HARMONY AUTO
和諧汽車

China Harmony Auto Holding Limited
中國和諧汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3836

ANNUAL REPORT

2022

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. FENG Changge *(Chairman)*
Mr. FENG Shaolun *(Deputy Chairman)*
Mr. LIU Fenglei *(President)*
Ms. MA Lintao *(Vice-president)*
Mr. CHENG Junqiang *(Vice-president)*
(appointed on January 5, 2022)
Mr. HAN Yang *(Vice-president)*
(resigned on January 5, 2022)

Independent Non-executive Directors

Mr. WANG Nengguang
Mr. LAU Kwok Fan
Mr. CHAN Ying Lung

AUDIT COMMITTEE

Mr. WANG Nengguang *(Chairman)*
Mr. LAU Kwok Fan
Mr. CHAN Ying Lung

REMUNERATION COMMITTEE

Mr. CHAN Ying Lung *(Chairman)*
Mr. LIU Fenglei
Mr. LAU Kwok Fan

NOMINATION COMMITTEE

Mr. FENG Changge *(Chairman)*
Mr. WANG Nengguang
Mr. CHAN Ying Lung

COMPANY SECRETARY

Ms. WONG Wai Yee, Ella

AUTHORIZED REPRESENTATIVES

Mr. LIU Fenglei
Ms. WONG Wai Yee, Ella

LEGAL ADVISER

Haiwen & Partners LLP
Rm1902, New World Tower
16–18 Queen's Road Central
Hong Kong

AUDITORS

ZHONGHUI ANDA CPA Limited
23/F, Tower 2,
Enterprise Square Five,
Kowloon Bay, Hong Kong

PRINCIPAL BANKS

Zhongyuan Bank Zhengzhou Branch
Shanghai Pudong Development Bank, Zhengzhou Branch
China Everbright Bank, Zhengzhou Branch
Industrial Bank, Zhengzhou Branch
Industrial Bank, Hongkong Branch
Hang Seng Bank Limited

REGISTERED OFFICE

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Cayman Islands

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Zhengzhou, Henan Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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348 Kwun Tong Road, Kowloon
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

Tricor Services (Cayman Islands) Limited
Third Floor, Century Yard
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Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
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16 Harcourt Road
Hong Kong

COMPANY'S WEBSITE

www.hexieauto.com

STOCK CODE

3836

Chairman's Statement

Dear Shareholders:

I, on behalf of the board of directors (the "**Directors**") of China Harmony Auto Holding Limited (the "**Company**" or "**We**", the "**Board**"), am pleased to present the 2022 annual results report of the Company and its subsidiaries (the "**Group**").

Looking back over the past three years, with the lingering influence of COVID-19 pandemic, the world economy has been mired in turbulence, the top economies have been unprecedentedly hit, and the business environment has become increasingly severe, weighing on economic prospects along with multiple uncertainties. Nevertheless, in 2022, led by the Chinese government, the pandemic in China was largely under control by the end of the fourth quarter, while major Chinese cities swiftly resumed work and production, triggering rapid economic recovery, and China's GDP saw a steady 3.0% growth rate.

Looking to 2023, China is expected emerge quickly from pandemic control and prevention. Macro policies will focus on steady growth, consumption is expected to see a fast recovery, sci-tech innovation and green transformation will boost investment in manufacturing, and infrastructure investment will hopefully maintain a steady growth. China's consumption upgrade is gathering momentum and will flourish based on the Chinese government's fundamental development philosophy which "takes domestic market as the mainstay while letting domestic and foreign markets boost each other". With automobile consumption upgrade, China will embrace peak times for car purchasing and replacement. Contraction in fuel vehicles will contrast with the steady growth of mainstream luxury cars and NEVs.

DEVELOPMENT STRATEGY

As we looked back on the business operations in 2022, all tortuous and memorable experiences remain clear and distinct in our mind. As far as business operation is concerned, it is the greatest lesson to firsthand experience such sharp fluctuations. Moreover, each crisis or emergency poses a test for enterprises, teams and employers despite being an agonizingly difficult experience. Verily tested by the hardships in 2022, Harmony Auto's business strategy has been proved to be fundamental and scientific. Together, all of us in Harmony Auto will strive to write a new chapter in 2023.

In 2023, we will continue adhering to the development strategy of "focusing on core business, dominant brands, and efficiency and quality".

- **Focusing on core business**

  "One focus, Two branches, Mutual supplement", i.e. focusing on the operation of 4S stores of luxury and ultra-luxury brands, while continuing to support the new energy vehicle manufacturing and after-sales business in which financial investments have been made, with the three business segments being independent of one another while complementing one another.

- **Focusing on dominant brands**

  The Group has devoted great energy to developing 4S stores of luxury and ultra-luxury brands. In 2023, we will continue to consolidate our position as "an all-luxury and ultraluxury automobile dealership group", focusing on the layout of dominant brands in dominant regions and expanding the development of potential regions.

- **Focusing on efficiency and quality**

  1) Rooted in business, we deeply interpret "how to do it"

  2) Full-scale digital management

  3) Continuously improving internal operation and management efficiency, upholding the concept of harmony and advancing management profoundly

OUTLOOK & OPERATION PLANNING

As China pivots towards appropriate anti-pandemic policies, significant investments in new and old infrastructure are made in place, and such policies as industrial upgrade and consumption stimulus are implemented, in 2023, China's economy is expected to become the engine of the world economy, driving robust economic recovery, according to macro-economic forecasts.

Furthermore, the vehicle circulation industry where we engage will enjoy enormous policy support and stimulus in 2023. The competent ministries and commissions have rolled out many support policies to facilitate effective growth.

Against the backdrop, we have established the following operating and management guidelines for 2023:

Firstly, expand sales, after-sales services and the second-hand car business, highlight business, information and resource integration to maximize the Group's strengths;

Secondly, refined management being upgraded and incorporated in routine and basic business, refinement underpinned by data will be thoroughly implemented in all procedures of the main business and supplementary services.

Thirdly, consolidate the results of cost reduction. On the basis of maintaining the achievements in cost reduction in 2022, we will prioritize labor work, advertising, inventory and market exploration in cost control, continue the good momentum to score a greater success in cost reduction.

In respect of business, we need to gather momentum and ramp up efforts from the following three aspects:

- **Mass-market luxury brands**

  On the basis of upholding the existing business strategy, we will keep up with the latest trends in market demand, work out ways to better sell NEVs, ensure that all brands and stores know how to sell NEVs well and strive to seek all-round business growth by breaking through in NEVs;

- **Ultra-luxury brands**

  We will closely watch the extended gross profit in sales, genuinely regards vehicle configuration as the competitive edge based on selective assembly, the custom-tailored brand character, foster synergy between brands as personalized configuration can prevent working behind closed doors or action taken by a single store; moreover, with a steady growth in the value-added derivative business, competitive value-added services, such as finance, boutique and second-hand car business, are bound to be part of standard services provided by ultra-luxury brands;

- **Second-hand car business**

  Many regulations have been rolled out in the vehicle circulation industry, removing long-existing obstacles for second-hand car dealings. In 2023, with the aid of favorable policies, all brand stores, under the management of the second-hand car department affiliated to the automobile division, will promote second-hand car dealings and expand the second-hand car business size in a short time through the agent model, aimed at making the second-hand car business being our third largest main business.

CONCLUSION

As every cloud has a silver lining, in 2023, Harmony Auto will brave winds and waves and forge ahead!

I, on behalf of all the staff of the Group, hereby express my heartfelt gratitude to all shareholders and partners for your steadfast trust and support. Let's march forward with determination and embrace a bright future!

Management Discussion and Analysis

INDUSTRY OVERVIEW

China's passenger cars market in 2022 was struggling to move forward under the weight of the epidemic. According to the data released by the China Passenger Cars Association (hereinafter referred to as the "**CPCA**"), in 2022, the cumulative retail sales of the passenger cars in China was 20.543 million units, an increase of 1.9% year-on-year. In the middle of the year, although a number of favorable policies timely introduced by the central and local governments, including the halving of purchase tax and the regulation and support of the used car market, have played a significant role in stabilizing and promoting car consumption, a large number of dealers across the country experienced weeks or even longer cycles of shop closures and containment and control measures, as well as significantly reduced demand and willingness to purchase cars by consumers. Throughout the year, dealers across the region faced varying degrees of survival challenges.

According to the CPCA, the luxury car market sales in 2022 was 3.09 million units, of which the first-tier luxury brands, BMW, Benz and Audi (collectively "**BBA**") occupied 70% of the market share, and the ranking of the three giants remained the same compared to the previous year. With sales of 792,000 units, the BMW Group (including BMW and MINI brands) ended the year as the top selling luxury car brand in China again. Although BBA remained in the top tier of the luxury car market in China, sales in 2022 showed a collective decline. Among which, sales of BMW in China fell by 6.4% year-on-year in 2022, that of Benz in China dropped slightly by 0.9% year-on-year, while that of Audi in China dropped by 8.4% year-on-year.

Although the first-tier brands in the luxury car market in 2022 all ended with a contraction in sales, they did not pull down the growth rate of the luxury car market, and the reason of which is supported by the high growth driven by the demand for new energy luxury cars. From the retail side, the overall luxury car market recorded a sale of 3.09 million units in 2022, increased by 6% year-on-year. Among them, while the traditional luxury car market declined by 4%, the new energy luxury car market bucked the trend and grew by 49% year-on-year, boosting the overall luxury car market growth.

In 2022, the annual cumulative retail sales of new energy passenger cars in China reached 5.674 million units, increased by 90% year-on-year, representing a major breakthrough in China's premium car manufacturing with a strong growth momentum. As the pace of popularisation of the Chinese car market gradually slowed down, its main driver of growth now lied in the customer segment with the need for additional and replacement purchases, which was relatively higher in consumption level and was also the driving force of premium development. Recent sales trends in the car market also showed that premium electric cars were gradually becoming a mainstream choice for family use.

Management Discussion and Analysis

Affected by a shortage of chip supply, traditional luxury cars were under-produced in general in the first half of 2022, which in turn affected sales growth. However, sales of luxury brands generally recovered rapidly in the second half of 2022 compared to sales figures that fell by almost 20% in the first half of 2022. At the same time, most luxury brands showed a high level of interest in China's premium new energy cars market. In particular, BBA, which are the three giants, were also actively transforming themselves in an unprecedented manner. In 2022, BBA announced the commencement of production or launch of their pure electric plants in China almost concurrently, with investments of RMB15 billion, RMB11.9 billion and RMB18.1 billion (or equivalent to EUR2.6 billion) respectively. This huge investment not only highlights the strategic significance of China as the world's largest new energy cars market, but also redefines the future battlefield in electrification and intelligence in automobile production of the BBA. It is worth mentioning that, along with the gradual deepening of BBA's electrification process in China and the continuous enrichment of their product systems, the new energy car sales of both Benz and BMW brands showed an impressive growth momentum in 2022.

Industry Outlook

As the impact of the epidemic on the market is fading gradually and the supply chain is generally stabilising, the overall positive trend in the car market will continue in 2023, especially in the new energy cars market, which is expected to continue to grow strongly. In 2022, the penetration rate of new energy passenger cars reached 27.6%, an increase of 12.6 percentage points from 2021. According to the expert team of the CPCA, sales of new energy passenger cars are expected to reach 8.5 million units in 2023, with overall sales of traditional passenger cars being 23.5 million units and the penetration rate of new energy passenger cars expected to reach 36%. The expectation of a rapid increase in penetration rate of new energy passenger cars remains unchanged.

The BBA family is unified in pace in terms of planning to launch more new energy car models in 2023. Needless to say, the transformation of electrification is not only on the enrichment of product lines, but also the rebranding, the reorganisation of business models and channels and the advancement of digital management models. As a car dealer, the Company will need to follow this trend, boldly embrace new dynamics and deliberate on new business models. To be specific, the Company considers the industry outlook for 2023 to be one filled with challenges and opportunities.

Corporate Overview

The Company was affected by the epidemic prevention and control policy in 2022, and its stores were closed for an average period of more than two months throughout the year. Meanwhile, due to the effect of high base figures in the same period of the previous year, the operating figures of many brands showed different degrees of year-on-year decline, but some ultra-luxury brands experienced a strong growth. Overall, the Company recorded a total sales volume of 35,506 units in 2022, decreased by 13.0% year-on-year. Amid the dampened consumer confidence throughout the year, the demand for car purchase and replacement of luxury brands weakened. During the year, the Company delivered 26,756 units of BMW (including Mini), decreased by 13.5% year-on-year, and 3,875 units of Lexus, decreased by 7.6% year-on-year.

Among the Company's existing brand matrix, ultra-luxury brands demonstrated a stronger demand resilience and an attribute of weak economic cyclical effect, with Ferrari, Bentley and Rolls-Royce showing bright sales results, with sales increasing by 250.0%, 14.1% and 7.3% year-on-year in 2022, respectively.

In 2022, the Company added a new Bentley store to its distribution network in Beijing. By now, the Company has become the largest dealer of the Bentley brand in the central region of the PRC. The performance of Ferrari brand was more brilliant with stores in Suzhou and Kunming winning the "The Best Dealer of the Year 2022", "The Best Team Management" and "The Best After Sales Ambassador" awards from Ferrari Greater China.

In terms of inventory, stores were intermittently suspended due to the volatile situation of the pandemic, and the sales pace was impacted in varying degrees, with an average inventory turnover days during the year increased by 7.0 days to 32.0 days compared to that of last year.

The Company continues to focus on the development of the used car and electric vehicle ("**EV**") sectors, with 6,474 units used cars transacted throughout the year. Trade-in and replacement services broke even financially. In the EV sector, Dangdang New Energy, in which the Company made a strategic investment several years ago, is a comprehensive EV service provider covering sales and after-sales service of EVs. At present, Dangdang New Energy has been authorized by major EV brands such as Li Auto Inc., NIO Inc., XPENG Inc., GAC Aion New Energy Automobile Co., Ltd. and VOYAH Motor Science and Technology Company to provide a full range of sales, after-sales service and a privileged experience for customers.

Business Outlook

Looking ahead, the Company will continue to focus on its principal business while actively embracing the changes in electrical intelligentization. The local two sessions have all set the focus of their overall work in 2023 as focusing on promoting stable and healthy economic development. As bulk consumer products, cars are naturally seen as a top priority for local governments to boost domestic demand and stimulate domestic consumption, and there is still plenty of room for growth in the luxury and ultra-luxury brand track.

Moreover, local governments have introduced incentive policies such as subsidies for car replacement or tax cuts, and continued efforts have been made in new infrastructure. Per capita disposable income expectations and consumer confidence are expected to pick up, and the premium car market remains relatively dynamic. In addition to maintaining our current portfolio of dominant brands (including BMW, Lexus, Ferrari, Bentley and Rolls-Royce), the Company will implement an acquisition strategy in due course to consolidate and expand its market share and influence. At the same time, the Company believes that it is capable of further strengthening its profitability by optimizing all expense ratios and improving operational efficiency.

Management Discussion and Analysis

The trend of electrical intelligentization in the luxury and ultra-luxury market is becoming clearer that the transformation to electric vehicles has become one of the important strategies of the Company in the medium and long term. The Company will continue its efforts to explore the business model of traditional distributors in the new trend, being pragmatic and realistic and persevering to achieve long-term development, and generating and preserving value over the longer term and delivering the objectives of the Company. The following shows the financial overview of the Group during the year ended December 31, 2022 (the "**Reporting Period**"):

FINANCIAL OVERVIEW

Revenue

Revenue of the Group was RMB16,321.7 million for 2022, representing a decrease of 9.2% as compared with RMB17,981.1 million for 2021.

Revenue from sales of automobiles and others amounted to RMB14,324.8 million, accounting for 87.8% to the total revenue in 2022, and representing a decrease of 8.2% from 2021. Revenue from provision of the after-sales services amounted to RMB1,936.8 million, accounting for 11.9% to the total revenue, and representing a decrease of 16.7% as compared to the year ended December 31, 2021.

Cost of sales and services

Cost of sales and services of the Group for 2022 amounted to RMB15,242.0 million, representing a decrease of 6.1% from 2021, which was in line with the decrease in overall revenue. Among them, the cost of sales of automobiles and others in 2022 was RMB14,089.9 million, representing a decrease of 5.7% from RMB14,945.4 million recorded in the corresponding period in 2021. The cost of provision of after-sales services in 2022 was RMB1,152.1 million, representing a decrease of 10.3% from RMB1,284.4 million recorded in the corresponding period in 2021. The reason for the decrease in costs this year was mainly due to the decrease in revenue for both sales of automobiles and others and provision of after-sales service business.

Gross profit and gross profit margin

Gross profit of the Group was RMB1,079.7 million for 2022, representing a decrease of 38.3% as compared with RMB1,751.3 million in 2021. Due to all outlets of the Company experiencing a certain period of closure and shutdown as a result of the COVID-19 impact throughout the year, the gross profit of sales of automobiles and others in 2022 was RMB234.9 million, representing a decrease of 64.6% compared to 2021. The gross profit of provision of after-sales service in 2022 was RMB784.7 million, representing a decrease of 24.7% compared to 2021.

Gross profit margin of the Group in 2022 was 6.6%, representing a decrease of 3.1 percentage points from 9.7% recorded in the corresponding period in 2021. Among them, the gross profit margin of the sales of automobiles and others in 2022 was 1.6%, representing a decrease of 2.6 percentage points compared to 2021 mainly due to the epidemic lock-down and control measures weakening the market demand. On the other hand, manufacturers pre-stocked in advance in light of the shortage of chips in 2021, resulting in excessive supply over demand in consumer market and therefore decreasing the sales price. The gross profit margin of provision of after-sales services in 2022 was 40.5%, representing a decrease of 4.3 percentage points compared to 2021 which was owing to the effects of the epidemic lock-down and control measures, which led to the decrease in vehicle mileage, the frequency of car use, and the lower proportion of sales of accidents vehicles usually at a higher gross profit margin. Additionally, the base figure in 2021 was high because of a large proportion of flooded vehicles when Henan Province, as an important operating region of the Company, experienced heavy rainfall and flooding in many regions in the summer of 2021. In comparison, the after-sales gross profit percentage decreased in 2022.

Selling & Administrative expenses

In 2022, selling and administrative expenses of the Group amounted to RMB1,229.0 million, representing an increase of 8.1% from RMB1,136.7 million in 2021 which was mainly due to one-time repair costs arising from store remodeling and increased depreciation and lease costs of opened store assets.

Other income and gains, net

In 2022, the Group recorded a negative other income and gains, net of approximately RMB1,233.0 million (2021: other income and gains, net of approximately RMB443.0 million), which was mainly attributable to commission income of RMB412.0 million (2021: RMB420.6 million), advertisement support received from motor vehicle manufactures of RMB30.5 million (2021: RMB30.3 million), interest income of RMB71.6 million (2021: RMB66.3 million), and the aggregate non-recurring losses of RMB1,787.6 million as detailed below:

1. As at December 31, 2022, the Group held approximately 9.43% equity interest in Future Mobility Corporation Limited Cayman ("**FMC**") (Byton Project), which is principally engaged in R&D and production of new energy vehicles. Due to shortage of funds, FMC was unable to settle its payments to suppliers in recent years and had been seeking a debt restructuring to resolve the debt crisis. However, the restructuring plan did not materialise in June 2022. Considering the failure of debt restructuring, its severe insolvency position and prolonged suspension of operation, a full provision has been made to the carrying amount of the Group's equity investment in FMC of approximately RMB1,217.0 million and therefore no valuation has been performed on the equity investment in FMC as of December 31, 2022.

2. As at December 31, 2022, the Company had advances due from 河南和諧汽車維修服務有限公司 (Henan Hexie Automobile Aftersales Services Co., Ltd.*) (the "**Independent Aftersales Company**") (a company in which the Group has 19.8% equity interest) and its subsidiaries (collectively, the "**IAC Group**") with aggregate principal amount of approximately RMB721.4 million. The advances were provided to the IAC Group during 2017 to 2022 for term ranging from one year to five years, and the maturity dates have been extended when due to support its operation and business expansion. They are unsecured and bear interest rate at 4.35% to 4.75% per annum. As affected by the COVID-19 epidemic, the IAC Group had suffered from cashflow issues and the interest accrued in 2022 in the amount of approximately RMB32.7 million were not settled. The Independent Aftersales Company has indicated that it has been in negotiations with various investors on financing. Nevertheless, an impairment loss of approximately RMB354.6 million has been provided for the advances to and interest receivable from the IAC Group in accordance with the applicable accounting standards and based on the expected credit loss ("**ECL**") assessment prepared by an independent valuer engaged by the Company. As the advances contain a significant financing component and there have been a significant increase in credit risk with the occurrence of default events, the general approach was adopted to measure lifetime expected credit losses by using the probability-weighted loss default model. The key parameters and inputs used in the model are set out below:

	As of December 31, 2022
Probability of default *(Note 1)*	**100.0%**
Loss given default *(Note 2)*	**47.0%**
Exposure at default ("**EAD**") *(Note 3)*	**RMB754.1 million**

Notes:

1) This is the average cumulative default probability of other debtors with similar credit rating to the IAC Group by making reference to the research and reports by Bloomberg, Moody's and S&P.

2) This is the proportion of the EAD that will be lost at events of default of other debtors with similar credit rating to the IAC Group.

3) This is the total value that the Group is exposed to when the IAC Group defaults.

3. During 2022, the Company closed two Alfa Romeo 4S stores to optimize its sales network. The Group also relocated three 4S stores located in Shaoyuan automobile city area (one for Rolls Royce, one for BMW and one for Mini) as requested by the Zhengzhou City government for redevelopment purpose. As a result of the above, an impairment loss of approximately RMB94.2 million on the entire property, plant and equipment related to the aforesaid stores has been made;

4. The Company holds investment in William Merger and Acquisition Fund No. 55 with investment amount of HK$100 million and receives interest income from the fund annually. As the interest income for 2022 was not received, the Company had tried to contact the responsible officer of the manager of the fund but to no avail, and noted that the business licence of the fund manager had been revoked. The Company is currently seeking legal advice on recovering the investment amount. Based on the above, the Company considers that the recoverability of the investment is very low and therefore a full provision has been made to the entire fund investment of HK$100 million (equivalent to approximately RMB81.5 million as recorded in the Company's 2021 annual report); and

5. As at December 31, 2022, three loans granted by the Company were in default. The loans with an initial aggregate principal amount of HK$65 million were granted by the Company to three third party borrowers which were business associates in May and June 2020 for interest income at the rate of 3% per annum. The loans had initial loan period of six months and the maturity dates were subsequently extended to May and June 2022, but the borrowers failed to repay the outstanding principal of HK$48 million and accrued interest when due. In September 2022, the Company entered into settlement deeds with the respective borrowers pursuant to which the borrowers agreed to repay all outstanding interests by September 30, 2022 and repay all outstanding principal on or before December 31, 2022, and the Company agreed to waive the interest accrued from January 1, 2022 to December 31, 2022. As at December 31, 2022, all accrued interests have been settled while an aggregate principal amount of approximately HK$46.9 million remained outstanding. In this light, the Company has taken legal actions against the borrowers, including serving statutory demands to the borrowers and filed winding-up petition to the High Court of Hong Kong against the borrowers. However, as the loans are unsecured and the Company considers that the recoverability of the loans is very low, a full provision has been made to the entire outstanding loan principal of approximately HK$46.9 million (equivalent to approximately RMB40.3 million).

Finance costs

The Group's finance costs for 2022 was RMB121.3 million, representing a decrease of 7.3% as compared with RMB130.9 million in 2021, which was mainly attributed to the decrease of the average balance of borrowings and enhancement of loan management capabilities during the Reporting Period.

Loss/Profit for the year attributable to the owners of the Company

The Group's loss for the year attributable to owners of the Company for 2022 was RMB1,627.8 million. Excluding the impact of the non-recurring losses (for details, please refer to the paragraph headed "Financial Overview — Other income and gains, net" in this report), the Group's profit for the year attributable to owners of the Company for 2022 amounted to RMB159.8 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

The Group's primary uses of cash are to pay for the purchases of passenger vehicles, spare parts and automobile accessories, to establish new dealership outlets and to fund the working capital and operating expenses of the Group. The Group's liquidity needs were financed through a combination of short-term bank loans and cash flows generated from its operating activities.

As at December 31, 2022, cash and bank balances of the Group totaled RMB1,162.0 million (2021: RMB1,629.2 million).

In 2022, our net cash generated from operating activities was RMB781.1 million, net cash generated from investing activities was RMB4.7 million, and net cash used in financing activities was RMB1,080.4 million.

Considering the Group's existing cash and cash equivalents, anticipated cash flow from the operating activities, available bank facilities and other borrowings, the Board believes that the Group's liquidity needs can be satisfied.

Net current assets

As at December 31, 2022, the Group had net current assets of RMB2,042.8 million, representing a decrease of 25.5% as compared with RMB2,741.3 million as at December 31, 2021, which was mainly due to the impairment of assets (for details, please refer to the paragraph headed "Financial Overview — Other income and gains, net" in this report).

Capital expenditure

In 2022, the Group's capital expenditure was RMB386.4 million (2021: RMB522.7 million), which was primarily used for the payment for purchase of items of property, plant and equipment in connection with the outlets.

Contingent liabilities

As at December 31, 2022, save as disclosed, the Group did not have any contingent liabilities and guarantees.

Inventories

The Group's inventories primarily consist of new passenger vehicles, spare parts and automobile accessories. Inventories increased by 36.4% from RMB1,129.6 million as at December 31, 2021 to RMB1,540.4 million as at December 31, 2022.

The Group's average inventory turnover days for 2022 were 32 days, which increased by 7 days as compared to 2021. The increase in inventories and inventory turnover days was mainly due to the strict epidemic prevention policies against epidemic in Mainland China this year, such as lock-down.

Bank loans and other borrowings

As at December 31, 2022, the Group had bank loans and other borrowings in the aggregate amount of RMB2,083.0 million, representing a year-on-year decrease of 20.8% as compared to RMB2,630.0 million as at December 31, 2021. All the bank loans and other borrowings are repayable on demand or within one year. The breakdown and maturity profile of the bank loans and other borrowings are as follows:

	2022 ***RMB'000***	2021 *RMB'000*
Bank loans repayable:		
On demand or within one year	**1,436,133**	1,622,591
Other borrowings repayable:		
On demand or within one year	**646,890**	1,007,387
	2,083,023	2,629,978

As at December 31, 2022, the gearing ratio of the Group, calculated by total liabilities divided by total assets, was 44.2%, representing an increase of 4.9% as compared with that of December 31, 2021.

As at December 31, 2022, certain of the Group's bank loans and other borrowings were secured by mortgages or pledges over the Group's assets. The Company's assets, subject to these mortgages or pledges as at December 31, 2022, mainly consisted of (i) inventories in the amount of RMB434.6 million; (ii) property, plant and equipment in the amount of RMB13.1 million, and (iii) land use rights in the amount of RMB4.4 million. In addition, certain of the Group's bank loans and other borrowings were mainly guaranteed by the certain Directors of the Company or legal representative of the Group's subsidiaries or certain subsidiaries of the Company as at December 31, 2022.

Significant Investments

As at December 31, 2021, the Group recorded the total amount of investments at fair value through profit or loss of RMB1,298.5 million, of which RMB1,217.0 million was an unlisted equity investment, measured at fair value. It is an investments in FMC which is incorporated in Cayman which engages in R&D and production of new energy vehicles. As at December 31, 2022, the Group held approximately 9.43% of the total issued shares of FMC. The total investment cost is RMB103.6 million.

As at December 31, 2021, the fair value of the investment was RMB1,217.0 million, which accounts for 9.2% of the total assets. The Group appointed an independent professional valuer to assess the fair values of an unlisted equity investment. For details of the fair value measurement, please refer to note 6 to the consolidated financial statements.

With respect to the above investment, during the year ended December 31, 2021, the Group recognised a total loss in profit or loss of RMB56.07 million.

Due to shortage of funds, FMC was unable to settle its payments to suppliers in recent years and had been seeking a debt restructuring to resolve the debt crisis. However, the restructuring plan did not materialise in June 2022. Considering the failure of debt restructuring, its severe insolvency position and prolonged suspension of operation, a full provision has been made to the carrying amount of the Group's equity investment in FMC of approximately RMB1,217.0 million during the year ended December 31, 2022.

Save as disclosed, the Group did not make or hold any significant investments (including any investment in an investee company with a value of 5% of the Company's total assets as at December 31, 2022) during the year ended December 31, 2022.

The Group's investment strategy is to deliver a diversified and flexible investment portfolio that will maximize sustained long-term returns and strive to achieve high growth, while the traditional business of the Group will continue its stable growth.

Material Acquisitions and Disposals

The Group did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities or associated companies during the year ended December 31, 2022 (for the year ended December 31, 2021: nil).

Pledge of assets

For details of the pledge of assets, please refer to note 33 to the consolidated financial statements. Save as disclosed, as at December 31, 2022, none of the Group's assets were pledged.

Capital Structure and Treasury Policies

The business activities of the Group are mainly financed by the share capital, interest-bearing bank loans and other borrowings and cash generated from the operating activities. For details of the share capital, bank loans and other borrowings and cash generated from the operating activities, please refer to the sections headed "Directors' Report — Share Capital and Shares Issued", "Management Discussion and Analysis — Liquidity and Capital Resources — Bank loans and other borrowings" and "Management Discussion and Analysis — Liquidity and Capital Resources — Cash flow" in this report. The Directors will continue to follow a prudent policy in managing the Group's financial resources such as cash with the objective of maintaining a strong and healthy liquidity position to ensure that the Group is placed to seize future growth opportunities as and when such opportunities appear.

Interest rate risk and foreign exchange risk

The Group's bank deposits, bank loans and other borrowings mainly bear interests at fixed interest rates, therefore the Group's exposure to the risk of interest rate fluctuation is very limited. Until now, the Group has not used any financial derivatives to hedge the Company's interest rate risks.

Most of the Group's revenue, cost of sales and services and expenses are denominated in Renminbi which is also the currency the Group uses to keep its accounting records. Considering its operating businesses, the Group does not think that it is exposed to any major direct foreign exchange risks, and it has not adopted any financial derivative instruments to hedge risks exposed by it. Part of the Group's cash deposits and bank borrowings are denominated in Hong Kong dollars or US dollars, which makes it subject to potential conversion differences as a result of the fluctuation of foreign exchange rates on financial statements.

Employees and remuneration policies

As at December 31, 2022, the Group has a total of 3,925 employees (2021: 4,551). The salary package of the Directors and employees is determined by their working experiences, duties and performances. The management will conduct annual review on the salary plan while taking into account the Directors and employees' general performance and market conditions. The Group also makes contributions to the Directors and employees' social security plans in mainland China and to the mandatory provident fund scheme in the Hong Kong Special Administrative Region of the People's Republic of China.

Relevant staff cost for 2022 was approximately RMB421.9 million, while the staff cost was approximately RMB464.1 million for 2021 (including employee share incentive of RMB1.3 million). The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to success of the Group's operations. Eligible participants of the Share Option Scheme include the Directors and employees of the Company and its subsidiaries. The Share Option Scheme became effective on June 26, 2015, and unless otherwise cancelled or amended, will remain in force for ten years from that date. On February 28, 2019, the Company adopted a share award plan (the "**Share Award Plan**"), pursuant to which the Company may grant existing Shares to selected participants (namely all employees, Directors (whether executive or non-executive, but excluding independent non-executive Directors) and officers of the Group, but excluding Mr. FENG Changge). The reason for adopting the Share Award Plan is to (i) incentivize, recognize and reward employees, Directors (whether executive or non-executive, but excluding independent non-executive Directors) and officers of the Group for their contribution to the Group; (ii) attract and retain personnel to promote the long-term growth and development of the Group; and (iii) align the interests of the award holders with that of the Shareholders to promote the long-term financial performance of the Company. The Company will regularly review its compensation policies and employee benefits with reference to market practices and individual performance. For details of these schemes, please refer to the sections headed "Share Option Scheme" and "Share Award Plan" in the Directors' Report.

For trainings provided to the employees, please refer to the section headed "VI. Our Employees — Aspect B3: Development and training" in the Environmental, Social and Governance Report.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended December 31, 2022.

CORPORATE GOVERNANCE PRACTICES

The Board has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to formulate its business strategies and policies, and to enhance its transparency and accountability.

For the year ended December 31, 2022, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" or "**Hong Kong Stock Exchange**").

The Board will continue to review and monitor the corporate governance practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders.

The Group is committed to developing a positive and progressive culture that is built on its culture which focuses on simplicity, efficiency and happiness. More information about its culture is available on the Company's website. The Company believes that such culture can enable the Company to deliver long-term sustainable performance to the Shareholders. For details of the discussion and analysis of the Group's performance, please refer to the section headed "Management Discussion and Analysis-Financial Overview" in this report.

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 code of conduct regarding Directors' securities transactions.

All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code for the year ended December 31, 2022.

BOARD OF DIRECTORS

Board Composition

As at the date of this report, the Board of the Company comprises the following directors:

Executive Directors:
Mr. FENG Changge *(Chairman)*
Mr. FENG Shaolun *(Deputy Chairman)*
Mr. LIU Fenglei *(President)*
Ms. MA Lintao *(Vice-president)*
Mr. CHENG Junqiang *(Vice-president)*

Independent Non-executive Directors:
Mr. WANG Nengguang
Mr. LAU Kwok Fan
Mr. CHAN Ying Lung

The biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this report. The relationships between the members of the Board are also disclosed under that section.

Chairman and President

The position of Chairman is held by Mr. FENG Changge and that of President is held by Mr. LIU Fenglei. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The President focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

During the year ended December 31, 2022, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Board Independence Evaluation

The Board seeks the development of an effective working environment for the executive and independent non-executive Directors so as to improve the quality of the decisions made by the Board without constraining the independent views of the independent non-executive Directors. The Group has established a mechanism to ensure independent views and inputs are available to the Board by including allowing the independent non-executive Directors to directly contact the Chairman of the Board or (in case of any conflict of interest) the Deputy Chairman of the Board for their views.

The Board also review the implementation and effectiveness of such mechanism(s) on an annual basis to ensure independent views and inputs are available to the Board.

Directors' Appointment and Re-election

Each of the Directors of the Company has entered into either a service agreement or a letter of appointment with the Company for a term of three years subject to retirement by rotation in accordance with the articles of association (the "**Articles of Association**") of the Company.

In accordance with the Articles of Association, at every annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation, all Directors are subject to retirement by rotation and re-election at an annual general meeting at least once every three years and any Director appointed to fill a casual vacancy shall hold office until the first general meeting and any Director appointed as an addition to the Board shall hold office only until the next annual general meeting and shall then be eligible for re-election at that meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board shall take decisions objectively in the interests of the Company.

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

All Directors have full and timely access to all the information of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances for discharging their duties to the Company.

The Directors shall disclose to the Company the details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his or her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management. The Board also reviewed its performance regularly.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of their responsibilities as a Director and of the conduct, business activities and development of the Company.

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

Directors participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and appropriate.

The Company had from time to time provided relevant reading materials including industry updates and corporate governance to all Directors for their reference and studying. This is to ensure that all the Directors are sufficiently aware of their responsibilities under the Listing Rules and other relevant regulatory requirements.

In addition, all the Directors of the Company had participated in various trainings and/or read materials of relevant topics, including:

– Corporate strategic management/corporate operational management

– Financial strategic management

– Investment strategies

– Research on audit development strategies

The Company understands that the Directors should participate in appropriate continuous professional development programs to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The Company established the Audit Committee on May 20, 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code and terms of reference amended on August 31, 2016 and March 29, 2019.

The Audit Committee consists of three members, namely Mr. Wang Nengguang (chairman), Mr. Lau Kwok Fan and Mr. Chan Ying Lung, all of whom are independent non-executive Directors of the Company (including one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control and risk management systems, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held 2 meetings to review interim and annual financial results and reports during the year ended December 31, 2022 and significant issues on changes related to the financial reporting and compliance procedures, internal control and risk management systems, the effectiveness of the internal audit function, scope of work and engagement of external auditors.

The Audit Committee also met the external auditors once without the presence of the executive Directors.

Remuneration Committee

The Company established the Remuneration Committee on May 20, 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code.

The Remuneration Committee consists of three members, namely Mr. Chan Ying Lung (chairman) and Mr. Lau Kwok Fan, both being independent non-executive Directors; and Mr. Liu Fenglei, an executive Director.

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; assessing performance of executive directors and approving the terms of executive directors' service contracts; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration. The remuneration of the Directors and senior management by band for the year ended December 31, 2022 is set out in the section headed "Directors' Report — Emolument Policy" and note 13 to the consolidated financial statements in this report. For details of the remuneration policy of the Directors and senior management, please refer to the section headed "Management Discussion and Analysis — Employees and remuneration policies" in this report.

The Remuneration Committee held a meeting during the year ended December 31, 2022. During the meetings, the Remuneration Committee reviewed and advised on the remuneration packages of the executive Directors and senior management, assessed performance of executive directors and proposed new independent non-executive executive directors and made recommendations to the Board.

Nomination Committee

The Company established the Nomination Committee on May 20, 2013 with written terms of reference in compliance with the CG Code.

The Nomination Committee consists of three members, namely Mr. Feng Changge (chairman), an executive Director, and Mr. Wang Nengguang and Mr. Chan Ying Lung, both being independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

The Company firmly believes that the increasing diversity at the board level is one of essential elements in supporting the attainment of its strategic objectives and its sustainable development, therefore, the Company has adopted a Board Diversity Policy in accordance with the requirement set out in the CG Code.

Various factors in relation to diversity of the members of the Board, including but not limited to: gender, age, culture and education background, professional experience, skills, knowledge and industry and region experience and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate. The Board is currently composed of 7 male and 1 female directors. After the review and assessment, the Nomination Committee will make recommendation to the Board. The Nomination Committee also discusses and makes decision (if required) to attain the measurable targets of diversity of the members of the Board, and propose relevant recommendations to the Board. The Board will maintain at least 1 female at all time. As at the date of this report, the Nomination Committee is in progress of identifying suitable female candidate(s) for appointment to the Board on merit against objective criteria. In order to achieve and/or maintain gender diversity, the Nomination Committee will try and propose a pipeline of potential successors to the Board to achieve gender diversity. A pipeline of potential successors can be developed by continuous accessing the existing employees of various departments and providing various trainings to equip them with the requisite management skills from time to time, where appropriate.

Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at December 31, 2022:

	Female	Male
Board	1	7
Senior Management	0%	100%
	0	1
Other employees	40%	60%
	1,519	2,269
Overall workforce	40%	60%
	1,520	2,277

The Board had targeted to achieve and had achieved at least 40% (1,519) of female employees of the Group and considers that the above current gender diversity is satisfactory.

Details on the gender ratio of the Group together with relevant data can be found in the Environmental, Social and Governance Report of this annual report.

During the Reporting Period, the Board was not aware of any mitigating factors or circumstances which make achieving gender diversity across the workforce (including senior management) more challenging or less relevant.

In evaluating and selecting any candidate for directorship, the Nomination Committee and/or the Board shall consider the following criteria, including, but not limited to, character and integrity, qualifications including professional qualifications, skills, knowledge and experience relevant to the Company's business and strategy, and diversity elements mentioned in the Board Diversity Policy, any measurable targets adopted for attaining diversity of the members of the Board and willingness and ability to devote adequate time to discharge duties as a member of the Board and committees under the Board. The Board also reviewed the implementation and effectiveness of the Board Diversity Policy annually.

Nomination process of directors of the Company is as follows: -

(a) Appointment of new directors

  (i) The Nomination Committee and/or the Board may select candidates for directors from various channels, including but not limited to internal promotion, re-designation, referral by other members of the management and external recruitment agents.

  (ii) The Nomination Committee and/or the Board shall, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

  (iii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

  (iv) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

  (v) For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

  Where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of directors at the general meeting.

(b) Re-election of director at general meeting

(i) The Nomination Committee and/or the Board shall review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

The Nomination Committee held a meeting during the year ended December 31, 2022 to review the structure, size and composition of the Board, the independence of the independent non-executive Directors, to consider the qualification of the retiring Directors standing for re-election at the Annual General Meeting, and recommended the retiring Directors and the appointment of a new director to the Board .

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision C.2.1 of the CG Code.

The Board reviewed and developed the Company's corporate governance policies and practices and made recommendations, reviewed and monitored training and continuous professional development of Directors and senior management, reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements, developed, reviewed and monitored the compliance of the Model Code and Written Employee Guidelines, and reviewed the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors and Board Committee Members

The attendance record of each Director at the Board meetings and Board committee meetings of the Company held during the year ended December 31, 2022, is set out in the table below:

Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Mr. FENG Changge	6/6	—	—	1/1	1/1
Mr. FENG Shaolun	6/6	—	—	—	1/1
Mr. LIU Fenglei	6/6	—	2/2	—	1/1
Ms. MA Lintao	6/6	—	—	—	1/1
Mr. CHENG Junqiang	6/6	—	—	—	1/1
Mr. HAN Yang (resigned on January 5, 2022)	—	—	—	—	—
Mr. WANG Nengguang	6/6	2/2	—	1/1	1/1
Mr. LAU Kwok Fan	6/6	2/2	2/2	—	1/1
Mr. CHAN Ying Lung	6/6	2/2	1/2	1/1	1/1
Total	6	2	2	1	1

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of executive Directors during the year ended December 31, 2022.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

AUDITOR'S REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended December 31, 2022 is set out below:

Service Category	**Fees Paid/ Payable** *RMB'000*
ZHONGHUI ANDA CPA Limited	
Audit services	
— Current year	5,300
Non-audit services	500
Total	5,800

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. During the year under review, the Board oversaw its risk management and internal control systems on an ongoing basis and, through the Audit Committee, conducted an annual review of the effectiveness of the risk management and internal control systems of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Board took into account the changes, since the last annual review, in the nature and extent of significant risks (including ESG risks), and its ability to respond to changes in its business and the external environment; the scope and quality of management's ongoing monitoring of risks (including ESG risks) and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers; the extent and frequency of communication of monitoring results to the Board (or Board committee(s)) when assessing its internal control systems and the effectiveness of risk management. No significant control failings or weaknesses have been identified during the period. Also, while there may be some unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the financial performance or condition (for details, please refer to "Directors' Report - Major risks and uncertainties" of this report), the Company received a confirmation from management on the effectiveness of the issuer's risk management and internal control systems and the Directors consider that the Group's existing risk management and internal control systems are overall effective and adequate, and they also accepted the improvement suggestions put forward by the Internal Control Consultant.

The Group's internal audit department plays an important role in monitoring the internal governance of the Company. The major duties of internal audit department are to regulate and review the internal control and compliance related matters of the Company and conduct comprehensive audits of all branches and subsidiaries of the Company on a regular basis. The Group's internal audit department performs regular evaluation on the effectiveness of risk control measures taken by each operating department and issues an appraisal report which shall be submitted to our Audit Committee for approval.

The Company has established a risk management process, pursuant to which each operating department is required to identify any significant risks associated with their work and corporate strategies of the Company. The Company also strives to adopt the opinions of stakeholders (including shareholders, customers, employees, suppliers, regulators and the public) and protect their rights and interests through constructive communication, so as to determine the long-term development direction of the Company and maintain a close relationship with the stakeholders. For details of the concerns, please refer to the section headed "Environmental, Social and Governance Report - IV. Stakeholders and Materiality Assessment". Through communications with stakeholders, the Company can understand the risks they are facing in the industries, which may also be the risks the Company is facing in the same industries. Based on the assessment of the identified risks in terms of their likelihood and potential impact, the Company prioritizes and pairs each risk with a mitigation plan. Furthermore, any emergencies are required to be reported, evaluated and managed in time to mitigate the impact.

The Group has established a three-tier risk control corporate structure in implementing our internal control and risk management policies and procedures. First, the Board and the senior management oversee and manage the overall risks associated with our business operations. Second, the Audit Committee provides the Directors with an independent review of the effectiveness of the financial reporting process, internal controls, and risk management system of the Group. Third, the Group's internal audit department supervises the implementation of our risk management policy at the corporate level and organizes an annual audit progress for regularly evaluating the effectiveness of the risk management and internal control measures taken by each operating department and issues an appraisal report which shall be submitted to the Audit Committee for approval.

The Board is responsible for the management of inside information. Without the approval of the Board, the Company prohibits any inside information from being disclosed to the public.

COMPANY SECRETARY

Ms. WONG Wai Yee, Ella of Tricor Services Limited, an external service provider, was engaged by the Company as its company secretary on January 24, 2018. She has taken no less than 15 hours of relevant professional training during the year ended December 31, 2022 in compliance with the relevant requirements on training of Rule 3.29 of the Listing Rules.

The primary contact person of the Company is Ms. Li Dan, the Board Secretary of the Company. She reports to the Board chairman and/or the chief executive officer of the Company. All Directors can have access to her advice and services to ensure that Board procedures, and all applicable law, rules and regulations, are followed.

WHISTLE-BLOWING AND ANTI-CORRUPTION POLICIES

The Company has in place the whistleblowing policy for employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity. The Company has also in place the anti-corruption policy to safeguard against corruption and bribery within the Company. The Group regularly issues "integrity and self-discipline commitment" circulars to the staff, requiring that the staff must select suppliers, contractors or partners objectively and openly, in order to eliminate all inappropriate behaviors in the workplace, such as soliciting bribes, accepting bribes, using power to solicit business for relatives and friends at the price of damaging the Company's interests, etc. In terms of internal policies, the Group has established a legal supervision department to supervise the integrity and self-discipline of all employees. For details, please refer to the section headed "VII. Our Business — Aspect B7: Anti-corruption" in the Environmental, Social and Governance Report.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions proposed at general meetings will be voted by poll pursuant to the Listing Rules, unless otherwise required by the Listing Rules and poll voting results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting and Proposing Resolutions at Extraordinary General Meetings by Shareholders

Pursuant to Article 58 of the Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board and/or add resolutions to the agenda of a meeting for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If, within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders should follow the requirements and procedures as set out above for proposing resolutions at extraordinary general meetings of the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company normally does not deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Suites 1001-1004 on level 10, One Pacific Place, 88 Queensway, Admiralty, Hong Kong
Tel: (852) 2251 1830
Fax: (852) 2251 1823
Email: hk@hexieauto.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and confirmation documents in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor's understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings ("**AGM**") and other general meetings.

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 chairmen of the Nomination Committee, the Remuneration Committee and the Audit Committee (or their delegates) will make themselves available at the AGM to meet shareholders and answer their enquiries.

The notice of the AGM will be despatched to shareholders at least 21 clear days before the AGM in accordance with the Articles of Association of the Company and the Listing Rules.

To promote effective communication, the Company maintains a website at www.hexieauto.com where up-to-date information and updates on the Company's financial information, corporate governance and other information are posted. Shareholders can also communicate their views with the contact details provided above.

Amendments to Constitutional Documents

The Company adopted an amended and restated Memorandum and Articles of Association on June 16, 2022 pursuant to the amended Appendix 3 to the Listing Rules which came into effect on January 1, 2022. Save as disclosed, the Company has not made any changes to its Articles of Association. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

The Company has reviewed the implementation and effectiveness of the shareholders' communication policy from time to time. Having considered the multiple channels of communication and engagement in place, the Board is satisfied that the shareholders' communication policy has been properly implemented during 2022 and is effective.

Dividend Policy

The company has adopted a dividend policy for the payment of dividends. The company does not preset dividend payment ratio. Based on the financial situation of the Group and other conditions and factors stipulated in the dividend policy, the Directors may propose and/or declare dividends during the financial year, but the final dividend of the year must be approved by the Company.

SHAREHOLDERS ENGAGEMENT

Directors' shareholding Interests

Directors' interests in the Company's securities as at December 31, 2022 are disclosed in the Directors' Report. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended December 31, 2022 they have complied with the required standard set out in the Model Code and the Company's own Code for Securities Transactions. The Company's own Code for Securities Transactions is largely based on the Model Code set out in Appendix 10 of the Listing Rules and is on terms no less exacting than those in the Model Code.

Shareholding as at December 31, 2022

Size of Registered Shareholding	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
1–500	46	56.7901	9,785	0.0006
501–1,000	13	16.0493	13,000	0.0008
1,001–10,000	17	20.9876	73,500	0.0047
10,001–100,000	1	1.2345	14,000	0.0009
100,001–500,000	0	0	0	0
Above 500,001	4	4.9382	1,546,886,392	99.9928

The Listing Rules required a 25% public float, which was maintained throughout the Reporting Period and up to the date of this report.

Important Shareholders' Dates in 2023

The following are the key shareholder-related dates and events:

Date	Event
Friday, March 31, 2023	Publication of the announcement of the annual result for the year ended December 31, 2022
Thursday, April 27, 2023	Publication of this report
Thursday, April 27, 2023	Publication of the 2022 Environmental, Social and Governance Report
Thursday, May 4, 2023	Board meeting to reconsider the declaration of final dividend for the year ended December 31, 2022
4:30 p.m. on Wednesday, June 7, 2023	Latest time to lodge transfers of shares to qualify for the right to attend and vote at the 2022 AGM
Thursday, June 8, 2023 to Tuesday, June 13, 2023 (both days inclusive)	Closure of register of members for ascertaining Shareholders' right to attend and vote at the 2022 AGM
Tuesday, June 13, 2023	Date of the 2022 AGM

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. FENG Changge ("Mr. FENG"), aged 52, is an executive Director, the Chairman of the Board, the Chairman of the Nomination Committee, and a director of Eagle Seeker Company Limited, a substantial shareholder of the Company. Mr. FENG was appointed as an executive Director of the Company on September 24, 2012 and is responsible for the overall strategic and business direction of the Group. He is the founder of the Group, and has been in the automobile industry since 2005 when he founded Henan Zhongdebao Automobile Sales & Services Co., Ltd ("**Zhongdebao**"). Zhongdebao is a wholly-owned subsidiary of the Company and the first BMW dealership outlet in Henan Province. Mr. FENG graduated with a bachelor's degree in economic law from Central South Institute of Law (中南政法學院) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in 1992 and received a master's degree in law from the same institution in 2001. After graduation in 1992, Mr. FENG entered the judiciary in Henan Province, serving as assistant judge and judge of the Higher People's Court of Henan Province (河南省高級人民法院). In 2002, Mr. FENG left the judicial system and established a law firm, while at the same time starting various business enterprises. He became involved in real estate investment through his vehicle, Yuanda Investment, and was also involved in the auction and valuation businesses. He is also the controlling shareholder of Hexie Industrial Group, a privately owned group headquartered in Zhengzhou Henan Province, China, with business interests focusing on branded and luxury lifestyle goods and services, including property development, golf courses and automobile sales. Save as disclosed, over the past three years, Mr. FENG has not been a director of any other listed companies and does not hold any other position in the Company and other members of the Group. Mr. FENG is the husband of Ms. MA Lintao and father of Mr. FENG Shaolun.

Mr. FENG Shaolun, aged 27, was appointed as an executive Director and Deputy Chairman of the Board on December 7, 2021. He graduated from the University of California, Irvine, majoring in Aerospace Engineering. He has won five championships of the National Junior Aerospace Model and the titles of national first class athlete and national sportsman. During his studies overseas, he established what is now California's largest Chinese integrated car repair center and racing club. Since his joining the Company, Mr. Feng Shaolun has been committed to the expansion and management of all brands of the Company, including but not limited to BMW, Lexus, Ferrari, Bentley, Rolls-Royce, Maserati, Land Rover, Lincoln, etc. Later, he joined Zhengzhou Zhongdebao Automobile Sales & Service Co., Ltd and engaged in the overall management, serving successively as salesman, sales deputy manager, deputy manager of after-sales service, deputy general manager of the store. Mr. Feng Shaolun is also the chairman of Henan Harmony Real Estate Group and chairman of Henan Jinsha Lake International Golf Club Co.,Ltd.. Save as disclosed, he has not served as a director of any other company listed on any securities market in Hong Kong or overseas and does not hold any other position in the Company and other members of the Group for the past three years. He is the son of Mr. Feng Changge, chairman of the Company and Ms. Ma Lintao, executive director of the Company.

Directors and Senior Management

Mr. LIU Fenglei ("Mr. LIU"), aged 47, was appointed as an executive Director, president and chief executive officer of the Company on October 19, 2015. He is currently a member of the Remuneration Committee of the Company. Mr. LIU is one of the founders of the Group. He has approximately 18 years' experience in China's automobile industry. He obtained a Bachelor degree of commercial English from Zhengzhou University (鄭州大學) in 1998. He joined the Group in February 2003 and worked at Henan Zhongdebao Automobile Sales & Service Co., Ltd. (河南中德寶汽車銷售服務有限公司) as the assistant to the chairman of the board of directors. From August 2006 to April 2013, he was the general manager of Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd. (鄭州遠達雷克薩斯汽車銷售服務有限公司). From April 2013 to October 2015, he was the senior vice president of the Company in charge of the Group's network development and luxury passenger vehicles' business. Save as disclosed, over the past three years, Mr. LIU has not been a director of any other listed companies and does not hold any other position in the Company and other members of the Group.

Ms. MA Lintao ("Ms. MA"), aged 55, was appointed as an executive Director on January 31, 2013 and is currently a vice-president of the Company. She is responsible for the Group's overall administrative matters and public relationships. Ms. MA graduated from Henan Institute of Finance and Economics (河南財經學院) (now known as Henan University of Economics and Law (河南財經政法大學) with a bachelor's degree in national economic planning and statistics in June 1992. From July 1992 to December 2003, Ms. MA worked in China Construction Bank Henan branch (中國建設銀行河南分行) in various positions such as director of the credit approval committee of the Zhengzhou branch office and vice-president of the Zhengzhou futures branch office, where she was responsible for matters such as credit assessment and approval and public and retail sales. Ms. MA joined our Group in September 2006 as the chairlady of Yuanda Lexus, our wholly-owned subsidiary. Save as disclosed, over the past three years, Ms. MA has not been a director of any other listed companies and does not hold any other position in the Company and other members of the Group. Ms. MA is the wife of Mr. FENG Changge and the mother of Mr. FENG Shaolun.

Mr. CHENG Junqiang ("Mr. CHENG"), aged 43, was appointed as an executive Director on January 5, 2022 and is currently the vice-president and chief operating officer of the Company. He majored in automotive application engineering, has nearly 21 years of experience in the automotive industry since graduation. Mr. CHENG joined the Company in 2007 and served as the general manager of Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd. (鄭州遠達雷克薩斯汽車銷售服務有限公司) and the brand director of Lexus under Harmony Auto. Prior to his appointment as an executive director, Mr. CHENG served as the chief operating officer of the Company and managed all 4S stores of luxury and ultra-luxury brands under Harmony Auto. Mr. CHENG is responsible for the overall operation of the brand. He adheres to the concept of refined management, devotes himself to improving the execution capability and detailed operation level of the stores he managed, continues to deepen the development of automobile industry, and creates a 4S store operation system with the "harmony" characteristic. Save as disclosed, over the past three years, he has not been a director of any other listed companies and does not hold any other position in the Company and other members of the Group.

Independent Non-executive Directors

Mr. WANG Nengguang ("Mr. WANG"), aged 64, was appointed as an independent non-executive Director, chairman of the Audit Committee and a member of the Nomination Committee of the Company on February 4, 2019. Mr. WANG graduated from Party School of the Central Committee of C.P.C. (中共中央黨校) with a master's degree in economic management in July 2001. He is qualified as a senior accountant and a certified public accountant. From August 1991 to July 1992, he served as financial manager of China Record (Shenzhen) Co., Ltd. of Ministry of Broadcasting and Television (廣電部中唱深圳公司). From April 1994 to March 2001, he served as general manager of the financial department of Lenovo Group Limited (聯想集團), a company listed on the Stock Exchange (stock code: 992). From April 2001 to December 2003, he served as managing director and chief financial officer of Legend Capital Limited (聯想投資有限公司). From January 2004 to February 2012, he served as managing director and chief financial officer of Beijing Legend Investment Advisor Co., Ltd. (北京聯想投資顧問有限公司). From September 2012 to November 2015, he served as a non-executive Director of the Company. From April 2001 to March 2018, he served as managing director and chief financial officer of Beijing Legend Capital Management Co., Ltd. (北京君聯資本管理有限公司). From April 2018, he served as a director of Beijing Legend Capital Management Co., Ltd. (北京君聯資本管理有限公司). From May 2014 to May 2020, he served as an independent director of Digital China Information Service Company Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000555.SZ). Since September 2021, he served as an independent director of Guangdong Guanhao High-Tech Co., Ltd. (listed on the Shanghai Stock Exchange (stock code: 600433)). Since February 2022, he served as an independent director of Digital China Group Co., Ltd. (listed on the Shenzhen Stock Exchange (stock code: 000034)). Save as disclosed, over the past three years, he has not been a director of any other listed companies and does not hold any other position in the Company and other members of the Group.

Mr. LAU Kwok Fan ("Mr. LAU"), aged 42, was appointed as an independent non-executive Director on June 14, 2019 and is currently a member of the Audit Committee and Remuneration Committee of the Company. Mr. LAU was awarded a Bachelor of Arts degree in Public Administration and Management from De Montfort University in June 2006 and a Master of Arts degree in Sociology from the Chinese University of Hong Kong in December 2010. Mr. LAU is currently a member of the Legislative Council of Hong Kong. He was appointed as a member of the board of directors of Hong Kong Cyberport Management Company Limited commencing on 1 April 2021. In February 2018 he was appointed by the Chief Executive of Hong Kong as a member of the Betting and Lotteries Commission. From 2008 to 2019, he was an elected member of North District Council and from November 2016, he was elected by the members of the Legislative Council to serve as a member of the university council of the Chinese University of Hong Kong. Mr. LAU is also a member of the Beijing Committee of the Chinese People's Political Consultative Conference ("**CPPCC**") and a member of the Jiangmen Committee of the CPPCC. Mr. LAU is also an independent non-executive director of KNT Holdings Limited (stock code: 1025.HK), a company listed on the Stock Exchange of Hong Kong Limited since 31 January 2019. Save as disclosed, over the past three years, he has not been a director of any other listed companies and does not hold any other position in the Company and other members of the Group.

Directors and Senior Management

Mr. CHAN Ying Lung ("Mr. CHAN"), aged 43, was appointed as an independent non-executive Director on March 27, 2020, who currently is the Chairman of the Remuneration Committee, a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. CHAN has over 17 years of professional experience in research and investments. He has been with Henderson (China) Investment Company Limited as Investment Director/General Manager since November 2014. He is primarily responsible for reporting to Group Chairman and all (non-property) business strategy and development. He previously worked as an investment team head in private equity at CMS Capital (HK) Company Limited from November 2010 to November 2014. From August 2006 to October 2010, he was the vice president at CCB International Asset Management. Prior to that, he worked as a research analyst and responsible for mid-small capital research at China Everbright Research Limited. Save as disclosed, over the past three years, he has not been a director of any other listed companies and does not hold any other position in the Company and other members of the Group.

The remuneration of the Directors is set out in note 13 to the consolidated financial statements.

Senior Management

Mr. ZHANG Lei ("Mr. ZHANG"), aged 43, graduated from Henan University of Finance and Economics majoring in financial accounting in June 2000, obtained a bachelor's degree in management from Zhongnan University of Economics and Law in December 2009, and obtained an executive master's degree in business administration from Zhengzhou University in July 2017. Mr. ZHANG has 19 years of experience in financial affairs in the automobile industry, and has been engaging in financial related works in the Company for 16 years. Mr. ZHANG served for Henan Zhongdebao Automobile Sales & Services Co., Ltd. from March 2005 to May 2011 as the head of accounting affairs and financial manager and the chief accountant of the Group since May 2011 and was appointed as the Chief Financial Officer of the Company since August 31, 2017. Mr. ZHANG is a qualified senior accountant.

Company Secretary

Ms. WONG Wai Yee Ella ("Ms. WONG"), aged 47, is a Director of Corporate Services of Tricor Services Limited ("**Tricor**"). Ms. WONG has over 21 years of experience in the corporate secretarial and compliance services field. Her practice focuses on business development and professional corporate services for multinational, private, listed and offshore companies. Ms. WONG is currently the company secretary/joint company secretary for a number of listed companies on Hong Kong Stock Exchange.

Ms. WONG is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both the The Hong Kong Chartered Governance Institute and The Chartered Governance Institute. Ms. WONG holds a Bachelor of Economics from The University of Hong Kong and a Postgraduate Diploma in Corporate Administration from the City University of Hong Kong.

Directors' Report

The Directors are pleased to present this report together with the audited consolidated financial statements of the Group for the year ended December 31, 2022.

PRINCIPAL PLACE OF BUSINESS

The Company is a company incorporated in the Cayman Islands with limited liability where its registered office is located in the Cayman Islands. Its principal place of business and headquarter in PRC is located in Zhengzhou, Henan Province.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the subsidiaries of the Company are set out in note 45 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 7 to 18 of this report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which have a significant impact on the Group are also included in the Management Discussion and Analysis, Corporate Governance Report and Environment, Social and Governance Report of this report. The business review forms part of this directors' report.

RESULTS AND DIVIDEND

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

As disclosed in the announcement dated April 21, 2023, a board meeting will be held on Thursday, May 4, 2023 to reconsider the declaration of a final dividend for the year ended December 31, 2023 and further announcement to set out the details of the proposed final dividend will be published accordingly (2021: HK$0.21 per share totalling RMB281,012,000 was paid on August 15, 2022). As far as the Company is aware, as at the date of this report, there was no arrangement under which any shareholder has waived or agreed to waive any dividend proposed to be distributed for the year ended December 31, 2022.

USE OF PROCEEDS FROM THE ALLOTMENT OF NEW SHARES

(1) On December 22, 2014, the Company entered into a subscription agreement with Foxconn (Far East) Limited ("**Foxconn**"), a wholly-owned subsidiary of Hon Hai Precision Industry Co. Ltd., pursuant to which Foxconn conditionally agreed to subscribe for an aggregate of 128,734,000 Shares with a nominal value of HK$0.01 each at the subscription price of HK$4.73 per Share. The net issue price per Share of the aforesaid subscription was approximately HK$4.67. On December 22, 2014, the closing price of the Shares of the Company was HK$5.31 per Share as quoted on the Stock Exchange. The allotment of the said Shares was completed on March 2, 2015.

(2) On January 9, 2015, the Company and Eagle Seeker Company Limited ("**Eagle Seeker**") entered into separate placing agreements with each of First Shanghai Securities Limited ("**First Shanghai**") and Haitong International Securities Company Limited ("**Haitong Securities**"), respectively, pursuant to which First Shanghai and Haitong Securities as the placing agents have agreed to severally, as agents of Eagle Seeker, procure placees to purchase a total of up to 90,113,000 Shares owned by Eagle Seeker at the placing price of HK$6.08 per Share. The net issue price per the new Share was approximately HK$5.90 per Share. On January 9, 2015, the closing price of the Shares was HK$6.15 per Share as quoted on the Stock Exchange. The placing and subscription were completed on January 13, 2015 and January 21, 2015, respectively. The Company used the net proceeds for investment in the manufacturing of new energy electric vehicles.

(3) On May 22, 2015, the Company, Mr. FENG Changge and Eagle Seeker entered into a placing agreement with Credit Suisse (Hong Kong) Limited and Haitong (collectively, the "**Joint Placing Agents**"), pursuant to which the Joint Placing Agents have agreed to, as agents of Eagle Seeker, procure placees to purchase a total of up to 262,616,779 Shares owned by Eagle Seeker at the placing price of HK$8.18 per Share. The net issue price per the new Share was approximately HK$8.04 per Share. On May 22, 2015, the closing price of the Shares was HK$8.91 per Share as quoted on the Stock Exchange. The completion of the placing agreements of May 22, 2015 is subject to the entering into of the subscription agreement between the Company and Eagle Seeker which conditionally agrees to subscribe from the Company for an aggregate of up to 262,616,779 new Shares at the subscription price of HK$8.18 per subscription share. The placing and the subscription were completed on May 27, 2015 and June 3, 2015, respectively. The Company used the proceeds as follows: (1) approximately 15% in supplement working capital; (2) approximately 20% in invest in GFMC and Aiche Company; (3) approximately 35% in invest in business opportunities in the field of new energy vehicles; (4) approximately 10% in the after-sales services center of Tesla Motors, Inc.; (5) approximately 20% in online and offline after-sales service.

(4) On 20 November 2019, the Company entered into the placing agreement with RaffAello Securities (HK) Limited, pursuant to which the Company conditionally agreed to place, through RaffAello Securities (HK) Limited on a best efforts basis, up to 52,000,000 placing shares to Successful Lotus Limited at a price of HK$3.00 per placing share. The placing price of HK$3.00 per share represents (i) a premium of 9.09% over the closing price of HK$2.75 per share as quoted on the Stock Exchange on the trading date immediately preceding the last trading day; and (ii) a premium of 8.77% over the average of the closing prices per share of HK$2.758 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the last trading day. The maximum gross proceeds from the placing was approximately HK$156 million. The net proceeds, after the deduction of the placing commission and other related expenses, was approximately HK$150 million, representing a net issue price of approximately HK$2.88 per placing share. The Company intended to use the net proceeds from the placing for establishing long term partnerships with the Company's strategic partners and for the general working capital of the Company to meet running expenses. The Company considered that the placing represents a good opportunity to raise additional funds to strengthen the Company's financial position and to meet its financial obligations. It will also widen the Company's shareholder base and improve the liquidity of the shares. The placing of shares was completed on 2 December 2019. For further details, please refer to the announcement of the Company dated 20 November 2019.

    As of December 31, 2019, approximately 65% of the net proceeds had been used for the general working capital. The unused portion (approximately 35%) has been used in 2020 for the general working capital.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Detail of the movement in the share capital of the Company during the year are set out in note 38 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2022, the Company's reserves available for distribution, subject to the Cayman Companies Act and the Articles of Association of the Company, amounted to RMB2,850.5 million (2021: RMB2,936.5 million).

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR RISKS AND UNCERTAINTIES

(1) Macro policies

As a pillar industry of the national economy, the auto mobile sector is considerably correlated to the volatile cycles of the macro-economy in terms of timing and extent. Being a dealer of luxury and ultra-luxury vehicles, the Group's operating conditions are more associated with the macro economic environment as compared to the industry. Currently, China's auto mobile market continues to hold out strong potential for development. However, if significant fluctuations occur in the auto industry in future as a result of cyclical developments in the macro-economy, the sales of whole-vehicle will be inevitably affected. As such, the Group is required to monitor any changes in the economic landscape in a timely manner and adjust its overall business planning, network development plans and marketing plans under different market conditions.

(2) Industry policies

The Group must comply with policies and regulations in respect of auto mobile industry promulgated by the PRC government in its business operation. The alterations in the finance system of China, for instance, the introduction of new tax and increase in tax rate, may affect the profit of the Group. The acceleration in promotion and application of new energy automobiles by the Chinese government may also exert impact on the automobile industry. On the other hand, the limits or other measures imposed by local governments may have an influence on the sales of passenger vehicle, which in turn controls the number of the passenger vehicles in the cities where the network of the Group are located. As a result, the Group will monitor closely any developments in government policies on our industry, while enhancing our service standards on an ongoing basis to address any risks arising from changes in industry policies.

(3) Automobile manufacturers' policies

As an automobile dealership group, the Group maintains sound cooperation with branded automobile manufacturers. The Group generates the majority of the revenue from operation of dealership outlets, which relies on the authorization from manufacturers on operating our existing dealership outlets and establishing new outlets. Changes in the policies of such manufacturers might result in changes in the sales strategies for their brands, sales incentives and business policy support for us, and such changes might lead to a decrease in products sales and revenue. Hence, the Group will actively enhance communication with the manufacturers and continue to adopt a development strategy that covers a diverse range of brands.

(4) Market competition

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

(5) Market risks

The Group exposes to various types of market risks, including credit risks, liquidity risks, interest rate risks and exchange risks, the details of which are set out in note 5 to the consolidated financial statements in this report. The Group has exercised effective control over market risks through continuous monitoring of risks and changes, timely risk warnings, appropriate application of hedge instruments and other methods.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended December 31, 2022, the aggregate purchases from our top five suppliers and our largest supplier accounted for approximately 87.3% and 54.3% of our total purchases, respectively.

Since no revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year ended December 31, 2022, no major customer information is presented in accordance with HKFRS 8 "Operating Segments". During the Reporting Period, the aggregate amount of turnover attributable to the Group's five largest customers was less than 30% (being the Listing Rule disclosure threshold) of total turnover of the Group.

As far as the Directors are aware, neither the Directors, their close associates, nor shareholders who own more than 5% of the Company's number of issued shares as at December 31, 2022 had any interest in any of the five largest suppliers and customers disclosed above.

RELATIONSHIP WITH CUSTOMERS

In respect of customer service, the Group listened to various demands of consumers on motor use carefully and provided them with high-quality services to constantly raise customer satisfaction. The Group proactively conducted customer satisfaction surveys, scored evaluation on sales team and customer service to fully understand the Company's shortcomings in terms of service so as to pursue improvement. In the provision of maintenance services, the Group's stores are established taking the customer's consumption experience into full consideration, which provide customers with barrier-free communication, and offers them with catering, entertainment, leisure and other activities to render services of the finest quality. At the same time, the Group places emphasis on securing customer privacy, confidentiality and filing of customer information to protect information security of customers. During the Reporting Period, no leakage of customer information has been occurred.

The Group has established a complete motor recall service system and actively took the initiative of liaising and negotiating with customers on motor quality issues to minimize the potential safety threats to motor owners caused by product quality. For recalled vehicles, recall solutions were carried out in the Group's stores according to the "Recall Emergency Plan" to ensure that the recall indicators of motor manufacturers are reached after sales, increase the contribution from warranty to output value of aftersales, and enhance smooth experience of the recall process. During the Reporting Period, the Group has not experienced any incident and complaint of motor recall due to safety and health. In response to complaints, the customer service department first classifies the complaints according to the types of complaints, and then hands over to professional technicians or account managers to offer system solutions in order to fully satisfy various demands of customers.

RELATIONSHIP WITH SUPPLIERS

The Group maintains long-term and stable cooperation with major automobile suppliers, being luxury and ultra-luxury brands such as BMW, Maserati, Lexus, Land Rover, Ferrari, etc., ensuring the sound development of the sales business of vehicles. In addition, the Group also maintains long-term and stable relationships with 31 suppliers for not originally manufactured vehicle equipment and accessories in the PRC. The Group also provides tendering opportunities for various kinds of projects on an open, fair, transparent and fair basis in order to select the most excellence. Furthermore, the Group conducts regular assessment and rating on the performance of existing suppliers to realize the performance of suppliers, promote their improvement of the supply level, while continuously cooperating with outstanding suppliers and terminating partnered suppliers with unsatisfactory performance. The Group attaches great emphasis on maintaining the relationship with suppliers and establishes long-term cooperation based on the concept of "equality and mutual benefit".

RELATIONSHIP WITH EMPLOYEES

The Group lays much stress on maintaining sound relationship with employees. The Group regards employees as the most essential asset of the Group and a very foundation of the sustainable development of the Group. Providing employees with competitive salaries and premier working environment and benefits are conducive to establish good relationship with our staff and retain our staff. The remuneration policies of the Group are determined and reviewed regularly based on the performance of employees. Discretionary bonus is granted to employees to encourage their contribution to the Group and promotion is offered to excellent employees by the Group depending on the Group's profitability and employees' performance. The Group also offers trainings to new employees and existing employees to enhance their technical knowledge. These initiatives are beneficial to the improvement of the production capacity and efficiency of the Group. Staff is recruited and treated equally by the Group regardless of gender, race and age. The Group provides staff with healthy, safe, enjoyable and harmonious working environment and pays attention to and satisfies various needs of staff, endeavoring to build the Group as a big family which is harmonious, united, healthy and pleasant.

DETAILED INFORMATION ON MAJOR CUSTOMERS AND SUPPLIERS

The Directors of the Group are of the view that the Group does not rely on any individual customer.

The largest supplier of the Group is an automobile brand manufacturer. The Group has maintained business relationship with the five largest suppliers for more than 15 years.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. FENG Changge *(Chairman)*
Mr. FENG Shaolun *(Deputy Chairman)*
Mr. LIU Fenglei *(President)*
Ms. MA Lintao *(Vice-president)*
Mr. CHENG Junqiang *(Vice-president)* (appointed on January 5, 2022)
Mr. HAN Yang *(Vice-president)* (resigned on January 5, 2022) *(Note)*

Independent Non-executive Directors:

Mr. WANG Nengguang
Mr. LAU Kwok Fan
Mr. CHAN Ying Lung

Note: Mr. Han Yang resigned as an executive Director and vice president to devote more time and energy to his personal affairs with effect from January 5, 2022.

Pursuant to Article 84 of the Company's Articles of Association, Mr. Feng Changge, Mr. Lau Kwok Fan and Mr. Chan Ying Lung, will retire by rotation at the Annual General Meeting. Biographical details of the directors of the Company and the senior management of the Group are set out in the "Directors and Senior Management" of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service agreement with the Company for an initial fixed period of three years commencing from their respective date of appointment unless terminated earlier. The appointments of the executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Each of our independent non-executive Directors has signed a letter of appointment with the Company for an initial fixed period of three years commencing from their respective date of appointment. Under their respective appointment letters, each of the independent non-executive Directors is entitled to a fixed director's fee of HK$300,000 per annum. The appointments of the independent non-executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles of Associations of the Company.

None of the Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

PERMITTED INDEMNITY

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the year.

DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Except for the service contracts detailed above, no Director nor an entity connected with him/her had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' COMPETING INTERESTS

None of our Directors are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

MANAGEMENT CONTRACT

No contracts concerning the management and distribution of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2022.

CONTRACTS WITH CONTROLLING SHAREHOLDER

Save as disclosed in this report, no contract of significance has been entered into among the Company or any of its subsidiaries and the Eagle Seeker (the controlling shareholder of the Company) or any of its associates during the year ended December 31, 2022.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme and Share Award Plan of the Company as set out in this report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2022. For details of these schemes, please refer to the sections headed "Share Option Scheme" and "Share Award Plan" in this Directors' Report.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on June 26, 2015, which is made pursuant to Chapter 17 of the Listing Rules, in relation to grant of share options to certain employees of the Company or its subsidiaries to subscribe for shares (the "**Shares**") of HK$0.01 each of the Company, for the purpose of attracting, retaining and motivating talented employees to strive towards long-term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group. The remaining life of the share option scheme is around 2 years and 3 months.

Eligible participants of the Share Option Scheme are any director(s) of the Group (including any Director(s)) or any employee(s) or officer(s) of any member of the Group(s) who the Board considers, in its sole discretion, have contributed or will contribute to the Group. The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue on 26 June 2015, which is 157,570,067 share options, representing 10.19% of the Shares in issue (i.e. 1,546,996,667) as at the date of this annual report (i.e. 31 March 2023).

The maximum number of shares issuable under share options to each eligible participant (save for the substantial shareholders or an independent non-executive director of the Company, or any of their respective associates) in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue. On the other hand, the maximum number of shares issuable under share options to the substantial shareholders or an independent non-executive director of the Company, or any of their respective associates in the Share Option Scheme within any 12-month period is limited to 0.1% of the shares of the Company in issue and an aggregate value, based on the closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of such grant, in excess of HK$5 million (or such other higher amount as may from time to time be specified by the Stock Exchange). Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

An share option may be exercised during a period to be notified by the Board to each grantee ("**Grantee**") which shall not be more than 10 years commencing on the date on which an offer(s) of the grant of share option(s) is/are made to the participant(s) ("**Offer Date**") and expiring on the last day of such period. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period and ends on the expiry date of the Scheme. Details of the exercise period can be found in the table below.

Subject to such terms and conditions as the Board may determine, no performance target need to be achieved by the proposed Grantee before the Share Options can be exercised. Details of the vesting period can be found in the table below.

An offer shall be made to the proposed Grantee by letter in such form as the Board may from time to time determine requiring the proposed Grantee to undertake to hold the share option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme and shall remain open for acceptance by the proposed Grantee to whom an offer is made for a period of 28 days from the offer date, provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date or after the Share Option Scheme has been terminated in accordance with its provisions.

An offer shall be deemed to have been accepted when the duplicate letter comprising acceptance of the offer is duly signed by the proposed Grantee with the number of Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favour of the Company of HK$1.00 (receipt of which shall be deemed to be acknowledged by the Company upon receipt of the duplicate letter comprising acceptance of the offer letter duly signed by the proposed Grantee) by way of consideration for the grant thereof, is received by the Company.

The exercise price is determined taking into account the highest of (i) the closing price per Share as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price per Share as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of HK$0.01 per Share.

On May 9, 2017, the Board resolved to grant up to 70,000,000 new share options to the then existing grantees and certain new grantees (collectively, the "**Grantees**", each a "**Grantee**") to replace the outstanding options granted on June 29, 2015 and July 2, 2015 respectively ("**Outstanding Options**"), subject to the acceptance of each of the then existing grantees. No compensation shall be payable to them for cancellation of the Outstanding Options. New grantees are mainly senior management of the subsidiaries of the Company and general managers of its outlets.

On December 17, 2019, the Company offered to grant share options (the "**2019 Share Options**") to certain eligible employees of the Group (the "**2019 Grantees**") under the Share Option Scheme, entitling them to subscribe for a total of 20,000,000 ordinary shares of HK$0.01 each of the Company. The grant of the Share Options will be subject to the acceptance of the 2019 Grantees. Each 2019 Grantees is not a Director, chief executive or substantial shareholder of the Company or an associate (as defined under the Listing Rules) of any of them.

The Company also offered to grant share options to certain grantees under the Share Option Scheme on June 29, 2015, July 2, 2015 and December 15, 2017, and there were no outstanding share options from these grants for the year ended December 31, 2022. For details, please refer to the Company's announcements dated June 29, 2015, July 2, 2015, May 9, 2017 and December 15, 2017.

Summary of the Share Option Scheme has been set out in note 41 to the consolidated financial statements.

Details of the movements of the share options granted to subscribe for ordinary shares by the Directors, former directors and other eligible employees of the Company pursuant to the Share Option Scheme for the year ended December 31, 2022 were as follows:

					Number of Share Options				
Name of Grantees	**Date granted**	**Vesting period**	**Exercise period**	**Exercise price per Share**	**Outstanding as at January 1, 2022**	**Exercised during the year**	**Cancelled during the year**	**Lapsed during the year**	**Outstanding as at December 31, 2022**
Directors									
Mr. FENG Changge — Executive Director and Chairman of the Board	May 9, 2017	1/7/2017 to 1/7/2020	1/7/2017 to 28/6/2025	HK$3.00	2,500,000	–	–	–	2,500,000[1]
Mr. LIU Fenglei — Executive Director and President	May 9, 2017	1/7/2017 to 1/7/2020	1/7/2017 to 28/6/2025	HK$3.00	2,500,000	–	–	–	2,500,000[1]
Former Director Mr. HAN Yang — Former Executive Director and Vice President	May 9, 2017	1/7/2017 to 1/7/2020	1/7/2017 to 28/6/2025	HK$3.00	800,000	–	–	–	800,000[1]
Former Director Ms. FENG Guo — Former Executive Director and Vice President	May 9, 2017	1/7/2017 to 1/7/2020	1/7/2017 to 28/6/2025	HK$3.00	400,000	–	–	–	400,000[1]

Name of Grantees	Date granted	Vesting period	Exercise period	Exercise price per Share	Number of Share Options: Outstanding as at January 1, 2022	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at December 31, 2022
Former Director									
Mr. YANG Lei									
— Former Executive Director, Chief Operating Officer and Vice President	May 9, 2017	1/7/2017 to 1/7/2020	1/7/2017 to 28/6/2025	HK$3.00	1,125,000	—	—	—	1,125,000[1]
Other eligible employees	May 9, 2017	1/7/2017 to 1/7/2020	1/7/2017 to 28/6/2025	HK$3.00	16,191,000	—	1,325,000	—	14,866,000[1]
	December 17, 2019	16/2/2020 to 16/2/2021	16/2/2020 to 17/12/2025	HK$4.00	20,000,000	—	—	—	20,000,000[2]
Total					43,516,000	—	1,325,000	—	42,191,000

Notes:

(1) The validity period of the 70,000,000 share options is from May 9, 2017 (i.e. date of grant) till the earlier of (i) the day on which the relevant Grantee ceases to be an employee or a director of the Company and its subsidiaries on one or more of the grounds of termination of employment, appointment or directorship specified in paragraph 8(vi) of the Share Option Scheme, and (ii) June 28, 2025. 20% of these share options were vested on July 1, 2017, 30% were vested on July 1, 2018, 30% were vested on July 1, 2019 and 20% were vested on July 1, 2020. The cessation of directorship of the former Director Mr. YANG Lei and Mr. Han Yang did not involve the grounds of termination as specified in the above (i), and his share options remained valid as at December 31, 2022.

(2) The validity period of the 20,000,000 share options is from December 17, 2019 (i.e. date of grant) till the earlier of (i) the day on which the relevant 2019 Grantee ceases to be an employee of the Group, and (ii) December 17, 2025. 50% of these share options were vested on February 16, 2020 and 50% were vested on February 16, 2021.

(3) A total of 525,000 and 800,000 share options at the exercise price of HK$3.00 were cancelled on April 14, 2022 and April 19, 2022, respectively.

As at January 1, 2022, the Company had 43,516,000 share options outstanding under the Share Option Scheme, which represented approximately 2.8% of the Company's share in issue. A total of 525,000 and 800,000 share options granted to eligible employees at the exercise price of HK$3.00 were cancelled on April 14, 2022 and April 19, 2022, respectively. For the year ended December 31, 2022, no share options were granted, exercised and lapsed under the Share Option Scheme. As at December 31, 2022, the Company had 42,191,000 share options outstanding under the Share Option Scheme, which represented approximately 2.7% of the Company's share in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 42,191,000 additional ordinary shares of the Company and additional share capital of HK$421,910 (equivalent to RMB373,137) (before issue expenses). Details of the options cancelled are set out above. No options were granted, exercised or lapsed during the Reporting Period.

Save as disclosed above, none of the grantees were (i) directors, chief executive or substantial Shareholders of the Company, or any of their respective associates; (ii) participants with options granted and to be granted in excess of the 1% individual limit; (iii) related entity participant or service provider with options and awards granted and to be granted in any 12-month period exceeding 0.1% of the relevant class of Shares in issue as set out in Rule 17.07 of the Listing Rules.

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

As at December 31, 2022, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

		Ordinary Shares			Underlying Shares under Share Options		
		Capacity/Nature of Interest					
Name	**Position**	**Personal Interests[6]**	**Family Interests[7]**	**Other interests**	**Personal Interests**	**Total Interests**	**Approximate % of Shareholding Interest**
Mr. FENG Changge	Director	—	—	708,364,660 (L)[1]	2,500,000[4][5]	710,864,660 (L)	45.95%
Mr. FENG Shaolun	Director	—	—	708,364,660 (L)[3]	—	708,364,660 (L)	45.78%
Ms. MA Lintao	Director	—	710,864,660 (L)[2]	—	—	710,864,660 (L)	45.95%
Mr. LIU Fenglei	Director	778,587 (L)	—	—	2,500,000[4][5]	3,278,587 (L)	0.21%
Mr. WANG Nengguang	Director	40,000(L)	—	—	—	40,000 (L)	0.00%

Notes:

(1) These 708,364,660 shares in the Company are held by Eagle Seeker Company Limited ("**Eagle Seeker**"). Mr. FENG Changge is deemed to be interested in the said 708,364,660 shares by virtue of Eagle Seeker being held indirectly by Cititrust Private Trust (Cayman) Limited through Eagle Pioneer Company Limited, whereas Mr. Feng Changge is the founder of the trust.

(2) Ms. MA Lintao is Mr. FENG Changge's spouse and is therefore deemed to be interested in all the shares of the Company in which Mr. FENG Changge is interested in.

(3) These 708,364,660 shares in the Company are held by Eagle Seeker. Mr. FENG Shaolun is deemed to be interested in the said 708,364,660 shares by virtue of Eagle Seeker being held indirectly by Cititrust Private Trust (Cayman) Limited through Eagle Pioneer Company Limited, whereas Mr. Feng Shaolun is one of the beneficiaries.

(4) These interests represent options to subscribe for shares in accordance with the Share Option Scheme granted to the relevant Directors. For further details, please refer to the section headed "Share Option Scheme".

(5) These options were granted by the Company in May 2017 and accepted by the relevant grantees in May 2017.

(6) "Personal Interests" represents interests directly beneficially owned.

(7) "Family Interests" represents interests of spouse or child under 18.

(8) The letter "L" denotes the long position in the shares of the Company.

Save as disclosed above, as at December 31, 2022, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, 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 as notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE AWARD PLAN

On February 28, 2019, the Company adopted the Share Award Plan, pursuant to which the Company may grant existing Shares to selected participants (namely all employees, directors (whether executive or non-executive, but excluding independent non-executive Directors) and officers of the Group, but excluding Mr. FENG Changge). The purpose for adopting the Share Award Plan is to (i) incentivize, recognize and reward employees, directors (whether executive or non-executive, but excluding independent non-executive Directors) and officers of the Group for their contribution to the Group; (ii) attract and retain personnel to promote the long-term growth and development of the Group; and (iii) align the interests of the selected grantees with that of the Shareholders to promote the long-term financial performance of the Company. No new Shares will be granted under the Share Award Plan. Details of the Share Award Plan are set out in the Company's announcement dated April 2, 2019.

The maximum aggregate number of Shares to be acquired by the trustee under the Share Award Plan is 60,000,000 Shares, representing approximately 3.88% of the Shares in issue (i.e.1,546,996,677) as at the date of this annual report (i.e. March 31, 2023). 30,000,000 Shares have been granted and vested under the Share Award Plan. As at December 31, 2022, the trustee appointed by the Company for the purpose of the Share Award Plan has purchased 59,987,500 Shares according to the Share Award Plan since its adoption.

Subject to early termination by the Board, the Share Award Plan shall be valid and effective from the date of adoption of the Share Award Plan, being 28 February 2019, and ending on 26 June 2025 (both days inclusive). The remaining life of the Share Award Plan is 2 years and 3 months.

As at both January 1, 2022 and December 31, 2022, there were no outstanding options and unvested Share Awards. As at January 1, 2022, 29,987,500 Share Awards were available for grant. During the Reporting Period, no Share Award has been granted, vested, lapsed or cancelled under the Share Award Plan, and accordingly as at December 31, 2022, 29,987,500 Share Awards were available for grant.

Where any offer of award is proposed to be made to any connected person of the Company, it shall not be made where the aggregate interest of the connected persons in the Share Award Plan reaches 30% or above, and in any case such offer shall be subject to all the applicable requirements under the Listing Rules. No further Shares will be awarded to a selected participants if the aggregate number of awarded shares underlying all awards (whether vested or not) granted to such selected participant under the Share Award Plan will exceed 0.5% of the Shares in issue from time to time. Save as disclosed, there is no maximum entitlement for each eligible participant under the rules of the Share Award Plan and as at the date of this directors' report, no selected grantee has been granted award shares exceeding 1% of the issued share capital of the Company.

Awarded shares and the related income shall be vested in an award holder in accordance with the vesting date(s) specified in the award upon satisfaction of the vesting criteria and conditions (if any) specified by the Board in the offer of grant of the relevant award. At any time prior to a vesting date: (a) in the event of (i) the death of an award holder; (ii) the retirement of an award holder at his normal retirement date; or (iii) the retirement of an award holder at an earlier retirement date with prior written agreement given by any member of the Group, then unless the Board otherwise determines, all the awarded shares and related income of such award holder (to the extent not already vested) shall be deemed to be vested on the day immediately prior to his death or his retirement; and (b) in the event of a general or partial offer, share repurchase offer or scheme of arrangement or other transaction in like manner which may result in a change in control of the company, unless the board determines otherwise, all unvested awarded shares and related income will immediately become vested on the date on which the offer or arrangement becomes or is declared unconditional in all respects. There is no purchase price of the shares awarded.

The trustee shall hold the awarded shares and related income on trust for the award holders until the awarded shares and related income are vested in the relevant award holders according to the rules of the Share Award Plan. Upon vesting, the trustee shall transfer the vested awarded shares and related income at no cost to such award holders. The purchase price for the awarded shares is nil.

No person shall exercise any voting rights in respect of any Shares held by the trustee under the Share Award Plan. The trustee holding unvested shares of the Share Award Plan, whether directly or indirectly, shall abstain from voting on matters that require shareholders' approval under the Listing Rules, unless otherwise required by law to vote in accordance with the beneficial owner's direction and such a direction is given pursuant to Rule 17.05A of the Listing Rules.

The number of Shares that may be issued in respect of options and awards granted under all schemes of the Company (i.e. the Share Option Scheme, and the Share Award Plan) during the Reporting Period divided by the weighted average number of the Shares in issue for the Reporting Period is 1.96%.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2022, the following persons (other than the Directors and chief executive of the Company) had interests in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as follows:

Name	Capacity/Nature of Interest	Number of Shares Directly or Indirectly Held[4]	Approximate % of Shareholding Interest
Eagle Seeker	Beneficial owner	708,364,660 (L)	45.78%
Eagle Pioneer Company Limited[1]	Interest of controlled corporation	708,364,660 (L)	45.78%
Cititrust Private Trust (Cayman) Limited[2]	Trustee	708,364,660 (L)	45.78%
Foxconn (Far East) Limited[3]	Beneficial owner	128,734,000 (L)	8.32%
Hon Hai Precision Industry Co. Ltd[3]	Interest of controlled corporation	128,734,000 (L)	8.32%

Notes:

(1) Eagle Seeker is wholly owned by Eagle Pioneer Company Limited. Accordingly, Eagle Pioneer Company Limited is deemed to have interest in the 708,364,660 Shares held by Eagle Seeker.

(2) Eagle Pioneer Company Limited is wholly owned by Cititrust Private Trust (Cayman) Limited. Accordingly, Cititrust Private Trust (Cayman) Limited is deemed to have interest in the 708,364,660 Shares held by Eagle Seeker (the controlling shareholder of the Company), indirectly via Eagle Pioneer Company Limited. Mr. Feng Changge, Executive Director and Chairman of the Company, is the founder of the trust of Cititrust Private Trust (Cayman) Limited.

(3) Foxconn (Far East) Limited ("**Foxconn**") is wholly owned by Hon Hai Precision Industry Co. Ltd. ("**Hon Hai**"), a company listed on the Taiwan Stock Exchange. Accordingly, Hon Hai is deemed to have interest in the 128,734,000 Shares held by Foxconn.

(4) The letter "L" denotes long position in such Shares.

Save as disclosed above, as at December 31, 2022, no persons (other than the Directors or the chief executive of the Company) had any interests or 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.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Apart from the Share Options Scheme and the Share Award Plan, at no time during the year was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares or debentures of the Company or any other body corporate. For details of these schemes, please refer to the sections headed "Share Option Scheme" and "Share Award Plan" in this Directors' Report.

NON-COMPETITION UNDERTAKINGS BY THE CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling shareholders, Mr. FENG Changge and Eagle Seeker Limited, in respect of their compliance with the terms of the non-competition undertaking as described in the prospectus of the Company dated May 31, 2013 and that they have not engaged, nor interested, in any business which directly or indirectly, competes or may compete with the business of the Group during the year 2022.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at December 31, 2022 are set out in note 33 to the consolidated financial statements.

EMOLUMENT POLICY

The emolument policy of the general staff of the Company is set up by the management of the Group on the basis of their merit, qualifications and competence. The emoluments of the Directors and senior management of the Company are proposed by the Remuneration Committee of the Company to the Board, having regard to the Company's operating results, individual performance and comparable market statistics, subject to the final decision by the Board. The remuneration of the Directors and chief executive are set out in note 13 to the consolidated financial statements and the remuneration of the Directors by band for the year ended December 31, 2022 is set out below:

Remuneration bands	Number of person
Nil to HK$1,000,000	6 *(Note)*
HK$1,000,001 to HK$2,000,000	1
HK$2,000,001 to HK$3,000,000	2

Note: One of the Directors resigned during the year ended December 31, 2022.

Pursuant to code provision E.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended December 31, 2022 is set out below:

Remuneration bands	Number of person
Nil to HK$1,000,000	1

RELATED PARTY TRANSACTIONS

During the year, the Group entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of the related party transactions entered into by the Group during the year are disclosed in note 44 to the consolidated financial statements. The related party transactions disclosed in note 44 were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules and the Group has complied with the requirements in Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

For the year ended December 31, 2022, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the year ended December 31, 2022.

SUFFICIENCY OF PUBLIC FLOAT

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

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDERS

For the year ended December 31, 2022, there was no pledge of Shares by the controlling shareholders of the Company which is subject to disclosure under Rule 13.21 of the Listing Rules.

ADVANCE TO AN ENTITY

For the year ended December 31, 2022, the Company does not have any advance to an entity which is subject to the disclosure under Rule 13.20 of the Listing Rules.

COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

For the year ended December 31, 2022, there was no other loan agreement of the Company with covenants relating to specific performance of the controlling shareholders of the Company which is subject to disclosure under Rule 13.21 of the Listing Rules.

BREACH OF LOAN AGREEMENTS

For the year ended December 31, 2022, there was no breach of the loan agreements by the Company in which the loan involved would have a significant impact on the business operations of the Company and subject to disclosure under Rule 13.21 of the Listing Rules.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

For the year ended, 2022, there was no financial assistance or guarantee to affiliated companies by the Company which is subject to disclosure under Rule 13.22 of the Listing Rules.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

During the year ended December 31, 2022, the Company repurchased a total of 32,366,000 of ordinary shares of HK$0.01 each on the Stock Exchange for a total consideration of approximately HK$96,263,669.53 (excluding transaction cost). The 15,974,000 repurchased shares were subsequently cancelled on June 10, 2022. Details of the shares repurchased during the Reporting Period are set out as follows:

Month of repurchase	Number of shares	Repurchase price per share		Aggregate consideration (excluding transaction cost)
		Highest	Lowest	
		(HK$)	*(HK$)*	*(HK$)*
January 2022	5,638,500	4.91	4.12	26,325,433.25
February 2022	3,847,000	4.33	3.87	15,469,714.30
March 2022	460,000	3.99	3.67	1,729,902.35
April 2022	3,100,000	3.90	3.40	11,185,787.75
May 2022	3,008,500	3.71	3.34	10,480,918.30
June 2022	2,949,000	3.53	3.00	9,717,011.95
July 2022	2,269,000	3.52	2.74	7,074,880.15
August 2022	841,000	2.19	2.05	1,763,847.45
September 2022	2,920,000	2.11	1.45	3,986,542.00
October 2022	2,815,000	1.52	0.88	3,523,176.58
November 2022	3,378,500	1.29	0.84	3,612,255.45
December 2022	1,139,500	1.32	1.14	1,394,200.00
Total	32,366,000			96,263,669.53

The Directors believe that repurchases of shares are in the best interests of the Company and its shareholders and that such repurchases of shares would benefit shareholders as a whole by enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended December 31, 2022.

SHARE CAPITAL AND SHARES ISSUED

Details of movements in the share capital of the Group during the Reporting Period and details of the Shares issued during the Reporting Period are set out in Note 38 to the consolidated financial statements.

DEBENTURE ISSUED

The Group did not issue any debenture during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the Reporting Period, the Company has repurchased 1,260,000 shares. Save as disclosed, there was no significant event that would have any material impact on the Group.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

DONATIONS

Donations made by the Group during the year ended December 31, 2022 amounted to RMB141,965 (2021: RMB1,107,000).

AUDITOR

Deloitte Touche Tohmatsu resigned as the auditor of the Company on January 8, 2021 and ZHONGHUI ANDA CPA LIMITED ("**ZHONGHUI**") was appointed as the auditor of the Company on January 9, 2021 to fill up the casual vacancy so arising. For details, please refer to the announcement dated January 8, 2021. Save as disclosed above, there were no other changes in auditor of the Company during the past three years.

The consolidated financial statements for the year ended December 31, 2022 have been audited by ZHONGHUI, who shall retire at the forthcoming annual general meeting of the Company and, being eligible to offer themselves for re-appointment. A resolution for the re-appointment of ZHONGHUI as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

We do not have any plan for material investments and capital assets.

By Order of the Board
CHINA HARMONY AUTO HOLDING LIMITED

FENG Changge
Chairman and Executive Director

March 31, 2023

Environmental, Social and Governance Report

I. REPORTING STANDARD, PERIOD AND SCOPE

The environmental, social and governance report (the "**ESG report**") is prepared by China Harmony Auto Holding Limited (the "**Company**") and its subsidiaries (collectively the "Group", "Harmony Auto" or "**We**") in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**"), as set out in Appendix 27 to the Listing Rules, with an aim to inform stakeholders of the Group's environmental, social and governance ("**ESG**") policies, initiatives and performance beyond its financial results.

This report describes the Group's ESG management policies and strategies for the period from January 1, 2022 to December 31, 2022 (the "**Reporting Period**"). Our ESG data collection system is still in the development stage. The data collection is subject to different restrains in different project sites. Nevertheless, we have made our best effort to collect relevant ESG data in order to disclose more accurate information and continuously improve the comprehensiveness and integrity of our ESG data collection system. The scope of this ESG report covers the Group's headquarters and its major distribution outlets. The total number of distribution outlets as of December 31, 2022 is 77, of which 68 (2021: 74) are included in the ESG report.

The Company adheres to the following three reporting principles for the preparation of the ESG report:

Materiality	The Company's ESG management approach is designed around areas of focus that have significant impact on the Company. These areas of focus are described in the "Materiality Assessment" section in the ESG report.
Quantitative	Where applicable, disclosures are presented in a measurable format, and disclosures of key performance are accompanied by an explanation of the method of calculation and the source of the conversion factors used.
Consistency	The same ESG reporting framework is used to count and calculate key performance for annual ESG reporting to enable meaningful comparisons.

II. COMPANY BACKGROUND

Harmony Auto is a leading automotive services group in China, representing 14 luxury and ultra-luxury brands in 40 cities across the country. It serves 9 luxury brands such as BMW, MINI, Audi, Volvo, Land Rover, Lexus, Jaguar, Lincoln, Alfa Romeo and 5 super luxury brands such as Rolls-Royce, Bentley, Ferrari, Maserati and Lamborghini.

The Group will continue to focus on the development of the main business, actively improve the operating efficiency of stores, strengthen the assessment indicators and management models of stores, and build excellent operating stores for major brands. We use the scientific inventory management system to achieve reasonable allocation and optimization of resources.

In 2022, we will continue to explore the luxury and ultra-luxury automobile market, focus on dominant brands, increase self-built and merger and acquisition efforts, improve customer retention and satisfaction, and improve the Group's operating efficiency and quality. We will focus on providing efficient, convenient and harmonious high-quality driving experience and services for customers.

We will, based the core values of "simplicity, efficiency, happiness and efforts are equal to all in", provide long-term benefits to all stakeholders in a responsible way, and maintain the sustainable development of the Company by taking into full account of the social and environmental factors in addition to economic factors.

During the Reporting Period, our distribution outlets have successively won a number of industry awards, including the 2022 BMW&MINI Summit Customer Experience National Finals — National Top 10, the 2022 BMW West District New BMWi3 Topic Marketing — RMB80,000 of Push Incentive, the 2022 New BMWi3 Dealer Integrated Marketing Best Case Incentive Plan — National BP, the Integrity Model Honorary Title of Great Central Plains International Automobile City in June 2022, the Annual Bentley China Excellent Dealer No. 1 of the Bentley China Dealer Conference in November, which fully demonstrates that the industry and investors have recognized the Company's comprehensive strength in business growth, industry ranking, corporate governance and business model, as well as its future development potential.

III. OUR COMMITMENT AND APPROACH TO THE ENVIRONMENT, SOCIETY AND GOVERNANCE

We are aware of the importance of effective ESG initiatives at the operation level. The direction of the ESG work of Harmony Auto is supervised by the Group's Board of Directors (the "**Board**") to ensure that the ESG strategy reflects the Group's core values. Therefore, we have established an ESG Governance Committee and an ESG Working Group to assist the Board in managing ESG issues. Under the top-down leadership of the Board, we assess and identify risks and opportunities related to ESG matters, formulate ESG policies, strategies, prioritize and manage important ESG-related issues, deploy resources and approve ESG work results to ensure that the relevant risk management system and internal control system are properly and effectively operated, and fully reflect the core values of the Company. These measures increase the awareness of ESG of our employees and enable them to be participants of sustainable development, and further ensure that the scope of our ESG framework effectively and comprehensively covers key parts of our business. While we are committed to providing high-quality service to customers, we can also ensure the effective implementation of the sustainable development.

The Company's regulatory structure and functions for ESG matters are set out as follows:

Regulating functions	Regulating contents
The Board	• Overall responsibility for assessing the key ESG risks faced by the Group (key ESG issues in relation to the Group, such as supplier management, understanding the sustainability needs of society, etc.). • Overall responsibility for assessing and determining the nature and extent of risks, including ESG risks, that the Group is willing to accept in achieving its strategic objectives, and establishing and maintaining appropriate and effective risk management systems and internal control systems. • Approval and confirmation of ESG-related strategies and major ESG issues.
ESG Governance Committee	• Develop and review ESG-related strategies and management approaches. • Regulate ESG issues and related risks. • Communicate regularly with other committees to ensure that the relevant committees are updated on ESG issues affecting the Company. • Coordinate the implementation of ESG-related efforts. • Regularly approve and review objectives and key initiatives.

Regulating functions	Regulating contents
ESG Working Group	• Develop and implement ESG-related policies and procedures. • Monitor and track progress against established goals and initiatives. • Provide feedback to ESG Governance Committee.

IV. STAKEHOLDERS AND MATERIALITY ASSESSMENT

Stakeholders

Harmony Auto strives to adopt the opinions of stakeholders (including shareholders, customers, employees, suppliers, regulators and the public) and protect their rights and interests through constructive communication, so as to determine the long-term development direction of the Company and maintain a close relationship with the stakeholders. During the Reporting Period, the major stakeholders of Harmony Auto included the shareholders and investors, employees, consumers, suppliers, governmental and regulatory authorities, media and communities, etc. Major issues and measures of concern are shown in the following table:

Stakeholders	Major concern	Communication channel	Measures of the Company
Shareholders/ investors	Operation strategies Sustainable and steady investment return Timely information disclosure Good corporate image Compliant business operation	General meeting information disclosure of listed company Roadshow/ teleconference/ meeting Media communication mechanism Telephone/email inquiries Investor visits Information disclosure on website	To issue notice and proposals of AGM as required To fairly disclose the Company information in time To release public announcements and issue regular reports as required To provide smooth communication channel

Stakeholders	Major concern	Communication channel	Measures of the Company
Employees	Training and career development Remuneration and benefits Working environment Health and safety assurance	Direct communication Health check Staff activities Staff feedback Employee training	To provide a healthy and safe working environment To establish a fair promotion mechanism To provide a staff communication platform To organize staff activities
Consumers	Product quality Service quality Customer information protection	Customer satisfaction survey After-sales service and complaint	To carry out customer survey After-sales service management To handle the complaints promptly
Supplier	Timely performance of contracts Long term and stable cooperation Corporate reputation	Business conference Daily communication	To perform contracts according to the agreed terms To maintain long term cooperation
Governmental and regulatory authorities	Compliant operation Tax payment in accordance with law Transparent governance Information disclosure and declaration materials	Compliance with laws and regulations Daily work report Information disclosure	To strictly comply with laws and regulations To accurately disclose information To pay tax in accordance with law To accept government supervision
Communities	Employment opportunities Ecological environment Community development Public welfare	Community activities	Local staff are preferred To protect ecological environment To organize community activities
Media	Information disclosure Good media relations	Information disclosure	To maintain good communication To disclose information in time

Materiality Assessment

After the communication with stakeholders during the Reporting Period, the Company collected many potential topics related to ESG. We categorized these topics in various areas according to the HKEX ESG guidelines. For potential topics, we designed a questionnaire to collect information in order of importance, and according to the results of the questionnaire, to further sought more internal and external information from staff and external consultants on these topics, estimated the impact of these ESG issues on the Company and assessed their importance. After careful analysis by the Board and the management, we obtained the following materiality results:

ESG Scope and Aspect	Important ESG issues related to our business
(A) Environment	
Aspect A1: Emissions	Utilization of gasoline
Aspect A2: Use of energy and resources	Utilization of gasoline, refrigerant, electricity consumption
Aspect A3: Environment and natural resources	Development of new energy
Aspect A4: Climate change	Emission of greenhouse gas
(B) Aspect Society	
Aspect B1: Employment	Employment rules, workplace fairness
Aspect B2: Health and safety	Employees, safety of working place
Aspect B3: Development and training	Employee training
Aspect B4: Labor Standards	Avoid child labor and forced labor
Aspect B5: Supply chain management	Supplier management
Aspect B6: Product responsibility	Service quality
Aspect B7: Anti-corruption	Integrity and self-discipline
Aspect B8: Social investment	Giving back to the society

Based on these results, the Group will constantly improve its ESG performance and continue to receive feedback, in order to meet its stakeholders' expectations and address the risks exposed to the Company. The ESG work details and key performance indicators that are considered relevant and significant to the operation of Harmony Auto will be presented under four subject areas: "Our Environment", "Our Employees", "Our Business" and "Our Community".

V. OUR ENVIRONMENT

The Company is China's leading luxury and ultra-luxury automobile dealer group, with distribution outlets established in more than 40 cities nationwide. Over the years, the Company has been committed to becoming the largest and most prominent automobile dealer in China. The Company pays close attention to and strictly abides by the requirements contained in the environmental laws and regulations of China, including but not limited to the Environmental Protection Law of the People's Republic of China, the Environmental Protection Tax Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China, the Atmospheric Pollution Prevention and Control Law of the People's Republic of China, and the Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution.

Our key performance indicators in emissions, waste management and energy and resource utilization for the year will be presented in the following paragraphs.

Aspect A1: Emissions

The Company's main business is the operation of outlet stores, and the emissions from vehicles in the stores are the largest source of air emissions of the Company, but we are still not an enterprise that has adverse effects on the environment.

Air and greenhouse gas emissions

Air and greenhouse gas emissions for 2022 and 2021 were as follows:

(Unit: in kg)		**2022**		2021	
Type of air emission	**Emission source**	**Emission amount**	**Density** (Note1)	Emission amount	Density (Note1)
Nitrogen oxides (NO_x)	• Cars	**2,946.83**	**0.78**	3,860.28	0.85
Sulfur oxides (SO_x)	• Cars	**12.28**	**<0.01**	6.65	<0.01
Particulate matter (PM)	• Cars	**420.12**	**0.11**	332.38	0.07

Note 1: Density is calculated by dividing the total emission amount by the number of employees at the end of the year.

Greenhouse gas emissions for 2022 and 2021 were as follows:

(Unit: in tons of CO_2e) (Note 1)		2022		2021	
Greenhouse gas emission scope	**Emission source**	**Emission amount**	**Density** (Note 2)	Emission amount	Density (Note 2)
Scope 1 Direct emission	• Consumption of lead free gasoline and diesel of cars • Refrigerant	**2,602.13**	**0.69**	1,605.08	0.35
Scope 2 Indirect emission	• Electricity consumption	**13,237.74**	**3.79**	20,123.49	4.42
Total		**15,839.87**		21,728.57	

Note 1: Carbon dioxide equivalent (tons) is a measure based on the greenhouse effect of each ton of carbon dioxide, which is used to measure and compare the greenhouse effect of carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O) and other greenhouse gases.

Note 2: Density is calculated by dividing the total emission amount by the number of employees at the end of the year.

During the Reporting Period, the air emissions of the Group were mainly generated from the use of vehicles in our sales activities, where there is the fuel consumption from the engine of a vehicle when it is idling and driving and when it is moving. The emissions included nitrogen oxides, sulfur oxides and particulate matter. Since the Company vigorously developed new energy vehicle-related businesses and consciously adopted corresponding measures to reduce vehicle fuel consumption and emissions in daily operations for the year, and the sales and after-sales operations were greatly affected by the COVID-19 during the year, air emissions for the year decreased than the previous year. The Company will continue to implement the policy of reducing emissions, and the specific measures are as follows:

1. To try to keep driving at a constant speed during the use of a vehicle. Unnecessary acceleration, deceleration and parking will increase fuel consumption. Smooth acceleration should be carried out to avoid starting and stopping too fast;

2. To carry out regular vehicle maintenance, replace the air filter, engine oil, and check the fuel system;

3. To accurately adjust the engine. The well-maintained engine consumes less fuel and emits less pollutants;

4. To check the tire pressure frequently. Insufficient tire inflation will increase fuel consumption.

Meanwhile, the Company requires employees to implement energy-saving and environmental protection plans, reduce company vehicle travel, and use public travel as much as possible to save company costs and reduce related emissions.

The Group's direct emission of greenhouse gases (scope 1) during the Reporting Period was approximately 2,602 (2021: 1,605) tons, increasing 62.1% compared with last year, mainly generated from the lead free gasoline and diesel consumption of vehicles, as well as the refrigerant consumption for air-conditioning and refrigeration equipment. Except for a small amount of natural gas used in the cafeteria, our operations do not directly generate any air or greenhouse gas emissions from burning stationary fuels. The significant increase in direct emission of greenhouse gases (scope 1) compared with the previous year was mainly due to the increased fuel consumption arising from the increase in sales of vehicles using the lead free gasoline, the increase in investigation of car accidents, and the increase in orders for door-to-door delivery services in different places resulting from the impact of the pandemic. During this year, some of the Company's stores adopted the HFO-1234YF refrigerant. The introduction of clean energy has reduced the greenhouse gas emissions of the Company. In the future, the Company will continue to pay attention to the use of refrigerants.

The indirect emissions of greenhouse gases (scope 2) this year were generated mainly from electricity used daily, which were approximately 13,238 (2021: 20,123) tons. The total indirect emissions of greenhouse gases (scope 2) of the Company decreased significantly compared with the previous year, and the density also decreased significantly, due to the fact that some of the Company's stores were severely affected by the pandemic and closed to varying degrees during the year, the Company's energy-saving and consumption-reducing measures achieved results, the Company's employees decreased, and there were changes in the coefficient of purchased electricity in the area where each store was located. The Company will continue to implement office measures to save energy and reduce consumption, including strengthening the power saving and improving the daily management of all electrical equipment. In addition to turning off the power supply after work, the Company strictly controls the minimum/maximum temperature of the air conditioner during summer and winter to reduce energy consumption, and controls the use of air conditioners in stores in different regions according to the temperature conditions in different regions. After each department completes the work, it is required to cut off the corresponding main gate in time, so as to continue to achieve the goal of reducing the overall electricity consumption.

The stores operated by the Group were not only designed to give full consideration to lighting, energy saving and other factors, but also adopted environmentally friendly materials and technologies to reduce the energy consumption of the buildings. For example, the exterior walls of buildings were coated with thermal insulation, efficient and energy-saving LED lighting facilities were installed and replaced, and solar heaters and other renewable energy equipment were installed and used. Furthermore, the Group also established a strict energy management system where the administrative department carried out the monitoring management system for the energy consumption data for each store every month in order to be aware of any excessive energy consumption or abnormal conditions in a timely manner, and established effective countermeasures and punishment system.

Waste

In the course of conducting after-sales and vehicle repair services, the stores of the Group generated various hazardous wastes, such as used mineral oil, used lead batteries, used oil drum and used auto parts. In order to prevent these wastes from harming the environment, the Group has established a waste management system to standardize the process of hazardous and non-hazardous waste management. As for hazardous waste, the Group prohibit any stores from dumping hazardous waste. The Group strictly abides by national and regional standards and strictly classifies hazardous waste according to their characteristics, packages and transports hazardous waste in special buckets and bags. Specialised personnel are responsible for the storage and disposal of hazardous waste, and third-party professional agencies are employed regularly for recycling. The hazardous waste generated by each store under the Group for the year significantly decreased compared with the previous year.

In order to reduce the amount and harm of hazardous waste, the Group's stores take the following measures, including:

1. Conducting safety training for production personnel and strengthening site cleanliness management;

2. Arranging dedicated personnel for the management of hazardous waste, sorting, packaging and transferring waste generated in a timely manner; and

3. Strengthening on-site supervision and inspection, standardizing the temporary storage of hazardous waste, and classifying storage of hazardous waste.

The amount of different types of hazardous waste generated by the Group in 2022 was as follows:

(Unit: in tons)	2022	
Hazardous waste types	**Amount**	**Density** (Note 1)
Used mineral oil (Note 2)	**594.54**	**0.16**
Used lead batteries	**28.69**	**0.01**
Others (Note 3)	**77.89**	**0.02**

Note 1: Density is calculated by dividing the emission amount by the number of employees at the end of the year.

Note 2: Used mineral oil includes used oil.

Note 3: Others include waste paint drums, oil-containing waste, waste paint sludge, waste filter cartridges, filter cotton, electric batteries and waste activated carbon.

The work activities in daily operations of the Group will also produce non-hazardous wastes such as food packaging, beverage cans and bottles, waste paper products and office stationery. In accordance with the waste management system and the relevant regulations on the management of domestic waste in the cities where our stores are located, the Group cleans up the recyclable non-hazardous waste products and then places them at designated locations for waste separation and disposal in order to achieve waste reduction and resource recovery and reuse. The amount of different types of non-hazardous waste generated by the Group in 2022 was as follows, which decreased compared with the previous year:

(Unit: in tons)	2022	
Non-hazardous waste types	**Amount**	**Density** (Note 1)
Waste cartons/packaging boxes and paper products	**121.69**	**0.03**
Domestic waste	**436.38**	**0.10**

Note 1: Density is calculated by dividing the emission amount by the number of employees at the end of the year.

We have been implementing waste reduction programs, such as encouraging employees to bring their own utensils to reduce the amount of disposable waste produced, and strictly requiring all departments to recycle as much paper as possible to reduce paper wastage in order to reduce the generation of non-hazardous waste.

There were no significant cases of non-compliance with environmental laws and regulations for the Group during the Reporting Period (2021: nil).

Aspect A2: Use of energy and resources

The Group always attaches great importance to energy conservation, complies with the provisions of the Energy Conservation Law of the People's Republic of China, and encourages energy conservation and possible reuse of resources in the course of business operation, so as to protect the environment and improve operational efficiency, and achieve sustainable development. The energy used by the Group is mainly gasoline, diesel and electricity, and the resources used by the Group mainly includes water.

Energy

Energy consumption for 2022 and 2021 were as follows:

Type of energy	Unit	2022 Consumption	2022 Density (Note 1)	2021 Consumption	2021 Density (Note 1)
Electricity	MWh	**21,950.55**	**5.78**	23,482.58	5.16
Gasoline (Note 2)	Liter	**802,837.80**	**211.44**	417,760.70	91.80
Diesel (Note 2)	Liter	**29,635.41**	**7.80**	31,429.60	6.91

Note 1: Density is calculated by dividing the total emission amount by the number of employees at the end of the year on average.

Note 2: Classified as direct non-renewable fuel.

Note 3: Total direct non-renewable fuel consumption is approximately 8,097.79 MWh, with a density of approximately 2.13 MWh.

Note 4: The conversion to MWh is based on the Energy Statistics Manual published by the International Energy Agency.

Electricity is the main energy consumption of the Group. The decrease was mainly due to the decrease in the number of dealer outlets during the year. In addition, the pandemic still had a significant impact on the operation of the Group's stores for the year.

Consumption of gasoline and diesel mainly arose from providing test drive services and off-site delivery services for customers. During the year, customers' demand for gasoline vehicles was greater than that of diesel vehicles, and significantly increased compared with that of last year, as a result of which, compared with diesel vehicles, more customers chose to experience test drive services for gasoline vehicles and purchase gasoline vehicles, resulting in an increase in gasoline consumption and a decrease in diesel consumption for the year.

To further reduce the adverse impact of the business on the environment, the Group has formulated a specific policy, including vehicle management regulations and air conditioning regulations, to regulate the use behavior of staff, in order to achieve the reasonable use of energy and resources and reduce waste.

Water resources

The Group's business does not have a significant demand for water resources and therefore no problems have been identified in sourcing suitable water supplies. The water consumption of our stores is mainly for daily use and comes mainly from the municipal tap water network. Domestic waste water is discharged into municipal drainage pipes and treated by municipal waste water treatment plants, and no direct discharge to water and land will be made. Water consumption for 2022 and 2021 were as follows:

(Unit: in tons)	**2022**	2021
Total water consumption	**242,466.94**	215,098.68
Density (Note 1)	**63.86**	47.26

Note 1: Density is calculated by dividing the total emission amount by the number of employees at the end of the year.

The water consumption in 2022 increased slightly compared with the previous year, with a significant increase in the density, mainly due to the increase in the number of car washes and car beauty projects and new stores for the year. In addition to the above reasons, the density was also affected by the decrease in employees during the year. In order to ensure that the use of water resources will be more streamlined in the future, we have promoted water conservation to employees, and strengthened their awareness of water conservation to cherish water, love water, save water, and reduce unnecessary consumption. Meanwhile, the Group has implemented a number of water-saving measures, such as installing water conservation devices, water recycling, advocating water conservation at water faucets and implementing inspection to conduct daily water and electricity meter reading, carrying out analysis and treatment on any abnormality, strengthening the daily maintenance and management of water-using equipment, regularly checking the aging water supply pipelines, installing or replacing water-saving faucets and sanitary ware, strictly investigating water running, popping, dripping, and leaking phenomena, and eliminating faults in time.

The Group does not manufacture or produce any finished products directly, and the cars sold are manufactured and provided by suppliers. Therefore, we do not use any packaging materials.

Aspect A3: Environment and Natural Resources

Although our operating business does not have significant impact on the environment and natural resources, we are committed to building a harmonious and sustainable environment friendly enterprise, constantly pursue the coordinated development between the Group business and the ecological environment, and include the protection of the environment and natural resources into the enterprise strategic planning and policy implementation for consideration. Meanwhile, the Group is committed to vigorously promoting the development of new energy vehicle projects, in order to transmit the environmental awareness to the consumers on business level and effectively fulfill the environmental obligations.

The Group regularly implements a series of measures to achieve environmental protection and energy conservation during the operation process, including:

1. Installing a new filter monitoring system for the paint room to reduce greenhouse gas emissions in the stores;

2. Encouraging employees to travel green and commute on foot or by taking public transport, in order to reduce the direct greenhouse gas equivalent emissions due to the use of private vehicles;

3. The administrative department shall supervise the use of air conditioners and refrigerant stocks in each store to ensure the reasonable use of refrigeration equipment such as air conditioners;

4. Encouraging employees to reasonably control the air-conditioning operation period according to the temperature conditions;

5. Implementing zoning of electricity consumption to reduce unnecessary lighting use;

6. The elevators of the stores of the Group are operated in accordance to a schedule. From Monday to Friday, the elevators are turned off, and they are turned on only when there are customers on weekends, so as to reduce the power consumption;

7. Arranging designated personnel to check and shut down the water dispenser, computer, printer, air conditioner and other electrical equipment after work every day. Prohibiting the use of office computers for recreational activities;

8. The Company optimized the OA system, and adopt online intelligent examination and approval to a greater extent and scope, so as to reduce paper consumption and document delivery;

9. Applying for office supplies in the right amount according to the departmental and personal use to avoid surplus or shortage.

Future Goals

In response to the national goal of carbon peaking by 2030 and carbon neutrality by 2060, all employees of the Company have always pursued the concept of energy conservation and environmental protection to operate business. We hope to follow the national goals, and will also pay close attention to the introduction of policies and the development of the industry, and continue to implement the above-mentioned carbon reduction and environmental protection measures. After consideration by the Board, the Company will take 2021 as the base year, and target the air emissions, energy efficiency, waste generation and the dense of water efficiency emissions in the next three years to be the same as the base year. The Company's air emissions and waste discharge density for this year were basically the same as the base year, and some decreased; the energy efficiency and water efficiency density increased compared with the base year, mainly due to changes in customer purchase needs and the decrease of the Company's employees.

Aspect A4: Climate Change

Climate change is a current global challenge that affects everyone's life. In 2015, almost all countries adopted a landmark international agreement, the Paris Agreement, agreeing to drastically reduce global greenhouse gas emissions with a view to limiting global warming to 1.5°C this century. This agreement underscores the urgency of climate-related situations.

The Company understands the crisis brought about by climate change, and the Company's business mainly relies upon the operation of stores. We understand the acute risks of climate change, such as extreme weather, heavy rain, and hail, which have a particularly serious impact on us, affecting the safety of employees commuting to and from work, the operation of stores, and the safety of vehicles in stock. In response to these crises, the Company has adopted policies to arrange for employees to be on duty safely, and the vehicles of our stores are also placed in a safe indoor environment, and regular inspections are carried out to reduce the impact of acute extreme weather events on the Company. In the event of a climate emergency during operations, the emergency leadership team will quickly initiate situation assessment and formulate emergency response measures based on a clear division of labor and powers and responsibilities.

VI. OUR EMPLOYEES

Aspect B1: Employment

The Group believes that employees are an important strategic asset for its sustainable development. During the Reporting Period, the Group strictly complied with the Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, the Civil Code of the People's Republic of China and other relevant laws and regulations, effectively protected the legitimate rights and interests of employees, continuously improved the benefits of employees and enhanced their sense of belonging.

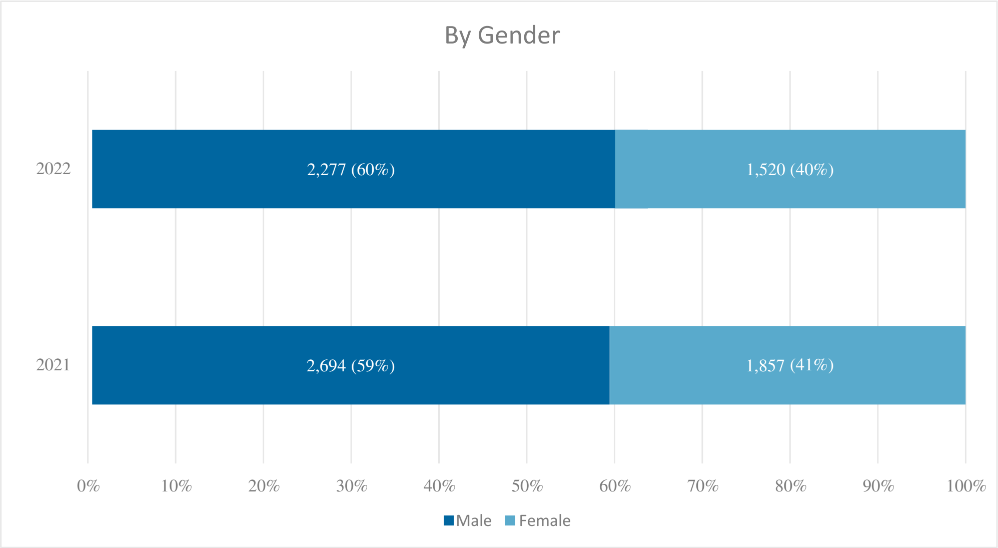
The Group has developed related human resources policies in accordance with legal requirements and its own operations circumstances to ensure that employees enjoy their due employment rights. We have developed and clearly communicated to all staff our policies on remuneration, dismissal, recruitment and promotion, working hours and leave applications, equal opportunities and other employee benefits to ensure that the protection of employees' rights and interests can be effectively implemented. Employees of different races, origins, regions and genders shall enjoy equal opportunities for employment, salary adjustment, promotion, training and education. The Group highly respects and safeguards these rights and does not tolerate any discrimination in its operations.

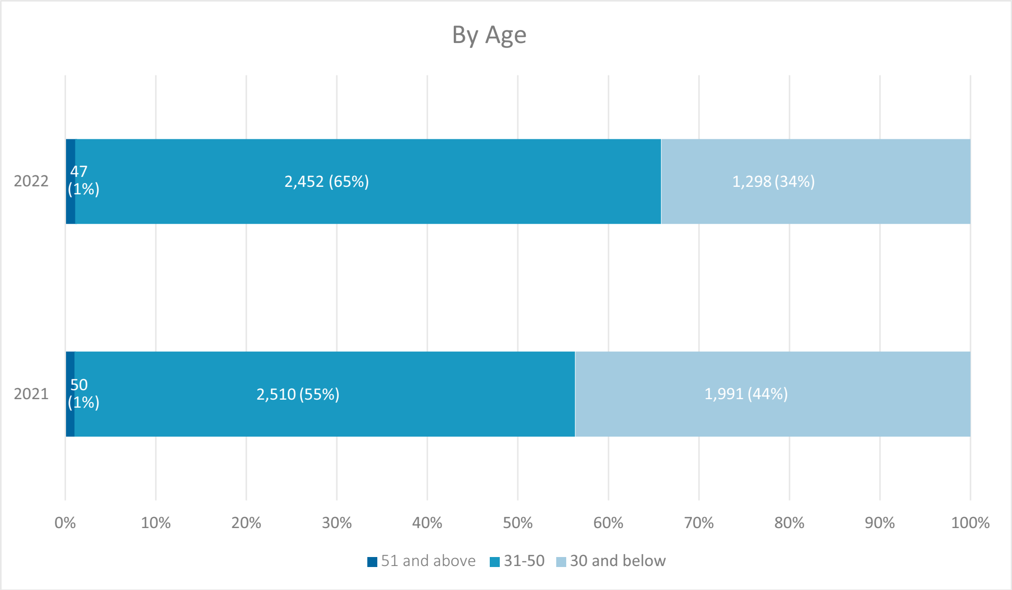
In addition to protecting employees' legal employment rights and benefits, subject to prevailing business conditions, the Group also continuously optimizes its employees' benefits. For example, for employees who do not meet the conditions for purchasing social insurance, the Group will purchase commercial insurance for them as an alternative; the Group will provide extra holiday benefits to employees; the Group will distribute meal allowance and assignment allowance to employees and those working in other places. In addition, the Group will organize a variety of activities to enhance the cohesion of the staff and enrich their spiritual life, such as team building, tours, and fitness activities. At present, the Group has set up an effective staff feedback and grievance mechanism from top to bottom, providing a smooth communication channel for staff to appeal and make suggestions.

Our labor

As of December 31, 2022, the Group had 3,797 employees (2021: 4,551), which was a larger decrease than the previous year, mainly due to the impact of the pandemic on store operations, including 3,787 employees in Mainland China and 10 in Hong Kong. Since those who join the automobile after-sales and maintenance service industry have been mostly male, the proportion of male employees in the Group remains relatively high. The ratio of male to female in 2022 was 1.50 to 1, representing a slight increase compared with 2021. The employment type of the Group is divided into full-time and part-time. During the Reporting Period, the Group had a total of 3,779 full-time employees and 18 part-time employees.

The gender and age composition of employees were shown in the following graphs:





The Group provides competitive remuneration and benefits and fair remuneration structure for employees, adjusts salaries in accordance with the actual situation in each year, and improves the compensation management system and comprehensive performance appraisal mechanism to reduce employee turnover. There were no significant cases of non-compliance concerning labor practices in the Group during the Reporting Period (2021: nil).

Employee turnover

The Company has established relevant human resources policies to regulate employees' resignation, dismissal or retirement and protect the legal rights and interests of employees. In recent years, the Company's stores have continuously optimized their personnel structure and implemented job consolidation to improve personnel efficiency, in order to cope with the impact of the pandemic and market changes on the Company's operations. As of December 31, 2022, the Company had 2,155 (2021: 2,074) employees leaving the Company, all of whom were full-time employees in the PRC, with an overall turnover rate (Note 1) of 52% (2021: 47%). The number and rate (Note 2) of employee turnover classified by gender and age were as follows:

	2022	2021
The number and rate of employee turnover by gender		
Male	**1,225 (49%)**	1,273 (49%)
Female	**930 (55%)**	801 (45%)
The number and rate of employee turnover by age		
30 and below	**1,077 (65%)**	1,183 (58%)
31–50	**1,053 (42%)**	873 (38%)
50 above	**25 (52%)**	18(39%)

Note 1: Overall employee turnover rate is calculated by dividing the turnover number of employees by the average number of employees at beginning and the end of the year.

Note 2: The employee turnover rate is calculated by dividing the number of turnover employees in that category by the average number of employees at beginning and the end of the year in that category.

Aspect B2: Health and safety

The Group attaches great importance to the protection of employees' rights and interests, the security of the working environment and the health and safety of the employees. We are determined to provide employees with a comfortable and safe working environment, maintain and improve the welfare of the staff, and ensure that the Group is in line with the professional and workplace safety related laws and regulations, such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Law of the People's Republic of China on Mediation and Arbitration of Labor Disputes and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases.

Some specific daily measures related to workplace safety are as follows:

1. The Group attaches great importance to the occupational health of employees. We have provided an efficient and suitable working environment for employees, and cooperated with publicly listed professional medical health examination company to provide regular health examination for employees every year; for employees in positions that may suffer from occupational diseases, occupational disease medical examinations are conducted at the time of entry, every year of employment and before leaving.

2. The Group attaches great importance to the office fire safety. We have included the fire safety education and training in the annual fire protection work plan, provided funds for the fire safety education and training, and organized various forms of fire safety advocacy and education.

3. Designated personnel are assigned to conduct daily fire prevention inspection to ensure that the evacuation passageways and safety exits are unblocked, and the fire control facilities for evacuation, such as fire doors, evacuation signs and fire accident lighting, are unimpaired and usable. Once any fire control facilities are found to be damaged or lost, they are repaired and replaced in time.

4. We expect the visits from local environmental protection authority and the occupational disease management center to have annual inspection and sample test, as well as receiving the annual fire training organised by the local fire department and the exercise organized by the property management company.

5. We provide protective tools and operation clothing for employees.

6. To avoid the occurrence of major safety accidents, the Group has formulated the Management System for the Avoidance of Major Accidents (the "Management System"), with an aim to strengthen the management of major potential accidents and prevent the occurrence of major accidents. The manager of the administration department and the general manager of the subsidiary companies are responsible for strengthening the management, monitoring and control of the potential major issues in the region under their jurisdiction, get a grip of where they are and how they change dynamically, establish and improve the emergency rescue plan of emergency rescue organizations, strictly implement the safety operation procedures and safety management rules and regulations, and earnestly fulfill the safety responsibilities to prevent the potential danger.

7. The Management System requires the subsidiary companies to conduct a risk analysis and evaluation of major accident hazards once a year, and make quantitative or qualitative analysis and evaluation according to their hazard characteristics, the possibility of accidents and their severity and consequences, and submit the evaluation report to the Group's administration department. Moreover, the subsidiary company where the major accident hazards is located must formulate an accident emergency rescue plan, equip the necessary emergency equipment and tools, and conduct at least one emergency rescue drill each year to test the effectiveness and timeliness of the emergency response, and make timely modifications and additions according to the effect of the drill.

During the Reporting Period, some of the Group's stores conducted Workplace Occupational Disease Hazard Factor Testing Report, regularly tested workplaces for occupational disease hazards factor and conducted operational health checks for workers engaged in occupational disease hazard exposure operations. This further protects the occupational health and safety of employees.

During the Reporting Period, the COVID-19 experienced the most serious stage, and the normal operation of the Group's stores was also greatly affected. The Group formulated contingency plans according to local requirements, and took measures to close stores when necessary, so as to protect our employees from the invasion of the COVID-19 while remain productive by pushing forward actively and steadily. The Group's stores made best efforts to prevent and control the pandemic, effectively protecting the lives and health of our employees and maintaining the smooth operation of our business. A series of measures were as follows:

1. We established an epidemic prevention and control working group with the chief of the Group as the commander-in-chief, under which five executive teams were set up, assigning each of them with specific epidemic prevention tasks such as the provision of epidemic prevention supplies, personnel movement management and office environment; we also identified the persons in charge of epidemic prevention in each department of the Company;

2. Epidemic prevention supplies such as epidemic prevention masks, temperature measuring guns, disinfectants, disposable gloves, and disinfection spraying equipment were purchased, managed and used by dedicated personnel;

3. Conducting and recording temperature tests on employees twice a day;

4. Ventilation of office premises by opening windows for half an hour every two hours every day;

5. Staff dining distance of one meter or more to avoid face-to-face interaction;

6. All employees were required to wear masks during work, and it was strictly forbidden to remove the masks without permission;

7. Communicating online or by phone where possible to reduce the number of outward trips.

During the Reporting Period, the total lost days due to work injury of the Group was 353 (2021: 141) days, the average lost days per capita due to work injury (calculated based on the total number of employees as at December 31, 2022) was 0.09 (2021: 0.03) days, there were no material incident of work-related fatalities in the past 3 years including the Reporting Period, and the Company did not have any material non-compliance incident relating to laws and regulations on health and safety.

Aspect B3: Development and training

To improve the business ability and vocational skills of the employees, the Group has established a systematic training system called Training Management System, in order to provide continuous and systematic career development trainings for the employees through knowledge, experience, ability accumulation, dissemination, application and innovation. The Group attaches great importance to talent training. We believe that systematic development and training is not only a good way to help employees grow quickly and adapt to the needs of business development, but also a good way to cultivate useful talents for social development.

According to the training content, the Group's training activities can be divided into:

➢ **New employee orientation training:** In order to help new employees integrate into the Company faster and better, we provide systematic training activities for each new employee, including basic training and post training.

➢ **Competency training:** This training is organized for the purpose of updating and expanding the staff's knowledge, enhancing their abilities, preparing them for promotion and improving their work efficiency. This year's training includes product presentation, sales negotiation skills, maintenance skills training, etc.

➢ **External training:** The Group also allows providing employees with the external trainings that the Company cannot provide for the moment but are required for the works. Upon the approval of the Group, the staff can apply to participate in the training activities organized by the Group, industry, manufacturers and professional training institutions.

- **Advanced study in spare time:** The Group encourages employees to take part in professional learning activities in their spare time to enrich themselves and improve their functional skills and professional quality.

- **Anti-money laundering and anti-corruption training:** This year, anti-corruption training was organized for management and employees with the training hours up to 50 hours.

During the Reporting Period, the number of trained employees (Note 1) accounted for 51% (2021: 56%) of the total number of employees, a total of approximately 23,141 (2021: 49,343) training hours were completed, and the average training hours per employee (Note 2) was 5.54 (2021: 11.27) hours. Compared with 2021, due to the regular impact of the pandemic this year, the Group actively responded to the national call to minimize the gathering of people, resulting in a decrease in the average training time per employee.

Details of the training were shown in the chart below:

	2022			
	Number of employees trained	Percentage of trained employees (Note 3)	Total hours of training (hours)	Average training hours per employee (hours) (Note 4)
By gender				
— Male	**1,263**	**59%**	**14,307.4**	**5.76**
— Female	**875**	**41%**	**8,834.0**	**5.23**
By type of employees				
— Management	**160**	**7%**	**1,515.9**	**7.79**
— Middle-level employees	**291**	**14%**	**2,850.1**	**6.88**
— Junior employees	**1,687**	**79%**	**18,775.4**	**5.27**

	2021			
	Number of employees trained	Percentage of trained employees (Note 3)	Total hours of training (hours)	Average training hours per employee (hours) (Note 4)
By gender				
— Male	1,627	67%	37,039	14.30
— Female	814	33%	12,304	6.88
By type of employees				
— Management	103	4%	1,830	20.00
— Middle-level employees	295	12%	6,744	16.80
— Junior employees	2,043	84%	40,769	10.49

Note 1: This percentage is calculated by dividing the total number of employees participated in training by the average number of employees at beginning and the end of the year.

Note 2: This average training hours is calculated by dividing the total training hours by the average number of employees at beginning and the end of the year.

Note 3: This percentage is calculated by dividing the number of employees participated in training in that category by the total number of employees who participated in the training.

Note 4: This average training hours is calculated by dividing the total training hours of employees in that category by the average number of employees at beginning and the end of the year in that category.

Aspect B4: Labor Standards

The Group strictly complies with the Labor Law of the People's Republic of China, the Provisions on the Prohibition of the Use of Child Labor, the Provisions on the Special Protection of Juvenile Workers, the Civil Code of the People's Republic of China and other legal requirements in China, and firmly resists and opposes forced labor and child labor. The full-time employees recruited by the Group and in service are above 18 years old, and the interns and apprentices are above 16 years old. When signing the labor contract, we will strictly check the identity documents, including checking of his or her age, so as to prevent child labor in an effective way. In the recruitment notice, during interview phase and when signing the labor contract, we clearly inform the job seekers of the nature of the relevant work, time, content and other terms, in strict accordance with the provisions of the labor law and labor contract law. Hence, all labor contracts were signed and all the labor works were performed by the employees voluntarily which rule out any forced labor. In the event of forced labor and child labor, the Company will handle the situation in accordance with the law and will hold those responsible for violations accountable and provide rewards and punishments in accordance with the Company's system. In spite of this, the Group focuses on taking preventive measures at the source and hence is confident that those illegal practices mentioned above will not occur in the future.

The Group has made reasonable arrangements for employees' working hours within the statutory standard working hours to ensure a balance between work and rest time, and provides paid leave and sick leave and other benefits according to the labor law, so as to prevent all forms of forced labor. The Group's employment practices (including recruitment and promotion, leave, equal opportunities, compensation and dismissal, anti-discrimination, etc.) were conducted in accordance with local labor laws and regulations. In addition, the Group conducted regular performance appraisal program and other systems to assess the work contents and achievements of its employees, and strictly monitored the working ability and performance of employees, so as to avoid forced overtime, excessive work pressure and other forced labor behaviors.

During the Reporting Period, the Group was not aware of any incidents of child labor or forced labor in any form (2021: nil).

VII. OUR BUSINESS

Aspect B5: Supply chain management

The Group has formulated the Bidding and Tendering Management Measures in accordance with the Bidding and Tendering Law of the People's Republic of China to regulate the bidding and tendering behavior of the Group for projects such as project construction and material procurement, strengthen the supervision and management of bidding activities, reasonably control the project cost and capital expenditure, and ensure the quality of the project. Based on the Management Measures, the Group has formulated the Measures for Supplier Evaluation and Management to standardize the selection behavior of suppliers, strengthen the supervision and management of suppliers, strengthen supply chain environmental and social risk identification, fully guarantee product quality and ensure the stability of supply chain management.

The Group maintains a long-term and stable partnership with major automotive suppliers such as BMW, Maserati, Lexus, Land Rover, Ferrari and other luxury and ultra-luxury brands to ensure the steady development of automotive sales business. In addition, the Group keeps long-term and stable cooperative relationship with 31 suppliers of replacement automotive equipment and accessories in China. During the Reporting Period, the distribution of major automotive equipment and accessories suppliers by region was as follows: 206 in Mainland China and 6 overseas.

When selecting suppliers of replacement parts, the Group not only requires them to have the essential operating qualifications and product quality, but also fully considers the environmental and social risk factors of these suppliers, such as whether the materials used in the supplier's products meet the environmental standards, the market reputation of the supplier's brand and other factors. Meanwhile, the Group will provide open, equal, transparent and fair bidding opportunities for various projects, so as to select the best. In addition, the Group will regularly evaluate the performance of existing suppliers to check their performance and promote them to improve their supply level. We will continue to work with excellent suppliers, but eliminate those with poor performance.

Aspect B6: Product responsibility

The Group supplies the world famous luxury and super luxury brand cars to the consumers, including BMW, Lexus, Maserati, and maintains long-term stable partnership with these manufacturers. As Automobiles being end products for sale, the Group has established a comprehensive product quality management system, which covers the entire supply chain and the sales service process from release from factory, transportation, storage until the sales to consumers, delivering high-quality automotive products in the hands of consumers in an all-round way. The automobiles have obtained the manufacturer's qualification certificate when leaving the factory, and conform to the international and national production quality standards for the nation and the industry. In addition, the quality inspection department of the Group will also review the standards of automobiles to ensure that the production quality of automobiles meets the sales requirements of the Group.

The Group is aware of its responsibilities associated with the advertisement and labelling of the products and services it provides. Various policies and guidelines have been formulated for assuring quality of its products and services. Throughout the Reporting Period, the Group complied with all relevant laws and regulations relating to advertising and labelling which have significant impact on the Group including the Advertising Law of the People's Republic of China, the Interim Measures for the Administration of Internet Advertisements and the Trademark Law of the People's Republic of China.

In terms of customer service, the Group carefully listens to the demands of consumers on cars, and provides them with high-quality services, in order to continuously improve customer satisfaction. The Group will actively carry out customer satisfaction survey and evaluate the sales team and customer service, in order to find out the deficiencies in service and make corresponding improvement. The facilities construction of our stores takes into consideration the customer experience during the provision of maintenance services, providing them with the high-quality services including barrier-free communication and activities such as catering, entertainment, leisure. In addition, to further enhance the service awareness of the staff, the Group has provided courses related to customer service to the staff in the course of daily work and training activities.

The Group has established a comprehensive automobile recall service system. We will actively communicate and negotiate with customers regarding the automobile quality problems, recall vehicles in a timely manner in strict accordance with recall message of the manufacturers so as to minimize the potential safety threats caused by product quality to the customers. For the recalled vehicles, the stores under the Group will carry out the recall plan according to the "Recall Contingency Plan" to ensure the completion of the after-sales recall indicators of the automobile manufacturers, increase the contribution of warranty to the after-sales output value, and smooth the recall process. During the Reporting Period, the Group's various brand stores strictly carried out recall work, and there was no safety and health incidents related to the recall work. There was also no products related complaint received from customers. In response to complaints, the Group has established the Regulations on Customer Complaint Resolution Management to learn about specific problems in the service based on customer feedback, and implement improvements and preventions to increase customer satisfaction and maintain continuous improvement in service quality. The Regulations stipulates that the customer service department shall first classify the complaints according to the category of incidents and take detailed records, and then the professional and technical staff or customer managers shall provide systematic solutions to meet the needs of customers and protect the interest of consumers as much as possible. The customer manager shall pay a return visit to the customer who complained within three days, communicate with the customers by telephone, solicit opinions and understand their satisfaction degree, and ensure continuous improvement of service quality.

In addition, the Group pays attention to the protection of customer privacy. In addition to protecting consumers' personal information in strict accordance with the Law on Protection of the Rights and Interests of Consumers and other relevant provisions, we have established consumer data protection and privacy policies for our customers, stressing that employees shall not disclose or abuse any information or trade secrets related to the Company's transactions or operations for their own personal gain. We employ authorized personnel to keep all confidential information related to suppliers, contractors or customers to ensure the security of customer information. The Group has also maintained a Confidentiality and Non-Competition Agreement with employees on a long-term basis to ensure that employees keep confidential information and undertake noncompetition obligations during their services and after termination of their employment. In addition, employees are required to use confidential information properly and not to use such confidential information outside of their duties or assist any third party who is not under a duty of confidentiality to use the Group's trade secrets. If a trade secret is discovered to have been leaked or leaked through their own negligence, they shall take effective measures to prevent further expansion of the leak and report to the Group in a timely manner. No customer information leakage occurred during the Reporting Period. The Group's operation does not involve self-production and research and development of products. Therefore, the Group's intellectual property protection focuses on cooperation with brand owners. The Group does not infringe, misappropriate or otherwise violate the valid and enforceable intellectual property rights of third-party manufacturers. In the daily operation, sales, provision of repair services and other businesses, the Group strictly controls all brand vehicles and products used for vehicle maintenance and repair, uses only brand-certified products, resists any fake and uncertified products, and is responsible to partners and customers. The Group attaches great importance to the protection of intellectual property rights, and integrates the concept of respecting wisdom and supporting genuine version into daily operations. Employees are encouraged to actively protect intellectual property rights, learn the brand's operating specifications, product details and brand verification in daily training, and apply them in sales activities to enhance customers' trust, favorability and loyalty to the brand. During the Reporting Period, there was no material infringement of intellectual property rights that had or might have a material adverse effect on the Group's business. The Group has complied with all applicable intellectual property laws and regulations in all material respects.

Aspect B7: Anti-corruption

The Group strictly complies with the Anti-unfair Competition Law, the Anti-money Laundering Law, the Interim Provisions on Banning Commercial Bribery and other relevant laws and regulations in China, and expressly requires that no employee shall engage in bribery, extortion, fraud and money laundering and any other illegal and criminal acts. The Group regularly issues "integrity and self-discipline commitment" circulars to the staff, requiring that the staff must select suppliers, contractors or partners objectively and openly, in order to eliminate all inappropriate behaviors in the workplace, such as soliciting bribes, accepting bribes, using power to solicit business for relatives and friends at the price of damaging the Company's interests, etc. In terms of internal policies, the Group has established a legal supervision department to supervise the integrity and self-discipline of all employees. For reporting procedures, the Group unblocked the whistle-blowing channels for complaint reporting. Specific personnel were assigned to handle various types of complaints by letters and visits in a timely manner. All problem leads were dealt with in strict accordance. For accounting, cashier, information system operation and other positions prone to fraud, as well as the recruitment of middle and senior managers, we will check whether the candidate has the criminal record of illegal crime, administrative punishment, commercial fraud, etc. In addition, in the process of daily work and training activities, the Group will also promote the employees to improve the awareness of anti-corruption and the ability to identify corruption, and remind managers at all levels and ordinary employees to be vigilant and lead by example. During the Reporting Period, the Group's headquarters and stores held a total of 114 anti-corruption sessions, covering employees at all levels of the Group, and explained in detail the Group's "Ten Prohibitions for Anti-corruption" to employees to promote the actual implementation of policies.

In terms of external policy, the human resources department, financial department and audit department of the Group have set up public complaint and report email, and their contact information is open to the public. Any person/individual member inside or outside the Company who finds bribery, extortion, fraud, money laundering and other illegal and criminal acts can directly report them through a variety of communication channel, which will be submitted to the relevant departments for handling according to law after verification. Those reported persons who are suspected of serious violation of laws, regulations or disciplines will be punished by the Company and compensate for the economic losses caused to the Company. Those who violate the law will be subject to legal repercussions. During the Reporting Period, there was no legal case regarding corruption brought against the issuer or employees of the Group (2021: Nil).

VIII. OUR COMMUNITY

Aspect B8: Community investment

While creating economic benefits for shareholders, investors and the society, the Group also shoulders the social responsibility of building a harmonious society and promoting the construction and development of the community. During the Reporting Period, the Group actively participated in the livelihood of the community to understand the community needs. Each subsidiary of the Group vigorously carried out various public welfare activities, participated in the community building through not just words but actions, with an aim to build a relationship of harmony and common prosperity between enterprise and community.

During the Reporting Period, the Group successively carried out a number of social and charitable activities:

On March 21, 2022, Shangdebaojun donated RMB4,465 to Jinyang New Village Street for condolences to the masses during the pandemic.

On April 1, 2022, Guangzhou Guangdebao donated RMB129,000 to the command room of Jianghai Police Station for decoration and purchase of fixed assets.

On June 22, 2022, Xinxiang Yuanda donated RMB500 to the Xiaodian Town Police Station for organizing anti-fraud publicity activities.

On September 29, 2022, Shangdebaojun donated RMB2,000 to the Huangshan Street Neighborhood Committee of Jinyang New Village for the Double Ninth Festival to visit the elderly.

On October 1, 2022, Guangzhou Guangdebao donated RMB3,000 to Haizhu Kindergarten for condolences to the students.

On October 1, 2022, Guangzhou Guangdebao donated RMB3,000 to the Jianghai Sub-district Office for the purchase of anti-pandemic materials.

In the future, the Group will attach more importance to and take the initiative to undertake social responsibilities, and leverage the influence and appeal of the Group to contribute to the society, supporting the construction and development of the society.

Independent Auditor's Report

TO THE SHAREHOLDERS OF
CHINA HARMONY AUTO HOLDING LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Harmony Auto Holding Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 93 to 189, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other 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 (the "**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.

Estimation of rebates

Refer to Note 29 to the consolidated financial statements

The Group recognises volume-related vendor rebates on an accrual basis based on the terms of the supplier contracts. As at 31 December 2022, the rebate receivables recognised in the consolidated statement of financial position amounted to approximately RMB1,099,686,000. The balance of rebate receivables was significant and the process of estimating the accrual was complex.

Our audit procedures included, among others:

— Checking the rebate policies adopted against the terms of the relevant supplier contracts;

— Checking the calculation of the rebate receivables based on the rebate policies; and

— Checking subsequent cash collections of rebate receivables.

We consider that the Group's recognition of the volume-related vender rebates is supported by the available evidence.

Advances to and interest receivable from Independent Aftersales Company ("IAC")

Refer to Note 29 to the consolidated financial statements

The Group tested the amount of advances to and interest receivable from IAC (the "**IAC Loans**") for impairment. This impairment test is significant to our audit because the balance of the IAC Loans of RMB403,455,000 as at 31 December 2022 and the provision on impairment loss of RMB354,577,000 for the year then ended are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's relationship and transaction history with IAC;
- Evaluating the Group's impairment assessment;
- Assessing ageing of the IAC Loans;
- Assessing creditworthiness of IAC;
- Assessing the competence, independence and integrity of the external valuer engaged by the Company;
- Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;
- Checking key assumptions and input data in the valuation model to supporting evidence;
- Checking arithmetical accuracy of the valuation model;
- Checking subsequent settlements from IAC; and
- Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

We consider that the Group's impairment test for the IAC Loans is supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include 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 DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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. We report our opinion 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

https://www.hkicpa.org.hk/en/Standards-setting/Standards/Our-views/auditre

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Wan Ho Yuen
Audit Engagement Director
Practising Certificate Number P04309
Hong Kong, 31 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	**2022 RMB'000**	2021 RMB'000
REVENUE	8	**16,321,659**	17,981,051
Cost of sales and services		**(15,241,990)**	(16,229,787)
GROSS PROFIT		**1,079,669**	1,751,264
Other income and gains, net	9	**(1,232,990)**	442,989
Selling and distribution expenses		**(882,115)**	(886,613)
Administrative expenses		**(346,872)**	(250,071)
(LOSS)/PROFIT FROM OPERATIONS		**(1,382,308)**	1,057,569
Finance costs	10	**(121,289)**	(130,853)
Share of (losses)/profits of joint ventures		**(1)**	3
Share of (losses)/profits of associates		**(3,687)**	246
(LOSS)/PROFIT BEFORE TAX		**(1,507,285)**	926,965
Income tax expense	11	**(115,519)**	(235,694)
(LOSS)/PROFIT FOR THE YEAR	12	**(1,622,804)**	691,271
Other comprehensive loss after tax:			
Items that will not be reclassified to profit or loss:			
Fair value changes of an equity investment at fair value through other comprehensive income		**(8,604)**	(23,196)
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(22,649)**	(30,122)
Other comprehensive loss for the year, net of tax		**(31,253)**	(53,318)
Total comprehensive (loss)/income for the year		**(1,654,057)**	637,953

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
(Loss)/profit for the year attributable to:			
Owners of the Company		**(1,627,762)**	673,155
Non-controlling interests		**4,958**	18,116
		(1,622,804)	691,271
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(1,659,015)**	619,837
Non-controlling interests		**4,958**	18,116
		(1,654,057)	637,953
(Loss)/earnings per share attributable to owners of the Company	15		
Basic (RMB)		**(1.08)**	0.44
Diluted (RMB)		**(1.08)**	0.44

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**2,964,993**	3,054,559
Right-of-use assets	17	**849,323**	823,118
Intangible assets	18	**147,116**	149,665
Goodwill	19	**141,791**	141,791
Prepayments and other assets	20	**485,205**	421,189
Finance lease receivables	21	**178,596**	246,026
Investments in joint ventures	22	**7,772**	7,773
Investments in associates	23	**3,087**	6,774
Investments at fair value through profit or loss	24	**–**	1,217,011
Equity investment at fair value through other comprehensive income	25	**–**	8,604
Deferred tax assets	26	**82,321**	75,514
Total non-current assets		**4,860,204**	6,152,024
CURRENT ASSETS			
Finance lease receivables	21	**263,198**	232,465
Inventories	27	**1,540,438**	1,129,635
Trade receivables	28	**197,882**	148,149
Prepayments, other receivables and other assets	29	**2,534,426**	3,760,416
Investments at fair value through profit or loss	24	**–**	81,504
Pledged and restricted bank deposits	30	**220,347**	87,752
Cash in transit	31	**24,070**	27,454
Cash and bank balances	32	**1,161,992**	1,629,199
Total current assets		**5,942,353**	7,096,574
CURRENT LIABILITIES			
Bank loans and other borrowings	33	**2,083,023**	2,629,978
Trade and bills payables	34	**635,135**	217,265
Other payables and accruals	35	**918,298**	1,175,087
Lease liabilities	36	**90,510**	109,357
Income tax payable		**172,561**	223,632
Total current liabilities		**3,899,527**	4,355,319
NET CURRENT ASSETS		**2,042,826**	2,741,255
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,903,030**	8,893,279

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities	36	**819,071**	792,058
Deferred tax liabilities	26	**57,252**	58,659
Total non-current liabilities		**876,323**	850,717
NET ASSETS		**6,026,707**	8,042,562
EQUITY			
Equity attributable to owners of the Company			
Share capital	38	**12,293**	12,480
Reserves		**5,934,530**	7,954,900
		5,946,823	7,967,380
Non-controlling interests		**79,884**	75,182
TOTAL EQUITY		**6,026,707**	8,042,562

Approved by the Board of Directors on 31 March 2023:

Liu Fenglei
Director

Feng Shaolun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to owners of the parent												
	Share capital *RMB'000*	Shares held under share award plan and share repurchase *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Merger reserve *RMB'000*	Fair value change reserve *RMB'000*	Share option reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2021	12,536	(101,611)	3,056,365	1,635	297,060	371,200	(77,245)	98,558	88,763	3,740,779	7,488,040	59,447	7,547,487
Profit for the year	–	–	–	–	–	–	–	–	–	673,155	673,155	18,116	691,271
Other comprehensive loss for the year													
Fair value changes of an equity investment at fair value through other comprehensive income	–	–	–	–	–	–	(23,196)	–	–	–	(23,196)	–	(23,196)
Exchange differences on translating foreign operations	–	–	–	–	–	–	–	–	(30,122)	–	(30,122)	–	(30,122)
Total comprehensive income for the year, net of tax	–	–	–	–	–	–	(23,196)	–	(30,122)	673,155	619,837	18,116	637,953
Shares repurchased and cancelled *(Note 38(a))*	(61)	–	(20,083)	–	–	–	–	–	–	–	(20,144)	–	(20,144)
Shares repurchased	–	(21,632)	–	–	–	–	–	–	–	–	(21,632)	–	(21,632)
Final 2020 dividend declared	–	–	(101,506)	–	–	–	–	–	–	–	(101,506)	–	(101,506)
2020 Dividend declared to NCI	–	–	–	–	–	–	–	–	–	–	–	(2,381)	(2,381)
Exercise of share options *(Note 38(b))*	5	–	1,765	–	–	–	–	(334)	–	–	1,436	–	1,436
Equity-settled-share option arrangement	–	–	–	–	–	–	–	1,349	–	–	1,349	–	1,349
Transfer from retained profits	–	–	–	–	6,845	–	–	–	–	(6,845)	–	–	–
At 31 December 2021	12,480	(123,243)	2,936,541	1,635	303,905	371,200	(100,441)	99,573	58,641	4,407,089	7,967,380	75,182	8,042,562

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Attributable to owners of the parent												
	Share capital *RMB'000*	Shares held under share award plan and share repurchase *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Merger reserve *RMB'000*	Fair value change reserve *RMB'000*	Share option reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2022	**12,480**	**(123,243)**	**2,936,541**	**1,635**	**303,905**	**371,200**	**(100,441)**	**99,573**	**58,641**	**4,407,089**	**7,967,380**	**75,182**	**8,042,562**
(Loss)/profit for the year	–	–	–	–	–	–	–	–	–	(1,627,762)	(1,627,762)	4,958	(1,622,804)
Other comprehensive loss for the year													
Fair value changes of an equity investment at fair value through other comprehensive income	–	–	–	–	–	–	(8,604)	–	–	–	(8,604)	–	(8,604)
Exchange differences on translating foreign operations	–	–	–	–	–	–	–	–	(22,649)	–	(22,649)	–	(22,649)
Total comprehensive loss for the year	–	–	–	–	–	–	(8,604)	–	(22,649)	(1,627,762)	(1,659,015)	4,958	(1,654,057)
Shares repurchased and cancelled *(Note 38(a))*	(187)	21,632	(75,053)	–	–	–	–	–	–	–	(53,608)	–	(53,608)
Shares repurchased	–	(26,922)	–	–	–	–	–	–	–	–	(26,922)	–	(26,922)
Final 2021 dividend declared	–	–	(281,012)	–	–	–	–	–	–	–	(281,012)	–	(281,012)
Dividend declared to NCI	–	–	–	–	–	–	–	–	–	–	–	(256)	(256)
Forfeit of share options	–	–	–	–	–	–	–	(1,117)	–	1,117	–	–	–
Transfer from retained profits	–	–	–	–	14,667	–	–	–	–	(14,667)	–	–	–
At 31 December 2022	**12,293**	**(128,533)**	**2,580,476**	**1,635**	**318,572**	**371,200**	**(109,045)**	**98,456**	**35,992**	**2,765,777**	**5,946,823**	**79,884**	**6,026,707**

Consolidated Statement of Cash Flow

For the year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Cash flows from operating activities		
(Loss)/profit before tax	**(1,507,285)**	926,965
Adjustments for:		
Finance costs	**121,289**	130,853
Share of result of joint ventures and associates	**3,688**	(250)
Interest income	**(71,572)**	(66,345)
Depreciation charge of property, plant and equipment	**201,377**	193,928
Depreciation charge of right-of-use assets	**120,661**	102,501
Amortisation of intangible assets	**6,455**	5,818
(Gain)/Loss on disposals of property, plant and equipment	**(2,077)**	18,335
Written off property, plant and equipment	**94,198**	39,679
Impairment loss on investments at fair value through profit or loss	**1,298,515**	58,763
Equity-settled share option arrangement	**–**	1,349
Impairment loss on advances to and interest receivable from Independent Aftersales Company	**354,577**	—
Impairment loss on loans to third parties	**40,296**	—
(Gain)/loss on early termination of lease	**(39,527)**	29,876
Impairment loss on intangible assets	**–**	1,245
Operating cash flows before working capital changes	**620,595**	1,442,717
Change in pledged and restricted bank deposits	**(132,595)**	(2,883)
Change in cash in transit	**3,384**	(5,423)
Change in trade receivables	**(49,733)**	7,215
Change in prepayment, other receivables and other assets	**10,151**	12,484
Change in prepayment to supplier	**773,457**	(476,275)
Change in inventories	**(410,803)**	(36,056)
Change in finance lease receivables	**36,697**	(100,194)
Change in trade and bills payables	**417,870**	(47,179)
Change in other payables and accruals	**(261,228)**	338,131
Cash generated from operations	**1,007,795**	1,132,537
Income taxes paid	**(174,804)**	(307,653)
Lease interests paid	**(51,871)**	(48,785)
Net cash generated from operating activities	**781,120**	776,099

Consolidated Statement of Cash Flow

For the year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
Cash flows from investing activities		
Interest received	**65,159**	47,278
Purchases of property, plant and equipment	**(383,528)**	(738,369)
Proceeds from disposal of property, plant and equipment	**187,123**	142,391
Repayment from a related party	**(30,094)**	1,624
Purchase of intangible assets	**(2,917)**	(19,212)
Loan repayment from a third party	**—**	7,000
Advance and loan made to third parties	**20,000**	—
Increase in time deposits	**149,000**	(30,000)
Net cash generated from/(used in) investing activities	**4,743**	(589,288)
Cash flows from financing activities		
Proceeds from exercise of share options	**—**	1,436
Repurchase and cancel of shares	**(53,608)**	—
Repurchase of shares	**(26,922)**	(41,776)
Bank loans and other borrowings raised	**11,139,695**	14,298,210
Repayment of bank loans and other borrowings	**(11,686,650)**	(14,272,642)
Dividends paid	**(281,012)**	(101,506)
Dividends paid to a non-controlling shareholder	**(256)**	(2,381)
Repayment of lease liabilities	**(99,173)**	(62,283)
Interest paid	**(72,480)**	(90,996)
Net cash used in financing activities	**(1,080,406)**	(271,938)

Consolidated Statement of Cash Flow

For the year ended 31 December 2022

	2022 **RMB'000**	2021 RMB'000
Net decrease in cash and cash equivalents	**(294,543)**	(85,127)
Effect of foreign exchange rate changes, net	**(23,664)**	(29,990)
Cash and cash equivalents at 1 January	**1,159,199**	1,274,316
Cash and cash equivalents at 31 December	**840,992**	1,159,199
Analysis of cash and cash equivalents		
Cash and cash equivalents as stated in the consolidated statement of cash flows	**840,992**	1,159,199
Non-pledged time deposits with original maturity of more than three months when acquired	**321,000**	470,000
Cash and bank balances as stated in the consolidated statement of financial position	**1,161,992**	1,629,199

1. GENERAL INFORMATION

China Harmony Auto Holding Limited (the "**Company**") was incorporated on 24 September 2012 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 June 2013 (the "**Listing**").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in the sale of automobiles and provision of after-sales services in Mainland China.

In the opinion of the directors of the Company (the "**Directors**"), the ultimate holding company of the Company is Cititrust Private Trust (Cayman) Limited, which is incorporated in the Cayman Islands ("**Cayman Islands**"). Eagle Seeker Company Limited is wholly owned by Eagle Pioneer Company Limited. Accordingly, Eagle Pioneer Company Limited is deemed to have interest in the shares held by Eagle Seeker Company Limited. Eagle Pioneer Company Limited is wholly owned by Cititrust Private Trust (Cayman) Limited. Accordingly, Cititrust Private Trust (Cayman) Limited is deemed to have interest indirectly through Eagle Seeker Company Limited, in the shares held by Mr. Feng Changge (the Chairman and a director of the Company, the "**Controlling Shareholder**"), who is the founder of the trust of Cititrust Private Trust (Cayman) Limited.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") that are relevant to its operations and effective for its accounting year beginning on 1 January 2022. HKFRSs comprise Hong Kong Financial Reporting Standards ("**HKFRSs**"); Hong Kong Accounting Standards ("**HKAS**"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments at fair value through profit or loss and equity investments at fair value through other comprehensive income, which are carried at their fair values.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated exchange fluctuation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation (Continued)

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in profit or loss as a gain on bargain purchase which is attributed to the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination and goodwill (Continued)

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, equity investments at fair value through other comprehensive income), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of "impairment of assets" as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units ("**CGU**") that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Associates (Continued)

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has joint control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

In relation to its interest in a joint operation, the Group recognises in its consolidated financial statements, its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly, in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint arrangements (Continued)

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's share of the net assets of that joint venture plus any remaining goodwill relating to that joint venture and any related accumulated foreign currency translation reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (Continued)

(c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognised in the exchange fluctuation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The estimated useful lives and residual values are as follows:

	Estimated useful lives	Estimated residual values
Buildings	20–40 years	5%
Leasehold improvements	Over the shorter of terms of the leases terms and 20 years	5%
Plant and machinery	5–10 years	5%
Furniture and fixtures	3–10 years	5%
Motor vehicles	4–10 years	5%

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Category	Annual rate
Land use rights	2.5%–50%
Land and buildings	2%–50%

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as lessee (Continued)

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

Intangible assets (other than goodwill and club membership)

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.

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:

Category	Estimated useful life
Customer relationships	15 years
Dealership agreements	40 years
Software	5 years
Others	10 years

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Club membership

Club membership with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club membership has suffered an impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is attributable to specific items of inventory as appropriate and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price in the ordinary course less the estimated costs to be incurred to completion and sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Financial assets of the Group are classified under the following categories:

— Financial assets at amortised cost;

— Equity investments at fair value through other comprehensive income; and

— Investments at fair value through profit or loss.

(i) Financial assets at amortised cost

Financial assets (including trade, loans and other receivables) are classified under this category if they satisfy both of the following conditions:

— the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

— the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) Equity investments at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

(iii) Investments at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and finance lease receivables. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("**lifetime expected credit losses**") for trade receivables and finance lease receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables and finance lease receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance;

— the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other revenue

(a) Dividend income is recognised when the shareholders' rights to receive payment are established.

(b) Bank interest income is recognised using the effective interest method.

(c) 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.

(d) Rental income is recognised on a time proportion basis over the lease terms.

3. 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 consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Share-based payments

The Group issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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, until such time as 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 eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in consolidated statement of profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Repayment of a grant related to income is applied first against any unamortised deferred income set up in respect of the grant. To the extent that the repayment exceeds any such deferred income, or where no deferred income exists, the repayment is recognised immediately in profit or loss. Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income by the amount repayable. The cumulative additional depreciation that would have been recognised in consolidated statement of profit or loss to date in the absence of the grant is recognised immediately in consolidated statement of profit or loss.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in consolidated statement of profit or loss, except when it relates to items recognised in consolidated statement of other comprehensive income or directly in equity, in which case the deferred tax is also recognised in consolidated statement of other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and other intangible assets, except goodwill, deferred tax assets, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit ("**CGU**") is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or CGU in prior years. A reversal of an impairment loss is recognised immediately in consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

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

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. KEY ESTIMATES

Key sources of 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 discussed below.

(a) Estimated rebate receivables

The Group receives incentive rebates from suppliers from time to time depending on the policies of the manufacturers. The amount of incentive rebates given by a manufacturer for a given period is generally determined with reference to the Group's purchase volume, sales volume, customer satisfaction and other performance indicators set by the manufacturer with respect to that period. The Group accrues incentive rebates based on management's best estimates and judgements as of the relevant reporting date while the actual amount of the incentive rebates is determined by the manufacturers after the end of the reporting period. These estimates and judgements involve, among other factors, the estimated results of assessment by the manufacturers for the Group's performance in various aspects during the reporting period. When the actual rebates received by the Group differ from the estimated amount, adjustment will be made and recognised in the period in which such event takes place.

(b) Fair value of an unlisted equity investment

The Group appointed an independent professional valuer to assess the fair values of an unlisted equity investment. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(c) 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 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 CGU 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 CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

(d) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(e) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flows, a material impairment loss may arise.

(f) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was approximately RMB141,791,000 (2021: RMB141,791,000) that no impairment loss was recognised during 2022 and 2021.

(g) Impairment of trade and other receivables

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

4. KEY ESTIMATES (CONTINUED)

Key sources of estimation uncertainty (Continued)

(h) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions. The Group will reassess the estimates by the end of each reporting period.

(i) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and 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 approximately RMB82,321,000 (2021: RMB75,514,000) as at 31 December 2022. The amount of unrecognised tax losses at 31 December 2022 was approximately RMB308,750,000 (2021: RMB123,554,000). Further details are contained in note 26 to the consolidated financial statements.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) 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 United States dollar ("**US$**") and Hong Kong dollars ("**HK$**") as disclosed in note 32 to the consolidated financial statements.

The Group's assets and liabilities denominated in US$ and HK$ were mainly held by certain subsidiaries incorporated outside Mainland China who had US$ and HK$ as their functional currencies, and the Group did not have material foreign currency transactions in Mainland China during the year. Therefore, the Group had no significant foreign currency risk.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

The carrying amount of the cash and bank balances, trade and other receivables and investments included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

It has policies in place to ensure that sales are made to customers with an appropriate credit history. Amounts due from related companies are closely monitored by the directors.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

— internal credit rating;

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

— actual or expected significant changes in the operating results of the borrower;

— significant increases in credit risk on other financial instruments of the same borrower; and

— significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

The maturity analysis, based on undiscounted cash flows, of the Group's financial liabilities is as follows:

At 31 December 2022

	Less than 1 year *RMB'000*	Between 1 to 2 years *RMB'000*	Between 2 to 5 years *RMB'000*	Over 5 years *RMB'000*
Bank loans and other borrowings	**2,083,023**	–	–	–
Trade and bills payables	**635,135**	–	–	–
Other payables	**380,569**	–	–	–
	3,098,727	–	–	–

At 31 December 2021

	Less than 1 year *RMB'000*	Between 1 to 2 years *RMB'000*	Between 2 to 5 years *RMB'000*	Over 5 years *RMB'000*
Bank loans and other borrowings	2,629,978	—	—	—
Trade and bills payables	217,265	—	—	—
Other payables	485,929	—	—	—
	3,333,172	—	—	—

(d) Interest rate risk

The Group's bank deposits, bank loans and other borrowings bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

The Group's exposure to the risk of interest rate fluctuation is very limited, as the Group does not have a floating interest rate of bank loans and other borrowings.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Categories of financial instruments at 31 December

	2022 **RMB'000**	2021 RMB'000
Financial assets		
Investments at fair value through profit or loss		
Mandatorily measured	**–**	1,298,515
Equity investment at fair value through other comprehensive income	**–**	8,604
Financial assets at amortised cost		
— Prepayments and other assets	**270,000**	110,000
— Finance lease receivables	**441,794**	478,491
— Trade receivables	**197,882**	148,149
— Financial assets included in prepayments, other receivables and other assets	**1,848,236**	2,356,731
— Pledged and restricted bank deposits	**220,347**	87,752
— Cash in transit	**24,070**	27,454
— Cash and bank balances	**1,161,992**	1,629,199
	4,164,321	4,837,776
Financial liabilities		
Financial liabilities at amortised cost		
— Bank loans and other borrowings	**2,083,023**	2,629,978
— Trade and bills payables	**635,135**	217,265
— Financial liabilities included in other payables and accruals	**380,569**	485,929
	3,098,727	3,333,172

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) 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.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity attributable to owners of the parent plus net debt. Net debt includes bank loans and other borrowings, trade and bills payables, other payables and accruals, less cash and bank balances and structured deposits. The gearing ratios as at the end of the reporting periods were as follows:

	2022 *RMB'000*	2021 *RMB'000*
Bank loans and other borrowings	**2,083,023**	2,629,978
Trade and bills payables	**635,135**	217,265
Other payables and accruals	**918,298**	1,175,087
Less: Cash in transit	**(24,070)**	(27,454)
Less: Cash and bank balances	**(1,161,992)**	(1,629,199)
Net debt	**2,450,394**	2,365,677
Equity attributable to owners of the parent	**5,946,823**	7,967,380
Gearing ratio	**41.2%**	29.7%

6. FAIR VALUE MEASUREMENTS

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 following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

6. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Disclosures of level in fair value hierarchy at 31 December 2022:

Description	Fair value measurements using: Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurements:				
Equity investment at fair value through other comprehensive income				
Unlisted equity investment	–	–	–	–
Investments at fair value through profit or loss				
Unlisted equity investment	–	–	–	–
Unlisted private fund in the PRC	–	–	–	–
Total recurring fair value measurements	–	–	–	–

Disclosures of level in fair value hierarchy at 31 December 2021:

Description	Fair value measurements using: Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurements:				
Equity investment at fair value through other comprehensive income				
Unlisted equity investment	—	—	8,604	8,604
Investments at fair value through profit or loss				
Unlisted equity investment	—	—	1,217,011	1,217,011
Unlisted private fund in the PRC	—	81,504	—	81,504
Total recurring fair value measurements	—	81,504	1,225,615	1,307,119

6. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Reconciliation of assets measured at fair value based on level 3:

Description	Equity investments at fair value through other comprehensive income *RMB'000*	Investments at fair value through profit or loss equity investments *RMB'000*	Total *RMB'000*
At 1 January 2022	**8,604**	**1,217,011**	**1,225,615**
Addition	–	–	–
Total gains or losses recognised			
in profit or loss*	–	**(1,217,011)**	**(1,217,011)**
in other comprehensive income	**(8,604)**	–	**(8,604)**
At 31 December 2022	–	–	–
* Include gains or losses for assets held at end of reporting period	–	**(1,217,011)**	**(1,217,011)**

Description	Equity investments at fair value through other comprehensive income *RMB'000*	Investments at fair value through profit or loss equity investments *RMB'000*	Total *RMB'000*
At 1 January 2021	31,800	1,273,077	1,304,877
Addition	—	—	—
Total gains or losses recognised			
in profit or loss*	—	(56,066)	(56,066)
in other comprehensive income	(23,196)	—	(23,196)
At 31 December 2021	8,604	1,217,011	1,225,615
* Include gains or losses for assets held at end of reporting period	—	(56,066)	(56,066)

6. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at the end of reporting period:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 2 fair value measurements

Description	Valuation technique	Key input	Fair value 2021 *RMB'000*
Unlisted private fund in the PRC	Market approach	Market price of private fund	81,504

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2021 *RMB'000*
Private equity investments classified as investments at fair value through profit or loss	Back-solve Method	Probability of IPO	6.32%	Increase	1,217,011
		Probability of liquidation	93.68%	Decrease	
		Discount for lack of marketability	47.80%	Decrease	
Equity investment at fair value through other comprehensive income	Market approach	Discount for lack of marketability	15.8%	Decrease	8,604

7. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale of automobiles and provision of after-sales services. 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 area

Since all of the Group's revenue was generated from the sale of automobiles and provision of after-sales services in Mainland China and over 90% of the Group's identifiable non-current assets and liabilities were located in Mainland China, no geographical segment information is presented.

Information about major customers

Since no sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented.

8. REVENUE

	2022 ***RMB'000***	2021 *RMB'000*
Revenue from contracts with customers		
— Revenue from the sale of automobiles and others	**14,324,782**	15,609,705
— Provision of after-sales services	**1,936,818**	2,326,282
Revenue from other sources		
— Finance leasing services	**60,059**	45,064
	16,321,659	17,981,051

8. REVENUE (CONTINUED)

Disaggregation of revenue from contracts with customers:

	2022 RMB'000	2021 RMB'000
Type of goods or services		
Sale of automobiles and others	**14,324,782**	15,609,705
Provision of after-sales services	**1,936,818**	2,326,282
Total revenue from contracts with customers	**16,261,600**	17,935,987

	2022 RMB'000	2021 RMB'000
Timing of revenue recognition		
Goods received by the customer at a point in time	**14,324,782**	15,609,705
Services rendered at a point in time	**1,936,818**	2,326,282
Total revenue from contracts with customers	**16,261,600**	17,935,987

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2022 RMB'000	2021 RMB'000
Sale of automobiles and others	**523,456**	421,385
Provision of after-sales services	**39,865**	65,480
	563,321	486,865

8. REVENUE (CONTINUED)

Performance obligations

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

Sale of automobiles and others

The performance obligation is satisfied upon receipt of goods by the customer and payment in advance is normally required.

Provision of after-sales services

The performance obligation is satisfied upon the services are rendered and the payment is generally settled when the services are rendered.

9. OTHER INCOME AND GAINS, NET

	2022 *RMB'000*	2021 *RMB'000*
Commission income	**412,049**	420,628
Interest income from advances to Independent Aftersales Company	**32,652**	30,094
Advertisement support received from motor vehicle manufacturers	**30,473**	30,342
Interest income from loans and advances to third parties	**15,348**	18,459
Bank interest income	**23,572**	14,472
Government grants *(Note)*	**9,920**	7,383
Interest income from an investment at fair value through profit or loss	**—**	3,320
Rental income	**4,404**	14,790
Impairment loss on investments at fair value through profit or loss *(note 24)*	**(1,298,515)**	(58,763)
Impairment loss on intangible assets	**—**	(1,245)
Written off of property, plant and equipment	**(94,198)**	(39,679)
Impairment loss on advances to and interest receivable from Independent Aftersales Company	**(354,577)**	—
Impairment loss on loans to third parties	**(40,296)**	—
Gain/(loss) on disposals of property, plant and equipment	**2,077**	(18,335)
Foreign exchange gain	**3,693**	6,453
Others	**20,408**	15,070
	(1,232,990)	442,989

Note:

Government grants include various subsidies received by the Company's subsidiaries from relevant government bodies. There are no unfulfilled conditions or contingencies related to these grants.

10. FINANCE COSTS

	2022	2021
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**72,480**	90,996
Leases interests	**51,871**	48,785
	124,351	139,781
Less: Interest capitalised	**(3,062)**	(8,928)
	121,289	130,853

11. INCOME TAX EXPENSE

	2022	2021
	RMB'000	*RMB'000*
Current Mainland China corporate income tax		
Provision for the year	**123,733**	246,397
Deferred tax *(note 26)*	**(8,214)**	(10,703)
	115,519	235,694

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 subsidiaries incorporated in the British Virgin Islands ("**BVI**") are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

The subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 8.25% for the first HK$2,000,000 of the estimated assessable profits and 16.5% of the remaining estimated assessable profits arising in Hong Kong for the year ended 31 December 2022 and 2021. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2022 as the Group did not generate any assessment profit arising in Hong Kong during the year (2021: Nil).

11. INCOME TAX EXPENSE (CONTINUED)

According to the Corporate Income Tax Law of the People's Republic of China, the income tax rate for Mainland China subsidiaries is 25% (2021: 25%).

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

A reconciliation of the tax expense applicable to (loss)/profit before tax using the applicable rates for the regions 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*
(Loss)/profit before tax	**(1,507,285)**	926,965
Tax at the weighted average tax rate	**(331,603)**	192,479
Profits attributable to joint ventures and associates	**(922)**	(62)
Income not subject to tax	**(9,882)**	(16,135)
Tax effect of non-deductible expenses	**379,523**	37,813
Tax losses and temporary difference not recognised	**80,616**	22,270
Tax losses utilised from previous periods	**(2,213)**	(671)
Total income tax expenses	**115,519**	235,694

12. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging/(crediting) the following:

	2022 **RMB'000**	2021 RMB'000
Amortisation of intangible assets	**6,455**	5,818
Auditor's remuneration		
Audit services		
— Current year	**5,300**	4,050
Non-audit services	**500**	1,110
Bank charges	**3,321**	3,026
Cost of sales and services:		
Cost of sales of automobiles *(note a)*	**14,089,921**	14,945,370
Cost of aftersales services *(note b)*	**1,152,069**	1,284,417
	15,241,990	16,229,787
Depreciation charge of property, plant and equipment *(note 16)*	**201,377**	193,928
Depreciation charge of right-of-use assets *(note 17)*	**120,661**	102,501
Impairment loss on investments at fair value through profit or loss	**1,298,515**	58,763
Foreign exchange differences, net	**(3,693)**	(189)
(Gain)/loss on disposals of property, plant and equipment	**(2,077)**	18,335
Staff costs including directors' emoluments		
— Wages and salaries	**335,917**	386,797
— Equity-settled share-based payments	**—**	1,349
— Other welfare	**85,985**	75,915
	421,902	464,061

Notes:

(a) For the year ended 31 December 2022, the group has made RMB4,223,000 (2021: Nil) impairment provision for inventories.

(b) The employee benefit expenses of RMB142,382,000 (2021: RMB120,497,000) were included in the cost of after-sales services.

13. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The emoluments of each director were as follows:

	2022				
	Fees *RMB'000*	Salaries allowance and other benefits *RMB'000*	Equity-settled share option expense *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Executive directors					
Mr. Feng Changge	–	2,282	–	–	2,282
Mr. Feng Shaolun *(note a)*	–	1,145	–	90	1,235
Ms. Ma Lintao	–	2,255	–	31	2,286
Mr. Liu Fenglei	–	741	–	50	791
Mr. Han Yang *(note c)*	–	–	–	–	–
Mr. Cheng Junqiang *(note d)*	–	360	–	90	450
	–	6,783	–	261	7,044
Independent non-executive directors					
Mr. Chan Ying Lung	266	–	–	–	266
Mr. LAU Kwok Fan	266	–	–	–	266
Mr. WANG Nengguang	266	–	–	–	266
	798	–	–	–	798
	798	6,783	–	261	7,842

13. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

	2021				
	Fees	Salaries allowance and other benefits	Equity–settled share option expense	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Feng Changge	—	2,357	—	—	2,357
Mr. Feng Shaolun *(note a)*	—	118	—	84	202
Ms. Ma Lintao	—	1,972	—	31	2,003
Mr. Liu Fenglei	—	750	—	48	798
Mr. Han Yang *(note c)*	—	600	—	90	690
Ms. Fengguo *(note b)*	—	733	—	88	821
	—	6,530	—	341	6,871
Independent non-executive directors					
Mr. Chan Ying Lung	244	—	—	—	244
Mr. LAU Kwok Fan	244	—	—	—	244
Mr. WANG Nengguang	244	—	—	—	244
	732	—	—	—	732
	732	6,530	—	341	7,603

(a) Mr. Feng Shaolun was appointed as the executive director of the Company with effect from 7 December 2021.

(b) Ms. Fengguo resigned as the executive director of the Company with effect from 7 December 2021.

(c) Mr. Han Yang resigned as the executive director of the Company with effect from 5 January 2022.

(d) Mr. Cheng Junqiang was appointed as the executive director of the Company with effect from 5 January 2022.

13. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the years ended 31 December 2022 and 2021. There were no emoluments paid by the Group to any of the directors of the Company as an inducement to join, or upon joining the Group, or as compensation for loss of office.

There are any loans, quasi-loans and other dealings in favour of the directors and of a holding company of the Company; bodies corporate controlled by directors and entities connected with such directors.

The five highest paid individuals in the Group during the year included three (2021: five) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2021: Nil) individuals for the year ended 31 December 2022 are set out below:

	2022 *RMB'000*	2021 *RMB'000*
Salaries, allowances and other benefits	**3,000**	—
Pension scheme contributions	**136**	—
	3,136	—

The emoluments fell within the following band:

	Number of individuals **2022**	2021
Nil to HK$1,000,000	**1**	—
HK$2,000,001 to HK$2,500,000	**1**	—

During the year, no emoluments have been paid to the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office (2021: Nil).

In 2019, share options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 41 to the consolidated financial statements. The fair value of such options, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the year ended 31 December 2022 and 2021 is included in the above non-director's and non-chief executive's remuneration disclosures.

14. DIVIDENDS

	2022	2021
	RMB'000	*RMB'000*
Proposed final — Nil (2021: HK$0.21) per ordinary share	**–**	268,226

The Board does not recommend to declare any dividend for the year ended 31 December 2022 (2021: HK$0.21 per share totalling RMB281,012,000 was paid on 15 August 2022).

15. (LOSS)/EARNINGS PER SHARE

The calculation of the basic loss (2021: earnings) per share attributable to ordinary equity holders of the parent is based on the loss (2021: earnings) for the year attributable to the owners of the company and the weighted average number of ordinary shares in issue during the year. The number of shares for the current year has been arrived at after eliminating the restricted shares of the Company held under the share award scheme.

As the exercise of the Group's share option would be anti-dilutive. Diluted loss per share was presented as the same as basic loss per share for the year ended 31 December 2022.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to the owners of the company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares under the share award scheme and share option scheme outstanding as at 31 December 2021.

15. (LOSS)/EARNINGS PER SHARE (CONTINUED)

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

	2022	2021
	RMB'000	*RMB'000*
(Loss)/earnings:		
(Loss)/profit for the year attributable to owners of the Company used in the basic earnings per share calculation	**(1,627,762)**	673,155
Number of shares:		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**1,507,944,437**	1,535,245,440
Effect of dilution		
weighted average number of ordinary shares:		
— Share options	**–**	5,500,327
	1,507,944,437	1,540,745,767

16. 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
Cost							
At 1 January 2021	2,071,884	696,048	242,024	192,840	294,244	250,023	3,747,063
Additions	121,397	12,715	18,087	27,325	215,679	139,616	534,819
Transfers	136,650	–	616	10,159	2,918	(150,343)	–
Disposals	(37,882)	–	(7,686)	(17,159)	(160,576)	–	(223,303)
Written off	(57,111)	–	–	–	–	–	(57,111)
Exchange realignment	–	–	–	(33)	(57)	–	(90)
At 31 December 2021 and 1 January 2022	**2,234,938**	**708,763**	**253,041**	**213,132**	**352,208**	**239,296**	**4,001,378**
Additions	**133,381**	**179**	**38,136**	**19,206**	**190,558**	**9,569**	**391,029**
Transfers	**72,751**	**17,045**	**–**	**–**	**–**	**(89,796)**	**–**
Disposals	**(30,684)**	**(31)**	**(4,289)**	**(11,772)**	**(199,647)**	**–**	**(246,423)**
Written off	**(121,513)**	**(17,592)**	**–**	**–**	**–**	**–**	**(139,105)**
Exchange realignment	**–**	**–**	**–**	**18**	**45**	**–**	**63**
At 31 December 2022	**2,288,873**	**708,364**	**286,888**	**220,584**	**343,164**	**159,069**	**4,006,942**
Accumulated depreciation and impairment							
At 1 January 2021	347,895	177,890	100,151	117,087	59,900	30,000	832,923
Charge for the year	80,014	23,947	14,949	43,868	31,150	–	193,928
Disposals	(15,950)	–	(5,182)	(10,807)	(30,638)	–	(62,577)
Written off	(17,432)	–	–	–	–	–	(17,432)
Exchange realignment	–	–	–	(14)	(9)	–	(23)
At 31 December 2021 and 1 January 2022	**394,527**	**201,837**	**109,918**	**150,134**	**60,403**	**30,000**	**946,819**
Charge for the year	**76,135**	**23,906**	**13,199**	**45,719**	**42,418**	**–**	**201,377**
Disposals	**(7,909)**	**(6)**	**(1,950)**	**(8,879)**	**(42,633)**	**–**	**(61,377)**
Written off	**(38,228)**	**(6,679)**	**–**	**–**	**–**	**–**	**(44,907)**
Exchange realignment	**–**	**–**	**–**	**11**	**26**	**–**	**37**
At 31 December 2022	**424,525**	**219,058**	**121,167**	**186,985**	**60,214**	**30,000**	**1,041,949**
Carrying amount							
At 31 December 2022	**1,864,348**	**489,306**	**165,721**	**33,599**	**282,950**	**129,069**	**2,964,993**
At 31 December 2021	1,840,411	506,926	143,123	62,998	291,805	209,296	3,054,559

At 31 December 2022, certain of the Group's buildings with an aggregate net book value of approximately RMB13,103,000 (2021: RMB14,355,000) were pledged as security for the Group's bank and other borrowings (note 33).

The Group has yet to obtain property ownership certificates for certain buildings with an aggregate net book value of RMB1,823,669,000 (2021: RMB1,705,940,000) as at 31 December 2022. The directors are of the opinion that the Group is in the process to obtain the relevant certificates and does not expect any legal obstacles.

17. RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2022 RMB'000	2021 RMB'000
At 31 December:		
Right-of-use assets		
Land use rights	**171,132**	180,102
Land and buildings	**678,191**	643,016
	849,323	823,118
Lease commitments of short-term leases	**414**	740
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
Less than 1 year	**137,961**	154,788
Between 1 and 2 years	**129,823**	137,505
Between 2 and 5 years	**343,297**	290,364
Over 5 years	**640,894**	679,769
	1,251,975	1,262,426
Depreciation charge of right-of-use assets		
Land use rights	**18,743**	16,423
Land and buildings	**101,918**	86,078
	120,661	102,501
Lease interests	**51,871**	48,785
Expenses related to short-term leases	**2,251**	10,361
Income from subleasing right-of-use assets	**4,404**	1,660
Total cash outflow for leases	**153,295**	121,429
Additions to right-of-use assets	**201,177**	224,867

17. RIGHT-OF-USE ASSETS (CONTINUED)

The Group leases various land use rights and land and buildings. Lease agreements are typically made for fixed periods of 2 to 49 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

The Group's land use rights of approximately RMB4,387,000 (2021: RMB4,751,000) were pledged as security for the Group's bank loans and other borrowings as at 31 December 2022 (note 33).

18. INTANGIBLE ASSETS

	Club membership *RMB'000*	Dealership agreements *RMB'000*	Customer relationships *RMB'000*	Software *RMB'000*	Others *RMB'000*	Total *RMB'000*
Cost						
At 1 January 2021	—	123,861	17,223	18,098	500	159,682
Additions	12,270	—	—	6,689	253	19,212
Exchange realignment	(22)	—	—	(67)	—	(89)
At 31 December 2021	**12,248**	**123,861**	**17,223**	**24,720**	**753**	**178,805**
Additions	**–**	**–**	**–**	**2,567**	**350**	**2,917**
Exchange realignment	**937**	**–**	**–**	**214**	**–**	**1,151**
At 31 December 2022	**13,185**	**123,861**	**17,223**	**27,501**	**1,103**	**182,873**
Amortisation and impairment						
At 1 January 2021	—	9,215	2,234	10,307	345	22,101
Charge for the year	—	3,235	821	1,749	13	5,818
Impairment	1,245	—	—	—	—	1,245
Exchange realignment	—	—	—	(24)	—	(24)
At 31 December 2021	**1,245**	**12,450**	**3,055**	**12,032**	**358**	**29,140**
Charge for the year	**–**	**3,235**	**821**	**2,376**	**23**	**6,455**
Impairment	**–**	**–**	**–**	**87**	**–**	**87**
Exchange realignment	**–**	**–**	**–**	**75**	**–**	**75**
At 31 December 2022	**1,245**	**15,685**	**3,876**	**14,570**	**381**	**35,757**
Carrying amount						
At 31 December 2022	**11,940**	**108,176**	**13,347**	**12,931**	**722**	**147,116**
At 31 December 2021	11,003	111,411	14,168	12,688	395	149,665

19. GOODWILL

	RMB'000
Cost	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	**141,791**
Carrying amount	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	**141,791**

Impairment testing of goodwill

The recoverable amounts of the CGUs are determined on the basis of their value in use using discounted cash flow method (level 3 fair value measurements). The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next ten years with the residual period using the growth rate of 3% (2021: 3%). The rate used to discount the forecast cash flows is 14% (2021: 14%).

20. PREPAYMENTS AND OTHER ASSETS

	2022	2021
	RMB'000	*RMB'000*
Prepayments for purchase of items of property, plant and equipment	**215,205**	311,189
Loan to Independent Aftersales Company *(note 29)*	**—**	110,000
Loan to a third party *(Note)*	**270,000**	—
	485,205	421,189

Note: On 17 September 2020, Hexie Trading (an indirect wholly-owned subsidiary of the Company) and 鄭州新之禧實業有限公司 (Zhengzhou Xinzhixi Co., Ltd.) (the "**XZX**"), a company established in the PRC with limited liability entered into the 2020 XZX Agreement pursuant to which Hexie Trading agreed to provide a loan in the amount of RMB270 million to XZX.

On 16 September 2022, Hexie Trading and XZX entered into the 2022 XZX Agreement pursuant to which Hexie Trading agreed to extend the maturity date of the 2020 XZX Loan by 18 months. Pursuant to a letter of guarantee provided by the 2022 Guarantee Company on 22 September 2022, the repayment obligations of XZX under the 2022 XZX Agreement (including the principal of the 2022 XZX Loan and interest accrued thereon, and any penalty fees or interests and damages or losses incurred therefrom) was guaranteed by the 2022 Guarantee Company, which was principally engaged in the provision of guarantee services for loans, bill acceptances, trade finance, project financing and letter of credit with registered capital of RMB1.1 billion. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the date of the 2022 XZX Agreement, the 2022 Guarantee Company was held by 中青城投(河南)旅遊集團有限公司 (Zhongqingcheng Investment (Henan) Tourism Group Co., Ltd.*) as its single largest shareholder, which in turn was ultimately owned by Agricultural Development Bank of China.

The loan bears a fixed interest rate of 5% per annum.

21. FINANCE LEASE RECEIVABLES

Certain motor vehicles of the Group are leased out under finance leases. All interest rates in the leases are fixed at the contract date over the lease terms.

At 31 December 2022, the future minimum lease receivables under finance lease and their present value were as follows:

	Lease payments		Present value of lease payments	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Less than 1 year	**269,433**	263,614	**263,198**	232,465
Between 1 and 2 years	**125,687**	199,457	**93,001**	169,717
Between 2 and 3 years	**97,412**	82,521	**76,156**	67,461
Between 4 and 5 years	**12,344**	11,981	**9,439**	8,848
	504,876	557,573		
Less: Unearned finance income	**(63,082)**	(79,082)		
Present value of lease payments	**441,794**	478,491	**441,794**	478,491
Less: Amount within 12 months (shown under current assets)			**(263,198)**	(232,465)
Amount receivable after 12 months			**178,596**	246,026

Disclosures of finance lease-related items:

Year ended 31 December:

	2022	2021
	RMB'000	*RMB'000*
Selling profit for finance leases	**59,922**	59,627
Significant changes in net investment in the leases		
— Increase due to new leases	**197,620**	399,949
— Decrease due to repayments	**234,317**	299,755

22. INVESTMENTS IN JOINT VENTURES

	2022 **RMB'000**	2021 RMB'000
Unlisted investments in the PRC:		
Share of net assets	**7,772**	7,773

河南和諧富騰互聯網加智能電動汽車企業管理有限公司(Henan Harmony Futeng Internet and Intelligent Electric Vehicle Corporate Management Company Limited) ("**Futeng Corporate Management Company**"), and 河南和諧富騰互聯網加智能電動汽車新能源合夥企業(有限合夥) (Henan Harmony Futeng Internet and Intelligent Electric Vehicle Corporate New Energy Partnership (Limited Partnership)) ("**Henan Harmony Futeng LP**") are joint ventures of the Group and are considered to be related parties of the Group.

These joint ventures are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the joint ventures.

(a) Particulars of the joint ventures are as follows:

Name	Place of establishment/ registration	Paid-in/ issued capital	Percentage of Ownership interest/ Voting power/ Profit sharing	Principal activities
Futeng Corporate Management Company	Zhengzhou, the PRC	RMB20,000,000	40.0%	Technological development and sale of electric vehicles; corporate management consulting
Henan Harmony Futeng LP	Zhengzhou, the PRC	RMB302,500,000	39.2%	Technological development and sale of electric vehicles; corporate management consulting

The above investments are indirectly held by the Company.

The Group has discontinued the recognition of its share of losses of a joint venture, Henan Harmony Futeng LP, because the share of losses of the joint venture exceeded the Group's interest in the joint venture and the Group has no obligation to take up further losses. The amount of the Group's unrecognised share of losses of this joint venture for the current year and cumulatively, are as follows:

22. INVESTMENTS IN JOINT VENTURES (CONTINUED)

(a) Particulars of the joint ventures are as follows: (Continued)

	2022 RMB'000	2021 RMB'000
Unrecognised share of losses of a joint venture	**7**	447
Accumulated unrecognised share of losses of a joint venture	**40,952**	40,945

(b) The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial joint ventures that are accounted for using the equity method.

	2022 RMB'000	2021 RMB'000
At 31 December:		
Carring amounts of interests	**7,772**	7,773
Year ended 31 December:		
(Loss)/gain from continuing operations	**(1)**	3
Total comprehensive (loss)/gain	**(1)**	3

23. INVESTMENTS IN ASSOCIATES

	2022 RMB'000	2021 RMB'000
Unlisted investments in the PRC:		
Share of net assets	**3,087**	6,774

鄭州永達和諧汽車銷售服務有限公司 (Zhengzhou Yongda Hexie Automobile Sales & Services Co., Ltd.) ("**Yongda Hexie**") and 浙江愛車互聯網智能電動車有限公司 (Zhejiang Aiche Internet Intelligent Electric Vehicle Company Limited) ("**Aiche Company**") are associates of the Group and are considered to be related parties of the Group.

23. INVESTMENTS IN ASSOCIATES (CONTINUED)

(a) Particulars of the associates are as follows:

Name	Place of establishment/ registration	Paid-in/ issued capital	Percentage of Ownership interest/ Voting power/ Profit sharing	Principal activities
Yongda Hexie	Zhengzhou, the PRC	RMB20,000,000	30%	Sale and service of motor vehicles
Aiche Company	Shangyu, the PRC	RMB456,500,000	33.7%	Technological development and sale of electric vehicles

The Group has discontinued the recognition of its share of losses of an associate, Aiche Company, because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amount of the Group's unrecognised share of losses of this associate for the year and cumulatively, are as follows:

	2022 **RMB'000**	2021 *RMB'000*
Unrecognised share of losses of an associate	**–**	—
Accumulated unrecognised share of losses of an associate	**55,902**	55,902

(b) The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2022 **RMB'000**	2021 *RMB'000*
At 31 December:		
Carring amounts of interests	**3,087**	6,774
Year ended 31 December:		
(Loss)/gain from continuing operations	**(3,687)**	246
Total comprehensive (loss)/income	**(3,687)**	246

24. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 **RMB'000**	2021 *RMB'000*
Non-current		
— Unlisted equity investment, at fair value *(Note a)*	–	1,217,011
Current		
— Unlisted private fund in the PRC *(Note b)*	–	81,504

Notes:

(a) The above unlisted equity investment as at 31 December 2021 was investments in Future Mobility Corporation Limited Cayman ("**FMC**") and was mandatorily classified as investments at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

Due to shortage of funds, FMC was unable to settle its payments to suppliers and has been seeking a debt restructuring to resolve its debt crisis. However, the debt restructuring of FMC had yet to materialise. After considering FMC's severe insolvency position and prolonged suspension of operation, a full provision has been made to the carrying amount of the Group's equity investment in FMC of approximately RMB1,217,011,000.

(b) As the interest income for 2022 was not received, the Company had tried to contact the responsible officer of the manager of the fund but to no avail, and noted that the business licence of the fund manager had been revoked. The Company is currently seeking legal advice on recovering the investment amount. Based on the above, the Company considers that the recoverability of the investment is very low and therefore a full provision has been made to the fund investment of HK$100,000,000 (approximately RMB81,504,000 as recorded in the Company's 2021 annual report).

25. EQUITY INVESTMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 **RMB'000**	2021 *RMB'000*
Equity securities, at fair value		
Unlisted equity securities		
— Independent Aftersales Company	–	8,604
Analysed as:		
Non-current assets	–	8,604

The above investments are intended to be held for the medium to long-term. Designation of these investments as equity investments at fair value through other comprehensive income can avoid the volatility of the fair value changes of these investments to the profit or loss.

26. 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 offsetting against future taxable profits	Accruals	Deferred rental expenses	Accelerated tax deprecation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	4,505	8,918	12,531	37,452	63,406
Deferred tax (charged)/credited to the consolidated statement of profit or loss during the year	3,774	816	1,029	6,489	12,108
At 31 December 2021	**8,279**	**9,734**	**13,560**	**43,941**	**75,514**
Deferred tax credited to the consolidated statement of profit or loss during the year	**726**	**(465)**	**1,504**	**5,042**	**6,807**
At 31 December 2022	**9,005**	**9,269**	**15,064**	**48,983**	**82,321**

26. 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 years are as follows:

	Fair value adjustments arising from acquisition of a subsidiary *RMB'000*	Capitalised interest expense *RMB'000*	Total *RMB'000*
At 1 January 2021	32,855	24,399	57,254
Deferred tax (charged)/credited to the consolidated statement of profit or loss during the year	(1,204)	2,609	1,405
At 31 December 2021	**31,651**	**27,008**	**58,659**
Deferred tax (charged)/credited to the consolidated statement of profit or loss during the year	**(1,171)**	**(236)**	**(1,407)**
At 31 December 2022	**30,480**	**26,772**	**57,252**

At the end of the reporting period the Group has unused tax losses arising in Mainland China of RMB344,710,000 (2021: RMB156,670,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB35,960,000 (2021: RMB33,116,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB308,750,000 (2021: RMB123,554,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB308,750,000 (2021: RMB123,554,000) that will expire in 5 years.

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. The applicable rate of the Group is 10%. 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.

26. DEFERRED TAX (CONTINUED)

Deferred tax liabilities (Continued)

At 31 December 2022, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

27. INVENTORIES

	2022 ***RMB'000***	2021 *RMB'000*
Automobiles	**1,363,572**	948,003
Spare parts and accessories	**176,866**	181,632
	1,540,438	1,129,635

At 31 December 2022, certain of the Group's inventories with an aggregate carrying amount of approximately RMB434,570,000 (2021: RMB402,973,000) were pledged as security for the Group's bank loans and other borrowings (note 33).

At 31 December 2022, certain of the Group's inventories with an aggregate carrying amount of approximately RMB206,671,000 (2021: RMB90,695,000) were pledged as security for the Group's bills payables (note 34).

28. TRADE RECEIVABLES

	2022 ***RMB'000***	2021 *RMB'000*
Trade receivables	**197,882**	148,149

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.

28. TRADE RECEIVABLES (CONTINUED)

(a) Aging analysis

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**191,481**	128,297
3 months to within 1 year	**6,401**	19,852
	197,882	148,149

(b) Impairment of trade receivables

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	**Less than 3 months past due**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2022			
Trade receivables			
Weighted average expected loss rate	0%	0%	
Receivable amount	191,481	6,401	197,882
Loss allowance	—	—	—
At 31 December 2021			
Trade receivables			
Weighted average expected loss rate	0%	0%	
Receivable amount	128,297	19,852	148,149
Loss allowance	—	—	—

29. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 ***RMB'000***	2021 *RMB'000*
Prepayments to suppliers	**434,503**	1,292,959
Rebate receivables	**1,099,686**	1,066,326
Loan to third parties	**5,485**	318,738
Commission receivables	**85,103**	55,364
Advances to and interest receivable from Independent Aftersales Company *(note a)*	**758,032**	625,474
VAT recoverable	**166,688**	110,726
Others	**339,506**	290,829
	2,889,003	3,760,416
Less: Provision on impairment loss of advances to and interest receivable from Independent Aftersales Company *(note b)*	**(354,577)**	—
	2,534,426	3,760,416

Notes:

(a) As of 31 December 2022, the Group had advances balance due from Independent Aftersales Company, with an amount of RMB758,032,000 (2021:RMB625,474,000), of which RMB721,428,000 (2021:RMB595,380,000) is unsecured, interest-bearing of 4.35% to 4.75%, and has no fixed repayment terms and RMB36,604,000 (2021: RMB30,094,000) is unsecured, non-interest bearing and has no fixed repayment terms.

(b) An expected credit loss of approximately RMB354,577,000 on the advances to and interest receivable from Independent Aftersales Company. As the Independent Aftersales Company suffered cashflow issues from the impact of the epidemic, it failed to pay interest on time during the year ended 31 December 2022.

Except for the balance listed in note b, 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 using a provision matrix was disclosed in note 5 to the consolidated financial statements.

30. PLEDGED AND RESTRICTED BANK DEPOSITS

	2022	2021
	RMB'000	*RMB'000*
Deposits pledged	**119,271**	63,469
Restricted bank deposits	**101,076**	24,283
	220,347	87,752

The deposits pledged and restricted bank were denominated in RMB.

31. CASH IN TRANSIT

	2022	2021
	RMB'000	*RMB'000*
Cash in transit	**24,070**	27,454

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

32. CASH AND BANK BALANCES

	2022	2021
	RMB'000	*RMB'000*
Cash at banks and on hand	**840,992**	1,159,199
Time deposits	**321,000**	470,000
	1,161,992	1,629,199

32. CASH AND BANK BALANCES (CONTINUED)

The Group's cash and cash equivalents at each reporting date are denominated in the following currencies:

	2022	2021
	RMB'000	*RMB'000*
RMB	**1,041,493**	1,535,255
US$	**1**	44,713
HK$	**120,498**	49,231
	1,161,992	1,629,199

As at 31 December 2022, bank and cash balances of approximately RMB1,041,493,000 (2021: RMB1,535,255,000) are denominated in RMB. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for the period of one year, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

33. BANK LOANS AND OTHER BORROWINGS

	2022 **RMB'000**	2021 *RMB'000*
Current		
— Bank loans	**1,436,133**	1,622,591
— Other borrowings	**646,890**	1,007,387
	2,083,023	2,629,978

	2022 **RMB'000**	2021 *RMB'000*
Bank loans and other borrowings representing:		
Secured *(Note a)*	**23,861**	84,755
Guaranteed *(Note b)*	**1,032,193**	776,913
Secured and guaranteed *(Nots a and b)*	**783,719**	1,106,231
Unsecured	**243,250**	662,079
	2,083,023	2,629,978

All the bank loans and other borrowings are repayable on demand or within one year.

The effective interest rates per annum at 31 December were ranging as follows:

	2022	2021
Bank loans	**3.6% — 5.7%**	4.3% — 5.6%
Other borrowings	**3.5% — 8.5%**	3.5% — 8.5%

33. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) 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 RMB4,387,000 (2021: RMB4,751,000) as at 31 December 2022;

(ii) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB13,103,000 (2021: RMB14,355,000) as at 31 December 2022;

(iii) mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB434,570,000 as at 31 December 2022 (2021: RMB402,973,000); and

(b) Certain of the Group's bank loans and other borrowings are guaranteed by:

(i) certain of the Group's bank loans and other borrowings amounting to RMB1,058,203,000 (2021: RMB600,000,000) were guaranteed by the Group's subsidiaries as at 31 December 2022;

(ii) certain of the bank loans amounting to RMBNil (2021: RMB482,250,000) were guaranteed by the certain directors of the Company as at 31 December 2022; and

(iii) in addition to the mortgages mentioned above, certain of the Group's bank loans amounting to RMB866,643,000 (2021: RMB1,328,260,000) were guaranteed by the legal representative of certain subsidiaries of the Company and his spouse as at 31 December 2022.

(c) Except for the unsecured bank loan which is denominated in the US$, all borrowings are in RMB.

34. TRADE AND BILLS PAYABLES

	2022 ***RMB'000***	2021 *RMB'000*
Trade payables	**153,107**	121,125
Bills payable	**482,028**	96,140
	635,135	217,265

34. TRADE AND BILLS PAYABLES (CONTINUED)

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

App. 16 para 4(2)(b)

	2022 **RMB'000**	2021 *RMB'000*
Within 3 months	**596,491**	212,083
3 to 6 months	**16,257**	2,762
6 to 12 months	**21,429**	636
Over 12 months	**958**	1,784
	635,135	217,265

The trade and bills payables are non-interest-bearing.

Certain of the Group's bills payables are secured by mortgages over the Group's inventories, which had an aggregate carrying value of approximately RMB206,671,000 (2021: RMB90,695,000) as at 31 December 2022.

35. OTHER PAYABLES AND ACCRUALS

	2022 **RMB'000**	2021 *RMB'000*
Payables for purchase of items of property, plant and equipment	**78,142**	73,703
Contract liabilities *(Note a)*	**537,729**	689,158
Staff payroll and welfare payables	**35,813**	37,955
Other payables *(Note b)*	**266,614**	374,271
	918,298	1,175,087

35. OTHER PAYABLES AND ACCRUALS (CONTINUED)

Notes:

(a) Details of contract liabilities as at 31 December 2022 and 2021 are as follows:

	2022 *RMB'000*	2021 *RMB'000*
Short-term advances received from customers		
— Sales of automobiles and others	**515,643**	649,293
— Provision of after-sales services	**22,086**	39,865
	537,729	689,158

(b) Other payables are unsecured, non-interest-bearing and repayable on demand.

36. LEASE LIABILITIES

	Lease payments		Present value of lease payments	
	2022 ***RMB'000***	2021 *RMB'000*	**2022** ***RMB'000***	2021 *RMB'000*
Within one year	**137,961**	154,788	**90,510**	109,357
In the second to fifth years, inclusive	**473,120**	427,869	**329,880**	285,452
After five years	**640,894**	679,769	**489,191**	506,606
	1,251,975	1,262,426		
Less: Future finance charges	**(342,394)**	(361,011)		
Present value of lease liabilities	**909,581**	901,415	**909,581**	901,415
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(90,510)**	(109,357)
Amount due for settlement after 12 months			**819,071**	792,058

At 31 December 2022, the average effective borrowing rate was 6% (2021:6%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

37. EMPLOYEE RETIREMENT BENEFITS

As stipulated by the PRC state regulations, the subsidiaries in Mainland China 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 Mainland China subsidiaries are required to make contributions to the local social security bureau at 14% to 20% of the previous year's average basic salary amount of the geographical area where the employees are under employment with the Mainland China subsidiaries.

The Group has no obligation for the payment of pension benefits beyond the annual contributions as set out above. The Group's employer contributions vest fully with the employees when contributed into the scheme or annuity and there are no forfeited contributions that may be used by the Group.

According to the relevant rules and regulations of the PRC, the Mainland China subsidiaries and their employees are each required to make contributions to an accommodation fund at 5% to 12% of the salaries and wages of the employees which is administered by the Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for these contributions to the accommodation fund.

As at 31 December 2022 and 2021, the Group had no significant obligation apart from the contributions as stated above.

38. SHARE CAPITAL

	2022 Number of shares at HK$0.01 each	**2022** Equivalent to *RMB'000*	2021 Number of shares at HK$0.01 each	2021 Equivalent to *RMB'000*
Ordinary shares	**1,546,996,677**	**12,293**	1,569,758,677	12,480

	Number of issued and fully paid shares	Nominal value of shares *HK$'000*	Share premium *HK$'000*	Equivalent nominal value of shares *RMB'000*	Equivalent share premium *RMB'000*
At 1 January 2021	1,576,424,677	15,763	4,109,422	12,536	3,056,365
Final 2020 dividend declared	—	—	122,208	—	(101,506)
Shares repurchased and cancelled *(Note a)*	(7,241,000)	(72)	(24,180)	(61)	(20,083)
Exercise of share options *(Note b)*	575,000	6	1,719	5	1,765
At 31 December 2021 and 1 January 2022	**1,569,758,677**	**15,697**	**4,209,169**	**12,480**	**2,936,541**
Final 2021 dividend declared	**–**	**–**	**(324,869)**	**–**	**(281,012)**
Shares repurchased and cancelled *(Note a)*	**(22,762,000)**	**(227)**	**(91,195)**	**(187)**	**(75,053)**
At 31 December 2022	**1,546,996,677**	**15,470**	**3,793,105**	**12,293**	**2,580,476**

38. SHARE CAPITAL (CONTINUED)

Notes:

(a) During 2021, the Company repurchased and cancelled 7,241,000 of its ordinary shares on the Hong Kong Stock Exchange at a total consideration of HK$24,877,000 (equivalent to RMB20,673,000). The nominal value of the cancelled shares of the HK$72,000 (equivalent to RMB62,000) was reduced from share capital and the premium of HK$24,180,000 (equivalent to RMB20,083,000) in total, were debited to the share premium account of the Company.

During 2022, the Company cancelled 6,788,000 of its ordinary shares that was purchased in 2021 and repurchased and cancelled 15,974,000 of its ordinary shares on the Hong Kong Stock Exchange at a total consideration of HK$71,075,000 (equivalent to RMB58,495,000). The nominal value of the cancelled shares of the HK$227,000 (equivalent to RMB187,000) was reduced from share capital and the premium on cancelled shares of HK$91,195,000 (equivalent to RMB75,053,000) in total, were debited to the share premium account of the Company.

(b) During 2021, 575,000 share options under the Company's share option scheme were exercised. Accordingly, 575,000 ordinary shares of HK$0.01 each were issued as a result of the exercise of share options.

Details of the Company's share option scheme are included in note 41 to the consolidated financial statements.

39. RESERVES

(a) Group

The amounts of the Group's share premium and reserves and movements therein are presented in the consolidated statement of profit or loss, and other comprehensive income and consolidated statement of changes in equity.

39. RESERVES (CONTINUED)

(b) Company

Details of movements in the Company's reserves are as follows:

	Shares held under share award plan and share repurchase *RMB'000*	Share premium *RMB'000*	Share option reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2021	(101,611)	3,056,365	98,558	166,116	(241,047)	2,978,381
Final 2020 dividend declared	—	(101,506)	—	—	—	(101,506)
Total comprehensive loss for the year	—	—	—	(142,465)	(20,985)	(163,450)
Shares repurchased and cancelled	—	(20,083)	—	—	—	(20,083)
Shares repurchased	(21,632)	—	—	—	—	(21,632)
Exercise of share options	—	1,765	(334)	—	—	1,431
Equity-settled share option arrangement	—	—	1,349	—	—	1,349
At 31 December 2021 and 1 January 2022	**(123,243)**	**2,936,541**	**99,573**	**23,651**	**(262,032)**	**2,674,490**
Final 2021 dividend declared	**–**	**(281,012)**	**–**	**–**	**–**	**(281,012)**
Total comprehensive loss for the year	**–**	**–**	**–**	**214,041**	**(156,384)**	**57,657**
Shares repurchased and cancelled	**21,632**	**(75,053)**	**–**	**–**	**–**	**(53,421)**
Shares repurchased	**(26,922)**	**–**	**–**	**–**	**–**	**(26,922)**
Forfeit of share options	**–**	**–**	**(1,117)**	**–**	**1,117**	**–**
At 31 December 2022	**(128,533)**	**2,580,476**	**98,456**	**237,692**	**(417,299)**	**2,370,792**

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

39. RESERVES (CONTINUED)

(c) Nature and purpose of reserves (Continued)

(ii) Share option reserve

The share option payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3 to the consolidated financial statements.

(iii) 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 accounting regulations, 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.

(iv) Merger reserve

The merger reserve of the Group represents the capital contributions from the equity holders of the Company.

(v) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

40. SHARE AWARD PLAN

On 28 February 2019, a share award plan (the "**Share Award Plan**") was approved and adopted by the then shareholder, which is a replacement alternative incentive scheme to the RSU Scheme and the appointment of Tricor Trust (Hong Kong) Limited (formerly Acheson Limited, the "**Trustee**") as the trustee of the Share Award Plan. The purposes of the Share Award Plan are to (i) incentivize, recognize and reward employees, directors (whether executive or non-executive, but excluding independent non-executive Directors) and officers of the Group for their contribution to the Group; (ii) attract and retain personnel to promote the long-term growth and development of the Group; and (iii) align the interests of selected person (the "**Selected Person**") who has accepted an offer of an award (the "**Award**") of Shares by the Board to a Selected Person pursuant to the Share Award Plan in accordance with the Share Award Plan Rules (the "**Award Holders**") with that of the shareholders to promote the long-term financial performance of the Company.

40. SHARE AWARD PLAN (CONTINUED)

A selection committee (the "**Selection Committee**") with its members from time to time appointed by the board of directors (the "**Board**") may, from time to time and at its sole discretion, select any eligible Person to participate in the Share Award Plan and determine the number of Shares to be awarded based on the selection criteria adopted by the Board from time to time. Upon receiving the list of selected persons (the "**Selected Persons**") submitted by the Selection Committee, the remuneration committee of the Company (the "**Remuneration Committee**") will decide whether to approve and recommend to the Board or reject any of the selections made by the Selection Committee but will not change the number of shares determined by the Selection Committee to be awarded to each Selected Person. The Board will then decide whether to approve or reject the recommendations made by the Remuneration Committee but will not change the number of Shares determined by the Selection Committee and recommended by the Remuneration Committee to be awarded to each Selected Person. Awards shall be satisfied by shares acquired in the market at prevailing market prices and no new shares will be allotted and issued under the Share Award Plan. The Trustee shall hold the awarded shares and related income on trust for the award holders until the awarded shares and related income are vested in the relevant award holders according to the Share Award Plan rules. Upon vesting, the Trustee shall transfer the vested awarded shares and related income at no cost to such award holders.

The maximum aggregate number of Shares to be acquired by the Trustee under the Share Award Plan is 60,000,000 Shares. The maximum aggregate number of shares and related income (in the form of shares) that the Trustee may hold at any point of time is 30,542,313 Shares, which is subject to adjustment in the event of any subdivision or consolidation of shares. No further shares will be awarded to a Selected Person if the aggregate number of awarded shares underlying all Awards (whether vested or not) granted to such Selected Person under the Share Award Plan will exceed 0.5% of the Shares in issue from time to time.

As at 31 December 2022, the Trustee has 29,987,000 shares according to the Share Award Plan. No shares has been granted for the year ended 31 December 2022 and 2021.

41. SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees of the Company and its subsidiaries. The Scheme became effective on 26 June 2015, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue on 26 June 2015. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. 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, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, an amount of HK$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period and ends on the expiry date of the Scheme.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average of the closing prices of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

41. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding under the Scheme during the year:

	2022		2021	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**3.46**	**43,516**	3.45	44,691
Granted during the year	**–**	**–**	—	—
Exercised during the year	**–**	**–**	3.00	(575)
Forfeited during the year	**3.00**	**(1,325)**	3.00	(600)
At 31 December	**3.47**	**42,191**	3.46	43,516

No share options was exercised during the year. The weighted average share price at the date of exercise for share options exercised during the 2021 was HK$3.50 per share.

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

31 December 2022

Number of options ***'000***	**Exercise price*** ***HK$ per share***	**Exercise period**
22,191	3.00	1/7/2017 to 28/6/2025
20,000	4.00	16/2/2020 to 17/12/2025
42,191		

41. SHARE OPTION SCHEME (CONTINUED)

31 December 2021

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
23,516	3.00	1/7/2017 to 28/6/2025
20,000	4.00	16/2/2020 to 17/12/2025
43,516		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted on 17 December 2019 was RMB24,400,000 (RMB1.22 each).

At the end of the reporting period, the Company had 42,191,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 42,191,000 additional ordinary shares of the Company and additional share capital of HK$421,910 (equivalent to RMB373,137) (before issue expenses).

At the date of approval of these consolidated financial statements, the Company had 42,191,000 share options outstanding under the Scheme, which represented approximately 2.73% of the Company's shares in issue as at that date.

42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Lease liabilities *RMB'000*	Bank and other borrowings *RMB'000*	Total liabilities from financing activities *RMB'000*
At 1 January 2021	738,831	2,493,699	3,232,530
Changes in cash flows	(111,068)	25,568	(85,500)
Non-cash changes			
— addition	224,867	—	224,867
— interest charged	48,785	—	48,785
At 31 December 2021	**901,415**	**2,519,267**	**3,420,682**
Changes in cash flows	**(151,044)**	**(546,955)**	**(697,999)**
Non-cash changes			
— addition	**201,177**	**–**	**201,177**
— early termination	**(93,838)**	**–**	**(93,838)**
— interest charged	**51,871**	**–**	**51,871**
At 31 December 2022	**909,581**	**1,972,312**	**2,881,893**

43. CAPITAL COMMITMENTS

Capital commitments of the Group in respect of property and equipment and capital contribution outstanding at each reporting date not provided for in these consolidated financial statements are as follows:

	2022 ***RMB'000***	2021 *RMB'000*
Property, plant and equipment		
— Contracted, but not provided for	**43,096**	100,243

44. RELATED PARTY TRANSACTIONS

Mr. Feng Changge is the Chairman, the Director and the Controlling Shareholder of the Company and is considered a related party of the Group.

In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the year:

(a) Transactions with a related party

	2022	2021
	RMB'000	*RMB'000*
Repayment from Yongda Hexie	**–**	(1,624)

(b) Compensation of key management personnel of the Group

	2022	2021
	RMB'000	*RMB'000*
Short term employee benefits	**1,828**	7,408
Post-employment benefits	**–**	423
Total compensation paid to key management personnel	**1,828**	7,831

Further details of directors' and chief executive's emoluments are included in note 13 to the consolidated financial statements.

45. SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries as at 31 December 2022 are as follows:

Name	Note	Place of incorporation/ registration and Principal country of operation	Paid-up capital	Percentage of equity attributable to the Company 2022	2021	Principal activities
Directly Owned						
Crystalline Prestige Investments Limited		Tortola, British Virgin Islands 2012	Registered capital US$500 and paid-in capital 0.01	**100**	100	Investment holding
Indirectly Owned						
LC Gloricar Investment Limited		Tortola, British Virgin Islands 2011	Registered capital US$1,000,000 and paid-in capital 10,000	**100**	100	Investment holding
Ace Manufacturing Holding Limited		Hong Kong, the PRC 2012	Paid-in capital HK$100	**100**	100	Investment holding
Doable Future Limited		Hong Kong, the PRC 2011	Paid-in capital HK$100	**100**	100	Investment holding
河南和諧汽車貿易有限公司 (Henan Hexie Automobile Trading Co., Ltd.)	4	Zhengzhou, the PRC	Registered and paid-in RMB1,815,000,000	**100**	100	Investment holding
河南中德寶汽車銷售服務有限公司 (Henan Zhongdebao Automobile Sales & Services Co., Ltd.)	3	Zhengzhou, the PRC	Registered and paid-in RMB42,860,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州鄭德寶汽車銷售服務有限公司 (Zhengzhou Zhengdebao Automobile Sales & Services Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB40,000,000	**100**	100	Sale of automobiles and provision of after-sales services
西安華都汽車銷售服務有限公司 (Xi'an Huadu Automobile Sales & Services Co., Ltd.)	2	Xi'an, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services

45. SUBSIDIARIES (CONTINUED)

Name	Note	Place of incorporation/ registration and Principal country of operation	Paid-up capital	Percentage of equity attributable to the Company 2022	2021	Principal activities
河南英之翼汽車銷售服務有限公司 (Henan Yingzhiyi Automobile Sales & Services Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB10,010,000	**100**	100	Sale of automobiles and provision of after-sales services
廣州市廣德寶汽車銷售服務有限公司 (Guangzhou Guangdebao Automobile Sales & Services Co., Ltd.)	2	Guangzhou, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州華鼎汽車銷售服務有限公司 (Zhengzhou Huading Automobile Sales & Services Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
上海上德寶駿汽車銷售服務有限公司 (Shanghai Shangdebaojun Automobile Sales & Service Co., Ltd.)	2	Shanghai, the PRC	Registered and paid-in RMB50,000,000	**90**	90	Sale of automobiles and provision of after-sales services
宜昌路順汽車銷售服務有限公司 (Yichang Lushun Automobile Sales & Services Co., Ltd.)	2	Yichang, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
洛陽豫德寶汽車銷售服務有限公司 (Luoyang Yudebao Automobile Sales & Services Co., Ltd.)	2	Luoyang, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
南陽宛德寶汽車銷售服務有限公司 (Nanyang Wandebao Automobile Sales & Services Co., Ltd.)	2	Nanyang, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州華誠汽車銷售服務有限公司 (Zhengzhou Huacheng Automobile Sales & Services Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
安陽安德寶汽車銷售服務有限公司 (Anyang Andebao Automobile Sales & Services Co., Ltd.)	2	Anyang, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services

45. SUBSIDIARIES (CONTINUED)

Name	Note	Place of incorporation/ registration and Principal country of operation	Paid-up capital	Percentage of equity attributable to the Company 2022	2021	Principal activities
開封汴德寶汽車銷售服務有限公司 (Kaifeng Biandebao Automobile Sales & Services Co., Ltd.)	2	Kaifeng, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
北京市華德寶汽車銷售服務有限公司 (Beijing Huadebao Automobile Sales & Services Co., Ltd.)	2	Beijing, the PRC	Registered and paid-in RMB55,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州遠達雷克薩斯汽車銷售服務有限公司 (Zhengzhou Yuanda Lexus Automobile Sales & Services Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB50,000,000	**100**	100	Sale of automobiles and provision of after-sales services
廈門遠達雷克薩斯汽車銷售服務有限公司 (Xiamen Yuanda Lexus Automobile Sales & Services Co., Ltd.)	2	Xiamen, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
武漢漢德寶汽車銷售服務有限公司 (Wuhan Handebao Automobile Sales & Services Co., Ltd.)	1	Wuhan, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
武漢華鄭汽車銷售服務有限公司 (Wuhan Huazheng Automobile Sales & Services Co., Ltd.)	2	Wuhan, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
蘇州意駿汽車銷售服務有限公司 (Suzhou Yijun Automobile Sales & Services Co., Ltd.)	2	Suzhou, the PRC	Registered and paid-in RMB50,000,000	**100**	100	Sale of automobiles and provision of after-sales services
新鄉和德寶汽車銷售服務有限公司 (Xinxiang Hedebao Automobile Sales & Services Co., Ltd.)	2	Xinxiang, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
北京豪駿行汽車銷售服務有限公司 (Beijing Haojunhang Automobile Sales & Services Co., Ltd.)	1	Beijing, the PRC	Registered and paid-in RMB50,000,000	**100**	100	Sale of automobiles and provision of after-sales services

45. SUBSIDIARIES (CONTINUED)

Name	Note	Place of incorporation/ registration and Principal country of operation	Paid-up capital	Percentage of equity attributable to the Company 2022	2021	Principal activities
漯河漯德寶汽車銷售服務有限公司 (Luohe Luodebao Automobile Sales & Services Co., Ltd.)	1	Luohe, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
常州常駿行汽車銷售服務有限公司 (Changzhou Changjunhang Automobile Sales & Services Co., Ltd.)	2	Changzhou, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
無錫龍駿行汽車銷售服務有限公司 (Wuxi Longjunhang Automobile Sales & Services Co., Ltd.)	2	Wuxi, the PRC	Registered and paid-in RMB50,000,000	**100**	100	Sale of automobiles and provision of after-sales services
河南和諧汽車融資租賃有限公司 (Henan Lease Finance Co., Ltd.)	1	Zhengzhou, the PRC	Registered and paid-in $250,000,000	**100**	100	Service of finance leases
上海穀卡二手車有限公司 (Shanghai Goocar Pre-owned Automobile Co., Ltd.)	1	Shanghai, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of pre–owned motor vehicles
洛陽遠達雷克薩斯汽車銷售服務有限公司 (Luoyang Yuanda Lexus Automobile Sales & Services Co., Ltd.)	2	Luoyang, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州華德寶汽車銷售服務有限公司 (Zhengzhou Huadebao Automobile Sales & Services Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB30,010,000	**100**	100	Sale of automobiles and provision of after-sales services
邯鄲遠達雷克薩斯汽車銷售服務有限公司 (Handan Yuanda Lexus Automobile Sales & Services Co., Ltd.)	2	Handan, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
商丘商沃汽車銷售服務有限公司 (Shangqiu Shangwo Automobile Sales & Services Co., Ltd.)	2	Shangqiu, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services

45. SUBSIDIARIES (CONTINUED)

App. 16 para 9(1)

Name	Note	Place of incorporation/ registration and Principal country of operation	Paid-up capital	Percentage of equity attributable to the Company 2022	2021	Principal activities
商丘商德寶汽車銷售服務有限公司 (Shangqiu Shangdebao Automobile Sales & Services Co., Ltd.)	2	Shangqiu, the PRC	Registered and paid-in RMB10,000,000	**90**	90	Sale of automobiles and provision of after-sales services
南陽宛沃汽車銷售服務有限公司 (Nanyang Wanwo Automobile Sales & Services Co., Ltd.)	2	Nanyang, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
上海君諾汽車服務有限公司 (Shanghai Junnuo Automobile Services Co., Ltd.)	2	Shanghai, the PRC	Registered and paid-in RMB5,000,000	**100**	100	Sale of automobiles and provision of after-sales services
上海和諧進出口貿易有限公司 (Shanghai Hexie Import & Export Trading Co., Ltd.)	2	Shanghai, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Parallel–import vehicles
周口周德寶汽車銷售服務有限公司 (Zhoukou Zhoudebao Automobile Sales & Services Co., Ltd.)	2	Zhoukou, the PRC	Registered and paid-in RMB10,000,000	**51**	51	Sale of automobiles and provision of after-sales services
焦作遠達雷克薩斯汽車銷售服務有限公司 (Jiaozuo Yuanda Lexus Automobile Sales & Services Co., Ltd.)	2	Jiaozuo, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州和駿汽車銷售有限公司 (Zhengzhou Hejun Automobile Sales Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB50,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鞏義市義德寶汽車銷售服務有限公司 (Gongyi Yidebao Automobile Sales & Services Co., Ltd.)	2	Gongyi, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州賓馳汽車銷售服務有限公司 (Zhengzhou Binchi Automobile Sales & Services Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services

45. SUBSIDIARIES (CONTINUED)

Name	Note	Place of incorporation/ registration and Principal country of operation	Paid-up capital	Percentage of equity attributable to the Company 2022	2021	Principal activities
河南和諧汽車控股有限公司 (Henan Hexie Automobile Holding Co., Ltd.)	1	Zhengzhou, the PRC	Registered capital RMB100,000,000	**100**	100	Investment holding
鄭州鄭沃汽車銷售有限公司 (Zhengzhou Zhengwo Automobile Sales Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
信陽市申沃汽車銷售服務有限公司 (Xinyang Shenwo Automobile Sales & Services Co., Ltd.)	1	Xinyang, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
廣州市粵駿汽車銷售服務有限公司 (Guangzhou Yuejun Automobile Sales & Services Co., Ltd.)	2	Guangzhou, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州和諧鄭駿汽車銷售有限公司 (Zhengzhou Hexie Zhengjun Automobile Sales Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
漯河漯德奧汽車銷售服務有限公司 (Luohe Luodeao Automobile Sales & Services Co., Ltd.)	2	Luohe, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
新鄉和諧新駿汽車銷售服務有限公司 (Xinxiang Hexie Xinjun Automobile Sales & Services Co., Ltd.)	2	Xinxiang, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
商丘和諧銘駿汽車銷售服務有限公司 (Shangqiu Hexie Mingjun Automobile Sales & Services Co., Ltd.)	1	Shangqiu, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
新鄉遠達雷克薩斯汽車銷售服務有限公司 (Xinxiang Yuanda Lexus Automobile Sales & Services Co., Ltd.)	2	Xinxiang, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services

45. SUBSIDIARIES (CONTINUED)

Name	Note	Place of incorporation/ registration and Principal country of operation	Paid-up capital	Percentage of equity attributable to the Company 2022	2021	Principal activities
包頭市燁德寶汽車銷售服務有限公司 (Baotou Yedebao Automobile Sales & Services Co., Ltd.)	2	Baotou, the PRC	Registered and paid-in RMB16,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州頤駿行汽車銷售服務有限公司 (Zhengzhou Yijun Automobile Sales & Services Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
山西賓馳汽車銷售服務有限公司 (Shanxi Bingchi Automobile Sales & Services Co., Ltd.)	2	Shanxi, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
洛陽裕駿汽車銷售服務有限公司 (Luoyang Yujun Automobile Sales & Services Co., Ltd.)	2	Luoyang, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
信陽遠達雷克薩斯汽車銷售服務有限公司 (Xinyang Yuanda Lexus Automobile Sales & Services Co., Ltd.)	2	Xinyang, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
北京和諧嘉駿汽車銷售服務有限公司 (Beijing Hexie Jiajun Automobile Sales & Services Co., Ltd.)	2	Beijing, the PRC	Registered and paid-in RMB50,000,000	**100**	100	Sale of automobiles and provision of after-sales services
北京和諧智聯新能源汽車銷售有限公司 (Beijing Automobile Zhilian New Energy Automotive Sales Co., Ltd.	2	Beijing, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
三門峽鈞德寶汽車銷售服務有限公司 (Sanmenxia Jundebao Automobile Sales & Services Co., Ltd.)	1	Sanmenxia, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
平頂山和諧豫駿汽車銷售服務有限公司 (Pingdingshan Hexie Yujun Automobile Sales & Services Co., Ltd.)	2	Pingdingshan, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services

45. SUBSIDIARIES (CONTINUED)

Name	Note	Place of incorporation/ registration and Principal country of operation	Paid-up capital	Percentage of equity attributable to the Company 2022	2021	Principal activities
呼和浩特皓德寶汽車銷售服務有限公司 (Hohhot Haodebao Automobile Sales Services Co., Ltd.)	2	Hohhot, the PRC	Registered and paid-in RMB16,000,000	**100**	100	Sale of automobiles and provision of after-sales services
武漢和諧和駿汽車銷售服務有限公司 (Wuhan Hexie Hejun Automobile Sales & Services Co., Ltd.)	2	Wuhan, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
河南和之諧物業管理有限公司 (Henan Hezhxie Property Management Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Dormant
昆明樂駿汽車銷售服務有限公司 (Kunming Lejun Automobile Sales & Services Co., Ltd.)	2	Kunming, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
石家莊和諧賓馳汽車銷售服務有限公司 (Shijiazhuang Hexie Binchi Automobile Sales & Services Co., Ltd.)	1	Shijiazhuang, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
江西和諧賓馳汽車銷售服務有限公司 (Jiangxi Hexie Binchi Automobile Sales & Services Co., Ltd.)	1	Jiangxi, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
河南和之悦汽車服務有限公司 (Henan Hezhiyue Automobile Services Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB5,000,000	**100**	100	Sale of automobiles and provision of after-sales services
南昌和諧昌寶汽車銷售服務有限公司 (Nanchang Hexie Changbao Automobile Sales & Services Co., Ltd.)	2	Nanchang, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
九江江德寶汽車銷售服務有限公司 (Jiujiang Jiangdebao Automobile Sales & Services Co., Ltd.)	2	Jiujiang, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services

45. SUBSIDIARIES (CONTINUED)

Name	Note	Place of incorporation/ registration and Principal country of operation	Paid-up capital	Percentage of equity attributable to the Company 2022	2021	Principal activities
鄂爾多斯勝德寶汽車銷售服務有限公司 (Erdos Shengdebao Automobile Sales & Services Co., Ltd.)	2	Ordos, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
青島恒駿汽車銷售服務有限公司 (Qingdao Hengjun Automobile Sales & Services Co., Ltd.)	2	Qingdao, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
滄州遠達雷克薩斯汽車銷售服務有限公司 (Cangzhou Yuanda Lexus Automobile Sales & Services Co., Ltd.)	2	Cangzhou, the PRC	Registered and paid-in RMB20,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州頤德寶汽車銷售有限公司 (Zhengzhou Yidebao Automobile Sales Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
南京瑞駿汽車銷售服務有限公司 (Nanjing Ruijun Automobile Sales & Services Co., Ltd.)	2	Nanjing, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
瀋陽遠達雷克薩斯汽車銷售服務有限公司 (Shenyang Yuanda Lexus Automobile Sales Services Co., Ltd.)	2	Shenyang, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
溫州和諧烜博汽車銷售有限公司 (Wenzhou Harmony Automobile Sales Co., Ltd.)	2	Wenzhou, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services
鄭州悅駿汽車銷售服務有限公司 (Zhengzhou Yuejun Automobile Sales Services Co., Ltd.)	2	Zhengzhou, the PRC	Registered and paid-in RMB30,000,000	**100**	100	Sale of automobiles and provision of after-sales services
天津烜博汽車銷售服務有限公司 (Tianjin Xuanbo Automobile Sales Services Co., Ltd.)	2	Tianjin, the PRC	Registered and paid-in RMB10,000,000	**100**	100	Sale of automobiles and provision of after-sales services

45. SUBSIDIARIES (CONTINUED)

Name	Note	Place of incorporation/ registration and Principal country of operation	Paid-up capital	Percentage of equity attributable to the Company 2022	2021	Principal activities
西安麗駿汽車銷售服務有限公司 (Xi' An Lijun Automobile Sales Service Co., Ltd.)	2	Xi'an, the PRC	Registered and paid-in RMB30,000,000	**100**	N/A	Sale of automobiles and provision of after-sales services
武漢和諧福駿汽車銷售服務有限公司 (Wuhan Hexie Fujun Automobile Sales Service Co., Ltd.)	2	Wuhan, the PRC	Registered and paid-in RMB10,000,000	**100**	N/A	Sale of automobiles and provision of after-sales services
杭州智聯汽車銷售服務有限公司 (Hangzhou Zhilian Automobile Sales Service Co., Ltd.)	2	Hangzhou, the PRC	Registered and paid-in RMB50,010,000	**100**	N/A	Sale of automobiles and provision of after-sales services

The English names of the PRC companies referred to above in this Note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

None of the non-controlling interests is considered individually significant.

Notes:

(i) The subsidiary is a wholly foreign-owned enterprise incorporated in the PRC

(ii) The subsidiary is a wholly owned domestic limited company incorporated in the PRC

(iii) The subsidiary is a non-wholly owned domestic limited company incorporated in the PRC

(iv) The subsidiary is a non-wholly foreign-owned enterprise incorporated in the PRC

46. CONTINGENT LIABILITIES

As at 31 December 2022 and 2021, the Group had no significant contingent liabilities.

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022	2021
	RMB'000	*RMB'000*
Non-current assets		
Property, plant and equipment	**1,663**	1,930
Intangible assets	**14,379**	13,414
Interests in subsidiaries	**2,453,363**	2,867,963
Right of use assets	**10,285**	8,976
	2,479,690	2,892,283
Current assets		
Prepayments, other receivables and other assets	**12,574**	52,920
Cash and bank balances	**106,001**	48,763
	118,575	101,683
Current liabilities		
Bank loans and other borrowings	**198,990**	209,756
Other payables and accruals	**5,300**	87,722
Lease liabilities	**10,890**	9,518
	215,180	306,996
Net current liabilities	**(96,605)**	(205,313)
Total assets less current liabilities	**2,383,085**	2,686,970
Non-current liabilities		
Lease liabilities	**–**	–
NET ASSETS	**2,383,085**	2,686,970
Capital and reserves		
Share capital	**12,293**	12,480
Reserves	**2,370,792**	2,674,490
TOTAL EQUITY	**2,383,085**	2,686,970

48. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 March 2023.

Five-Year Financial Summary

RESULTS

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	Year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**16,321,659**	17,981,051	14,746,923	12,621,821	10,639,877
(Loss)/Profit before taxation	**(1,507,285)**	926,965	617,306	672,893	817,170
Taxation	**(115,519)**	(235,694)	(195,162)	(146,845)	(127,186)
(Loss)/Profit for the year	**(1,622,804)**	691,271	422,144	526,048	689,984
(Loss)/Profit attributable to equity shareholders of the Company	**(1,627,762)**	673,155	410,701	513,307	683,692
Non-Controlling interests	**4,958**	18,166	11,443	12,741	6,292
(Loss)/Profit for the year	**(1,622,804)**	691,271	422,144	526,048	689,984
(Loss)/Earning per share					
Basic (RMB Cents)	**(1.08)**	0.44	0.27	0.34	0.45
Diluted (RMB Cents)	**(1.08)**	0.44	0.27	0.34	0.44

ASSETS AND LIABILITIES

	As at 31 December				
	2022	2021	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total Assets	**10,802,557**	13,248,598	12,352,377	11,422,562	11,022,067
Total Liabilities	**4,775,850**	5,206,036	4,804,890	(4,099,063)	(4,100,789)
	6,026,707	8,042,562	7,547,487	7,323,499	6,921,278
Equity attributable to equity shareholders of the Company	**5,946,823**	7,967,380	7,488,040	7,270,323	6,878,393
Non-Controlling interests	**79,884**	75,182	59,447	53,176	42,885
Total Equity	**6,026,707**	8,042,562	7,547,487	7,323,499	6,921,278