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China MeiDong Auto Holdings Limited

中國美東汽車控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1268)

2022 ANNUAL RESULTS ANNOUNCEMENT AND PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2022 increased to RMB28,654.7 million, a 21.5% growth compared to the same period of 2021.
- Gross profit amounted to RMB2,517.5 million with gross margin of 8.8%.
- Profit for the year amounted to RMB555.9 million.
- Profit for the year excluding non operating expenses was RMB857.6 million (*Note*).
- Proposed final dividend of RMB0.1170 per ordinary share. Together with interim dividend of RMB0.0808 per ordinary share paid in 2022, total dividend for the year amounted to RMB0.1978 per ordinary share, representing a dividend payout ratio of 50%.

Note: Profit for the year excluding non-operating expenses is a non-GAAP financial measure. Please refer to the paragraph headed “Reconciliation of non-HKFRS financial measures to the nearest HKFRS measures” on page 41 for further information.

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of China MeiDong Auto Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2022 (the “**Year**”).

The audited consolidated results of the Group for the Year together with the comparative figures of 2021 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(Expressed in RMB'000)

	<i>Note</i>	2022	2021
Revenue	2	28,654,734	23,576,689
Cost of sales		(26,137,264)	(20,806,155)
Gross profit		2,517,470	2,770,534
Other revenue and other net income	3	266,816	247,004
Distribution costs		(859,912)	(741,039)
Administrative expenses		(810,730)	(578,478)
Profit from operations		1,113,644	1,698,021
Finance costs	4(a)	(275,039)	(133,277)
Share of profits of a joint venture		24,935	48,019
Profit before taxation	4	863,540	1,612,763
Income tax	5(a)	(307,604)	(399,423)

	<i>Note</i>	2022	2021
Profit for the year		555,936	1,213,340
Other comprehensive income for the year (after tax):			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation of financial statements of the Company		(78,952)	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		499	—
Other comprehensive income for the year		(78,453)	—
Profit and total comprehensive income for the year		<u>477,483</u>	<u>1,213,340</u>
Profit attributable to:			
Equity shareholders of the Company		521,029	1,165,640
Non-controlling interests		34,907	47,700
Profit for the year		<u>555,936</u>	<u>1,213,340</u>
Total comprehensive income attributable to:			
Equity shareholders of the Company		442,576	1,165,640
Non-controlling interests		34,907	47,700
Total comprehensive income for the year		<u>477,483</u>	<u>1,213,340</u>
Earnings per share			
Basic (<i>RMB cents</i>)	<i>6(a)</i>	40.93	93.62
Diluted (<i>RMB cents</i>)	<i>6(b)</i>	40.61	92.38

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

(Expressed in RMB'000)

	<i>Note</i>	31 December 2022	31 December 2021
Non-current assets			
Property, plant and equipment	7	1,843,046	1,381,418
Right-of-use assets	8	1,785,399	1,568,809
Intangible assets	9	3,477,100	546,121
Interest in a joint venture		38,985	61,942
Other non-current assets	10	74,904	422,113
Goodwill	11	1,004,512	178,691
Deferred tax assets		126,980	80,459
		8,350,926	4,239,553
Current assets			
Inventories	12	1,069,360	355,256
Trade and other receivables	13	1,560,489	1,817,159
Pledged bank deposits		910,307	768,964
Fixed deposits with more than three months to maturity when placed		712,696	—
Cash and cash equivalents		1,635,625	2,621,741
		5,888,477	5,563,120
Current liabilities			
Loans and borrowings		1,413,918	989,490
Trade and other payables	14	3,192,872	2,787,598
Lease liabilities		165,195	132,421
Income tax payables	5(c)	101,751	179,941
		4,873,736	4,089,450
Net current assets		1,014,741	1,473,670
Total assets less current liabilities		9,365,667	5,713,223

	<i>Note</i>	31 December 2022	31 December 2021
Non-current liabilities			
Loans and borrowings		492,813	299,388
Lease liabilities		1,290,624	1,159,972
Convertible bonds	<i>15</i>	2,274,932	—
Deferred tax liabilities		873,518	137,270
		<u>4,931,887</u>	<u>1,596,630</u>
NET ASSETS		<u>4,433,780</u>	<u>4,116,593</u>
EQUITY			
Share capital	<i>16(b)</i>	101,888	99,520
Reserves		4,173,138	3,847,104
		<u>4,275,026</u>	<u>3,946,624</u>
Total equity attributable to equity shareholders of the Company		<u>4,275,026</u>	<u>3,946,624</u>
Non-controlling interests		<u>158,754</u>	<u>169,969</u>
TOTAL EQUITY		<u>4,433,780</u>	<u>4,116,593</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2022

(Expressed in RMB'000)

	Note	2022	2021
Operating activities:			
Cash generated from operations		1,626,012	2,189,769
Income tax paid	5(c)	(472,191)	(377,848)
Net cash generated from operating activities		1,153,821	1,811,921
Investing activities:			
Payment for the purchase of property, plant and equipment		(283,391)	(362,858)
Proceeds from disposal of property, plant and equipment		157,409	148,726
Payment for acquisition of subsidiaries, net of cash acquired		(2,701,463)	(613,335)
Payment for assets acquisition, net of cash acquired		(31,000)	(268,379)
Payment for acquisition deposits	10	—	(350,000)
Increase in fixed deposits with more than three months to maturity when placed		(712,696)	—
Dividends received from a joint venture		47,892	42,425
Interest received		40,054	21,363
Others		(265)	—
Net cash used in investing activities		(3,483,460)	(1,382,058)

	<i>Note</i>	2022	2021
Financing activities:			
Capital element of lease rentals paid		(74,676)	(54,320)
Interest element of lease rentals paid		(83,491)	(78,243)
Proceeds from loans and borrowings		12,861,255	8,483,368
Repayment of loans and borrowings		(13,100,444)	(8,166,627)
Decrease/(increase) in pledged bank deposits		18,098	(5,898)
Dividends declared and paid to equity shareholders	<i>16(a)</i>	(994,706)	(460,916)
Dividends paid to non-controlling interests	<i>16(a)</i>	(32,783)	(13,640)
Proceeds from exercise of share options		18,415	11,104
Net proceeds from issuance of convertible bonds	<i>15</i>	2,198,814	—
Interest paid		(93,972)	(55,007)
Changes in interests in subsidiaries without change in control		(18,800)	—
Advances from a related party		—	4,685
Repayment of advances from a related party		(3,641)	—
Proceeds from issuance of new shares, net of issuance expense		628,815	—
Capital injection by non-controlling interests		4,900	18,000
		<hr/>	<hr/>
Net cash generated from/(used in) financing activities		1,327,784	(317,494)
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(1,001,855)	112,369
Cash and cash equivalents at 1 January		2,621,741	2,538,030
Effect of foreign exchange rate changes		15,739	(28,658)
		<hr/>	<hr/>
Cash and cash equivalents at 31 December		1,635,625	2,621,741
		<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements

1 General information

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

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), accounting principles generally accepted in Hong Kong and the requirement of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**the Listing Rules**”). Significant accounting policies adopted by the Group are set out below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries and the Group’s interests in a joint venture.

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

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

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

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

(c) Change in functional currency of the Company

In prior years based on the primary source of income from the China mainland, the board of directors regarded RMB as the functional currency of the Company. From 2022, the Company has had more financing activities in Hong Kong capital market, such as issuing bonds and placing shares which led to substantial increase in the amount of HK\$ denominated transactions while the economic source of dividend revenues is not a key factor in determining the functional currency of the Company which is not merely an investment holding entity. Considering the above reasons, the board of directors have determined to change the functional currency of the Company from RMB to HK\$ from 1 January 2022 accordingly, while the presentation currency of the Company remains unchanged as RMB.

The change in functional currency of the Company was applied prospectively from the date of change in accordance with HKAS 21 “*The Effects of Changes in Foreign Exchange Rates*”.

At the date of the change, the financial position is translated from RMB into the new functional currency (HK\$) using the prevailing exchange rate at that date. From 1 January 2022, the Company’s financial statements are prepared with any non-HK\$ transactions translated following the requirements of foreign currency transactions. All resulting exchange differences arising from the translation from functional currency to a different presentation currency of the Company were recognised in other comprehensive income.

(d) Changes in accounting policies

The Group has applied following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendment to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these amendments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 Revenue and segment reporting

(a) Revenue

(i) *Disaggregation of revenue*

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
— Sales of passenger vehicles	25,297,011	20,829,418
— After-sales services	3,357,723	2,747,271
	<u>28,654,734</u>	<u>23,576,689</u>

All revenue was recognised at a point in time.

(b) Segment reporting

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

(i) *Information about geographical area*

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

(ii) *Information about major customers*

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

3 Other revenue and other net income

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Other revenue		
Insurance commission	164,101	134,998
Interest income	46,115	20,960
Management service income	5,063	12,100
	<u>215,279</u>	<u>168,058</u>
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Other net income		
Net gain on disposal of property, plant and equipment	34,831	44,311
Net foreign exchange loss	(16,245)	(20,197)
Gain on a bargain purchase	—	29,714
Government subsidy	9,655	8,313
Penalty income	15,566	6,918
Others	7,730	9,887
	<u>51,537</u>	<u>78,946</u>
	<u>266,816</u>	<u>247,004</u>

4 Profit before taxation

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

	<i>Note</i>	2022 RMB'000	2021 RMB'000
(a) Finance costs:			
Interest on			
— loans and borrowings		78,819	44,370
— convertible bonds	<i>15</i>	96,488	—
— lease liabilities		83,491	78,243
		<hr/>	<hr/>
Total interest expense		258,798	122,613
Other finance cost	<i>(i)</i>	16,241	10,664
		<hr/>	<hr/>
		275,039	133,277
		<hr/> <hr/>	<hr/> <hr/>
(b) Staff costs:			
Salaries, wages and other benefits		943,258	868,350
Equity settled share-based payment expenses	<i>(ii)</i>	31,548	4,130
Contributions to defined contribution retirement plans	<i>(iii)</i>	34,677	36,069
		<hr/>	<hr/>
		1,009,483	908,549
		<hr/> <hr/>	<hr/> <hr/>

- (i) It represents the interest expenses borne by the Group arising from discount of bills issued to automobile manufacturers.
- (ii) The Group recognised an expense of RMB31,548,000 for the year ended 31 December 2022 (2021: RMB4,130,000) in relation to share options granted to certain employees of the Group pursuant to a share option scheme.
- (iii) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

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

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

(c) **Other items:**

	<i>Note</i>	2022 RMB'000	2021 RMB'000
Cost of inventories		25,889,414	20,620,241
Write-down of inventories		15,137	—
Depreciation			
— owned property, plant and equipment		224,680	160,538
— right-of-use assets		133,816	108,013
Amortisation of intangible assets	(iv)	131,533	18,802
Lease expenses		8,725	6,037
Net foreign exchange loss		16,245	20,197
Auditors' remuneration		<u>9,500</u>	<u>7,240</u>

(iv) The Group recognised administrative expenses of RMB131,533,000 in relation to the amortisation of intangible assets for the year ended 31 December 2022 (2021: RMB18,802,000).

5 Income tax in the consolidated statement of comprehensive income

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

	2022 RMB'000	2021 RMB'000
Current tax:		
Provision for PRC income tax for the year	384,206	422,709
Deferred tax:		
Origination of temporary differences	<u>(76,602)</u>	<u>(23,286)</u>
	<u>307,604</u>	<u>399,423</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before taxation	<u>863,540</u>	<u>1,612,763</u>
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (i)	258,792	415,326
Tax effect of non-deductible expenses	7,765	4,560
Tax effect of non-taxable income on share of profits of a joint venture	(6,234)	(12,005)
Tax effect of unused tax losses not recognised, net of utilisation of tax losses for which no deferred tax asset was recognised in previous periods	4,765	(1,029)
Tax effect of non-taxable income on gain on bargain purchase	—	(7,429)
Effect of PRC dividend withholding tax (ii)	<u>42,516</u>	<u>—</u>
Actual tax expense	<u>307,604</u>	<u>399,423</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

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

The Group's PRC subsidiaries are subject to income tax at the statutory tax rate of 25%. One subsidiary of the Group enjoyed preferential Corporate Income Tax rates which was lower than 25% as it operated in designated areas with preferential CIT policies in the PRC.

- (ii) Since the Company obtained certificate of resident status and became a resident of the Hong Kong Special Administrative Region under the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income". Under such arrangement, dividend distributions out of earnings of PRC enterprises imposed a withholding tax at 5% during the year ended 31 December 2022.

The effect of PRC dividend withholding tax of RMB43 million represents PRC dividend withholding tax of RMB76 million related to dividend distributed out of earnings of PRC subsidiaries of RMB1,520 million during the year ended 31 December 2022, net of reversal of deferred tax liabilities of RMB33 million which has been recognised previously based on management's best estimation.

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At the beginning of the year	179,941	127,751
Acquisition through business combination	9,795	7,329
Provision for current income tax for the year	384,206	422,709
Payment during the year	<u>(472,191)</u>	<u>(377,848)</u>
At the end of the year	<u><u>101,751</u></u>	<u><u>179,941</u></u>

6 Earnings per share

(a) **Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB521,029,000 (2021: RMB1,165,640,000) and the weighted average of 1,273,120,000 ordinary shares in issue (2021: 1,245,142,000 shares) during the year ended 31 December 2022.

Weighted average number of ordinary shares

	2022	2021
Issued ordinary shares at 1 January	1,247,867,000	1,244,521,000
Effect of exercise of share options	3,123,000	621,000
Effect of placement of new shares	<u>22,130,000</u>	<u>—</u>
Weighted average number of ordinary shares at 31 December	<u><u>1,273,120,000</u></u>	<u><u>1,245,142,000</u></u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB521,029,000 (2021: RMB1,165,640,000) and the weighted average of 1,282,953,000 ordinary shares (2021: 1,261,760,000 ordinary shares) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's employee share option scheme during the year ended 31 December 2022.

Weighted average number of shares (diluted)

	2022	2021
Weighted average number of ordinary shares for the year ended 31 December	1,273,120,000	1,245,142,000
Effect of deemed issue of shares under the employee share option scheme	<u>9,833,000</u>	<u>16,618,000</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u>1,282,953,000</u>	<u>1,261,760,000</u>

The computation of diluted earnings per share for the year ended 31 December 2022 does not assume the conversion of the Group's convertible bonds since its exercise had anti-dilutive effect that would result in an increase in earnings per share for the year ended 31 December 2022.

7 Property, plant and equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Passenger vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2021	519,099	422,529	214,696	232,316	124,635	20,913	1,534,188
Additions	9,115	83,726	22,173	204,912	25,734	29,429	375,089
Acquisitions of subsidiaries	68,640	—	2,558	12,788	4,764	—	88,750
Acquisition of asset	61,212	—	33	592	759	—	62,596
Transfer	—	37,151	1,898	—	—	(39,049)	—
Disposals	(2,616)	(113)	(1,048)	(147,896)	(5,006)	—	(156,679)
At 31 December 2021	655,450	543,293	240,310	302,712	150,886	11,293	1,903,944
At 1 January 2022	655,450	543,293	240,310	302,712	150,886	11,293	1,903,944
Additions	—	25,548	12,933	230,511	14,226	40,086	323,304
Acquisitions of subsidiaries (note 17)	399,775	21,229	46,702	4,849	12,741	286	485,582
Transfer	17,236	21,146	889	—	6,501	(45,772)	—
Disposals	(38,653)	(33)	(6,765)	(179,340)	(6,463)	—	(231,254)
At 31 December 2022	1,033,808	611,183	294,069	358,732	177,891	5,893	2,481,576
Accumulated depreciation:							
At 1 January 2021	135,406	90,890	71,840	50,147	65,969	—	414,252
Charge for the year	23,616	33,481	21,634	61,368	20,439	—	160,538
Written back on disposals	(670)	(42)	(712)	(46,558)	(4,282)	—	(52,264)
At 31 December 2021	158,352	124,329	92,762	64,957	82,126	—	522,526
At 1 January 2022	158,352	124,329	92,762	64,957	82,126	—	522,526
Charge for the year	59,503	44,915	28,426	68,891	22,945	—	224,680
Written back on disposals	(36,656)	—	(5,338)	(61,577)	(5,105)	—	(108,676)
At 31 December 2022	181,199	169,244	115,850	72,271	99,966	—	638,530
Net book value:							
At 31 December 2022	852,609	441,939	178,219	286,461	77,925	5,893	1,843,046
At 31 December 2021	497,098	418,964	147,548	237,755	68,760	11,293	1,381,418

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

The Group has yet to obtain property ownership certificates of certain buildings with an aggregate net book value of RMB474,186,000 as at 31 December 2022 (2021: RMB248,379,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2022.

Property, plant and equipment with net book value of RMB13,268,000 are pledged as security for bank loans as at 31 December 2022 (2021: RMB65,130,000).

8 Right-of-use assets

	Land use rights carried at cost (i) RMB'000	Properties and land leased for own use carried at cost (ii) RMB'000	Total RMB'000
Cost:			
At 1 January 2021	117,514	1,323,470	1,440,984
Additions	191	97,597	97,788
Acquisitions of subsidiaries	53,757	—	53,757
Acquisition of asset	244,504	—	244,504
Derecognition	—	(8,611)	(8,611)
	<u>415,966</u>	<u>1,412,456</u>	<u>1,828,422</u>
At 31 December 2021			
Additions	40,000	95,388	135,388
Acquisitions of subsidiaries (note 17)	58,200	157,702	215,902
Derecognition	—	(1,129)	(1,129)
	<u>514,166</u>	<u>1,664,417</u>	<u>2,178,583</u>
At 31 December 2022			
Accumulated amortisation:			
At 1 January 2021	(6,893)	(147,802)	(154,695)
Charge for the year	(9,089)	(98,924)	(108,013)
Reversal for derecognition	—	3,095	3,095
	<u>(15,982)</u>	<u>(243,631)</u>	<u>(259,613)</u>
At 31 December 2021			
Charge for the year	(13,536)	(120,280)	(133,816)
Reversal for derecognition	—	245	245
	<u>(29,518)</u>	<u>(363,666)</u>	<u>(393,184)</u>
At 31 December 2022			
Net book value:			
At 31 December 2022	<u><u>484,648</u></u>	<u><u>1,300,751</u></u>	<u><u>1,785,399</u></u>
At 31 December 2021	<u><u>399,984</u></u>	<u><u>1,168,825</u></u>	<u><u>1,568,809</u></u>

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

	2022	2021
	RMB'000	<i>RMB'000</i>
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights	13,536	9,089
Properties and land leased for own use	120,280	98,924
	<u>133,816</u>	<u>108,013</u>
Interest on lease liabilities (<i>note 4(a)</i>)	83,491	78,243
Expense relating to short-term leases (<i>note 4(c)</i>)	8,725	6,037
Loss/(gain) on derecognition of right-of-use assets	166	(3,338)

During the year, additions to right-of-use assets were RMB351,290,000 (2021: RMB396,049,000). This amount included the additions to land use rights and leased properties through acquisitions of subsidiaries of RMB58,200,000 and RMB157,702,000 respectively. The remainder primarily related to the capitalised lease payments payable under new tenancy agreements.

(i) Land use rights

Land in respect of land use rights are all located in the PRC with a remaining lease period of 32–40 years when acquired.

Land use rights with net book value of RMB19,117,000 are pledged as security for bank loans as at 31 December 2022 (2021: RMB54,411,000).

(ii) Properties and land leased for own use

The Group has obtained the right to use other properties and land through tenancy agreements. The leases typically run for an initial period of 2 to 20 years.

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

9 Intangible assets

The Group

	Car dealership <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At 1 January 2021	73,047	9,046	82,093
Acquisitions of subsidiaries	503,478	—	503,478
	<u>576,525</u>	<u>9,046</u>	<u>585,571</u>
At 31 December 2021	576,525	9,046	585,571
At 1 January 2022	576,525	9,046	585,571
Acquisitions of subsidiaries (<i>note 17</i>)	3,062,512	—	3,062,512
	<u>3,639,037</u>	<u>9,046</u>	<u>3,648,083</u>
At 31 December 2022	3,639,037	9,046	3,648,083
	<u>3,639,037</u>	<u>9,046</u>	<u>3,648,083</u>
Accumulated amortisation:			
At 1 January 2021	(16,133)	(4,515)	(20,648)
Charge for the year	(18,179)	(623)	(18,802)
	<u>(34,312)</u>	<u>(5,138)</u>	<u>(39,450)</u>
At 31 December 2021	(34,312)	(5,138)	(39,450)
At 1 January 2022	(34,312)	(5,138)	(39,450)
Charge for the year	(130,910)	(623)	(131,533)
	<u>(165,222)</u>	<u>(5,761)</u>	<u>(170,983)</u>
At 31 December 2022	(165,222)	(5,761)	(170,983)
	<u>(165,222)</u>	<u>(5,761)</u>	<u>(170,983)</u>
Net book value:			
At 31 December 2022	<u>3,473,815</u>	<u>3,285</u>	<u>3,477,100</u>
At 31 December 2021	<u>542,213</u>	<u>3,908</u>	<u>546,121</u>

(i) Intangible assets — car dealership

The car dealerships arises from the Group's relationship with the automobile manufacturer, with an estimated useful life of 20 years, which was estimated by management with reference to the valuation reports prepared by the external valuers engaged by the Group. The fair value of the car dealerships as at the acquisition date was determined by using the multiple-period excess earning method.

(ii) *Impairment testing of intangible assets — car dealership and goodwill*

The continuous outbreak of COVID-19 and respective restriction control measures implemented in the PRC, together with the unfavourable market conditions, have had a direct impact on the financial performance of the Group in 2022, which led to a decline in the Group's financial performance, in particular, the business performance of several newly acquired 4S dealerships stores were adversely impacted and therefore were behind the original business forecast made at the acquisition dates. As such, the directors of the Group consider that there were impairment indicators for those acquired 4S dealerships stores as at 31 December 2022, which were independent cash generating units.

As at 31 December 2022, management engaged an external valuer to assist with the impairment tests for the intangible assets — car dealership and goodwill and the recoverable amounts of the respective CGUs have been determined based on the higher of its fair value less costs to sell and value in use calculations according to requirements of Hong Kong Accounting Standard 36 *Impairment of Assets*. The cash flow projections based on financial budgets approved by management covering a period of five years and adopted discount rate of 15% (2021:15%). The discount rates were determined based on the applicable weighted average cost of capital of the relevant business, which reflects the time value of money and the specific risks relating to the relevant business. The cash flow projections have taken into account the historical financial performance, expected sales growth rates and profit margins of the relevant business, market conditions and other available information. The assumptions used are based on management's past experience of the specific market, having made reference to external sources of information. Cash flows beyond the five-year period are extrapolated using estimated growth rate of 2.5 % (2021:2.5%), which is consistent with the forecasts included in industry reports. Based on the management's assessment result, there was no impairment of goodwill or intangible asset — car dealership as at 31 December 2022.

10 Other non-current assets

	2022	2021
	RMB'000	RMB'000
Prepayments for property, plant and equipment, intangible assets and right-of-use assets	1,385	5,191
Long-term deposits and receivables	73,519	66,922
Prepayments for acquisition	—	350,000
	74,904	422,113

11 Goodwill

	<i>RMB'000</i>
Cost:	
At 31 December 2021 and 1 January 2022	178,691
Goodwill arising from business combinations:	
— Starchase Group (<i>note 17</i>)	<u>825,821</u>
At 31 December 2022	<u><u>1,004,512</u></u>
Accumulated impairment losses:	
At 31 December 2022	<u><u>—</u></u>
Carrying amount:	
At 31 December 2022	<u><u>1,004,512</u></u>

Impairment tests for cash-generating units containing goodwill

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Tangshan Lexus	32,924	32,924
Nanjing Meidong	145,767	145,767
Starchase Group (<i>note 17</i>)	825,821	—

As at 31 December 2022, management performed impairment tests for the goodwill and the recoverable amounts of the respective CGUs have been determined based on the value-in-use calculations (see note 9).

12 Inventories

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Motor vehicles	882,987	222,853
Others	<u>186,373</u>	<u>132,403</u>
	<u><u>1,069,360</u></u>	<u><u>355,256</u></u>

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

	2022	2021
	RMB'000	RMB'000
Carrying amount of inventories sold	25,889,414	20,620,241
Write-down of inventories	15,137	—

13 Trade and other receivables

	2022	2021
	RMB'000	RMB'000
Trade receivables	278,958	181,230
Prepayments	391,125	921,918
Other receivables and deposits	888,687	709,147
Amounts due from third parties	1,558,770	1,812,295
Amounts due from related parties	1,719	4,864
Trade and other receivables	1,560,489	1,817,159

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

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group, insurance commission receivables from insurance companies and warranty receivables from automobile manufacturers. The mortgage is normally settled within one month directly by major financial institutions. While for the receivables from insurance companies and automobile manufacturers, risk of default is considered low, as these are either reputable companies or with good credit rating. Based on past experience, the Group was of the opinion that no provision for impairment was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. Normally, the Group does not obtain collateral from customers.

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 1 month	246,022	170,114
1 to 2 months	22,687	8,986
2 to 3 months	7,165	1,145
Over 3 months	3,084	985
	278,958	181,230

14 Trade and other payables

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	188,943	167,988
Bills payable	1,649,907	1,501,292
	1,838,850	1,669,280
Contract liabilities	1,019,748	711,100
Other payables and accruals	326,161	396,184
Amounts due to third parties	3,184,759	2,776,564
Amounts due to related parties	8,113	11,034
Trade and other payables	3,192,872	2,787,598

- (a) All trade and other payables are expected to be settled within one year.
- (b) As of the end of the reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 3 months	1,768,061	1,603,975
After 3 months but within 6 months	70,789	65,305
	1,838,850	1,669,280

15 Convertible bonds

On 14 January 2022, Sail Vantage Limited, a subsidiary of the Company, issued zero coupon guaranteed convertible bonds (“**the Convertible Bonds**”) with an aggregate principal amount of HK\$2,750,000,000 (equivalent to approximately RMB2,248,263,000) and received cash after deduction of transaction costs of HK\$2,689,517,000 (equivalent to approximately RMB2,198,814,000).

Pursuant to the terms of the Convertible Bonds, the Convertible Bonds will be due in January 2027 and are guaranteed by the Company. The bond holders could convert part of or the entire outstanding bond balances at the holder’s option into fully paid ordinary shares of the Company at an initial conversion price of HK\$46.75 per share, subject to the terms and conditions of the Convertible Bonds.

The Convertible Bonds can be settled by exchange of a fixed amount of cash in HK\$ with a fixed number of the Company’s equity instruments. In accordance with the Group’s accounting policy, the Convertible Bonds are accounted for as compound financial instruments which contain both a liability component and an equity component.

The movements of the components of the Convertible Bonds during current period are set out below:

	Liability component (At amortised cost) <i>RMB’000</i>	Equity component (Residual amount) <i>RMB’000</i>	Total <i>RMB’000</i>
At the date of issuance	1,990,299	208,515	2,198,814
Interest charge (<i>note 4(a)</i>)	96,488	—	96,488
Exchange adjustment	188,145	—	188,145
	<hr/>	<hr/>	<hr/>
At 31 December 2022	<u>2,274,932</u>	<u>208,515</u>	<u>2,483,447</u>

16 Capital, reserves and dividends

(a) Dividends

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interim dividend for the year, approved and paid during the year, of RMB0.0808 per ordinary share (2021: RMB0.1293 per ordinary share)	<u>103,055</u>	<u>160,986</u>
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Final dividend proposed after the statement of financial position date of RMB0.1170 per ordinary share (2021: RMB0.6991 per ordinary share)	<u>157,422</u>	<u>888,114</u>

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.6991 per ordinary share (2021: RMB0.241 per ordinary share)	<u>891,651</u>	<u>299,930</u>

(iii) *Other dividends*

During the year ended 31 December 2022, subsidiaries of the Group declared and paid dividends of RMB32,783,000 (2021: RMB13,640,000) in cash to non-controlling interests.

(b) Share capital

The share capital of the Group as at 31 December 2022 represented the amount of issued and paid-up capital of the Company with details set out below:

Authorised:

	<i>Note</i>	Par value <i>HK\$</i>	2022		2021	
			Number of shares <i>(thousand)</i>	Nominal value of ordinary shares <i>HK\$'000</i>	Number of shares <i>(thousand)</i>	Nominal value of ordinary shares <i>HK\$'000</i>
At 31 December	(i)	0.1	<u>20,000,000</u>	<u>2,000,000</u>	<u>20,000,000</u>	<u>2,000,000</u>

Ordinary shares, issued and fully paid:

	<i>Note</i>	Number of ordinary shares <i>(thousand)</i>	Nominal value of ordinary shares <i>HK\$('000)</i>
At 1 January 2021		1,244,521	124,452
Issue of ordinary shares upon exercise of share options		3,346	335
At 31 December 2021 and 1 January 2022		<u>1,247,867</u>	<u>124,787</u>
Issue of ordinary shares upon exercise of share options		6,205	621
Placement of new shares	(ii)	22,500	2,250
At 31 December 2022		<u>1,276,572</u>	<u>127,658</u>
RMB equivalent ('000) at 31 December 2022			<u>101,888</u>
RMB equivalent ('000) at 31 December 2021			<u>99,520</u>

(i) Authorised share capital

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

(ii) *Placement of new shares*

On 6 January 2022, the Company placed 22,500,000 new ordinary shares at the subscription price of HK\$34.63 per share. The gross proceeds of HK\$779,175,000 (equivalent to RMB635,460,000), net of direct share placement expenses of HK\$8,148,000 (equivalent to RMB6,645,000), were raised, of which RMB1,835,000 and RMB626,980,000 was credited to share capital and share premium account, respectively.

17 Acquisition of subsidiaries

On 13 December 2021, the Group entered into a share purchase agreement with a third party, namely Wearnes-StarChase Limited, pursuant to which the Group conditionally agreed to acquire all issued shares of Starchase Motorsports Limited. The Company obtained the control of Starchase Motorsports Limited on 29 April 2022. The transaction was completed with a total consideration of RMB3,700,000,000.

Starchase Motorsports Limited is an investment holding company. Starchase Motorsports Limited and its subsidiaries (together, the “**Starchase Group**”) are principally engaged in 4S dealerships business in the PRC. The acquisition was accounted for under the acquisition method. The acquisition of Starchase Group was aimed at allowing the Group to extend its network of high-end dealerships business and generate more revenue.

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

	Pre-acquisition Carrying amount RMB'000	Fair value adjustment RMB'000	Recognised value on acquisition RMB'000
Car dealerships (note 9)	—	3,062,512	3,062,512
Land use right (note 8)	45,606	12,594	58,200
Property, plant and equipment (note 7)	485,582	—	485,582
Other net identifiable assets	34,214	—	34,214
Deferred tax assets	35,931	—	35,931
Deferred tax liabilities	(33,484)	(768,776)	(802,260)
Net identified assets	<u>567,849</u>	<u>2,306,330</u>	<u>2,874,179</u>
Percentage attributable to the Group			100%
Net identified assets attributable to the Group			2,874,179
Goodwill (note 11)			825,821
Total consideration in cash			<u>3,700,000</u>
Analysis of the net cash flow in respect of the acquisition			
Less: cash consideration paid in 2021			(350,000)
Less: cash acquired			<u>(690,537)</u>
Net cash outflow in acquisition			<u>2,659,463</u>

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

Acquisition-related costs of RMB15,538,000 had been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2022.

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition.

The revenue and profit that Starchase Group contributed to the Group during the year ended 31 December 2022 are RMB4,895,395,000 and RMB208,610,000 respectively.

Had the acquisition occurred on 1 January 2022, management estimates that the Group's consolidated revenue and consolidated profit for the year would have been RMB30,368,977,000 and RMB579,966,000, respectively.

18 Contingent liabilities

As of 31 December 2022, certain subsidiaries of the Group are respondents in several legal dispute cases in relation to certain investments made before 2022. While the arbitrations are still ongoing and the future development cannot be estimated with certainty, the directors of the Company, having given due consideration to the legal advice and the relevant facts and circumstances, are of the opinion that it is not probable that the Group will need to make payments to the claimants. Therefore, no provision has been made in respect of those cases as at 31 December 2022.

As of 31 December 2022, except for the aforementioned contingencies associated with those legal dispute cases, the Group did not have any material contingent liabilities.

19 Non-adjusting events after the reporting period

(a) Final dividend

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

(b) Placement of new shares

On 4 January 2023, the Company agreed to issue 68,000,000 new ordinary shares at the subscription price of HK\$15.05 per share. The Company completed the allotment on 17 January 2023 and received approximately HK\$1,012 million after deducting the relevant placement costs.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2022, the COVID-19 pandemic continued to affect the production and sales of automobile in China. Although the Chinese government cut automobile purchase tax by half in June 2022, resulting in temporary recovery of the automobile retail market, the return of stringent prevention and control measures in the fourth quarter of 2022 further weakened sales performance. According to the data of the China Passenger Car Association, based on the data of insured automobiles, domestic sales volume of passenger vehicles was 20.50 million units, representing a decrease of 3.0% yoy. Among this, retail sales volume of premium brand vehicles was 3.47 million units, representing a decrease of 2.7%, while retail sales volume of new premium brand conventional fuel vehicles was 2.82 million units, representing a decrease of 7.8% yoy. However, performance of different brands varied. In accordance with the statistics from the National Bureau of Statistics of China, sales from Porsche distributors rose despite the market downturn, recording a yoy increase of 9.0% in terms of total retail sales. Total retail sales from BMW and Audi distributors decreased by 8.7% yoy. The yoy decrease of Lexus sales was also relatively significant, with the revenue of their distributors decreased correspondingly.

Despite the pressure on automobile sales, the increase in production and sales of automobile gave rise to vast development opportunities for the after-sales market. Based on the investigation on automobile after-sales market conducted by Market Monitor, the scale of the after-sales market in China reached RMB773.76 billion in 2022. While the domestic automobile industry faces great challenges in the short-term, in the wake of market recovery and implementation of a series of policies, it is expected that the premium automobile market will gradually find its footing. New energy vehicle, which experienced growth against the adversity in 2021, is also expected to record further improvement.

BUSINESS AND FINANCIAL REVIEW

During the Year, against the backdrop of the challenging operation environment, the Group focused on maintaining its sound operation and keeping its operation efficiency, while cautiously developed and actively explored opportunities. During the Year, the Group completed the acquisition of 7 Porsche 4S stores, 3 service centers and 4 exhibition halls, which propelled the stable growth of revenue from passenger vehicle sales and after-sales services, with the revenue contributed by the sales of premium brand vehicles further increased. The newly acquired Porsche stores also showed synergies since the Group took over its operation, reporting an improvement in efficiency, which is expected to bring strong momentum to the Group's future growth. Furthermore, Porsche, riding on its strong brand value, has fully demonstrated its resilience and growth potential by delivering standout performance against other premium brands. Meanwhile, after-sales services of the Group maintained a satisfactory growth and profit margin during the pandemic. The growing

number of passenger vehicles sold could bring in further room for development in after-sales services in the future. Although the Group's profit for the Year was adversely impacted by factors such as the unfavorable market conditions, acquisition charges and expenses, the Group endeavours to maintain high operation efficiency. Its operating metrics, including inventory turnover days, were maintained at a satisfactory level. Its balance sheet and cash flow were also fairly stable.

Revenue

The Group recorded a revenue of approximately RMB28,654.7 million (2021: approximately RMB23,576.7 million), representing an increase of approximately 21.5% yoy. Revenue from sales of passenger vehicles increased by approximately 21.4% yoy to approximately RMB25,297.0 million (2021: approximately RMB20,829.4 million), accounting for approximately 88.3% (2021: approximately 88.3%) of total revenue. Revenue from after-sales services increased by approximately 22.2% yoy to approximately RMB3,357.7 million (2021: approximately RMB2,747.3 million), accounting for approximately 11.7% (2021: approximately 11.7%) of total revenue.

Cost of Sales

Cost of sales increased by approximately 25.6% from approximately RMB20,806.2 million in 2021 to approximately RMB26,137.3 million for the Year. The increase in cost of sales was mainly due to the growth of the Group's two major business segments, namely sales of passenger vehicles and after-sales services. Among which, the cost of sales for passenger vehicles and after-sales services increased by approximately 25.9% and 22.4% respectively.

Gross Profit

During the Year, gross profit decreased by approximately 9.1% from approximately RMB2,770.5 million in 2021 to approximately RMB2,517.5 million. Overall gross profit margin decreased by approximately 3.0 percentage points to approximately 8.8% (2021: approximately 11.8%). Among which, due to weakened demand and supply shortage during the pandemic, gross profit margin of sales of passenger vehicles decreased by approximately 3.4 percentage points to approximately 3.4% (2021: approximately 6.8%), while that of after-sales services remained stable at approximately 49.0% (2021: approximately 49.1%).

Costs and Expenses

During the Year, the Group incurred amortized interest expenses of approximately RMB96.5 million for the relevant issuance expenses (e.g. agency fees) in relation to the HK\$2,750,000,000 zero-coupon convertible bonds due 2027 issued by Sail Vantage Limited (a wholly-owned subsidiary of the Company) and guaranteed by the Company (the "**Convertible Bonds**") and the liability portion of the Convertible Bonds using effective

interest method; amortized cost of approximately RMB102.3 million for the relevant dealership right in relation to the acquisition of MeiDong Auto Sales Group Limited (formerly known as Starchase Motorsports Limited) (the “**Target Company**”); and other one-off expenses (e.g. acquisition charges and transition bonus) of approximately RMB56.2 million arose from the acquisition. In addition, the Group also incurred an expense of approximately RMB31.5 million in relation to the issuance of additional share options to employees; and withholding tax on dividend in respect of dividends paid by subsidiaries in Mainland China to foreign controlling company amounted to approximately RMB42.5 million, resulting in an increase in overall expenses for the Year. Among which, distribution costs were approximately RMB859.9 million, which accounted for approximately 3.0% of total revenue, representing a slight decrease by 0.1 percentage point as compared to that of approximately 3.1% for the corresponding period of 2021. Administrative expenses were approximately RMB810.7 million, which accounted for approximately 2.8% of total revenue, representing a slight increase by 0.3 percentage point as compared to that of approximately 2.5% for the corresponding period of 2021. Finance costs amounted to approximately RMB275.0 million, increased by 0.4 percentage point from approximately 0.6% for the corresponding period of 2021 to approximately 1.0% as a percentage of total revenue.

Taxation

During the Year, the Group’s income tax expenses amounted to approximately RMB307.6 million, representing a decrease of approximately 23.0% as compared to approximately RMB399.4 million for 2021. The decrease in income tax expenses was mainly due to the decrease in profit before tax.

Profit for the Year

During the Year, the overall sales volume of premium brand vehicles and the gross profit margin of passenger vehicles sales were impacted by the COVID-19 pandemic. Coupled with the additional non-operating expenses mentioned above, the Group’s profit decreased by approximately 54.2% yoy to approximately RMB555.9 million (2021: approximately RMB1,213.3 million). The profit margin also decreased by 3.2 percentage points from approximately 5.1% for 2021 to approximately 1.9%.

Dividend

The interim dividend for 2022 was RMB0.0808 per ordinary share of the Company (“**Share**”). The Board recommended a final dividend of RMB0.1170 per Share for the year ended 31 December 2022 (2021: RMB0.6991 per Share). Taking into account the final dividend recommended, the dividend paid for the Year amounted to RMB0.1978 per Share (2021: RMB0.8284 per Share), representing a payout ratio of approximately 50% (2021: 90.0%). See also the paragraph below headed “Final dividend” for further information about the dividend (including its conditions and book closure information).

Joint Venture

For the Year, share of profit of a joint venture amounted to approximately RMB24.9 million, representing a decrease of approximately 48.1% as compared to approximately RMB48.0 million for 2021.

Sales of Passenger Vehicles

During the Year, the Group further expanded its store network and completed the acquisition of 7 Porsche stores. In a market environment full of challenges and uncertainties, sales of passenger vehicles managed to record a stable growth in 2022 with a revenue of approximately RMB25,297.0 million (2021: approximately RMB20,829.4 million), representing an increase of approximately 21.4% as compared to the corresponding period of 2021. Sales of premium brand vehicles remained as the major revenue source of the Group, accounting for approximately 87.7% of total sales of passenger vehicles. Sales of passenger vehicles under the Porsche, BMW and Lexus brand amounted to approximately RMB10,007.1 million, RMB8,130.0 million and RMB3,941.8 million respectively, accounting for approximately 39.6%, 32.1% and 15.6% of total sales of passenger vehicles respectively. In terms of sales volume, despite the impact of the pandemic and supply shortage, the Group sold 67,871 passenger vehicles in total, representing an increase of 10.2% yoy. Porsche, BMW and Lexus recorded sales volume of 11,790 units, 23,611 units and 11,342 units, respectively.

After-Sales Services

During the Year, as service base further expanded, the after-sales service segment maintained high growth despite the impact of the pandemic. Revenue amounted to approximately RMB3,357.7 million, representing an increase of approximately 22.2% as compared to that for 2021 (2021: approximately RMB2,747.3 million). The total number of vehicles served was 706,639 units, representing an increase of approximately 8.5% yoy. The gross profit margin from after-sales services remained at a high level of 49.0% (2021: 49.1%).

Current Network

The Group continues to implement its highly-effective premium brand focus and “Single City Single Store” strategy, and expands its distribution network through new store openings and mergers and acquisitions. In 2022, the Group completed the acquisition of 7 new stores. As of 31 December 2022, the Group has 76 self-operated stores situated in provinces and cities such as Beijing, Hebei, Hubei, Hunan, Jiangxi, Fujian, Guangdong, Gansu and Anhui, including a joint venture operated by the Group.

As at 31 December 2022, the number of stores operated by the Group was as follows:

Number of stores under operation	2022	2021	Change
Porsche	16	9	+7
BMW	27	27	0
Lexus	20	19	+1
Toyota	12	13	-1
Hyundai	0	1	-1
Audi	1	1	0
	<hr/>	<hr/>	<hr/>
Total	<u>76</u>	<u>70</u>	<u>+6</u>

Liquidity, Financial Resources and Position

As at 31 December 2022, total equity of the Group amounted to approximately RMB4,433.8 million (31 December 2021: approximately RMB4,116.6 million), current asset amounted to approximately RMB5,888.5 million (31 December 2021: approximately RMB5,563.1 million), and current liabilities amounted to approximately RMB4,873.7 million (31 December 2021: approximately RMB4,089.5 million).

As at 31 December 2022, the Group's loans and borrowings amounted to approximately RMB1,906.7 million, representing an increase of approximately 47.9% as compared to approximately RMB1,288.9 million as of 31 December 2021, of which, short-term loans and borrowings amounted to approximately RMB1,413.9 million, while long-term loans and borrowings amounted to approximately RMB492.8 million. As at 31 December 2022, convertible bonds amounted to approximately RMB2,274.9 million. The gearing ratio (being the sum of loans and borrowings, convertible bonds payable and lease liabilities divided by total equity attributable to equity shareholders of the Company) was approximately 131.9% as at 31 December 2022 (31 December 2021: approximately 65.4%).

As at 31 December 2022, cash and cash equivalents, pledged bank deposits and fixed deposits with more than three months to maturity when placed amounted to approximately RMB3,258.6 million. Most of the cash and cash equivalents and pledged bank deposits were denominated in Renminbi and Hong Kong Dollars. Apart from part of the cash that is denominated in Hong Kong Dollars, the Group's business operations locate principally in China and a majority of its transactions are all denominated in Renminbi. Therefore, the Group expects its foreign exchange risks will have minimal effect on its normal operations and business. For the Year, the Group did not employ any significant financial instruments such as forward foreign exchange contracts, nor did it employ any major financial instruments for hedging purposes. The management of the Company will closely monitor its foreign exchange risks, and will consider hedging significant foreign exchange risks when necessary.

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

Contingent Liabilities

As of 31 December 2022, certain subsidiaries of the Group are respondents in several legal dispute cases in relation to certain investments made before 2022. While the arbitrations are still ongoing and the future development cannot be estimated with certainty, the directors of the Company, having given due consideration to the legal advice and the relevant facts and circumstances, are of the opinion that it is not probable that the Group will need to make payments to the claimants. Therefore, no provision has been made in respect of those cases as at 31 December 2022.

As of 31 December 2022, except for the aforementioned contingencies associated with those legal dispute cases, the Group did not have any material contingent liabilities.

Significant Investments, Material Acquisition and Disposals

Apart from the acquisition of MeiDong Auto Sales Group Limited (formerly known as Starchase Motorsports Limited) (the “**Target Company**”, together with its subsidiaries the “**Target Group**”), the Group had no significant investments, acquisitions nor disposals during the Year. Please refer to the paragraph headed “Acquisition of MeiDong Auto Sales Group Limited” below.

Pledged Assets of the Group

As at 31 December 2022, the Group used property, plant and equipment, right-of-use assets, inventories, trade and other receivables, and total pledged bank deposits of approximately RMB127.7 million (31 December 2021: approximately RMB326.7 million) as collateral for certain loans and borrowings.

PROSPECTS

Looking forward to 2023, under the impact of shortage and rising price of raw materials for chips and batteries and the uncertain macroeconomic environment, uncertainties still persist to a certain extent in the automobile production and sales market. However, the reopening in the post-pandemic era and the implementation of a series of consumer stimulus policies by various local governments in China provides valuable support for offline retail sales. Upholding its usual prudential approach, the Group will continue to respond to market challenges in a flexible and proactive manner. The Group will also continue to improve operational efficiency of existing stores through efficient data management, and further promote integration of the newly acquired Porsche stores. The Group believes that the newly acquired Porsche stores will become a strong driving force for the Group's business growth and efficiency enhancement. The Group will also strictly manage its balance sheet and cash flow. The Group's adequate cash and strong execution capabilities will also contribute to its long-term and sustainable development, allowing it to fully grasp new opportunities amidst market adversity.

Meanwhile, the new energy automobile industry experienced rapid growth in recent years, and development is expected to maintain stable going forward. The recovery of China's economy and the gradual restoration of purchasing power will both stimulate demand for new energy vehicles. Based on the estimation of China Association of Automobile Manufacturers, in 2023, the total sales volume of new energy vehicles in China will be 9 million units, representing an increase of 35.0% yoy and a penetration rate of approximately 35.0%. In the face of market opportunities from new energy vehicles and after-sales services, the Group will make proper use of its existing brand, store coverage and efficient management capacity to explore opportunities in due time, so as to drive business growth.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

SIGNIFICANT EVENTS

Issue of convertible bonds and shares under general mandate

In January 2022, Sail Vantage Limited ("**CB Issuer**", a wholly-owned subsidiary of the Company) issued zero coupon guaranteed Convertible Bonds due 2027 to professional investors (as defined in Chapter 37 of the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")) with an aggregate principal amount of HK\$2,750,000,000 (convertible into Shares with an initial conversion price of HK\$46.75 per Share (subject to adjustments)), upon the terms

of a subscription agreement dated 6 January 2022 entered into between the CB Issuer, the Company, Goldman Sachs (Asia) L.L.C. and Morgan Stanley & Co. International plc. The Company has agreed to guarantee payment of all sums payable by the CB Issuer in relation to the Convertible Bonds. Assuming full conversion of the Convertible Bonds into Shares at the initial conversion price, 58,823,529 Shares might fall to be issued (with an aggregate nominal value of approximately HK\$5,882,353), and the net price of each conversion Share to the Company based on the net proceeds was approximately HK\$45.72. Listing of the Convertible Bonds commenced on the Stock Exchange on 14 January 2022.

With effect from 5 August 2022, following the determination of the exchange rate of cash distribution of final dividend of the Company for the year ended 31 December 2021, the conversion price has been adjusted to HK\$45.4881 per Share (subject to adjustments) pursuant to the terms and conditions of the Convertible Bonds. With reference to the aggregate outstanding principal amount of HK\$2,750,000,000 as of 5 August 2022 and the date of this announcement and the adjusted conversion price, the maximum number of Shares to be issued upon full conversion of the Convertible Bonds will be 60,455,371 Shares (with an aggregate nominal value of approximately HK\$6,045,537 and a net price of approximately HK\$44.58 per conversion Share to the Company based on the net proceeds), and representing approximately 4.74% and 4.53% of the issued Shares as of the date of this announcement, assuming no and full conversion, respectively). Assuming full conversion of the Convertible Bonds at the adjusted conversion price, the shareholding of Apex Sail Limited (“**Apex Sail**” a controlling shareholder of the Company) will be changed from approximately 52.22% to 49.98%.

On 6 January 2022, the Company, Apex Sail (as vendor of Shares), Goldman Sachs (Asia) L.L.C. and Morgan Stanley & Co. International plc (both as placing agents) entered into a placing and subscription agreement, under which (i) Apex Sail agreed to place 22,500,000 existing Shares at a placing price of HK\$34.63 per Share to not less than six independent third party placees procured by the placing agents, and (ii) the Company agreed to issue 22,500,000 Shares (with an aggregate nominal value of HK\$2,250,000) to Apex Sail at a subscription price of HK\$34.63 per Share. The net price of each Share issued based on the net proceeds was approximately HK\$34.3. The share placement and subscription have been completed in January 2022.

The closing price of the Shares as quoted on the Stock Exchange on 5 January 2022 (the date on which the initial conversion price and issue price were fixed) was HK\$39.35 per Share.

The Directors consider that: (a) the issue of the Convertible Bonds was a cost-efficient way to raise capital to meet the capital need of the intended uses without putting a heavy short-term burden on the liquidity position of the Company; and (b) the share placement and subscription were being undertaken to enlarge the shareholders' equity base of the Company, optimize the capital structure of the Company and support a sustainable overall development and expansion of the Company.

The net proceeds from the issue of Convertible Bonds and the Shares (after deducting applicable costs and expenses, including commission and levies) were approximately HK\$3,461 million in aggregate.

More information is set out in the Company's announcements dated 6 January 2022 and 5 August 2022, respectively.

Acquisition of MeiDong Auto Sales Group Limited

On 13 December 2021, the Company entered into an acquisition agreement with Wearnes-StarChase Limited, pursuant to which the Company agreed to acquire all issued shares of the Target Company for a total cash consideration of RMB3,700,000,000 (less any completion shortfalls) upon the terms of the acquisition agreement.

The Target Group is an automobile dealership group in the PRC, which operates the sales and after-sales business of Porsche and has 7 4S dealership stores in seven cities in the PRC, namely, Nanjing, Qingdao, Tianjin, Chongqing, Weifang, Jinan and Zhengzhou. The Target Company has become a wholly-owned subsidiary of the Company upon completion of the acquisition on 29 April 2022 and the financial results of the Target Company has been consolidated into the consolidated financial statements of the Company.

Further information is set out in the Company's circular dated 6 April 2022.

Grant of share options to employees

During the Year, the Board resolved to offer to grant a total of 8,901,000 share options to a Director and certain eligible employees of the Group under the Company's share option scheme. The grantees are entitled to subscribe for a total of 8,901,000 Shares at an exercise price of HK\$26.2 per Share. Further information is set out in the Company's announcement dated 25 May 2022.

STATUS ON USE OF PROCEEDS

In June 2020, the Company issued 81,000,000 new Shares at the subscription price of HK\$15.84 per Share. The Company received approximately HK\$1,262 million after deducting placement cost in respect of it.

In January 2022, the Company issued Convertible Bonds and Shares under the general mandate, and received approximately HK\$3,461 million (with approximately HK\$2,690 million from the issue of Convertible Bonds, and approximately HK\$771 million from the issue of Shares) in aggregate after deducting applicable costs and expenses. See also the paragraph headed “Significant Events” above. Below sets out the use of proceeds from such issues:

Intended use of net proceeds	Percentage of total net proceeds of such issue <i>(approximately)</i>	Unutilized proceeds as at 31 December 2021 <i>(in HK\$ million)</i>	Utilized during the Year <i>(in HK\$ million)</i>	Unutilized proceeds as at 31 December 2022 <i>(in HK\$ million)</i>
Proceeds from issue in June 2020				
Opportunistic mergers and acquisitions	70%	883	883	Nil
General working capital	30%	379	379	Nil
Total	100%	1,262	1,262	Nil
Proceeds from issue in January 2022				
Business expansion (including strategic investments and acquisitions)*	90%	N/A	3,115	Nil
Working capital and other general corporate purposes**	10%	N/A	346	Nil
Total	100%		3,461	Nil

Notes:

- * Including approximately HK\$2,421 million from issue of Convertible Bonds, and approximately HK\$694 million from issue of Shares.
- ** Including approximately HK\$269 million from issue of Convertible Bonds, and approximately HK\$77 million from issue of Shares.

The proceeds have been fully utilized on their intended purposes as previously announced and within the time frame as planned up to the date of this announcement.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions as set out in Part 2 of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules in force during the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

RECONCILIATION OF NON-HKFRS FINANCIAL MEASURES TO THE NEAREST HKFRS MEASURES

Profit for the year excluding non-operating expenses is a non-GAAP financial measure used to exclude the impact of non-operating items which affect the results presented in the financial statements, but the management does not consider to be indicative of the Group's recurring core business operating results. The Company believes that such non-HKFRS financial measure could provide the management, Shareholders and investors supplementary information for the assessment of the performance of the Group's core operation, and facilitate comparison of operating performance year to year. The use of such non-HKFRS financial measure has limitations as an analytical tool, and one should not consider it in isolation from, or as a substitute for analysis of, the results of operations or financial conditions as reported under HKFRS. One of the limitations of using such non-GAAP financial measure is that such measure excludes certain items that have been (and may continue to be for the foreseeable future) a component in the Company's operating results. In addition, non-HKFRS financial measure does not have a standardized meaning prescribed under HKFRS, and may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other issuers.

The following table sets forth the reconciliations of such non-HKFRS financial measure for the years ended 31 December 2022 and 2021, to the nearest measures prepared in accordance with HKFRS.

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	555,936	1,213,340
Amortized interest expenses of Convertible Bonds	96,488	—
Amortized cost of dealership right	102,346	18,802
Withholding tax on dividend distribution	42,516	—
Equity settled share-based payment expenses	31,548	4,130
Other one-off expenses including tax effect	28,813	5,752
	<hr/>	<hr/>
Profit for the year excluding non-operating expenses	<u>857,647</u>	<u>1,242,024</u>

AUDIT COMMITTEE

The Company has an audit committee (the “**Audit Committee**”) which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group’s financial reporting process, risks management and internal controls. The Audit Committee has three members comprising three independent non-executive Directors, being Mr. CHEN Guiyi, Mr. WANG, Michael Chou and Mr. TO Siu Lun as of the date of this announcement. The Audit Committee has reviewed the annual results of the Company for the Year and this announcement.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group’s consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out this announcement have been agreed by the Company’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s audited consolidated financial statements for the Year. Pursuant to the Hong Kong Standards on Auditing, Hong Kong Standard on Review Engagement or Hong Kong Standard on Assurance Engagements issued by the Auditing and Assurance Standards Committee of the Hong Kong, the work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the auditor on this announcement.

ANNUAL GENERAL MEETING

An annual general meeting of the Company (the “**AGM**”) will be held on 16 May 2023. For details of the AGM, please refer to the notice of the AGM which is expected to be published in April 2023.

FINAL DIVIDEND

The Board recommended the payment of a final cash dividend of RMB0.1170 per Share for the Year (2021: RMB0.6991 per Share) to shareholders whose names are on the register of members of the Company on 23 June 2023 (Friday). The declaration and payment of the final dividend is subject to approval by shareholders at the AGM and compliance with the Companies Law of the Cayman Islands. Subject to the fulfillment of the above conditions, the final dividend will be paid in cash in Hong Kong dollars, calculated based on an exchange rate to be announced by the Company in due course. Based on the number of Shares in issue as at the date of this announcement, a total amount of dividend of approximately RMB157.4 million will be distributed. It is expected that the cheques for cash dividends will be sent by ordinary mail to shareholders at their own risk on 17 August 2023 (Thursday).

The Conversion Price of the Convertible Bonds may be adjusted due to the declaration of the final dividend pursuant to condition 6(c)(3) of the terms and conditions of the Convertible Bonds (published by the Company on 14 January 2022) after the determination of the applicable exchange rate for payment of the final dividend. If any adjustment is required, the Company will make further announcement following the determination of the exchange rate for the final dividend.

CLOSURE OF THE REGISTER OF MEMBERS

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

1. from 11 May 2023 (Thursday) to 16 May 2023 (Tuesday), both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to attend and vote at the AGM. All completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on 10 May 2023 (Wednesday); and
2. from 19 June 2023 (Monday) to 23 June 2023 (Friday), both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining the shareholders entitled to the final dividend to be approved at the AGM. All completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at the above address no later than 4:30 p.m. on 16 June 2023 (Friday).

The latest time for holders of the Convertible Bonds (Debt stock code: 4401, SAIL VAN B2701) to exercise their conversion rights in order to be entitled to attend and vote at the AGM and to the final dividend is 4:30 p.m. on 2 May 2023 (Tuesday) and 8 June 2023 (Thursday), respectively.

EVENTS AFTER THE REPORTING PERIOD

Issue of shares under general mandate

On 4 January 2023, the Company, Apex Sail (as vendor of Shares) and Citigroup Global Markets Asia Limited (as placing agent) entered into a placing and subscription agreement, under which (i) Apex Sail agreed to sell 68,000,000 existing Shares at a placing price of HK\$15.05 per Share to not less than six independent third party placees procured by the placing agent, and (ii) the Company agreed to issue 68,000,000 Shares to Apex Sail at a subscription price of HK\$15.05 per Share. The closing price per Share as quoted on the Stock Exchange on 4 January 2023 (being the date on which the subscription price was fixed) was HK\$17.14 per Share. The share placement and subscription have been completed in January 2023.

The net proceeds from the issue of Shares (after deducting all relevant fees, costs and expenses borne or incurred by the Company) were approximately HK\$1,012 million in aggregate. The net price based on the net proceeds was approximately HK\$14.88 per Share. The Board considers that the share allotment represents an opportunity to raise additional funds to strengthen the financial position, to enlarge the Shareholders' equity and capital base of the Company in support of a sustainable overall development and expansion. The Company intends to use the net proceeds for business expansion, working capital and other general corporate purposes, including strategic investments and acquisitions. For further information, please refer to the announcement of the Company dated 4 January 2023.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2022 ANNUAL REPORT

This announcement was published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and on the website of the Company (<http://www.meidongauto.com>). The 2022 annual report of the Company, which contains all the information required under the Listing Rules, will be despatched to Shareholders and be available on the above websites in due course.

PROPOSED AMENDMENTS OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION

The Listing Rules were amended by adopting a set of core standards for shareholder protections for issuers set out in Appendix 3 to the Listing Rules.

The Board proposes to amend its existing memorandum and articles of association of the Company (the “M&A”) to, among other things, (i) conform with the said core standards for shareholder protections; (ii) reflect and align with certain amendments to the applicable laws of the Cayman Islands; and (iii) incorporate corresponding and housekeeping changes. The Board also proposes to adopt the new M&A incorporating such amendments in substitution for, and to the exclusion of, the existing M&A.

The Board is of the view that the proposed amendments and the adoption of the new M&A are in the interests of the Company and the Shareholders as a whole.

The proposed amendments and the adoption of the new M&A will be subject to the approval by the shareholders of the Company by way of a special resolution at the AGM. A circular containing, among other things, details of the proposed amendments to the M&A will be despatched to the shareholders of the Company in due course.

APPRECIATION

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

By Order of the Board
China MeiDong Auto Holdings Limited
YE Tao
Chief Executive Officer

Hong Kong, 30 March 2023

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

Executive Directors:

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

Independent Non-executive Directors:

Mr. CHEN Guiyi
Mr. WANG, Michael Chou
Mr. TO Siu Lun

Figures set out in this announcement are subject to rounding adjustment.

The English version of this announcement shall prevail over the Chinese version in case of inconsistency.