31 December 2022 was RMB662.7 million, representing a decrease of RMB46.4 million or 6.5% as compared to that for the corresponding period in 2021. Cost of sales of used cars for the year ended 31 December 2022 was RMB348.2 million, representing a decrease of RMB2.6 million or 0.7% as compared to that for the corresponding period in 2021.

Gross Profit

Gross profit for the year ended 31 December 2022 was RMB715.7 million, representing a decrease of RMB277.6 million or 27.9% as compared to that for the corresponding period in 2021. Of which, gross profit of sales of new automobiles was RMB221.0 million, representing a decrease of RMB216.5 million or 49.5% as compared to that for the corresponding period in 2021. Gross profit of after-sales service business was RMB478.7 million, representing a decrease of RMB60.8 million or 11.3% as compared to that for the corresponding period in 2021. For the year ended 31 December 2022, gross profit of after-sales services accounted for 66.9% of the total gross profit (2021: 54.3%). Gross profit of used car business was RMB16.0 million, representing a decrease of RMB0.2 million or 1.3% as compared to that for the corresponding period in 2021.

Gross profit margin for the year ended 31 December 2022 was 6.6% (2021: 8.5%).

Other Income and Gains, Net

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

Other income and gains, net for the year ended 31 December 2022 amounted to RMB281.2 million, representing a decrease of 21.9% as compared with RMB360.1 million for the year ended 31 December 2021. The decrease was mainly due to the one-off investment gains of approximately RMB145.2 million recorded for the corresponding period in 2021 arising from the proceeds from disposal of the equity investment in a company which was not engaged in main business. Excluding the influence of the above factor, other income and gains, net increased year on year during the Period, mainly due to the increase in commission income from automobile financing agency business as compared to the corresponding period in 2021.

Selling and Distribution Expenses

Selling and distribution expenses for the year ended 31 December 2022 amounted to RMB507.5 million, representing a decrease of RMB14.4 million or 2.8% as compared with RMB521.9 million for the year ended 31 December 2021. The decrease was mainly attributable to the decrease in payroll of sales staff and advertising and promotion expenses resulting from store closure during the pandemic. As a percentage of revenue, the selling and distribution expenses increased slightly over the corresponding period last year from 4.5% for the year ended 31 December 2021 to 4.6% for the year ended 31 December 2022, up by 0.1 percentage point.

Administrative Expenses

Administrative expenses for the year ended 31 December 2022 amounted to RMB252.7 million, representing a decrease of RMB18.8 million or 6.9% as compared with RMB271.5 million for the year ended 31 December 2021. The decrease was mainly attributable to the decrease in compensation of non-sales personnel. As a percentage of revenue, the administrative expenses remained unchanged as compared with the corresponding period last year, both at 2.3% for the year ended 31 December 2022 and the year ended 31 December 2021.

Finance Costs

Finance costs for the year ended 31 December 2022 amounted to RMB107.4 million, representing an increase of 14.6% as compared with RMB93.7 million for the year ended 31 December 2021. The increase was mainly due to the increase in the scale of inventory financing.

Profit Before Tax

As a result of the foregoing, profit before tax for the year ended 31 December 2022 amounted to RMB129.4 million, representing a decrease of RMB336.9 million or 72.2% as compared with RMB466.3 million for the year ended 31 December 2021.

Income Tax Expense

Income tax expense for the year ended 31 December 2022 amounted to RMB48.1 million, representing a decrease of RMB72.4 million or 60.1% as compared with RMB120.5 million for the year ended 31 December 2021. The effective income tax rate of the Group for the year ended 31 December 2022 was approximately 37.2% (2021: 25.8%).

Profit for the Year

As a result of the foregoing, profit for the year ended 31 December 2022 amounted to RMB81.3 million, representing a decrease of RMB264.6 million or 76.5% as compared with RMB345.9 million for the year ended 31 December 2021.

Profit for the Year Attributable to Owners of the Parent

For the year ended 31 December 2022, profit for the year attributable to owners of the parent amounted to RMB81.3 million, representing a decrease of RMB264.6 million or 76.5% as compared with RMB345.9 million for the year ended 31 December 2021.

IV. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

For the year ended 31 December 2022, the Group's net cash inflow generated from operating activities was RMB113.3 million, as compared with RMB136.0 million of its net cash inflow generated from operating activities for the year ended 31 December 2021. The net cash inflow of operating activities slightly decreased year on year.

For the year ended 31 December 2022, the Group's net cash outflow of investing activities was RMB307.5 million, as compared with RMB216.5 million of its net cash outflow of investing activities for the year ended 31 December 2021. The increase in net cash outflow of investing activities was mainly attributable to the increase in construction expenditure with the project progress.

For the year ended 31 December 2022, the Group's net cash outflow of financing activities was RMB37.0 million, as compared with RMB271.3 million of its net cash inflow of financing activities for the year ended 31 December 2021. The increase in net cash outflow of financing activities was mainly attributable to the increase in net cash outflows for repayment of bank loans and other borrowings for the Period.

Net Current Assets

As at 31 December 2022, the Group's net current assets amounted to RMB376.8 million, as compared to its net current assets of RMB1,001.4 million as at 31 December 2021.

Inventories

The Group's inventories primarily consist of new automobiles, used cars, spare parts and decoration accessories. As at 31 December 2022, the Group's inventories amounted to RMB1,346.9 million, representing an increase of 27.7% as compared with RMB1,054.4 million as at 31 December 2021, mainly attributable to the increase in inventory due to the impact of the pandemic, the increase in inventory of newly opened stores and the active stocking up of some best-selling vehicle models at the end of the year.

In 2022, 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 43.0 days, representing an increase as compared with 33.7 days in 2021, mainly attributable to the monthly or consecutive months of business closure due to the pandemic for the Period, affecting the normal sales and operation schedule.

Bank Loans and Other Borrowings

As at 31 December 2022, the Group's bank loans and other borrowings were RMB2,481.1 million, representing an increase of 7.5% as compared with RMB2,307.0 million as at 31 December 2021.

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

	As at 31 December			
	2022		2021	
	Effective interest rate (%)	**Amount RMB'000**	Effective interest rate (%)	Amount RMB'000
CURRENT				
Bank loans	**3.2-5.9**	**1,667,657**	3.6-5.8	1,152,576
Other borrowings	**1.8-8.5**	**452,020**	1.7-8.6	393,669
Sub-total		**2,119,677**		1,546,245
NON-CURRENT				
Bank loans	**3.5-5.9**	**361,456**	3.5-5.9	760,774
Sub-total		**361,456**		760,774
Total		**2,481,133**		2,307,019
Among which:				
Secured loans		**1,882,047**		1,798,885
Unsecured loans		**599,086**		508,134
Total		**2,481,133**		2,307,019

As at 31 December 2022, the Group's gearing ratio, which is net debt divided by total equity plus net debt, was 47.2% (2021: 44.8%). 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 2022, 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 2022 consisted of: (i) inventories amounting to RMB644.6 million; (ii) property, plant and equipment amounting to RMB356.7 million; (iii) land use rights amounting to RMB254.1 million; (iv) construction in progress amounting to RMB346.9 million; and (v) pledged bank deposits amounting to US$3.3 million (equivalent to RMB22.8 million) and RMB119.9 million.

As at 31 December 2022, certain of the Group's inventories amounting to RMB169.3 million and pledged bank deposits amounting to RMB240.2 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 2022, the Group's total capital expenditures were RMB509.4 million, representing an increase of RMB41.7 million as compared with RMB467.7 million for the year ended 31 December 2021.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the Period, there was no material acquisition or disposal of subsidiaries, associates and joint ventures.

Contingent Liabilities

As at 31 December 2022, the Group did not have any material contingent liabilities or guarantees.

Staff Cost and Employee Remuneration Policy

As at 31 December 2022, the Group had 3,555 employees (as at 31 December 2021: 3,553 employees). Staff cost of the Group decreased by 10.3% from RMB393.5 million for the year ended 31 December 2021 to RMB353.1 million for the year ended 31 December 2022, mainly attributable to the decrease in staff payroll resulting from store closure during the pandemic. The Group pays regular remuneration to employees based on their job responsibilities, work contribution, achievement of key performance indicators, etc. The Group also pays attention to the external balance of remuneration and provides competitive remuneration packages to outstanding employees through regular job evaluations, including competitive fixed salary and performance bonus. The Group adheres to the combination of external introduction and internal training to enrich the construction of talent team; regularly carries out work evaluation and review of performance appraisal results of reserve talents; and emphasises the succession and regeneration of reserve talents, to accumulate strength for and empower the sustainable development of the Group.

V. 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.

VI. FUTURE STRATEGY AND PROSPECTS

Forecast of China's Economic Trend in 2023

2023 will be the first year for China to fully implement the spirit of the 20th National Congress of the Communist Party of China, and also a critical year that links past achievements with future development for the implementation of the "14th Five-Year Plan", in which macro policies need to constantly maintain sufficient counter-cyclical adjustment. As the pandemic prevention and control has entered a new stage, and various policies have been continuously implemented in detail, the order of production and life is expected to be restored at a faster pace, the endogenous driving force of economic growth will be constantly accumulated and strengthened, and China's economy will improve overall in 2023. Subject to the various effective measures and the recovery of consumer expectations, it is predicted that China's GDP will grow by around 6.0% in 2023 as indicated in the "China Economic Forecast and Outlook for 2023" organised by the Center for Forecasting Science, Chinese Academy of Sciences.

Overall, China's economy will show a trend of high growth following a low one, and gradually climbing up in 2023. In the first half of 2023, the economic recovery will be slow during a transition period for the optimisation of pandemic prevention and control policies, and a period of time for macro policies to take effect after being eased. In the second half of 2023, China's economy will see a more obvious upward trend. China's economy will once again become the most important engine for global economic growth in 2023, while the global economy will experience a situation of "rising in the east and falling in the west" in 2023.

Xi'an, China Will Embrace High-Quality Development

Xi'an is the capital of Shaanxi Province, where the Group's main business is located, and is also the location of the Group's headquarters. In the 2023 Report on the Work of Shaanxi Provincial Government, it was officially announced that Xi'an was approved to build a comprehensive science center and a science and technology innovation center, thus becoming the fourth area approved to build a "dual centers" following Beijing, Shanghai and the Guangdong-Hong Kong-Macao Greater Bay Area, marking a new stage of high-quality development in Xi'an's scientific and technological innovation.

Meanwhile, Xi'an pointed out at the press conference for "implementing the spirit of the 20th National Congress of the Communist Party of China and fully promoting the high-quality development of Xi'an" that Xi'an is in an accelerating stage of high-quality development, and in 2023, Xi'an will adhere to the goal of building a national central city, and focus on the key tasks in eight areas, to fully promote the work in seven aspects of "focusing on improving the comprehensive energy level of the city, gathering strengths to improve the level of industrial chain and supply chain, forcefully promoting project expansion and investment, fully activating the consumer market, vigorously pushing forward innovation and development, energetically promoting reform and opening up, and striving to improve the people's well-being".

Forecast of China's Passenger Vehicle Market in 2023

According to CAAM, in 2023, China will continue to adhere to the general principle of seeking progress while maintaining stability, vigorously boost market confidence, implement the strategy of expanding domestic demand, and actively promote the overall improvement of economic performance, so as to achieve effective improvement in quality and reasonable growth in quantity. The implementation of relevant supporting policies and measures will further stimulate the vitality of market players and consumers. It is expected that the automobile market will continue to improve while maintaining stability in 2023, and will achieve a growth of about 3%.

Currently, China's automobile industry has entered the era of new automobile 2.0, with the improvement of personal income and living standards of Chinese residents, the trend of consumption upgrading is becoming more and more obvious, and the proportion of spending on medium and high-end products in consumption expenditures is increasing. Reflected in the automobile field, the market share of luxury car brands has significantly expanded. With the introduction of stimulus policies for automobile consumption and the effective control of the domestic pandemic, in 2023, the luxury car market will gradually recover, continually heat up, and return to a sales level similar to last year.

In addition, according to the forecast of the China Passenger Cars Association, the penetration rate of new energy vehicles will continue to increase rapidly in the future, the sales volume of new energy passenger vehicles is expected to reach 8.5 million units in 2023, and the total sales volume of traditional passenger vehicles will be 23.5 million units. Accordingly, the penetration rate of new energy vehicles will reach 36% in 2023.

"2023 will be the first year to fully implement the new policy on used car, by which the structure of operating entities of used car business will be adjusted through transforming mainly transactions between individuals in the past into mainly corporate operation, and large-scale and standardised operation will be encouraged, which will be beneficial to the healthy development of China's used car market." Luo Lei, deputy secretary-general of the China Automobile Dealers Association, believes that compared with the short-term stimulus policy, this will not have an immediate effect, but the policy effect will last longer. With the weakening and disappearance of the negative factors affecting used car transactions, as well as the combined effect of various favorable factors, the used car market will grow rapidly this year. Luo Lei said: In 2023, the used car market will not grow by only 10%, and the annual transaction volume will be likely to reach 20 million units.

To Promote the Construction of the "FUN TIME LANE" Automobile Fashion Street Zone Project

The Group has innovatively created the "FUN TIME LANE" automobile fashion street zone project which integrates automobile sales with multiple business patterns such as catering, leisure and entertainment, aiming to create a more abundant, green, intelligent, diversified and integrated car purchase, shopping and fashion living environment for customers. The "FUN TIME LANE" automobile fashion street zone located in Chanba Ecological Zone, Xi'an is planned to complete the final acceptance of construction and investment promotion in 2023. At the same time, the Group is also promoting the construction of BMW and GAC Toyota authorised 4S stores in Lanzhou "FUN TIME LANE".

To Deepen the Layout of Digital Empowerment, and the Conversion of Private Traffic Will Achieve a Breakthrough

As at the end of 2022, the Group's self-developed "Sunfonda Group Membership Center" has accumulated 310,000 registered users. In order to enhance the ability of stores to interact with customers in online marketing, the Group launched its enterprise WeChat project in 2022, which has accommodated nearly 50,000 customers up to now.

2022 was a year for the Group to deploy digital transformation, in which the Group established its digital empowerment center, and launched corresponding software and hardware products for business units. Among which, the "Smart Customer Management System", through program analysis, mainly implements automatic task solicitation and distribution for customers who are in need of vehicle maintenance and may quit, and then stores accept tasks and give feedback, through which nearly 20,000 customers have been attracted back for service in 2022. The "Card and Coupon Marketing System" can accurately match customers' business scenarios such as new car purchase and replacement, maintenance and repair, decoration and beauty, and event experience, etc., and can issue exclusive cards and coupons for customers to offset their payments in stores. The "Clue Management System" implements unified clue management and distribution for the information provided by customers for registration in online new car purchase and replacement channel, used car channel and marketing activity channel, to assist stores to carry out cross-brand operation of their own private traffic.

In 2022, the Group carried out online cooperation with local high-quality service partners through online channels, and in 2023, the Group will continue to discuss with relevant partners on in-depth cooperation models in order to achieve a win-win situation. In 2023, the Group's digital team will continue to be oriented by business realisation, to open up online marketing channels, actively connect with various resources, and take digital transformation as an opportunity to achieve a breakthrough in monetising private traffic.

To Actively Explore Innovative Marketing Models and Create a 360° Comprehensive Ecosystem of Digital Car Life

In recent years, the Group has actively explored innovative marketing models with its focus on conducting crossover marketing activities, so as to provide customers with a full range of consumer experience while enhancing brand favorability, strengthening brand popularity, refreshing brand influence and standing out quickly, and the Group has successfully organised several large-scale PR marketing activities in different industries. In 2023, the Group will continue to gain insight into new marketing trends, carry out more targeted investment and operation, focus on accurately reaching customers in content marketing, proactively explore innovative marketing models, further expand the field of cross-sector PR activities, and cooperate with more excellent enterprises, to realise industrial interconnection and customer sharing. Meanwhile, the Group will actively develop new customer acquisition channels to achieve differentiated marketing.

DIRECTORS

Executive Directors

Mr. Wu Tak Lam (胡德林), aged 61, 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 59, 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 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 (新豐泰(香港)有限公司) since April 1997. Ms. Chiu 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. 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

Ms. Chen Wei (陳瑋), aged 48, 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 23 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.

Mr. Deng Ning (鄧寧), aged 45, was appointed as an executive director of the Company on 9 November 2022. Mr. Deng has over 22 years of experience in automobile brand operation and management and extensive expertise and knowledge. Mr. Deng joined the Group in November 2011 and successively held the following management positions in the subsidiaries of the Company: sales manager of Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) from November 2011 to June 2012; assistant to the general manager of Shaanxi Sunfonda Automobile Co., Ltd. (陝西新豐泰汽車有限責任公司) from July 2012 to March 2015; general manager of Weinan Sunfonda Boao Automobile Sales Service Co., Ltd. (渭南新豐泰博奧汽車銷售服務有限公司) from April 2015 to October 2017; general manager of Weinan Zongshen Baotai Automobile Sales Service Co., Ltd. (渭南宗申寶泰汽車銷售服務有限公司) from November 2017 to September 2019; and general manager of Xi'an Sunfonda Haibao Automobile Sales and Service Co., Ltd. (西安新豐泰海寶汽車銷售服務有限公司) from October 2019 to November 2022. Mr. Deng has been appointed as the vice president of operations of the Group with effect from 18 November 2022 and is primarily responsible for the management of the operations of the Group. Mr. Deng graduated from Xi'an Institute of Technology (西安工業學院) (now known as Xi'an Technological University (西安工業大學)) with a bachelor's degree in Trade and Economics in July 2000.

Independent Non-executive Directors

Mr. Liu Jie (劉傑), aged 60, 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 has served as an independent director of Dare Power Dekor Home Co., Ltd. (大亞聖象家居股份有限公司), a company listed on the Shenzhen Stock Exchange (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 Hangzhou Ecool Information Technology Co., Ltd. (杭州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 (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 were quoted on the National Equities Exchange and Quotations and delisted in July 2019, former 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 (中昌大數據股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600242) from June 2017 to July 2020 ; 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 whose shares are listed on the Shanghai Stock Exchange (stock code 603713) from September 2015 to September 2021; an independent director of Jiangsu Changbao Steeltube Co., Ltd. (江蘇常寶鋼管股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002478) from April 2016 to April 2022; and an independent director of Tatwah Smartech Co., Ltd. (福州達華智能科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002512) from April 2016 to June 2022. 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.

BIOGRAPHIES OF DIRECTORS, SENIOR MANAGEMENT AND COMPANY SECRETARY

Mr. Song Tao (宋濤), aged 45, 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 22 years of experience in the automobile dealership industry, and currently serves as the Assistant President 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 (央視國際網路汽車頻道) 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; and has acted as the Assistant President since 2023. 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 61, 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 29 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 has been an independent non-executive 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, AAG Energy Holdings Limited (亞美能源控股有限公司) (stock code: 2686) since August 2018, and currently Logory Logistics Technology Co., Ltd. (合肥維天運通信息科技股份有限公司) (stock code: 2482), all of the four companies are listed on the Stock Exchange. Dr. Liu served as an independent director of UBS Securities Co., Ltd. from June 2016 to June 2022. 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.

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. Deng Ning (鄧寧) has been appointed as the vice president of operations of the Group with effect from 18 November 2022. He is mainly responsible for the management of the operations of the Group. See "DIRECTORS – Executive Directors" of this section for profile of Mr. Deng Ning.

Mr. Gou Xinfeng (苟新峰), aged 49, has over 24 years of experience in the operation and management of automobile brands. Mr. Gou joined the Group in July 2002, and was successively responsible for the management of several major brands of the Group. Mr. Gou 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 he has been the general manager of Shaanxi Sunfonda Automobile Co., Ltd. since November 2020. Mr. Gou served as the vice president of operations of the Group from August 2017 to November 2020; and served as an executive director of the Company from 9 November 2016 to 8 November 2022. Mr. Gou has been a director of Grand Forever Enterprises Limited since 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 (武漢理工大學)) and obtained a bachelor's degree in automotive applied engineering in July 1998.

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 a 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 17 years of experience in the corporate secretarial field. She 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) and The Chartered Governance Institute (CGI) 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 REPORT

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 and code provisions as set out in Part 2 of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company is aware that the Stock Exchange has made certain amendments to Appendix 14 to the Listing Rules, which have come into effect from 1 January 2022. 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 all the code provisions set out in the CG Code during the period from 1 January 2022 to 31 December 2022 (the "**Reporting Period**"). The major corporate governance principles and practices of the Company are summarised as below.

Corporate Governance Culture

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. In achieving its long-term goals, the Company must act in a clean, transparent and accountable manner. The Company believes that this will benefit shareholders, its employees and those who do business with the Company in the long run.

Corporate governance is the process by which the Board directs the management of the Group to conduct business to ensure that its objectives are achieved. The Board is committed to maintaining and developing sound corporate governance practices to ensure:

– Delivery of satisfactory and sustainable returns to shareholders;

– Understanding and management of overall business risks in a proper manner; and

– Maintenance of high ethical standards.

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.

Pursuant to code provision B.1.4 of the CG Code, the Board has established mechanism(s) to ensure independent views and input are available to the Board, in particular, (i) independent non-executive directors are encouraged to actively participate in the Board meetings; (ii) the number of independent non-executive directors must comply with the requirement under the Listing Rules; and (iii) the independent non-executive directors shall devote sufficient time to discharge their duties as a director. Furthermore, the Board may access external independent professional advice to assist their performance of duties at the expense of the Company. The Board will review the implementation and effectiveness of such mechanism(s) on an annual basis.

During the Reporting Period, all directors has completed the independence evaluation in the form of a questionnaire individually. The Board Independence Evaluation Report was presented to the Board and the evaluation results were satisfactory.

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 duties set out in code provision A.2 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 Board composition of the Company during the Reporting Period and up to the date of this report 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)*
Ms. Chen Wei
Mr. Deng Ning *(appointed on 9 November 2022)*
Mr. Gou Xinfeng *(resigned on 9 November 2022)*

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 33 to 36 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 MEETINGS

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 2021, reviewed and approved the unaudited interim results of the Group for the six months ended 30 June 2022, discussed/approved the reporting and proposals of all Board committees, considered whether the continuing connected transactions for the year 2022 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 2021, 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 Director	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 (Note 1)	3/3	100
Ms. Chen Wei	4/4	100
Mr. Deng Ning (Note 2)	1/1	100
Independent Non-executive Directors:		
Mr. Liu Jie	3/4	75
Mr. Song Tao	4/4	100
Dr. Liu Xiaofeng	4/4	100

Notes:

1. Mr. Gou Xinfeng resigned as an executive director with effect from 9 November 2022. Prior to his resignation, the Company held 3 Board meetings during the Reporting Period.

2. Mr. Deng Ning was appointed as an executive director with effect from 9 November 2022. Following his appointment, the Company held 1 Board meeting during the Reporting Period.

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, Ms. Chen Wei, Mr. Deng Ning and Mr. Liu Jie shall retire at the 2023 annual general meeting of the Company (the "**2023 AGM**"). All of the above three directors are eligible for re-election at the 2023 AGM, and have indicated that they will offer themselves for re-election at the 2023 AGM. The Board and the Nomination Committee recommended the re-appointment of the said three retiring directors standing for re-election at the 2023 AGM. The Company's circular, to be despatched together with this annual report, contains detailed information of these three 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. Liu Jie has been an independent non-executive director for 9 years. As an independent non-executive director with in-depth understanding of the Company's operations and business, Mr. Liu Jie has expressed objective views and given independent guidance to the Company over the years, and he continues demonstrating a firm commitment to their role. The Board considers that the long service of Mr. Liu Jie would not affect his exercise of independent judgement and is satisfied that Mr. Liu Jie has the required character, integrity and experience to continue fulfilling the role of independent non-executive director. The Board also considers that the re-election of Mr. Liu Jie as a director is in the interest of the Company and its shareholders as a whole.

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, Ms. Chen Wei, Mr. Deng Ning, Mr. Liu Jie, Mr. Song Tao, Dr. Liu Xiaofeng and Mr. Gou Xinfeng) 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, Ms. Chen Wei, Mr. Deng Ning, Mr. Liu Jie, Mr. Song Tao, Dr. Liu Xiaofeng and Mr. Gou Xinfeng) 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 2022. 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 consider diversity to be achieved for a single gender board. As at the date of this report, the Board 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.

An analysis of the Board's current composition based on the measurable objectives is set out below:

Gender
Male: 5 directors
Female: 2 directors

Designation
Executive directors: 4 directors
Independent non-executive directors: 3 directors

Age Group
41-50: 3 directors
51-60: 2 directors
61-70: 2 directors

Educational Background
Economics: 2 directors
Account and Finance: 2 directors
Engineering: 3 directors

Business Experience
Accounting & Finance: 2 directors
Experience related to the Company's business: 5 directors

Pursuant to Rule 13.92 of the Listing Rules, the nomination committee (or the board of directors) is required to have a policy on the diversity of board members in place and disclose such diversity policy or a summary of the policy in the corporate governance report. Board diversity varies from different issuers. Although the diversity of the board of directors may be measured based on many factors (including but not limited to gender, age, cultural and educational background or professional experience), the Stock Exchange will not consider diversity to be achieved for a single gender board.

Gender Diversity

Paragraph J(c) of the mandatory disclosure requirements of the CG Code requires to disclose and explain the gender ratio of all employees (including senior management), any plans or measurable objectives set by the issuer to achieve gender diversity, and any factors and circumstances that would make achieving gender diversity across the workforce (including senior management) more challenging or less relevant.

Currently, the Board has 2 female directors, accounting for 28.57% of all the directors of the Company, 1 female senior management member (i.e. Ms. Chen Wei, who is also an executive director of the Company), accounting for 33.33% of the senior management of the Company, and a total of 1,388 female employees, accounting for 39.04% of all the employees, and the Group considers that the above current circumstances of gender diversity are satisfactory. For the Reporting Period, there were no mitigating factors or circumstances which make achieving gender diversity across the workforce (including the Board, senior management and other employees) more challenging or less relevant.

Similar considerations shall also be in place to assess the candidacy of the senior management team from time to time. The Company is determined to maintain gender diversity and equality in terms of the whole workforce, and to procure the senior management team to achieve gender equality in terms of the gender ratio.

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	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 2021, 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 2022, 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. 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 Company has adopted execution model of the remuneration committee as described in code provision E.1.2(c) (ii) of the CG Code.

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 meetings held	Attendance rate (%)
Mr. Liu Jie	2/2	100
Mr. Song Tao	2/2	100
Dr. Liu Xiaofeng	2/2	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 assessed the performance of executive directors of the Group; and

- Made recommendation on the remuneration package and the terms of service contract for appointment of Deng Ning as 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 2022 is set out below:

Remuneration bands (RMB)	Number of individuals
500,000-750,000	1
750,001-1,000,000	2

Details of the remuneration of all directors of the Company for the year ended 31 December 2022 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. 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 meetings held	Attendance rate (%)
Mr. Wu Tak Lam	2/2	100
Mr. Liu Jie	2/2	100
Mr. Song Tao	2/2	100
Dr. Liu Xiaofeng	2/2	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 2022 annual general meeting;
- Assessed the independence of the independent non-executive directors; and
- Considered and made recommendation on appointment of Mr. Deng Ning as an executive director of the Company.

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 automobile 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	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 2022.

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 2022, 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 103 to 108. 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 2022 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 2022	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 2022. 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 2022 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 2022.

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 2022, the Company held one shareholders' general meeting, being the 2022 annual general meeting held on 21 June 2022. Details of individual attendance of each director at the aforesaid Shareholders' general meeting are set out below:

Name of Director	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 (Note 1)	1/1	100
Ms. Chen Wei	1/1	100
Mr. Deng Ning (Note 2)	–	–
Independent Non-executive Directors		
Mr. Liu Jie	1/1	100
Mr. Song Tao	1/1	100
Dr. Liu Xiaofeng	1/1	100

Notes:

1. Mr. Gou Xinfeng has resigned as an executive director with effect from 9 November 2022.

2. As at the date of the Company's 2022 annual general meeting, Mr. Deng Ning has not been appointed as an executive director of the Company.

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.

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.

CONSTITUTIONAL DOCUMENTS

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.

On 14 December 2022, the Board proposed to amend the existing memorandum of association and articles of association of the Company (the "**Existing M&A**") by adopting a new set of memorandum of association and articles of association of the Company (the "**New M&A**") in substitution for and to the exclusion to the Existing M&A in order to, among other things, permit the Company to (i) hold hybrid general meetings and electronic general meetings; (ii) bring the Existing M&A in line with amendments made to the applicable laws of the Cayman Islands and the Listing Rules, in particular, the Core Shareholder Protection Standards in the updated Appendix 3 to the Listing Rules with effect from 1 January 2022; and (iii) incorporate certain housekeeping amendments (the "**Proposed Amendments**"). The Proposed Amendments are subject to consideration and approval of the shareholders of the Company by way of a special resolution at the 2023 AGM of the Company. A circular containing, among other things, particulars relating to the changes brought about by the adoption of the New M&A when compared with the Existing M&A together with a notice convening the annual general meeting will be despatched to the shareholders of the Company in due course.

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, and the declaration and payment of dividends shall remain to be determined at the discretion of the Board, subject to the articles of association of the Company and all applicable laws and regulations. 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.

SHAREHOLDERS' COMMUNICATION POLICY

The Company has developed a shareholders' communication policy. The policy aims to promote effective communication with shareholders and other stakeholders, encourage shareholders to engage actively with the Company, and enable shareholders to exercise their rights as shareholders effectively. The Board reviewed the implementation and effectiveness of the communication policy during the Reporting Period, and was satisfied with the results.

The Company has established certain channels to maintain an ongoing communication with shareholders as follows:

(a) Announcements and Other Documents in Compliance with the Listing Rules

The Company publishes announcements (on inside information, corporate actions and transactions, etc.) and other documents (e.g. memorandum of association and articles of association) on the website of the Stock Exchange in a timely manner in accordance with the Listing Rules.

(b) Corporate Website

Any information or documents published by the Company on the website of the Stock Exchange will also be posted on the Company's website (www.sunfonda.com.cn). Other corporate information about the Company's business development, goals and strategies, corporate governance and risk management will also be available on the Company's website.

(c) Shareholders' Meeting

Annual general meetings and other shareholders' meetings of the Company are the main platforms for communication between the Company and its shareholders. The Company shall, in accordance with the requirements of the Listing Rules, provide shareholders with relevant information on the resolutions of the shareholders' meeting in a timely manner. The information provided shall be reasonably necessary to enable shareholders to make an informed decision on the proposed resolutions. Shareholders are encouraged to attend shareholders' meetings or, if they are unable to attend, proxies may be appointed to attend and vote on their behalf at meetings. Where appropriate or necessary, chairman of the Board and other Board members, chairman of the Board Committee or his/her representative and the external auditors should attend shareholders' meetings of the Company to answer questions (if any) from shareholders. The chairman of the independent board committee (if any) shall also answer questions at any shareholders' meetings to approve connected transactions or any other transactions subject to independent shareholders' approval.

REPORT OF THE DIRECTORS

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 2022 (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 2022.

BUSINESS REVIEW

Analysis on Results and Financial Key Performance Indicators

The Group's profits for the year ended 31 December 2022 and the financial position of the Company and the Group as at 31 December 2022 are set out in the Financial Statements on pages 109 to 110 and pages 111 to 112 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 8 to 32 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 79 to 102 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 2022, as far as the Board is aware, there was no material breach of the laws or regulations that had a significant impact on the Group's business and operation by the Group.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The 2023 AGM will be held on Thursday, 18 May 2023 and the notice thereof will be published and dispatched to the shareholders of the Company in a manner as required by the Listing Rules. In order to determine shareholders' entitlement to attend and vote at the 2023 AGM, the register of members of the Company will be closed from Monday, 15 May 2023 to Thursday, 18 May 2023 (both days inclusive). In order to be entitled to attend and vote at the 2023 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 Friday, 12 May 2023.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to propose the distribution of a final dividend of HK$0.02 (equivalent to approximately RMB0.02) per ordinary share for the year ended 31 December 2022 in an aggregate amount of RMB10.7 million. The proposed distribution of final dividend is subject to the consideration and approval of shareholders of the Company at the 2023 AGM.

Where the proposed distribution of final dividend is approved at the 2023 AGM, the dividend will be paid on Friday, 30 June 2023 to shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 30 May 2023. Therefore, the register of members of the Company will be closed from Thursday, 25 May 2023 to Tuesday, 30 May 2023 (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 Wednesday, 24 May 2023.

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 42 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 42 and 32 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the distributable reserves of the Company available for distribution, calculated based on the Companies Act of the Cayman Islands (as revised), amounted to RMB97.8 million in aggregate, of which RMB10.7 million has been proposed as final dividend for 2022.

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 2022.

MAJOR CUSTOMERS AND SUPPLIERS

Transaction amounts with five largest customers of the Group for 2022 accounted for less than 30% of the operating income of the Company for 2022. 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 70.0% and 23.3% respectively of the Group's total purchase for the year ended 31 December 2022. 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 2022 are set out in Note 25 to the Financial Statements.

CHARITABLE DONATIONS

For the year ended 31 December 2022, the Group donated funds and supplies of approximately RMB100,000 in aggregate for charitable purposes.

DIRECTORS

The directors of the Company during the year ended 31 December 2022 and up to the date of this report were:

Executive Directors

Mr. Wu Tak Lam
Ms. Chiu Man
Ms. Chen Wei
Mr. Deng Ning (appointed on 9 November 2022)
Mr. Gou Xinfeng (resigned on 9 November 2022)

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, Ms. Chiu Man, Mr. Deng Ning and Mr. Liu Jie shall retire as directors of the Company by rotation at the 2023 AGM. All the three retiring directors mentioned above are eligible for re-election at the 2023 AGM.

BIOGRAPHIES OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the directors and the senior management are set out on pages 33 to 37 of this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into a service contract with each of the executive directors and issued a letter of appointment to each of the independent non-executive directors, the major particulars of which are as follows: (1) the service contract entered into between Mr. Deng Ning and the Company is for a term of three years starting from 9 November 2022; (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 letters of appointment issued to each of Mr. Song Tao and Dr. Liu Xiaofeng by 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 and Ms. Chiu Man and the Company and the renewed letter of appointment issued to Mr. Liu Jie by 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 2023 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

The remuneration of the directors of the Company is approved by the Board with reference to each director's work performance, duties and responsibilities with the Company, the prevailing market rate and the remuneration policy of the Company. The remuneration of Ms. Chen Wei and Mr. Deng Ning is not covered by their respective director service contract, while the remuneration of Mr. Wu Tak Lam, Ms. Chiu Man and each independent non-executive director of the Company is covered by their respective director service contract or appointment letter. 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 2022.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2022, 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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2022, the interests and short positions of the Directors of the Company and the chief executives of the Company in the shares, underlying shares and debentures 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 as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(A) Interests and short positions 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	438,060,200 (L) 20,000,000 (S)	73.01% 3.33%
Ms. Chiu Man	Interest held by controlled corporations	1 2	438,060,200 (L) 20,000,000 (S)	73.01% 3.33%
Ms. Chen Wei	Beneficial owner		164,000 (L)	0.03%
Mr. Deng Ning	Beneficiary of a trust (other than a discretionary interest)	3	12,000 (L)	0.002%
	Beneficial owner		59,000 (L)	0.01%
			71,000 (L)	0.01%**

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

Notes:

(1) These shares are held as to 434,183,000 shares by Top Wheel Limited ("**Top Wheel**") and 3,877,200 shares by Westernrobust Company Limited ("**Westernrobust**").

The issued share capital of Top Wheel is owned as to 70% by Golden Speed Enterprises Limited ("**Golden Speed**"), a corporation wholly-owned and controlled by Mr. Wu Tak Lam, and 30% by Win Force Enterprises Limited ("**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 434,183,000 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 3,877,200 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 3,877,200 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**"), and entered into a supplementary agreement on 18 November 2022, 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 42 months 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 54 months from the date of the grant of the Option II. Except for the above exercise period, please refer to the Company's announcement dated 19 November 2020 for other details.

(3) Mr. Deng Ning is deemed to be interested in these 12,000 awarded shares, which have been granted to Mr. Deng Ning (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 2022.

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

(B) Long positions 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%

Note: 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 2022.

Save as disclosed above, as at 31 December 2022, none of the directors or chief executives 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) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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 POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2022, the following persons (other than the directors or chief executives of the Company) had interests and short positions in the shares or underlying shares of the Company as recorded in the register 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	434,183,000 (L) 20,000,000 (S)	72.36% 3.33%
	Founder of a discretionary trust who can influence how the trustee exercises his discretion	1	3,877,200 (L)	0.65%
			438,060,200 (L) 20,000,000 (S)	73.01% 3.33%
Win Force Enterprises Limited	Interest held by a controlled corporation	1	438,060,200 (L) 20,000,000 (S)	73.01% 3.33%
Golden Speed Enterprises Limited	Interest held by a controlled corporation	1	438,060,200 (L) 20,000,000 (S)	73.01% 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 Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures".

(2) 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, RAYS Capital Partners Limited and Ruan, David Ching-chi are therefore deemed to be interested in the 42,076,000 shares (of which 20,000,000 shares are non-listed derivatives under a convertible instrument) held by Asian Equity Special Opportunities Portfolio Master Fund Limited.

* The percentage represents the number of ordinary shares involved divided by the number of the Company's issued shares as at 31 December 2022.

Save as disclosed above, as at 31 December 2022, no person, other than the directors or chief executives of the Company whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MANAGEMENT CONTRACTS

During the year ended 31 December 2022, 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 1 year.

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 shares, 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.

With the effectiveness of the new Chapter 17 of the Listing Rules with effect from 1 January 2023, the Company shall comply with the relevant rules of the new Chapter 17 of the Listing Rules under the transitional arrangements before the Share Option Scheme is amended to comply with the new Chapter 17 of the Listing Rules.

PRE-IPO SHARE AWARD SCHEME

The Pre-IPO Share Award Scheme was adopted by the Company on 8 January 2014 for the purpose of recognising and rewarding the contribution of 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, 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. Unless otherwise terminated or amended, the Pre-IPO Share Award Scheme shall be valid and effective for a term of ten years from the date of adoption. As at the date of this annual report, the remaining term of the Pre-IPO Share Award Scheme was approximately 1 year. The maximum number of awarded shares granted to each qualified participant under the Pre-IPO Share Award Scheme (including both vested and outstanding awarded shares) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of awarded shares in excess of this limit is subject to shareholders' approval at a general meeting of the Company. As of 31 December 2022, a total of 5,190,400 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.

Details of awarded shares granted and not vested under the Pre-IPO Share Award Scheme as at 31 December 2022

Grantees of awarded shares[1]	Capacity in the Group	Number of awarded shares as at 1 January 2022	Dates of grant	Purchase price	Vesting period	Vested during the Reporting Period	Weighted average closing price of the shares immediately prior to the date of vesting of the awarded shares	Cancelled during the period	Lapsed during the period	Number of awarded shares as at 31 December 2022
Directors of the Group										
Ms. Chen Wei	Executive Director	26,000	23 January 2017	N/A	5 years [2]	26,000	HK$2.14	–	–	–
Mr. Deng Ning	Executive Director	24,000	8 February 2018	N/A	5 years [2]	12,000	HK$2.00	–	–	12,000
Mr. Gou Xinfeng	Executive Director *(resigned*	10,000	23 January 2017	N/A	5 years [2]	10,000	HK$2.14	–	–	–
	on 9 November 2022)	20,000	8 February 2018	N/A	5 years [2]	10,000	HK$2.00	–	–	10,000
	Sub-total	80,000				58,000		–	–	22,000
20 employees (and former employees) of the Company		216,000	23 January 2017	N/A	5 years [2]	216,000	HK$2.14	–	–	–
		179,200	8 February 2018	N/A	5 years [2]	89,600	HK$2.00	44,000	–	45,600
	Sub-total	395,200				305,600		44,000	–	45,600
Total		252,000	23 January 2017	N/A	5 years [2]	252,000	HK$2.14	–	–	–
		223,200	8 February 2018	N/A	5 years [2]	111,600	HK$2.00	44,000	–	67,600
	Total	475,200				363,600		44,000	–	67,600

Note:

(1) None of the top five highest paid individuals for 2022 had outstanding awarded shares during the year 2022.

(2) The awarded shares granted to any particular selected employee during the vesting period will vest on each anniversary of the grant date of the relevant awards in equal portions.

No share awards were granted for the year ended 31 December 2022. As at 1 January 2022 and 31 December 2022, the number of awarded shares available for grant under the Pre-IPO Share Award Scheme were 3,765,600 shares and 3,809,600 shares, respectively.

With the effectiveness of the new Chapter 17 of the Listing Rules with effect from 1 January 2023, the Company shall comply with the relevant rules of the new Chapter 17 of the Listing Rules under the transitional arrangements before the Pre-IPO Share Award Scheme is amended to comply with the new Chapter 17 of the Listing Rules.

ISSUED DEBENTURES

During the year ended 31 December 2022, 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 2022.

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 38 to 59 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 2022, 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 2022, and is of the view that the Group's consolidated financial statements for the year ended 31 December 2022 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 2022 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 2022 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 39 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, commencing 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 99.69% 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 2022, 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 RMB3,800,100 and RMB19,500,000, 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 RMB1,795,100 and RMB19,500,000, respectively. For more information, please also see Note 39 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.

In view of that the MSP Framework Agreement expired on 31 December 2022 and in consideration of the benefits to the Company from the transaction thereunder, the Company entered into a new merchandise sale and purchase framework agreement (the "**New MSP Framework Agreement**") with Yangzhou Sunfonda on 14 December 2022 to renew and extend the transactions contemplated under the original MSP Framework Agreement for a term of three years from 1 January 2023 to 31 December 2025. Pursuant to the New MSP Framework Agreement, the Group may sell or purchase imported Volkswagen automobiles and related spare parts to or from Yangzhou Sunfonda from time to time. The directors of the Company (including the independent non-executive directors) have confirmed that the MSP Framework Agreement and the transactions contemplated thereunder were on normal commercial terms or better and would be conducted in the ordinary and usual course of business of the Company. The terms and conditions of the transactions were fair and reasonable and in the interests of the Company and the shareholders as a whole, and the proposed annual caps were fair and reasonable and in the interests of the Company and the shareholders as a whole. For details, please refer to the announcement of the Company dated 14 December 2022.

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 2023 AGM. A resolution for the re-appointment of Ernst & Young as the auditors of the Company is to be proposed at the 2023 AGM. The auditors of the Company have not been changed for the three years ended 31 December 2022.

SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR END DATE

There were no significant subsequent events that had occurred from 1 January 2023 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, 24 March 2023

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 2022 in response to the expectations and concerns of stakeholders for the sustainable development of the Group.

The Board firmly believes that protecting environment and natural resources, enhancing health and safety management, focusing on talent development and training, and strengthening the investment of resources in the community will help the Group to achieve its established mission and sustainable development goals. The Board believes that emphasizing ESG management can promote the sustainable business development to increase revenue, enhance the corporate brand image, and improve the core competitiveness of the enterprises.

The Board comprises both male and female directors to reflect diversified governance, and will continue to enhance the diversity of directors in terms of age, gender, beliefs and ESG-related experiences in the future. The Board assumes the responsibility for guiding the sustainable development of the Group and leads the Group to fulfill its social responsibilities. The Board performs leadership and oversight responsibilities, including monitoring the Group's sustainability goals and strategies, studying material trends in this regard, and reviewing the Group's ESG reports. The Board authorises an ESG working group composed of senior management to address relevant issues, and the Board gives the working group clear direction to establish plans and objectives by formulating clear strategies, and regularly reviews the effectiveness of the plans. Each functional department and each dealership store of the Group is responsible for implementing the relevant objectives and plans set by the ESG working group, performing specific management work, recording and reporting data, etc.

The working group leads the preparation of the ESG report, and reports annually to the Board. The Board regularly reviews the performance of the plans and goals with the working group to monitor ESG performance, advises on the Group's ESG strategy and direction, and reviews the stakeholders engagement and materiality assessments and ESG reports, to ensure the Group's development direction and disclosure meets the expectations of the stakeholders. The Board will, where applicable, consider inviting relevant experts to provide advice on improving ESG performance, and enhancing staff training for continuous improvement.

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 long-term risks and policy and regulatory risks associated with greenhouse gas emissions management, as well as the risks associated with managing the impacts of operations on the environment and natural resources.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board believes that ESG can help the Group to meet its commitment to decarbonise its business operations, move away from carbon-intensive industries and actively fund sustainable investments and clean technologies. Looking back on the past year, the COVID-19 pandemic has enabled the Group to strengthen the occupational, health and safety measures for its employees, allowing the Group to resume operations more quickly, and take the lead in meeting market demand, and our environmental performance has been recognised by the market, bringing opportunities to increase market share. Looking ahead, high fossil fuel prices at the macroeconomic level, carbon tax and trading at the environmental level, mental health and workplace inclusion and well-being at the social level, and accelerated digital operations and customer interaction at the technological level will all influence the Group's ESG strategy and goals for the coming year.

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 2022 to 31 December 2022 (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 prioritises relevant content in the report.

The Group carried out online surveys on stakeholders engagement in December 2022, and invited stakeholders such as directors, investors, senior-level management personnel, middle-level management personnel and supervisors, laborial staff, customers and suppliers/contractors, 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 below is used to place the importance rating given to each issue by the Group (including directors, investors and senior-level management personnel) and other stakeholders (including middle-level management personnel and supervisors, laborial staff, customers and suppliers/contractors).

Materiality Matrix

Mark:

Environment	Society	Governance
A1 Emission and Carbon Reduction	B1 Employment	B5 Supply Chain Management
A2 Uses of Resources	B2 Health and Safety	B6 Product Responsibility
A3 Environment and Natural Resources	B3 Development and Training	B7 Integrity Operations
A4 Climate Change	B4 Labour Standards	
	B8 Community Care	

B7 Integrity Operations and B6 Product Responsibility were identified as the most important issues in both stakeholder engagement and materiality assessment, while A3 Environment and Natural Resources 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
Investors	B7 Integrity Operations
Senior-level Management Personnel	B6 Product Responsibility
Middle-level Management Personnel and Supervisors	B7 Integrity Operations
Laborial Staff	B4 Labour Standards
Customers	The topics are of roughly equal importance
Suppliers/Contractors	B2 Health and Safety
	B3 Development and Training
	B4 Labour Standards
	B5 Supply Chain Management
	B6 Product Responsibility
	B7 Integrity Operations

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 ENVIRONMENTAL

A1 Emission and Carbon Reduction

The Group has always adhered to emission and carbon reduction, which is the major focuses of the current and even future global development. The Group attaches great importance to fulfilling corporate environmental responsibility of green and environmental protection, and realising the sustainable development concept. In order to reduce exhaust gas and greenhouse gas emissions, the Group has formulated Energy Conservation Policy, Business Travel Conservation Policy, procurement policy that supports local suppliers, and Indoor Air Quality Policy, so as to reduce direct and indirect greenhouse gas emissions. In order to reduce the generation of hazardous and non-hazardous waste, the Group has established Waste Reduction Policy, Reducing Office Waste Policy, and Waste Recycling Policy.

The Group's emissions target is to ensure that the annual emissions growth will not exceed the growth of its main business. It also conducts regular reviews of the effectiveness of measures and annual summaries to ensure that the environmental targets are successfully achieved. To this end, the Group capitalises on its industrial position by taking the following key measures to minimise emissions in its daily main business operations:

- Increasing sales of battery electric vehicle brands;
- The car repair business operations will consider prioritising the use of environmentally friendly paint and related environmentally friendly materials;
- Preferential use of energy efficient equipment;
- Addition of air filters to the exhaust parts of the spray booths with the aim of reducing the impact on air quality;
- Installation and use of "volatile organic compounds (VOCs) online monitoring system" in spray booths of some stores;
- Preferential use of local suppliers so as to reduce carbon emissions due to long-distance transport.

In terms of drainage, the Group conducts wastewater discharge monitoring once a year, and has a sewage discharge permit issued by the local environmental protection department. At the same time, priority is given to the use of environmentally-friendly lighting systems such as LED lights in the office, and employees are required to avoid turning on the lights when there is sufficient sunlight in their daily work, avoid long distance face-to-face meetings and replace such with telephone or video conferencing to reduce carbon emissions stemming from transport usage, and advocate the replacement of office vehicles in stores with electric vehicles as much as possible to reduce emissions. In addition, to make the office air more pleasant, smoking is prohibited in office and green plants are planted to enhance air quality.

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

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

Greenhouse Gases (GHGs) Emissions

Greenhouse Gases (GHGs) Emissions	2022	2021
Direct GHG emissions (t $CO_{2\text{-}e}$)	**1,597**	1,890
Energy indirect GHG emissions (t $CO_{2\text{-}e}$)	**10,716**	14,306
Other indirect GHG emissions (t $CO_{2\text{-}e}$)	**151**	364
Total GHG emissions (t $CO_{2\text{-}e}$)	**12,464**	16,559
Total GHG emission intensity (t $CO_{2\text{-}e}$/employee)	**3.51**	4.66

Notes:

– The calculations were based on the Reporting Guidance on Environmental KPIs issued by the Stock Exchange, 2006 IPCC Guidelines for National Greenhouse Gas Inventories, IPCC Sixth Assessment Report, latest emission factor of the National Grid of China published by the Ministry of Ecology and Environment of the People's Republic of China (MEE).

– Direct emissions refer to the emissions from the Group's use of unleaded gasoline and diesel as well as natural gas, while the physical density of natural gas converted from volume to weight is the density at room temperature and pressure. Energy indirect emissions refer to emissions from purchased electricity. Emission factor of the National Grid of 0.581 t $CO_{2\text{-}e}$/MWh published by MEE in March 2022 was used for 2022, while emission factor of the Northwest China Grid of 0.892 t $CO_{2\text{-}e}$/MWh published by MEE was used for 2021. Other indirect emissions refer to emissions from the employees' air travels for business purposes

The total greenhouse gas emissions during the Reporting Period decreased as compared with the corresponding period last year. The decrease in total greenhouse gas emissions during the Reporting Period was mainly due to technical factors, and the emission factor of the National Grid newly released by MEE used for the indirect energy emissions of this year was lower than the emission factor of the Northwest Power Grid for the previous year, while the electricity consumption did not decrease, please refer to the section of "A2 Use of Resources" for details. The decrease in other indirect emissions were because employees had more online communication and video conferencing to reduce offline communication and exchanges due to the pandemic during the Reporting Period, resulting in a decrease in flight mileage of employees.

In addition to greenhouse gas emissions, the Group also attaches equal importance to waste. In the after-sales repair and maintenance of vehicles, wastes have been inevitably generated. The Group treats wastes in strict compliance with the requirements of laws and regulations by classifying waste into two categories, i.e., hazardous and non-hazardous waste, which are collected at a designated place. For non-hazardous wastes, the Group gives priority to recycling or selling for reuse. Hazardous wastes will be dealt with by qualified suppliers that are authorized by the bureau for environment protection with which the Group maintains long-term and stable co-operation.

The Group takes the submission of the annual hazardous waste discharge plan to the local environmental protection bureau at the beginning of each year as the waste management goal, aims to ensure that the annual waste growth will not exceed its main business growth, and regularly carries out reviews of the effectiveness of measures and annual summaries to ensure that the environmental targets are successfully achieved. To this end, the Group adopts the following key measures in its daily main business operations to maximise waste reduction:

- For non-hazardous wastes, priority is given to recycling or selling for reuse;
- Reducing the use of plastic products in construction activities; and
- Regularly training employees on hazardous waste environmental protection knowledge to raise their environmental awareness.

During the Reporting Period, the levels of waste discharged in the operation process are as follows:

	Wastes Generated	
Type of waste	**2022**	2021
Non-hazardous waste (tonnes)	**895**	1,051
Non-hazardous waste intensity (tonnes per employee)	**0.25**	0.30
Hazardous waste (tonnes)	**552**	483
Hazardous waste intensity (tonnes per employee)	**0.16**	0.14

As the Group has increased efforts in the management of non-hazardous waste discharge, the non-hazardous waste discharge for the Reporting Period reduced as compared with last year. With the growth of the Group's business, the Group continues to step up efforts in the management of hazardous waste discharge. Although the hazardous waste discharge for the Reporting Period increased as compared with the corresponding period last year, its increase was lower than the Group's business growth. In the future, the Group will continue to make efforts to achieve the goal of the growth of hazardous waste discharge not exceeding its business growth. The Group strictly complies with various environmental regulations of the PRC, such as Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, to keep in line with the standards. There was no relevant non-compliance that had a significant impact on the Group during the Reporting Period.

A2 Uses of Resources

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. The Group has promoted a number of environmental protection policies to minimise resource consumption, including but not limited to Energy Conservation Policy, Water Conservation Policy, Waste Reduction Policy, and Waste Recycling Policy. 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.

The Group's energy efficiency goal is to strive for annual energy consumption growth not exceeding its main business growth. To this end, the Group has taken the following key measures in its daily main business operations to minimise energy consumption:

- Preferential use of energy efficient products;
- Promotion of "Green Travel" to encourage the use of staff transport to replace the individual use of private cars; and
- Affixing a reminder on air conditioners at the switch in the office 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.

In addition, the Group has established a computerised filing system to replace saving the original print copy, implements resources conservation and green documentation management in practice, provides customers with reusable tote bags instead of disposable storage bags, recycles reusable resources and reduces the use of disposable products. For example, using reusable tableware in employees' canteen to reduce waste, and avoiding paper waste, re-using ink cartridges and collecting discarded or remaining metal parts and accessories for other production use.

The Group actively cooperates with environmental authorities in organising various activities to educate and guide staff on environmental protection practices in their daily life and at work. The implementation of the above measures has helped the Group continue to achieve good results in the use of resources.

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

	Energy consumption	
Type of energy	**2022**	2021
Unleaded gasoline (thousand kWh)	**4,411**	4,646
Diesel (thousand kWh)	**72**	168
Natural gas (thousand kWh)	**2,279**	3,149
Electricity (thousand kWh)	**18,444**	16,034
Total energy consumption (thousand kWh)	**25,205**	23,997
Energy consumption intensity (thousand kWh per employee)	**7.09**	6.75

Notes:

– Energy conversion was based on CDP Technical Note: Conversion of fuel data to MWh. The physical density of natural gas converted from volume to weight adopted the density at room temperature and pressure.

– Based on past statistics, gas accounted for very little of the Group's total energy consumption and was no longer disclosed in line with the materiality principle.

– According to the guidelines of the Stock Exchange, energy consumption was only shown in 1,000 kWh, and raw material units were no longer shown at the same time.

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, and each store aims to reduce water consumption based on actual usage. To this end, the Group prioritises the use of water-efficient equipment and remind all employees and visitors to conserve water.

The Group mainly sources water from municipal pipelines, and there is no difficulty in obtaining suitable water source. During the Reporting Period, the Group's water consumption is as follows:

Water consumption	2022	2021
Water consumption (m^3)	**168,026**	178,769
Water consumption intensity (m^3 per employee)	**47**	50

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, of which the response actions include:

- Arranging each store to prepare for summer flood control in the summer with relatively heavy rainfall every year;
- All stores store flood control materials for a long time to cope with the sudden flood season; and
- Purchasing insurance depending on the risk assessment to provide additional protection.

The Group's emergency plan can assure the safety of the Company's properties and employees, and 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 CHERISHING TALENTS

B1 Employment

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.

The starting salary range of different position ranks is formulated according to the position rank, regional differences, market factors, branch scale and personal ability, with reference to the remuneration system of the Group, and the remuneration has certain competitive advantages in the same industry and region. Guided by the external market rate, the Group regularly evaluates the reasonableness of the starting salary range of employees at different ranks within the Group according to the Group's remuneration adjustment policy, post responsibilities and work contribution, so as to ensure the external competitiveness of the remuneration package. 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.

In recruitment process, the Group strictly abides by the Company's "Recruitment and Hiring System", actively expands a variety of recruitment channels, and widely attracts talents. The recruitment and employment adheres to the principle of "openness, equality, competition and merit", all applicants have equal opportunities, and are not treated differently according to their gender, race, religious beliefs and recommenders. The Group has established reasonable recruitment channels and promotion mechanism for key positions. Through selection and review, necessary evaluation and assessment of personnel promotion are carried out to obtain talents that meet the position requirements. Smooth internal talent flow mechanism can help employees find development opportunities within the Group. In adherence to the principle of attaching equal importance to morality and performance, the Group conducts comprehensive evaluation of promoted employees in respect of work evaluation, post performance appraisal and performance appraisal according to post promotion evaluation mechanism.

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. The Group provides annual leave, vacation, marriage leave, maternity leave, etc. The Group also provides employees with insurance coverage, maternity protection and other benefits, and organises various cultural and social activities from time to time to attract and retain outstanding talents. In order to ensure that employees have legitimate and reasonable rights and interests, the Group has set up a scientific employment management system to regulate and supervise the employment and promotion of employees, labour relations, employee diversity, treatment and equal opportunities, welfare and anti-discrimination, aiming to safeguard the legitimate rights and interests of employees. The employment contracts signed between the Group and employees sets out the term of employment and specifies the conditions for the dissolution and termination of the employment contracts. The Group handles dismissals and resignations reasonably and lawfully in strict accordance with applicable laws and regulations, conducts exit interviews with departing employees, understands the reasons for resignation, and listens to feedback and suggestions. 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.

As of 31 December 2022, the Group had a total of 3,555 employees, including 1 part-time employee, 8 temporary workers, 51 apprentices or interns, and the remaining 3,495 full-time employees.

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	2,167	28.29%
Female	1,388	31.99%
By Age Group		
16-24	315	52.06%
25-34	1,873	34.33%
35-44	1,117	19.87%
45-54	211	12.80%
55 and above	39	2.56%
By Geographical Region		
Mainland China	3,553	29.75%
Hong Kong	2	0.00%
Total	**3,555**	**29.73%**

Note: The calculations were based on the social KPI reporting guide issued by the Stock Exchange.

Certain employees left the Group for their own reasons. The Group continued to increase its efforts in employee promotion and care. During the Reporting Period, the employee turnover rate was 29.73%, remaining roughly stable as compared with that of last year. The Group strictly complies with relevant employment laws, including the Labour Law of the People's Republic of China, and has not been prosecuted for any breach of employment-related laws.

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.

The Group implements and monitors the following key occupational health and safety measures:

- After-sales workshops and employees at special posts are equipped with professional protective tools and protective clothing to ensure the safe operation of employees;

- Each store is equipped with heat-relieving items and first-aid items in order to cope with the high temperature in summer;

- Posts warning signs in high-risk places and high-level operating equipment to remind employees;

- Provides occupational health and safety related training in internal training courses, and organises regular staff training, learning and examinations;

- Holds fire safety training at least twice a year to improve employees' awareness of fire prevention and disaster prevention. According to the latest requirements of fire protection, anti-smoke and fire shutter door devices and equipment have been installed in the stores under construction and reconstruction;

- Engages professional testing institutions to conduct occupational hazard assessment depending on the risks involved; and

- New employees are offered preferential entry physical examination at cooperative professional physical examination institutions.

During the Reporting Period, due to the impact of COVID-19 pandemic, all stores cooperated with the government to take pandemic prevention and control measures, implemented home quarantine in case of emergency, cooperated with the government to carry out lockdown management, and disinfected stores every day to ensure the safety of property and personnel. All stores strictly implemented the adjustment of national pandemic prevention and control policies.

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. The Group strictly abides by relevant safety laws and regulations, including the Labour Safety Law of the People's Republic of China and the Law on the Prevention and Treatment of Occupational Diseases, and was not prosecuted for any breach of occupational safety-related laws during the Reporting Period.

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. 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. The Group also works with colleges and universities to carry out targeted talent training projects through school-enterprise cooperation. The Group selects a group of outstanding graduates through the campus job fair and includes them in the training program.

In terms of career development, we engage experienced employees to lead new employees in their development to enhance mutual communication among employees, improve their working abilities and skills through practice and exchange of ideas, impart knowledge, skills and work experience to help new employees master work skills in a short period of time and become competent for their jobs as soon as possible. All new employees will receive the introduction and explanation of the employee handbook to help them adapt to the working environment and integrate into the corporate culture as soon as possible.

The percentage of employees trained and the average training hours completed per employee of the Group by employee category are shown as follows:

Type	Percentage of employees trained (%)	Average training hours completed per employee (hour)
By Gender		
Male	61.03%	18
Female	38.97%	13
By Employee Category		
Senior-level Management Personnel	2.03%	16
Middle-level Management Personnel	10.52%	18
Supervisor	6.66%	16
Laborial Staff	80.78%	15
Total	**94.12%**	**16**

Note: The calculations were based on the social KPI reporting guide issued by the Stock Exchange.

During the Reporting Period, the percentage of employees trained of the Group over the total number of employees increased significantly to more than 94% as compared with the corresponding period last year, and the average training hours completed per employee remained at a high level, although slightly decreasing.

B4 Labour Standards

The Group's labour policy forbids the employment of child labour or forced labour, which is routinely inspected by the local labor and social security department. In order to implement such policy more effectively, the Recruitment Management System of the Group clearly specifies that the identity documents of the applicants shall be strictly checked during recruitment to ensure the accuracy of the information provided. The Group requires all job applicants to have at least completed high school education, so that no children will be employed in labour recruitment.

The Group strictly abides by relevant laws and regulations and does not employ forced labor. The Group's system requires that no deposit or security deposit shall be collected from employees in any form, identity cards shall not be withheld and employees' wages shall be paid in full and on time. The Group has formulated the Attendance Management System, which promotes the combination of work and rest, does not encourage overtime work, and protects employees' rights to normal work, rest and vacation, to eliminate forced labour.

The Group strictly abides by the Labour Contract Laws of the PRC and the Employment Ordinance of Hong Kong, together with relevant regulations. As a result of the concerted efforts of the Group and its staff, 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.

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. 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.

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. The Group also conducts random checks on multi-dimensional information such as industrial and commercial information, judicial proceedings, intellectual property rights and equity structure of suppliers through third parties such as Qixinbao or Qichacha to understand their possible environmental and social risks.

In order to promote the use of environmental products and services, the Group requires suppliers to comply with relevant environmental standards and regulations. When purchasing materials and engaging services, the Group will also give priority to the environmental performance and certification 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. The Group 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 procurement process is compliant with laws and regulations, and the quality, environment and safety of the supply chain are in line with the Group's policy.

During the Reporting Period, the Group's suppliers were mainly automobile related suppliers including automobile manufacturers, and the Group had 43 active automobile suppliers, all of which were from Mainland China. The above evaluation and management mechanism was applied to these 43 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, 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, and keeps sensitive customer information confidential.

The Group adheres to the service principle of "customer first", and strives to fully respect the needs of the customers while providing sincere and quality services to them, not only focusing on service results but also emphasising the experience of the service process. The Group takes customer complaints seriously and regards each of them as an opportunity for us to make correction and improvement. 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, and we will respond immediately to placate discontented customers and provide them with a satisfactory solution as soon as possible. Complaints received via any of these channels will be handled by the responsible person of the respective department, who will then communicate with customers and propose solutions. For handling of major customer complaints, the Group implements the mechanism of joint operation across different departments for the purpose of customer satisfaction. The Group will internally conduct summary and analysis on the complaint cases, 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 9 complaints about product quality and services this year, which were followed up and resolved in accordance with the above-mentioned response measures.

The promotional materials from all channels in the Group's brand stores must be legally authorised by the copyright owner to avoid infringement. The Group requires all sales staff to provide accurate and truthful information to customers during sales. When providing after-sales services, we will provide customers with an interactive and open platform to make enquiries about product details and give feedback. The promotional materials from all channels in the brand stores must comply with relevant regulations, and the content must meet the requirements of brand manufacturers and their product standards and requirements. The relevant departments of the Group will also periodically inspect the marketing materials in stores.

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. For product recall procedures, in order to safeguard the interests of customers to the greatest extent, as an automobile dealer, the Group keeps strict records to ensure that the process can be traced back, 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 to ensure orderly completion within specified deadlines.

The Group implements stringent confidentiality policies to protect customers' privacy, strengthens the management over customer information, and formulates the corresponding system for the filing and access to customer information. Customer information is collected for the purpose of customer communication, relationship maintenance, and analysis and classification. Customer information is determined in accordance with certain procedures, and can only be accessed by a limited range of personnel within a certain period of time. Copying and extraction, sending and receiving, transmission and carrying-out are strictly controlled. The Group regularly reviews its measures and monitors any suspected leakage.

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. 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, and has establish a whistle-blowing channel to keep the Group informed of any corruption. 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 any breach of integrity operations. The Group strictly abides by the relevant anti-corruption and anti-bribery laws, and was not prosecuted for any violation of relevant laws including the Corruption Punishment Regulation of the People's Republic of China during the Reporting Period.

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 RMB100,000 to children's homes.

PROSPECT

The Group will continue to focus on sales, after-sales service, automobile aftermarket business and supply chain of luxury and ultra-luxury brand vehicles and other medium-end brand vehicles, and strengthen the investment in sustainable development of the business operation. The Group's new energy brands are mainly subdivided models of traditional luxury car brands, and the proportion of electric vehicles of the entire traditional luxury brands is rising year by year. Although the current proportion is relatively low, many luxury brands have announced their plans to launch electric vehicles in the next three to five years. Major traditional automobile brands have successively announced the future development strategy of new energy vehicles to gradually increase the proportion of new energy sales. Currently, major manufacturers are supporting dealers in the promotion of new energy business, and provide related subsidies. The Group has advanced its layout in terms of new energy planning, and has begun to formulate a clear development plan during the Reporting Period and set up sales or management teams for new energy vehicles in the Group and its stores. In the coming year, we will continue to refine the new energy business, and carry out customer rentention development and new energy portrait analysis. In line with the manufacturer's product matrix, the Group will enrich its marketing channels to increase the sales and proportion of new energy models. All the brands of which the Group acts as an agent have new energy models on sale. According to the existing brand planning, the first XPeng delivery center of the Group will be opened during the Reporting Period, which will further enrich the new energy product line of the Group.

HKEx ESG Reporting Guide Index

A	Environmental	Section
Aspect A.1	Emissions	A1
KPI A.1.1	The types of emissions and respective emissions data	There were no major sources of emissions within the scope of the Report, and vehicle movement does not form part of its principal business, so there is no pollutant emission data
KPI A.1.2	Greenhouse gas emissions and intensity	A1
KPI A.1.3	Total hazardous waste produced and intensity	A1
KPI A.1.4	Total non-hazardous waste produced and intensity	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	A2
KPI A.2.1	Direct and/or indirect energy consumption by type in total and intensity	A2
KPI A.2.2	Water consumption in total and intensity	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 and with reference to per unit produced	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
Aspect A.3	The Environment and Natural Resources	A3
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	A4
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
Aspect B.1	Employment	B1
KPI B.1.1	Total workforce by gender, employment type, 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	B2
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 including the Reporting Period
KPI B.2.2	Lost days due to work injury	There were a total of 431 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	B3
KPI B.3.1	The percentage of employees trained by gender and employee category	B3
KPI B.3.2	The average training hours completed per employee by gender and employee category	B3
Aspect B.4	Labour Standards	B4
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	No non-compliance occurred during the Reporting Period
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	B6
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

B	Social	Section
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	Anti-corruption	B7
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	No legal cases regarding corrupt practices during the Reporting Period
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 Investment	B8
KPI B.8.1	Focus areas of contribution	B8
KPI B.8.2	Resources contributed	B8

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel電話: +852 2846 9888
Fax傳真: +852 2868 4432
ey.com

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 109 to 208, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), 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 2022, the rebate receivables recognized were RMB264,570,000. 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 2022, deferred tax assets recognised were RMB41,729,000. 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 2022, deferred tax assets have not been recognised on accumulated tax losses of RMB55,116,000. 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 2022, the carrying amount of non-current non-financial assets (other than goodwill) amounted to RMB2,438,853,000, 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.

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
24 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5(a)	**10,923,678**	11,639,221
Cost of sales and services	6(b)	**(10,207,944)**	(10,645,937)
Gross profit		**715,734**	993,284
Other income and gains, net	5(b)	**281,205**	360,082
Selling and distribution expenses		**(507,486)**	(521,868)
Administrative expenses		**(252,676)**	(271,467)
Profit from operations		**236,777**	560,031
Finance costs	7	**(107,377)**	(93,705)
Profit before tax	6	**129,400**	466,326
Income tax expense	10	**(48,135)**	(120,475)
Profit for the year		**81,265**	345,851
Attributable to:			
Owners of the parent		**81,265**	345,851
Earnings per share attributable to ordinary equity holders of the parent	12		
Basic and diluted (RMB)		**0.14**	0.58

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2022

	2022 RMB'000	2021 RMB'000
Profit for the year	**81,265**	345,851
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**6,071**	3,328
Other comprehensive income/(loss) for the year, net of tax	**6,071**	3,328
Total comprehensive income for the year	**87,336**	349,179
Attributable to:		
Owners of the parent	**87,336**	349,179

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,702,459**	1,469,011
Right-of-use assets	14	**726,249**	722,542
Intangible assets	15	**10,145**	10,677
Prepayments	16	**47,162**	28,295
Goodwill	17	**10,284**	10,284
Deferred tax assets	29	**41,729**	30,124
Total non-current assets		**2,538,028**	2,270,933
CURRENT ASSETS			
Inventories	18	**1,346,879**	1,054,373
Trade receivables	19	**37,641**	30,671
Prepayments, other receivables and other assets	20	**866,524**	1,180,612
Amount due from a related party	39(b)	**5,090**	5,810
Financial assets at fair value through profit or loss	21	**3,065**	3,552
Pledged bank deposits	22	**388,139**	364,623
Cash in transit	23	**17,198**	4,782
Short-term deposits	24	**84,920**	127,579
Cash and cash at banks	24	**626,003**	836,227
Total current assets		**3,375,459**	3,608,229
CURRENT LIABILITIES			
Bank loans and other borrowings	25	**2,119,677**	1,546,245
Trade and bills payables	26	**481,310**	632,264
Other payables and accruals	27	**355,798**	375,323
Lease liabilities	14(b)	**28,685**	21,559
Income tax payable		**13,171**	31,398
Total current liabilities		**2,998,641**	2,606,789
NET CURRENT ASSETS		**376,818**	1,001,440
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,914,846**	3,272,373

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	25	**361,456**	760,774
Lease liabilities	14(b)	**66,288**	51,291
Deferred tax liabilities	29	**24,287**	21,487
Total non-current liabilities		**452,031**	833,552
NET ASSETS		**2,462,815**	2,438,821
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	**377**	377
Reserves	32	**2,462,438**	2,438,444
Total equity		**2,462,815**	2,438,821

Director
Wu Tak Lam

Director
Chiu Man

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2022

	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 2022	**377**	**161,202**	**118,045**	**156,505**	**157,947**	**11,390**	**35,604**	**1,797,751**	**2,438,821**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**81,265**	**81,265**
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**6,071**	**-**	**6,071**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**6,071**	**81,265**	**87,336**
Transfer from retained profits	**-**	**-**	**-**	**23,140**	**-**	**-**	**-**	**(23,140)**	**-**
Final 2021 dividend declared	**-**	**(42,240)**	**-**	**-**	**-**	**-**	**-**	**-**	**(42,240)**
Interim 2022 dividend (note 11)	**-**	**(21,120)**	**-**	**-**	**-**	**-**	**-**	**-**	**(21,120)**
Equity-settled share award expense (note 31)	**-**	**-**	**-**	**-**	**-**	**18**	**-**	**-**	**18**
At 31 December 2022	**377**	**97,842***	**118,045***	**179,645***	**157,947***	**11,408***	**41,675***	**1,855,876***	**2,462,815**

* These reserve accounts comprise the consolidated reserves of RMB2,462,438,000 (2021: RMB2,438,444,000) 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 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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Operating activities			
Profit before tax		**129,400**	466,326
Adjustments for:			
Depreciation and impairment of items of property, plant and equipment	13	**163,566**	159,347
Depreciation of right-of-use assets	14	**43,076**	29,393
Amortisation of intangible assets	15	**795**	1,111
Interest income	5(b)	**(9,072)**	(6,322)
Net (gain)/loss on disposal of items of property, plant and equipment	5(b)	**(15,810)**	1,226
Equity-settled share award expense	6(a)	**18**	(6)
Fair value loss/(gains), net:			
Financial products	5(b)	**487**	(102)
Gain on disposal of equity investment	5(b)	**–**	(145,204)
Gain on disposal of a subsidiary	5(b)	**–**	(10,827)
Finance costs	7	**107,377**	93,705
Accrual/(Reversal) of impairment of inventories	6(c)	**4,182**	(7,151)
		424,019	581,496
(Increase)/Decrease in pledged bank deposits		**(23,516)**	13,900
(Increase)/Decrease in cash in transit		**(12,416)**	11,608
(Increase)/Decrease in trade receivables		**(6,970)**	8,151
Decrease/(Increase) in prepayments, other receivables and other assets		**274,045**	(300,821)
Decrease in an amount due from a related party		**720**	2,080
Increase in inventories		**(296,688)**	(146,790)
(Decrease)/Increase in trade and bills payables		**(150,954)**	36,204
(Decrease)/Increase in other payables and accruals		**(19,799)**	26,086
Cash generated from operations		**188,441**	231,914
Tax paid		**(75,167)**	(95,941)
Net cash generated from operating activities		**113,274**	135,973

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Investing activities			
Purchase of items of property, plant and equipment		**(509,148)**	(459,275)
Proceeds from disposal of items of property, plant and equipment		**122,064**	114,655
Purchase of land use rights		**–**	(7,661)
Purchase of intangible assets		**(263)**	(754)
Interest received		**9,072**	6,322
Proceeds from disposal of equity investment designated at fair value through profit or loss		**40,000**	44,008
Purchase of financial assets at fair value through profit or loss, net		**–**	(3,450)
Disposal of subsidiaries net of cash		**–**	47,836
Decrease in time deposits with maturity over three months		**30,762**	41,852
Net cash used in investing activities		**(307,513)**	(216,467)
Financing activities			
Proceeds from bank loans and other borrowings		**8,090,287**	8,102,238
Repayment of bank loans and other borrowings		**(7,919,229)**	(7,649,224)
Principal portion of lease payments	14(b)	**(34,226)**	(17,389)
Interest paid for bank loans and other borrowings		**(110,481)**	(95,733)
Dividends paid		**(63,360)**	(68,640)
Net cash (used in)/generated from financing activities		**(37,009)**	271,252
Net (decrease)/increase in cash and cash equivalents		**(231,248)**	190,758
Cash and cash equivalents at the beginning of year		**931,300**	743,542
Effect of foreign exchange rate changes, net		**9,127**	(3,000)
Cash and cash equivalents at the end of year	24	**709,179**	931,300
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**626,003**	836,227
Short-term deposits with maturity less than three months		**83,176**	95,073
		709,179	931,300

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 Act 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 2022 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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 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
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 capital of HK$52,000,000 and paid-in capital of RMB43,614,850	–	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 2022 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
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
延安新豐泰博奧汽車有限責任公司* (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
揚州新豐泰博奧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 RMB38,886,130	–	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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 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
北京新豐泰博奧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
渭南新豐泰博奧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
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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 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
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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 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
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
西安鈞盛丰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
西安新丰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
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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2022 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	Held by a subsidiary	Principal activities
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%	Commercial Management
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%	Commercial Management
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
銀川豐泰海寶汽車銷售服務有限公司* (Yinchuan Fengtai Haibao Automobile Sales & Service Co., Ltd.)	Yinchuan, the PRC 2022	Registered capital of RMB16,000,000 and paid-in capital of RMB11,200,000	–	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 2022 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
西寧豐泰海寶汽車銷售服務有限公司* (Xining Fengtai Haibao Automobile Sales & Service Co., Ltd.)	Xining, the PRC 2022	Registered capital of RMB18,000,000	–	100%	Sale and service of motor vehicles
陝西新豐泰報廢汽車回收拆解有限公司* (Shaanxi Sunfonda Scrap Car Recycling & Dismantling Co., Ltd.)	Xi'an, the PRC 2022	Registered capital of RMB10,000,000 and paid-in capital of RMB1,000,000	–	100%	Recycle and disassemble of motor vehicles
山西凱瑞貿易有限公司* (Shanxi Kairui Trading Co., Ltd.)	Taiyuan, the PRC 2022	Registered capital of RMB10,000,000	–	100%	Sale and service of motor vehicles
北京新豐泰新能源汽車銷售服務有限公司* (Beijing Sunfonda New Energy Vehicle Sales & Service Co., Ltd.)	Beijing, the PRC 2022	Registered capital of RMB10,000,000 and paid-in capital of RMB5,000,000	–	100%	Sale and service of motor vehicles
蘭州豐泰凱達汽車銷售服務有限公司* (Lanzhou Sunfonda Kaida Automobile Sales&Services Co., Ltd.)	Lanzhou, the PRC 2022	Registered capital of RMB10,000,000	–	100%	Sale and service of motor vehicles

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

** These companies are registered as wholly-foreign-owned enterprises under PRC law.

*** This company is registered as a Sino-foreign equity joint venture under PRC law.

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 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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.

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.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRs that are applicable to the Group are described below:

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

(a) Amendments to HKFRS 3 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 (the "Conceptual Framework") 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 has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) 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 as determined by HKAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

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

(c) 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 Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) 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 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. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

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 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[2, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a SingleTransaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, 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 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

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

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

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.

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

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. 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. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

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 revisiting the accounting policy disclosures to ensure consistency with the amendments.

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

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 in HKAS 12 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 (provided that sufficient taxable profit is available) 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.

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. The amendments are not expected to have any significant impact on the Group's financial statements.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

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.

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 that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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 determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 in exchange 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 31 to the financial statements.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 4.5% has been applied to the expenditure on the individual assets.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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).

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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 RMB41,729,000 as at 31 December 2022 (2021: RMB30,124,000). The amount of unrecognised tax losses at 31 December 2022 was RMB55,116,000 (2021: RMB52,996,000). 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 2022 was RMB10,284,000 (2021: 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)*

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.

	2022 **RMB'000**	2021 RMB'000
Revenue from contracts with customers		
(i) Disaggregated revenue information		
Types of goods or services		
Revenue from sale of motor vehicles	**9,782,305**	10,390,576
Revenue from after-sales services	**1,141,373**	1,248,645
Total revenue from contracts with customers	**10,923,678**	11,639,221
Timing of revenue recognition		
At a point in time	**10,923,678**	11,639,221

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:

	2022 **RMB'000**	2021 RMB'000
Sale of motor vehicles	**129,100**	135,761
After-sales services	**63,764**	48,040
Total contract liabilities	**192,864**	183,801

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

(b) Other income and gains, net:

	2022 RMB'000	2021 RMB'000
Commission income	**214,334**	166,061
Logistics and storage income	**22,066**	25,675
Interest income	**9,072**	6,322
Advertisement support received from motor vehicle manufacturers	**4,508**	1,640
Net gain/(loss) on disposal of items of property, plant and equipment	**15,810**	(1,226)
Government grants	**2,099**	3,470
Gain on disposal of equity investment*	**–**	145,204
Gain on disposal of a subsidiary	**–**	10,827
Fair value gain/(loss), net:		
Financial assets at fair value through profit or loss		
– mandatorily classified as such, including those held for trading	**(487)**	102
Others	**13,803**	2,007
	281,205	360,082

* 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))

	2022 RMB'000	2021 RMB'000
Wages and salaries	**247,943**	275,892
Equity-settled share award expense	**18**	(6)
Other welfare	**54,436**	49,905
	302,397	325,791

6. PROFIT BEFORE TAX *(Continued)*

(b) Cost of sales and services

	2022 RMB'000	2021 RMB'000
Cost of sales of motor vehicles	**9,545,247**	9,936,802
Others*	**662,697**	709,135
	10,207,944	10,645,937

* Employee benefit expenses of RMB50,722,000 (2021: RMB67,670,000) were included in the cost of sales and services.

(c) Other items

	2022 RMB'000	2021 RMB'000
Depreciation of items of property, plant and equipment	**163,566**	159,347
Depreciation of right-of-use assets	**43,076**	29,393
Amortisation of intangible assets	**795**	1,111
Auditors' remuneration		
– statutory audit service	**2,280**	2,280
Advertising and business promotion expenses	**73,323**	86,657
Lease expense	**5,288**	3,329
Bank charges	**4,845**	4,817
Accrual/(Reversal) of impairment of inventories	**4,182**	(7,151)
Net (gain)/loss on disposal of items of property, plant and equipment	**(15,810)**	1,226

7. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank borrowings and other borrowings	**118,759**	102,641
Interest expense on lease liabilities	**5,511**	3,105
Less: Interest capitalised	**(16,893)**	(12,041)
	107,377	93,705

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 2022				
	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(ii)	–	800	–	10	810
-Mr. Deng Ning(i)	–	765	–	38	803
-Mr. Gou Xinfeng(i)	–	495	2	38	535
-Ms. Chen Wei	–	514	1	38	553
	–	4,074	3	134	4,211
Independent non-executive directors:					
-Mr. Liu Jie	197	–	–	–	197
-Mr. Song Tao	197	–	–	–	197
-Dr. Liu Xiaofeng	223	–	–	–	223
	617				617
	617	4,074	3	134	4,828

(i) Mr. Deng Ning has been appointed as an executive director of the Company and Mr. Gou Xinfeng has resigned as an executive director of the Company from 9 November 2022.

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

	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[(ii)]	–	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

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

During the year ended 31 December 2022, 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 (2021: two), details of whose remuneration are disclosed in note 8 above. Details of the remuneration for the year of the remaining three (2021: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	**5,228**	4,858
Pension scheme contributions	**114**	105
	5,342	4,963

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

	Number of employees 2022	2021
HK$500,001 to HK$1,000,000	**–**	2
HK$1,000,001 to HK$3,000,000	**3**	–
HK$4,000,001 to HK$4,500,000	**–**	1

During the year ended 31 December 2022, 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:

	2022 RMB'000	2021 RMB'000
Current Mainland China corporate income tax	**56,940**	98,332
Deferred tax (note 29)	**(8,805)**	22,143
	48,135	120,475

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% (2021: 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:

	2022 RMB'000	2021 RMB'000
Profit before tax	**129,400**	466,326
Tax at the applicable tax rate (25%)	**32,350**	116,582
Preferential tax rate reduction	**(3,507)**	(2,541)
Adjustment in respect of current tax of previous periods	**(57)**	(547)
Expenses not deductible for tax	**17,658**	5,568
Tax losses utilised from previous periods	**(800)**	(2,888)
Tax losses recognised from previous periods	**(295)**	(5,134)
Tax losses not recognised	**2,936**	5,535
Effect of withholding tax at 5% (2021: 10%) on the distributable profits of the Group's PRC subsidiaries	**(150)**	3,900
Tax charges	**48,135**	120,475

11. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Interim – HK4.0 cents (2021: HK5.0 cents) per ordinary share	**21,120**	26,400
Proposed final – HK2.0 cents (2021: HK8.0 cents) per ordinary share	**10,719**	39,245
	31,839	65,645

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 (2021: 600,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

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

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**81,265**	345,851

	2022	2021
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)	**0.14**	0.58

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 2022							
At 31 December 2021 and at 1 January 2022:							
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
At 1 January 2022, net of accumulated depreciation	768,206	72,861	61,263	36,335	167,390	362,956	1,469,011
Additions	7,465	35,704	13,926	11,218	154,692	280,264	503,269
Disposals	(3,971)	(1,951)	(919)	(377)	(99,037)	–	(106,255)
Depreciation provided during the year	(55,542)	(24,231)	(18,046)	(13,819)	(51,928)	–	(163,566)
Transfer	157	3,627	932	333	–	(5,049)	–
At 31 December 2022, net of accumulated depreciation	716,315	86,010	57,156	33,690	171,117	638,171	1,702,459
At 31 December 2022:							
Cost	1,196,622	159,993	204,191	126,598	246,858	638,171	2,572,433
Accumulated depreciation and impairment	(480,307)	(73,983)	(147,035)	(92,908)	(75,741)	–	(869,974)
Net carrying amount	716,315	86,010	57,156	33,690	171,117	638,171	1,702,459

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 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

As at 31 December 2022, the application for the property ownership certificates of certain buildings with an aggregate net book value of approximately RMB215,111,000 (2021: RMB240,558,000) was still in progress.

At 31 December 2022, certain of the Group's buildings with an aggregate net book value of approximately RMB356,747,000 (2021: RMB369,103,000) were pledged as security for the Group's bank borrowings (note 25(a)).

At 31 December 2022, certain of the Group's construction in progress with an aggregate net book value of approximately RMB346,892,000 (2021: RMB221,372,000) were 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 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	–	(19,380)	(19,380)
As at 31 December 2021 and 1 January 2022	73,498	649,044	722,542
Addition	50,881	–	50,881
Depreciation charge	(28,514)	(18,660)	(47,174)
Including: amount capitalised	–	(4,098)	(4,098)
At 31 December 2022	95,865	630,384	726,249

14. LEASES *(Continued)*

The Group as a lessee *(Continued)*

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

The lease prepayments of the Group represent the cost of the Group's land use rights in respect of land located in Mainland China. The remaining periods of the land use rights of the Group range from 19 to 58 years.

At 31 December 2022, certain of the Group's land use rights with an aggregate net book value of approximately RMB254,069,000 (2021: RMB192,321,000) were pledged as security for the Group's bank borrowings (note 25(a)).

(b) Lease liabilities

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

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	**72,850**	20,849
New leases	**50,838**	66,441
Accretion of interest recognised during the year	**5,511**	3,105
Payments	**(34,226)**	(17,389)
Revision of a lease term arising from a change in the non-cancellable period of a lease	**–**	(156)
Carrying amount at 31 December	**94,973**	72,850
Analysed into:		
Current portion	**28,685**	21,559
Non-current portion	**66,288**	51,291

14. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) Lease liabilities *(Continued)*

The maturity analysis of lease liabilities is disclosed in note 40 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:

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	**5,511**	3,105
Depreciation charge of right-of-use assets	**43,076**	29,393
Expense relating to leases of short-term or low-value assets (included in selling and distribution expenses, and administrative expenses)	**5,288**	3,329
Total amount recognised in profit or loss	**53,875**	35,827

15. INTANGIBLE ASSETS

31 December 2022

	Software RMB'000	Dealership RMB'000	Total RMB'000
Cost at 1 January 2022, net of accumulated amortisation	**2,898**	**7,779**	**10,677**
Addition	**263**	**–**	**263**
Amortisation provided during the year	**(578)**	**(217)**	**(795)**
At 31 December 2022	**2,583**	**7,562**	**10,145**
At 31 December 2022			
Cost	**10,993**	**8,643**	**19,636**
Accumulated amortisation	**(8,410)**	**(1,081)**	**(9,491)**
Net carrying amount	**2,583**	**7,562**	**10,145**

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	(7,382)	(864)	(8,696)
Net carrying amount	2,898	7,779	10,677

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

	2022 RMB'000	2021 RMB'000
Prepaid lease payments for buildings and land use rights	**1,625**	851
Prepayments for purchase of land use rights	**15,000**	15,500
Prepayments for purchase of items of property, plant and equipment	**30,537**	11,944
	47,162	28,295

17. GOODWILL

	RMB'000
At 1 January 2021	
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)
At 31 December 2021	10,284
At 31 December 2021:	
Cost	10,794
Accumulated impairment	(510)
Net carrying amount	10,284
Cost at 1 January 2022, net of accumulated impairment	10,794
Accumulated impairment	(510)
Cost and net carrying amount at 31 December 2022	10,284
At 31 December 2022	
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% (2021: 3%) for all years. The pre-tax discount rate applied to the cash flow projections beyond the one-year period is 12% (2021: 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

	2022 RMB'000	2021 RMB'000
Motor vehicles (at cost or at net realisable value)	**1,247,220**	969,210
Spare parts (at cost)	**99,659**	85,163
	1,346,879	1,054,373

At 31 December 2022, certain of the Group's inventories with an aggregate carrying amount of approximately RMB644,603,000 (2021: RMB555,131,000) were pledged as security for the Group's bank loans and other borrowings (note 25(a)).

At 31 December 2022, certain of the Group's inventories with an aggregate carrying amount of approximately RMB169,339,000 (2021: RMB344,617,000) were pledged as security for the Group's bills payable (note 26).

19. TRADE RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**37,641**	30,671

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:

	2022 RMB'000	2021 RMB'000
Within 3 months	**36,113**	27,707
More than 3 months but less than 1 year	**422**	657
Over 1 year	**1,106**	2,307
	37,641	30,671

As at 31 December 2022, 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 40 to the financial statements.

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

	2022 RMB'000	2021 RMB'000
Neither past due nor impaired	**36,535**	28,364
Over 1 year past due but not impaired	**1,106**	2,307
	37,641	30,671

19. TRADE RECEIVABLES *(Continued)*

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

	2022 RMB'000	2021 RMB'000
Prepayments and deposits to suppliers	**430,240**	772,418
Vendor rebate receivables	**264,570**	207,035
VAT recoverable	**62,487**	78,763
Others	**109,227**	122,396
	866,524	1,180,612

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.

The information about the credit risk exposure on the Group's prepayments, other receivables and other assets is disclosed in note 40 to the financial statements.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Financial products	**3,065**	3,552

The financial products as at 31 December 2022 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

	2022 RMB'000	2021 RMB'000
Deposits pledged with banks as collateral against credit facilities granted by the banks and bills payable	**388,139**	364,623

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

As at 31 December 2022, certain of the Group's pledged bank deposits with an aggregate carrying amount of approximately RMB240,215,000 (2021: RMB226,011,000) were pledged as security for the Group's bills payable (note 26).

As at 31 December 2022, certain of the Group's pledged bank deposits with aggregate carrying amounts of approximately RMB119,872,000(2021: RMB2,258,000), and US$3,281,000 (equivalent to RMB22,849,000) (2021: US$8,630,000 (equivalent to RMB55,025,000)) were pledged as security for the Group's bank loans and other borrowings (note 25(a)).

23. CASH IN TRANSIT

	2022 RMB'000	2021 RMB'000
Cash in transit	**17,198**	4,782

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

	2022 RMB'000	2021 RMB'000
Cash and cash at banks	**626,003**	836,227
Short-term deposits	**84,920**	127,579
	710,923	963,806
Time deposits with maturity of over three months	**1,744**	32,506
Cash and cash equivalents	**709,179**	931,300
Denominated in:		
RMB	**595,505**	814,760
HKD	**33,035**	109,208
USD	**79,278**	5,933
EUR	**488**	475
JPY	**873**	924
	709,179	931,300

24. CASH AND CASH AT BANKS AND SHORT-TERM DEPOSITS *(Continued)*

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 2022, the cash and cash at banks and short term deposits of the Group denominated in RMB amounted to RMB595,505,000 (2021: RMB814,742,000) 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

	2022		2021	
	Effective interest rate (%)	**Amount RMB'000**	Effective interest rate (%)	Amount RMB'000
CURRENT:				
Bank loans	**3.2-5.9**	**1,667,657**	3.6-5.8	1,152,576
Other borrowings	**1.8-8.5**	**452,020**	1.7-8.6	393,669
		2,119,677		1,546,245
NON-CURRENT:				
Bank loans	**3.5-5.9**	**361,456**	3.5-5.9	760,774
		2,481,133		2,307,019
Bank loans and other borrowings represent:				
– secured loans (a)		**1,882,047**		1,798,885
– unsecured loans		**599,086**		508,134
		2,481,133		2,307,019

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

	2022 RMB'000	2021 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**1,667,657**	1,152,576
In the second year	**88,400**	541,250
In the third to fifth years, inclusive	**142,188**	191,324
Over five years	**130,868**	28,200
	2,029,113	1,913,350
Other borrowings repayable:		
Within one year	**452,020**	393,669
	2,481,133	2,307,019

Notes:

(a) As at 31 December 2022, 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 RMB254,069,000 (2021: RMB192,321,000) (note 14);
- (ii) mortgages over the Group's buildings, which had a net carrying value of approximately RMB356,747,000 (2021: RMB369,103,000) (note 13);
- (iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB644,603,000 (2021: RMB555,131,000) (note 18);
- (iv) mortgages over the Group's bank deposits, which had an aggregate carrying value of approximately US$3,281,000 (equivalent to RMB22,849,000) (2021: US$8,630,000 (equivalent to RMB55,025,000)) (note 22);
- (v) mortgages over the Group's construction in progress, which had an aggregate carrying value of approximately RMB346,892,000 (2021: RMB221,372,000) (note 13);
- (vi) deposit which had an aggregate carrying value of approximately RMB119,872,000 (2021: RMB2,257,500) (note22).

(b) Except for the secured bank loan amounting to HK$66,400,000 (equivalent to RMB59,313,000) (2021: HK$178,400,000 (equivalent to RMB145,860,000)) which is denominated in Hong Kong dollars, all borrowings are in Renminbi.

26. TRADE AND BILLS PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	**84,838**	62,897
Bills payable	**396,472**	569,367
Trade and bills payables	**481,310**	632,264

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

	2022 RMB'000	2021 RMB'000
Within 3 months	**331,989**	620,579
3 to 6 months	**140,838**	7,963
6 to 12 months	**364**	718
Over 12 months	**8,119**	3,004
	481,310	632,264

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 2022, the Group's bills payable are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB169,339,000(2021: RMB344,617,000) (note 18).

As at 31 December 2022, the Group's bills payable are secured by mortgages over the Group's pledged bank deposits, which had an aggregate carrying value of approximately RMB240,215,000 (2021: RMB226,011,000) (note 22).

27. OTHER PAYABLES AND ACCRUALS

		2022 RMB'000	2021 RMB'000
Payables for purchase of items of property, plant and equipment		**87,919**	56,093
Contract liabilities	(a)	**172,589**	192,864
Staff payroll and welfare payables		**39,196**	71,326
Tax payable (other than income tax)		**9,745**	8,445
Others		**46,349**	46,595
		355,798	375,323

(a) Details of contract liabilities are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000	1 January 2021 RMB'000
Short-term advances received from customers			
Sale of motor vehicles	**111,687**	**129,100**	135,761
After-sales services	**60,902**	**63,764**	48,040
Total contract liabilities	**172,589**	**192,864**	183,801

Contract liabilities include short-term advances received to deliver new automobiles. The increase in contract liabilities in 2022 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 2021	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
Deferred tax (charged)/credited to the consolidated statement of profit or loss during the year (note 10(a))	15,717	756	(5,503)	635	11,605
At 31 December 2022	33,971	4,143	2,571	1,044	41,729

The Group also has tax losses arising in Mainland China of RMB55,116,000 (2021: RMB52,996,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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 2021	2,344	11,438	1,492	2,600	17,874
Deferred tax recognised in the consolidated statement of profit or loss during the year (note10)	(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
Deferred tax (charged)/credited in the consolidated statement of profit or loss during the year (note10)	(79)	874	2,155	(150)	2,800
At 31 December 2022	2,186	13,337	5,014	3,750	24,287

Pursuant to the PRC Corporate Income Tax 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. For the Group, the applicable rate is 5%. The Group is therefore liable for 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 RMB2,068,000,000 and RMB1,936,130,000 at 31 December 2022 and 2021, respectively.

30. SHARE CAPITAL

Authorised

	2022 No. of shares of US$0.0001 each	2021 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 2021 and 31 December 2021	600,000,000	60	377
As at 1 January 2022 and 31 December 2022	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:

	2022 Number of awarded shares '000	2021 Number of awarded shares '000
At 1 January	**475**	1,476
Forfeited during the year	**(44)**	(404)
Vested during the year	**(364)**	(597)
At 31 December	**67**	475

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 2022 and 2021 are as follows:

Vesting period	Dates of grant	Market price at grant dates HK$/share	Number of outstanding shares as at 31 December 2022 '000	2021 '000
5 years	15 May 2014	3.76	**–**	–
5 years	2 July 2015	2.95	**–**	–
5 years	6 February 2016	2.54	**–**	–
5 years	23 January 2017	2.19	**–**	252
5 years	8 February 2018	1.23	**67**	223
5 years	28 December 2018	1.00	**–**	–
			67	475

No share awards were granted for the year ended 31 December 2022.

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 RMB18,000 (2021: recognized a share award expense of RMB6,000) during the year ended 31 December 2022.

At the end of the reporting period, the Company had 67,000 (2021: 475,000) 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 2022 and 2021.

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. 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 RMB50,838,000 (2021: RMB66,441,000) and RMB50,838,000 (2021: RMB66,441,000), respectively, in respect of lease arrangements for plant and equipment.

(b) Changes in liabilities arising from financing activities

2022

	Bank and other loans RMB'000	**Lease liabilities RMB'000**	**Dividends payable RMB'000**
At 1 January 2022	**2,307,019**	**72,850**	**–**
Changes from financing cash flows	**171,058**	**(34,226)**	**(63,360)**
New leases	**–**	**50,838**	**–**
Interest expense	**–**	**5,511**	**–**
Foreign exchange movement	**3,056**	**–**	**–**
Interim 2022 dividend	**–**	**–**	**21,120**
Final 2021dividend declared	**–**	**–**	**42,240**
At 31 December 2022	**2,481,133**	**94,973**	**–**

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	–

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the reporting date were as follows:

2022

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	37,641	37,641
Financial assets included in prepayments, other receivables and other assets	–	373,797	373,797
Financial assets at fair value through profit or loss	3,065	–	3,065
Amount due from a related party	–	5,090	5,090
Pledged bank deposits	–	388,139	388,139
Cash in transit	–	17,198	17,198
Cash and cash at banks and short-term deposits	–	710,923	710,923
	3,065	1,532,788	1,535,853

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	481,310
Financial liabilities included in other payables and accruals	141,962
Lease liabilities	94,973
Bank loans and other borrowings	2,481,133
	3,199,378

34. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the reporting date were as follows (CONTINUED):

2021

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost 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
Financial assets at fair value through profit or loss	3,552	–	3,552
Amount due from a related party	–	5,810	5,810
Pledged bank deposits	–	364,623	364,623
Cash in transit	–	4,782	4,782
Cash and cash at banks and short-term deposits	–	963,806	963,806
	3,552	1,699,123	1,702,675

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	632,264
Financial liabilities included in other payables and accruals	102,688
Lease liabilities	72,850
Bank loans and other borrowings	2,307,019
	3,114,821

35. CONTINGENT LIABILITIES

As at 31 December 2022 and 2021, the Group did not have any significant contingent liabilities.

36. 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 2022 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	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets at fair value through profit or loss	**3,065**	3,552	**3,065**	3,552

36. 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 2022

	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	**3,065**	**–**	**–**	**3,065**

37. COMMITMENTS

(a) Capital commitments

Capital commitments of the Group at the reporting date not provided for in these financial statements are as follows:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Buildings	**232,540**	127,589

38. 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.

39. 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:

		2022 RMB'000	2021 RMB'000
(i)	Sales of motor vehicles and spare parts		
	Yangzhou Sunfonda Automobile Co., Ltd.*	**3,800**	4,991
(ii)	Purchase of motor vehicles and spare parts		
	Yangzhou Sunfonda Automobile Co., Ltd. *	**1,795**	1,072

* 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.

39. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Balance with a related party

Due from a related party:

	2022 RMB'000	2021 RMB'000
Trade related		
Yangzhou Sunfonda Automobile Co., Ltd.	**5,090**	5,810

(c) Compensation of key management personnel of the Group

	2022 RMB'000	2021 RMB'000
Short term employee benefits	**4,691**	7,346
Equity-settled share award expense	**3**	20
Post-employment benefits	**134**	125
Total compensation paid to key management personnel	**4,828**	7,491

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

40. 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.

40. 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 2022		
RMB	**50**	**(6,034)**
HKD	**50**	**(310)**
RMB	**(50)**	**6,034**
HKD	**(50)**	**310**
Year ended 31 December 2021		
RMB	50	(1,769)
HKD	50	(677)
RMB	(50)	1,769
HKD	(50)	677

40. 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, 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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Maximum exposure and year-end staging *(Continued)*

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2022

	12-month ECLs	Lifetime ECLs	
	Stage 1 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables	–	37,641	37,641
Financial assets included in prepayments, other receivables and other assets	373,797	–	373,797
	373,797	37,641	411,438

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Maximum exposure and year-end staging *(Continued)*

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 2022 were not significant.

As at 31 December 2022, all pledged bank deposits, short-term deposits, and cash and cash at banks were deposited in reputable financial institutions without significant credit risk.

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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

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 2022					
	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	**–**	**722,899**	**1,455,825**	**191,733**	**263,640**	**2,634,097**
Lease liabilities	**–**	**8,747**	**23,142**	**55,484**	**27,354**	**114,727**
Trade and bills payables	**84,838**	**263,538**	**132,934**	**–**	**–**	**481,310**
Financial liabilities included in other payables and accruals	**46,349**	**21,980**	**65,939**	**–**	**–**	**134,268**
	131,187	**1,017,164**	**1,667,840**	**247,217**	**290,994**	**3,364,402**

	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

40. 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 2022.

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:

	2022 **RMB'000**	2021 RMB'000
Bank loans and other borrowings	**2,481,133**	2,307,019
Trade and bills payables	**481,310**	632,264
Other payables and accruals	**355,798**	375,323
Less: Pledged bank deposits	**(388,139)**	(364,623)
Cash in transit	**(17,198)**	(4,782)
Short-term deposits	**(84,920)**	(127,579)
Cash and cash at banks	**(626,003)**	(836,227)
Net debt	**2,201,981**	1,981,395
Total equity	**2,462,815**	2,438,821
Total equity and net debt	**4,664,796**	4,420,216
Gearing ratio	**47.2%**	44.8%

41. EVENTS AFTER THE REPORTING PERIOD

There was no significant subsequent event undertaken by the Group after 31 December 2022.

42. 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:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**470,921**	611,176
CURRENT ASSETS		
Prepayments, other receivables and other assets	**84**	84
Cash and cash equivalents	**7,975**	7,763
Total current assets	**8,059**	7,847
NET CURRENT ASSETS	**8,059**	7,847
TOTAL ASSETS LESS CURRENT LIABILITIES	**478,980**	619,023
NON-CURRENT LIABILITIES		
Bank loans and other borrowings	**59,313**	145,860
NET ASSETS	**419,667**	473,163
EQUITY		
Share capital	**377**	377
Reserves (note)	**419,290**	472,786
Total equity	**419,667**	473,163

42. 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 gains/(losses) RMB'000	Total RMB'000
At 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 and 1 January 2022	161,202	320,214	4,816	(13,446)	472,786
Total comprehensive income for the year	–	–	(11,304)	21,168	9,864
Interim 2022 dividend	(21,120)	–	–	–	(21,120)
Final 2021 dividend declared	(42,240)	–	–	–	(42,240)
At 31 December 2022	97,842	320,214	(6,488)	7,722	419,290

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2023.

FINANCIAL SUMMARY

31 DECEMBER 2022

	Year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**10,923,678**	11,639,221	10,634,418	9,314,733	8,948,414
Cost of sales and services	**(10,207,944)**	(10,645,937)	(9,885,623)	(8,660,514)	(8,280,456)
Gross profit	**715,734**	993,284	748,795	654,219	667,958
Other income and gains, net	**281,205**	360,082	187,176	183,711	342,043
Selling and distribution expenses	**(507,486)**	(521,868)	(410,523)	(375,335)	(385,947)
Administrative expenses	**(252,676)**	(271,467)	(218,691)	(213,640)	(245,987)
Profit from operations	**236,777**	560,031	306,757	248,955	378,067
Finance costs	**(107,377)**	(93,705)	(103,022)	(107,859)	(102,723)
Profit before tax	**129,400**	466,326	203,735	141,096	275,344
Income tax expense	**(48,135)**	(120,475)	(58,546)	(21,167)	(61,982)
Profit for the year	**81,265**	345,851	145,189	119,929	213,362
Attributable to:					
Owners of the parent	**81,265**	345,851	145,189	119,929	213,162
Non-controlling interests	**–**	–	–	–	200
	81,265	345,851	145,189	119,929	213,362

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS	Year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**5,913,487**	5,879,162	5,036,259	5,310,529	4,663,266
Total liabilities	**3,450,672**	3,440,341	2,877,971	3,275,337	2,710,163
Non-controlling interests	**–**	–	–	–	–
Equity attributable to owners of the parent	**2,462,815**	2,438,821	2,158,288	2,035,192	1,953,103