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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)

2023 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2023 amounted to RMB28,554.6 million, a 0.3% decrease compared to the same period of 2022.
- Gross profit amounted to RMB2,077.9 million with gross margin of 7.3%.
- Profit for the year amounted to RMB155.8 million.
- Proposed final dividend of RMB0.0330 per ordinary share. Together with interim dividend of RMB0.0087 per ordinary share paid in 2023, total dividend for the year amounted to RMB0.0417 per ordinary share, representing a dividend payout ratio of approximately 40%.

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 2023 (the “**Year**”).

The audited consolidated results of the Group for the Year together with the comparative figures of 2022 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

(Expressed in RMB'000)

	Note	2023	2022
Revenue	2	28,554,553	28,654,734
Cost of sales		<u>(26,476,606)</u>	<u>(26,137,264)</u>
Gross profit		2,077,947	2,517,470
Other revenue and other net income	3	249,100	266,816
Distribution costs		(763,604)	(859,912)
Administrative expenses		(846,707)	(810,730)
Impairment losses on goodwill and intangible assets	4(c)	<u>(61,556)</u>	<u>–</u>
Profit from operations		655,180	1,113,644
Finance costs	4(a)	(291,162)	(275,039)
Share of profits of a joint venture		<u>20,456</u>	<u>24,935</u>
Profit before taxation	4	384,474	863,540
Income tax	5(a)	<u>(228,694)</u>	<u>(307,604)</u>
Profit for the year		155,780	555,936
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		20,524	(78,952)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		<u>(10,409)</u>	<u>499</u>
Other comprehensive income for the year		<u>10,115</u>	<u>(78,453)</u>
Profit and total comprehensive income for the year		<u>165,895</u>	<u>477,483</u>

	<i>Note</i>	2023	2022
Profit attributable to:			
Equity shareholders of the Company		140,203	521,029
Non-controlling interests		15,577	34,907
		<u>155,780</u>	<u>555,936</u>
Profit for the year			
		155,780	555,936
Total comprehensive income attributable to:			
Equity shareholders of the Company		150,318	442,576
Non-controlling interests		15,577	34,907
		<u>165,895</u>	<u>477,483</u>
Total comprehensive income for the year			
		165,895	477,483
Earnings per share			
Basic (<i>RMB cents</i>)	<i>6(a)</i>	10.44	40.93
Diluted (<i>RMB cents</i>)	<i>6(b)</i>	10.41	40.61
		<u>10.44</u>	<u>40.61</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

(Expressed in RMB'000)

	<i>Note</i>	31 December 2023	31 December 2022
Non-current assets			
Property, plant and equipment	7	1,708,135	1,843,046
Right-of-use assets	8	1,660,705	1,785,399
Intangible assets	9	3,276,866	3,477,100
Goodwill	10	960,993	1,004,512
Interest in a joint venture		36,319	38,985
Other non-current assets		71,323	74,904
Deferred tax assets		133,392	126,980
		<u>7,847,733</u>	<u>8,350,926</u>
Current assets			
Inventories	11	960,042	1,069,360
Trade and other receivables	12	1,517,512	1,560,489
Pledged bank deposits		971,543	910,307
Fixed deposits with more than three months to maturity when placed		561,905	712,696
Cash and cash equivalents		2,361,671	1,635,625
		<u>6,372,673</u>	<u>5,888,477</u>
Current liabilities			
Loans and borrowings		1,244,939	1,413,918
Trade and other payables	13	2,907,049	3,192,872
Lease liabilities		170,396	165,195
Income tax payables	5(c)	124,990	101,751
		<u>4,447,374</u>	<u>4,873,736</u>
Net current assets		<u>1,925,299</u>	<u>1,014,741</u>
Total assets less current liabilities		<u>9,773,032</u>	<u>9,365,667</u>

	<i>Note</i>	31 December 2023	31 December 2022
Non-current liabilities			
Loans and borrowings		199,500	492,813
Lease liabilities		1,213,218	1,290,624
Convertible bonds	<i>14</i>	2,206,781	2,274,932
Deferred tax liabilities		867,393	873,518
		<u>4,486,892</u>	<u>4,931,887</u>
NET ASSETS		<u>5,286,140</u>	<u>4,433,780</u>
EQUITY			
Share capital	<i>15(b)</i>	107,888	101,888
Reserves		5,044,367	4,173,138
Total equity attributable to equity shareholders of the Company		5,152,255	4,275,026
Non-controlling interests		133,885	158,754
TOTAL EQUITY		<u>5,286,140</u>	<u>4,433,780</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2023

(Expressed in RMB'000)

	Note	2023	2022
Operating activities:			
Cash generated from operations		1,034,779	1,626,012
Income tax paid	5(c)	<u>(217,992)</u>	<u>(472,191)</u>
Net cash generated from operating activities		<u>816,787</u>	<u>1,153,821</u>
Investing activities:			
Payment for the purchase of property, plant and equipment		(347,730)	(283,391)
Proceeds from disposal of property, plant and equipment		244,262	157,409
Payment for acquisition of subsidiaries, net of cash acquired		–	(2,701,463)
Payment for assets acquisition, net of cash acquired		–	(31,000)
Decrease/(increase) in fixed deposits with more than three months to maturity when placed		150,791	(712,696)
Dividends received from a joint venture		23,122	47,892
Interest received		86,356	40,054
Others		<u>–</u>	<u>(265)</u>
Net cash generated from/(used in) investing activities		<u>156,801</u>	<u>(3,483,460)</u>

	<i>Note</i>	2023	2022
Financing activities:			
Capital element of lease rentals paid		(77,950)	(74,676)
Interest element of lease rentals paid		(82,972)	(83,491)
Proceeds from loans and borrowings		11,989,067	12,861,255
Repayment of loans and borrowings		(12,451,359)	(13,100,444)
(Increase)/decrease in pledged bank deposits		(10,243)	18,098
Dividends declared and paid to equity shareholders	<i>15(a)</i>	(169,223)	(994,706)
Dividends paid to non-controlling interests	<i>15(a)</i>	(42,896)	(32,783)
Proceeds from exercise of share options		5,469	18,415
Net proceeds from issuance of convertible bonds	<i>14</i>	–	2,198,814
Repurchase of convertible bonds		(194,253)	–
Interest paid		(98,809)	(93,972)
Changes in interests in subsidiaries without change in control		9,000	(18,800)
Proceeds from issuance of new shares, net of issuance expense		871,191	628,815
Capital injection by non-controlling interests		2,450	4,900
Others		235	(3,641)
		<hr/>	<hr/>
Net cash (used in)/generated from financing activities		(250,293)	1,327,784
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net increase/(decrease) in cash and cash equivalents		723,295	(1,001,855)
Cash and cash equivalents at 1 January		1,635,625	2,621,741
Effect of foreign exchange rate changes		2,751	15,739
		<hr/>	<hr/>
Cash and cash equivalents at 31 December		2,361,671	1,635,625
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NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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 Group are principally engaged in 4S dealership 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"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). Material 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(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2023 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) Changes in accounting policies

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

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*

- Amendments to HKAS 1, *Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform – Pillar Two model rules*

Except for the amendment to HKAS12, 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. Impacts of the adoption of the new and amended HKFRSs are discussed below:

Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

2 REVENUE AND SEGMENT REPORTING

(a) Revenue

Disaggregation of revenue

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

	2023 <i>RMB'000</i>	2022 <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	24,421,186	25,297,011
– After-sales services	4,133,367	3,357,723
	<u>28,554,553</u>	<u>28,654,734</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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Other revenue		
Insurance commission	72,671	164,101
Interest income	108,618	46,115
Management service income	4,185	5,063
	<u>185,474</u>	<u>215,279</u>
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Other net income		
Net gain on disposal of property, plant and equipment	25,254	34,831
Net foreign exchange loss	(1,812)	(16,245)
Government subsidy	8,084	9,655
Penalty income	11,850	15,566
Gain on repurchase of convertible bonds	11,480	–
Others	8,770	7,730
	<u>63,626</u>	<u>51,537</u>
	<u>249,100</u>	<u>266,816</u>

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	<i>Note</i>	2023 RMB'000	2022 RMB'000
(a) Finance costs:			
Interest on			
– loans and borrowings		82,343	78,819
– convertible bonds		108,741	96,488
– lease liabilities		82,972	83,491
		<hr/>	<hr/>
Total interest expense		274,056	258,798
Other finance cost	<i>(i)</i>	17,106	16,241
		<hr/>	<hr/>
		291,162	275,039
		<hr/> <hr/>	<hr/> <hr/>
(b) Staff costs:			
Salaries, wages and other benefits		814,539	943,258
Equity settled share-based payment expenses	<i>(ii)</i>	14,515	31,548
Contributions to defined contribution retirement plans	<i>(iii)</i>	40,887	34,677
		<hr/>	<hr/>
		869,941	1,009,483
		<hr/> <hr/>	<hr/> <hr/>

- (i) It represents the interest expenses borne by the Group arising from discounting of bills issued to automobile manufacturers.
- (ii) The Group recognised an expense of RMB14,515,000 for the year ended 31 December 2023 (2022: RMB31,548,000) 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:**

		2023	2022
	<i>Note</i>	RMB'000	RMB'000
Cost of inventories		26,255,858	25,889,414
Write-down of inventories		13,694	15,137
Depreciation			
– owned property, plant and equipment		250,676	224,680
– right-of-use assets		144,298	133,816
Impairment losses			
– goodwill (<i>note 10</i>)		43,519	–
– intangible assets (<i>note 9</i>)		18,037	–
Amortisation of intangible assets	<i>(iv)</i>	182,197	131,533
Lease expenses		6,852	8,725
Net foreign exchange loss		1,812	16,245
Auditors' remuneration – audit service		6,300	9,500
Losses on legal dispute cases	<i>(v)</i>	58,996	–

(iv) The Group recognised administrative expenses of RMB182,197,000 in relation to the amortisation of intangible assets for the year ended 31 December 2023 (2022: RMB131,533,000).

(v) As of 31 December 2022, certain subsidiaries of the Group are respondents in two legal dispute cases in relation to certain investments made before 2022, no provision has been made in respect of these two cases as at 31 December 2022 because the directors of the Company are of the opinion that it is not probable that the Group will need to make payments to the claimants, having given due consideration to the legal advice and the relevant facts and circumstances.

During the year ended 31 December 2023, according to the arbitration result of the two cases, the Group needs to settle a total of RMB58,996,000 to the plaintiffs, of which the Group has paid RMB18,996,000 and the remaining balance of RMB40,000,000 was recorded in trade and other payables as of 31 December 2023.

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	2023	2022
	RMB'000	RMB'000
Current tax:		
Provision for PRC income tax for the year	241,231	384,206
Deferred tax:		
Origination of temporary differences	(12,537)	(76,602)
	<u>228,694</u>	<u>307,604</u>

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Profit before taxation	<u>384,474</u>	<u>863,540</u>
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned (i)	110,156	258,792
Tax effect of non-deductible expenses	34,230	7,765
Tax effect of non-taxable income on share of profits of a joint venture	(5,114)	(6,234)
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	8,959	4,765
Effect of PRC dividend withholding tax (ii)	<u>80,463</u>	<u>42,516</u>
Actual tax expense	<u>228,694</u>	<u>307,604</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 years ended 31 December 2022 and 2023.

The Group recognised PRC dividend withholding tax of RMB80.5 million related to dividend distributed out of earnings of PRC subsidiaries of RMB756.3 million during the year ended 31 December 2023 and the estimated dividend distribution out of earnings of PRC subsidiaries of RMB853.0 million in the foreseeable future based on management's best estimation as at 31 December 2023.

As at 31 December 2022, the Group recognised PRC dividend withholding tax of RMB42.5 million representing PRC dividend withholding tax of RMB76.0 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 RMB33.5 million which has been recognised previously based on management's best estimation.

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
At the beginning of the year	101,751	179,941
Acquisition through business combination	–	9,795
Provision for current income tax for the year	241,231	384,206
Payment during the year	<u>(217,992)</u>	<u>(472,191)</u>
At the end of the year	<u><u>124,990</u></u>	<u><u>101,751</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 RMB140,203,000 (2022: RMB521,029,000) and the weighted average of 1,342,764,000 ordinary shares in issue (2022: 1,273,120,000 shares) during the year ended 31 December 2023.

Weighted average number of ordinary shares

	2023	2022
Issued ordinary shares at 1 January	1,276,572,000	1,247,867,000
Effect of exercise of share options	1,196,000	3,123,000
Effect of placement of new shares	64,833,000	22,130,000
Effect of conversion of convertible bonds	<u>163,000</u>	<u>–</u>
Weighted average number of ordinary shares at 31 December	<u><u>1,342,764,000</u></u>	<u><u>1,273,120,000</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 RMB140,203,000 (2022: RMB521,029,000) and the weighted average of 1,346,497,000 ordinary shares (2022: 1,282,953,000 ordinary shares) 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 2023.

Weighted average number of shares (diluted)

	2023	2022
Weighted average number of ordinary shares for the year ended 31 December	1,342,764,000	1,273,120,000
Effect of deemed issue of shares under the employee share option scheme	<u>3,733,000</u>	<u>9,833,000</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>1,346,497,000</u></u>	<u><u>1,282,953,000</u></u>

The computation of diluted earnings per share for the year ended 31 December 2023 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 years ended 31 December 2023 and 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 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	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	<u>1,033,808</u>	<u>611,183</u>	<u>294,069</u>	<u>358,732</u>	<u>177,891</u>	<u>5,893</u>	<u>2,481,576</u>
At 1 January 2023	1,033,808	611,183	294,069	358,732	177,891	5,893	2,481,576
Additions	–	5,536	12,241	299,503	9,840	7,653	334,773
Transfer	–	8,554	1,549	–	389	(10,492)	–
Disposals	(527)	(9,135)	(3,223)	(288,239)	(6,651)	–	(307,775)
At 31 December 2023	<u>1,033,281</u>	<u>616,138</u>	<u>304,636</u>	<u>369,996</u>	<u>181,469</u>	<u>3,054</u>	<u>2,508,574</u>
Accumulated depreciation:							
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	<u>181,199</u>	<u>169,244</u>	<u>115,850</u>	<u>72,271</u>	<u>99,966</u>	<u>–</u>	<u>638,530</u>
At 1 January 2023	181,199	169,244	115,850	72,271	99,966	–	638,530
Charge for the year	72,182	45,018	30,246	77,496	25,734	–	250,676
Written back on disposals	(211)	(4,536)	(1,851)	(77,142)	(5,027)	–	(88,767)
At 31 December 2023	<u>253,170</u>	<u>209,726</u>	<u>144,245</u>	<u>72,625</u>	<u>120,673</u>	<u>–</u>	<u>800,439</u>
Net book value:							
At 31 December 2023	<u><u>780,111</u></u>	<u><u>406,412</u></u>	<u><u>160,391</u></u>	<u><u>297,371</u></u>	<u><u>60,796</u></u>	<u><u>3,054</u></u>	<u><u>1,708,135</u></u>
At 31 December 2022	<u><u>852,609</u></u>	<u><u>441,939</u></u>	<u><u>178,219</u></u>	<u><u>286,461</u></u>	<u><u>77,925</u></u>	<u><u>5,893</u></u>	<u><u>1,843,046</u></u>

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 RMB439,867,000 as at 31 December 2023 (2022: RMB474,186,000). Notwithstanding this, the directors are of the opinion that the Group owned the beneficial title to these buildings as at 31 December 2023.

Property, plant and equipment with net book value of RMB1,824,000 are pledged as security for bank loans as at 31 December 2023 (2022: RMB13,268,000).

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 2022	415,966	1,412,456	1,828,422
Additions	40,000	95,388	135,388
Acquisitions of subsidiaries	58,200	157,702	215,902
Derecognition	–	(1,129)	(1,129)
	<hr/>	<hr/>	<hr/>
At 31 December 2022	514,166	1,664,417	2,178,583
	<hr/>	<hr/>	<hr/>
Additions	12,883	15,961	28,844
Derecognition	–	(38,765)	(38,765)
	<hr/>	<hr/>	<hr/>
At 31 December 2023	527,049	1,641,613	2,168,662
	<hr/>	<hr/>	<hr/>
Accumulated amortisation:			
At 1 January 2022	(15,982)	(243,631)	(259,613)
Charge for the year	(13,536)	(120,280)	(133,816)
Reversal for derecognition	–	245	245
	<hr/>	<hr/>	<hr/>
At 31 December 2022	(29,518)	(363,666)	(393,184)
Charge for the year	(16,269)	(128,029)	(144,298)
Reversal for derecognition	–	29,525	29,525
	<hr/>	<hr/>	<hr/>
At 31 December 2023	(45,787)	(462,170)	(507,957)
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 December 2023	481,262	1,179,443	1,660,705
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2022	484,648	1,300,751	1,785,399
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	2023	2022
	RMB'000	RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights	16,269	13,536
Properties and land leased for own use	128,029	120,280
	<u>144,298</u>	<u>133,816</u>
Interest on lease liabilities (<i>note 4(a)</i>)	82,972	83,491
Expense relating to short-term leases (<i>note 4(c)</i>)	6,852	8,725
(Gain)/loss on derecognition of right-of-use assets	(67)	166

During the year ended 31 December 2023, the Group entered into a number of new tenancy agreements and therefore recognised of additions to right-of-use assets were RMB28,844,000 (2022: RMB351,290,000).

(i) Land use rights

Land in respect of land use rights are all located in the PRC with a remaining lease period of 31-40 years when acquired.

Land use rights with net book value of RMB4,889,000 are pledged as security for bank loans as at 31 December 2023 (2022: RMB19,117,000).

(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 RMB'000	Software RMB'000	Total RMB'000
Cost:			
At 1 January 2022	576,525	9,046	585,571
Acquisitions of subsidiaries	<u>3,062,512</u>	<u>–</u>	<u>3,062,512</u>
At 31 December 2022, 1 January 2023 and 31 December 2023	<u>3,639,037</u>	<u>9,046</u>	<u>3,648,083</u>
Accumulated amortisation:			
At 1 January 2022	(34,312)	(5,138)	(39,450)
Charge for the year	<u>(130,910)</u>	<u>(623)</u>	<u>(131,533)</u>
At 31 December 2022	<u>(165,222)</u>	<u>(5,761)</u>	<u>(170,983)</u>
At 1 January 2023	(165,222)	(5,761)	(170,983)
Charge for the year	<u>(181,575)</u>	<u>(622)</u>	<u>(182,197)</u>
At 31 December 2023	<u>(346,797)</u>	<u>(6,383)</u>	<u>(353,180)</u>
Accumulated impairment losses:			
At 1 January 2022, 31 December 2022 and 1 January 2023	–	–	–
Provision for the year	<u>(18,037)</u>	<u>–</u>	<u>(18,037)</u>
At 31 December 2023	<u>(18,037)</u>	<u>–</u>	<u>(18,037)</u>
Net book value:			
At 31 December 2023	<u><u>3,274,203</u></u>	<u><u>2,663</u></u>	<u><u>3,276,866</u></u>
At 31 December 2022	<u><u>3,473,815</u></u>	<u><u>3,285</u></u>	<u><u>3,477,100</u></u>

(i) **Intangible assets – car dealership**

The car dealerships arise from prior business combinations and relate to 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**

Having considered the impacts of macroeconomic environment changes, the intense competition in the automobile dealership industry and the recent development in customer demand observed in the Chinese automobile market post COVID, the Group’s management performed an impairment assessment, assisted by an external valuer, to determine the recoverable amounts of the cash generated units (CGUs) containing intangible assets-car dealerships and/or goodwill as at 31 December 2023. Based on the management’s assessment result, the Group recognized an impairment loss of goodwill and intangible assets – car dealership of RMB43,519,000 and RMB13,764,000 respectively for certain underperforming CGUs in “Impairment losses on goodwill and intangible assets” during the year ended 31 December 2023. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

The recoverable amounts of these CGUs have been determined based on the higher of their fair value less costs to sell and value in use calculations using cash flow projections based on financial budgets approved by management covering a period of five years. Cash flows beyond the five-year period are extrapolated using estimated growth rate of 2.5%, which is consistent with the forecasts included in industry reports.

Key assumptions used in the value-in-use calculations include: (i) annual revenue growth rates during the forecast period, (ii) gross profit margin, and (iii) discount rate.

The key inputs and assumptions used in the impairment test for the year of 2023 are listed as follows:

Inputs	Year		
	2024	2025	2026-2028
Annual revenue growth rate	-10.1%-6.1%	1.3%-3.8%	1.1%-3.8%
Gross profit margin	7.2%-15.6%	8.2%-16.6%	9.0%-19.5%

The key assumptions are estimated by the management with reference to the actual and historical financial performance achieved in 2023 and the expected market growth trend for different brands and different stores, taking consideration of the Company’s after sales services enhancement strategy which has been adopted since the second half of 2023. There have been no changes in the valuation method used compared with those adopted in the year ended 31 December 2022.

The pre-tax discount rates applied to the impairment test were within a range from 17.4% to 18.1% which reflected current market assessment of the time value of money and the risk specific to these CGUs.

In additions, for a CGU which had ceased operation, a full impairment loss of RMB4,273,000 has been provided against its intangible assets – car dealership during the year ended 31 December 2023.

As at 31 December 2022, the Group’s management performed an impairment assessment, assisted by an external valuer, to determine the recoverable amounts of the CGUs containing intangible assets-car dealerships and/or goodwill. The cash flow projections based on financial budgets approved by management covering a period of five years. Cash flows beyond the five-year period are extrapolated using estimated growth rate of 2.5%, which is consistent with the forecasts included in industry reports. The pre-tax discount rates applied are with a range from 18.5% to 18.9%. Based on the management’s assessment result, there was no impairment of goodwill or intangible asset — car dealership as at 31 December 2022.

10 GOODWILL

RMB'000

Cost:

At 1 January 2022	178,691
Goodwill arising from business combinations	<u>825,821</u>

At 31 December 2022, 1 January 2023 and 31 December 2023	<u><u>1,004,512</u></u>
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Accumulated impairment losses:

At 1 January 2022, 31 December 2022, and 1 January 2023	–
Impairment loss	(43,519)
At 31 December 2023	<u><u>(43,519)</u></u>

Carrying amount:

At 31 December 2023	<u><u>960,993</u></u>
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At 31 December 2022	<u><u>1,004,512</u></u>
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Impairment tests for cash-generating units containing goodwill

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

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
4S dealerships	960,993	1,004,512

As at 31 December 2023, 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 and an impairment loss of RMB43,519,000 was recognised during the year (2022: nil) (see note 9).

11 INVENTORIES

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Motor vehicles	768,366	882,987
Others	191,676	186,373
	<u>960,042</u>	<u>1,069,360</u>

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Carrying amount of inventories sold	26,255,858	25,889,414
Write-down of inventories	13,694	15,137
	<u>13,694</u>	<u>15,137</u>

12 TRADE AND OTHER RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	276,385	278,958
Prepayments	260,061	391,125
Other receivables and deposits (i)	978,539	888,687
	<u>1,514,985</u>	<u>1,558,770</u>
Amounts due from third parties	1,514,985	1,558,770
Amounts due from related parties	2,527	1,719
	<u>2,527</u>	<u>1,719</u>
Trade and other receivables	<u>1,517,512</u>	<u>1,560,489</u>

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

(i) Other receivables and deposits include rebate receivables with carrying amount of RMB605,409,000 (2022: RMB567,355,000).

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:

	2023 RMB'000	2022 <i>RMB'000</i>
Within 1 month	259,540	246,022
1 to 2 months	13,275	22,687
2 to 3 months	1,241	7,165
Over 3 months	2,329	3,084
	<u>276,385</u>	<u>278,958</u>

13 TRADE AND OTHER PAYABLES

	2023 RMB'000	2022 <i>RMB'000</i>
Trade payables	194,176	188,943
Bills payable	1,511,704	1,649,907
	<u>1,705,880</u>	1,838,850
Contract liabilities	831,076	1,019,748
Payable for legal dispute cases settlement (<i>note 4(c)</i>)	40,000	–
Other payables and accruals	321,025	326,161
	<u>2,897,981</u>	3,184,759
Amounts due to third parties	9,068	8,113
Trade and other payables	<u>2,907,049</u>	<u>3,192,872</u>

(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:

	2023 RMB'000	2022 <i>RMB'000</i>
Within 3 months	1,632,154	1,768,061
After 3 months but within 6 months	73,726	70,789
	<u>1,705,880</u>	<u>1,838,850</u>

14 CONVERTIBLE BONDS

On 14 January 2022, pursuant to a subscription agreement dated 6 January 2022 (the “**Subscription Agreement**”), 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 Convertible Bonds may be converted into shares of the Company pursuant to the terms and conditions of the Convertible Bonds. The rights of the bondholders to convert the Convertible Bonds into ordinary shares are as follows:

- subject to redemption options pursuant to the terms and conditions of the Convertible Bonds, conversion rights are exercisable at any time from 23 February 2022 to 3 January 2027 (both days inclusive) at the bondholders’ option;
- 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;
- with effect from 5 August 2022, the conversion price has been adjusted to HK\$45.4881 per share pursuant to the terms and conditions of the Convertible Bonds, according to the announcements issued by the Company dated 5 August 2022;
- with effect from 4 August 2023, the conversion price has been adjusted to HK\$44.7582 per share pursuant to the terms and conditions of the Convertible Bonds, according to the announcements issued by the Company dated 4 August 2023;
- the number of ordinary shares to be issued on exercise of a conversion right shall be determined by dividing the principal amount of the Convertible Bonds to be converted by the conversion price in effect on the relevant conversion date.

Pursuant to the terms and conditions of the Convertible Bonds, the issuer will, at the option of the bondholder of the Convertible Bonds, redeem all or some only of such bondholder’s convertible bonds on 13 January 2025 (the “**Put Option Date**”) at 106.9428 per cent. of their principal amount.

Convertible bonds issued by the Group denominated in HK\$ that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of convertible bonds instruments is initially recognised at fair value using prevailing market rate of interest for similar non-convertible debt instruments. The remainder of the proceeds is allocated to the conversion option as the equity component.

Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component is measured at amortised cost using the effective interest method. Interest is recognised in profit or loss. The equity component is recognised in other reserve until either the convertible bonds are converted, repurchased or redeemed.

If the bonds are converted, the other reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued.

When the Group extinguishes the bonds before maturity through an early repurchase in which the original conversion privileges are unchanged, the Group allocates consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the bonds at the date of such transaction. The method used in allocating is consistent with that used in the original allocation when the bonds were issued. Once the allocation is made, any resulting gain or loss relating to the liability and equity components is recognised in profit or loss and in equity, respectively.

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
	<u>2,274,932</u>	<u>208,515</u>	<u>2,483,447</u>
At 31 December 2022			
Interest charge (<i>note 4(a)</i>)	108,741	–	108,741
Conversion (i)	(8,740)	(758)	(9,498)
Repurchase (ii)	(202,053)	(3,781)	(205,834)
Exchange adjustment	33,901	–	33,901
	<u>2,206,781</u>	<u>203,976</u>	<u>2,410,757</u>
At 31 December 2023			

(i) Conversion of convertible bonds

During the year ended 31 December 2023, certain holders of Convertible Bonds with principal amount of HK\$10,000,000 exercised the conversion option and converted into 219,837 ordinary shares allotted and issued by the Company at a conversion price of HK\$45.4881.

(ii) Repurchase of convertible bonds

During the year ended 31 December 2023, an aggregate principal amount of HK\$231,000,000 of Convertible bonds have been repurchased by the Group. The gross consideration paid was HK\$214,355,000 (equivalent to RMB194,253,000), of which RMB190,496,000 and RMB3,757,000 was allocated to the liability and equity components of the convertible bonds at the date of such transaction, with resulting gain of RMB11,480,000 recognised in other net income.

The aggregate outstanding principal amount of the Convertible Bonds is HK\$2,509 million as of 31 December 2023.

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	2023 RMB'000	2022 <i>RMB'000</i>
Interim dividend for the year, approved and paid during the year, of RMB0.0087 per ordinary share (2022: RMB0.0808 per ordinary share)	<u>11,712</u>	<u>103,055</u>
	2023 RMB'000	2022 <i>RMB'000</i>
Final dividend proposed after the statement of financial position date of RMB0.0330 per ordinary share (2022: RMB0.1170 per ordinary share)	<u>44,426</u>	<u>157,422</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:

	2023 RMB'000	2022 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1170 per ordinary share (2022: RMB0.6991 per ordinary share)	<u>157,511</u>	<u>891,651</u>

(iii) Other dividends

During the year ended 31 December 2023, subsidiaries of the Group declared and paid dividends of RMB42,896,000 (2022: RMB32,783,000) in cash to non-controlling interests.

(b) **Share capital**

The share capital of the Group as at 31 December 2023 represented the amount of issued and paid-up capital of the Company with details set out below:

Authorised:

			2023	Nominal value of ordinary shares HK\$'000		2022	Nominal value of ordinary shares HK\$'000
	<i>Note</i>	Par value <i>HK\$</i>	Number of shares (thousand)		Number of shares (thousand)		
At 31 December	<i>(i)</i>	0.1	<u>20,000,000</u>	<u>2,000,000</u>	<u>20,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>

Ordinary shares, issued and fully paid:

	<i>Note</i>	Number of ordinary shares (thousand)	Nominal value of ordinary shares HK\$('000)
At 1 January 2022		1,247,867	124,787
Issue of ordinary shares upon exercise of share options		6,205	621
Placement of new shares		22,500	2,250
At 31 December 2022 and 1 January 2023		<u>1,276,572</u>	<u>127,658</u>
Issue of ordinary shares upon exercise of share options		1,455	146
Placement of new shares	<i>(ii)</i>	68,000	6,800
Conversion of convertible bonds	<i>14</i>	220	22
At 31 December 2023		<u>1,346,247</u>	<u>134,625</u>
RMB equivalent ('000) at 31 December 2023			<u>107,888</u>
RMB equivalent ('000) at 31 December 2022			<u>101,888</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 17 January 2023, the Company placed 68,000,000 new ordinary shares at the subscription price of HK\$15.05 per share. The gross proceeds of HK\$1,023,400,000 (equivalent to RMB880,778,000), net of direct share placement expenses of HK\$11,140,000 (equivalent to RMB9,587,000), were raised, of which RMB5,852,000 and RMB865,339,000 was credited to share capital and share premium account, respectively.

16 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Proposed final dividend

After the end of the reporting period, the directors proposed a final dividend in respect of the year ended 31 December 2023. Further details are disclosed in note 15(a).

(b) Repurchase of the Convertible Bonds

The Group repurchased the Convertible Bonds with an aggregate principal amount of HK\$84,000,000 in January 2024. Based on the prevailing conversion price of HK\$44.7582 per ordinary share of the Group, the Convertible Bonds repurchased carried rights to convert into 1,876,751 Shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Due to macroeconomic factors, domestic consumption was weaker than expected in China in 2023. This resulted in a certain imbalance between supply and demand within the automobile industry, as end customer demand was insufficient and the automobile brands failed to respond promptly. This forced most of the car dealerships to pursue price concessions to boost sales and cash flow while easing their inventory concerns. Consequently, domestic car sales in China were able to report growth for the Year. According to the data disclosed by China Passenger Car Association, sales volume of passenger vehicles in China reached approximately 21.7 million units in 2023, representing a year-on-year increase of 5.6%. The luxury car segment also witnessed a sales volume of approximately 2.98 million units, marking a year-on-year growth of 10.1%. Yet, the price concessions also significantly compressed the profit margins of car dealerships. Without timely actions and adjustments from the supply side, car dealerships faced great operational and financial challenges. Instead of pursuing scale expansion and financial growth in the past, the industry now places increasing emphasis on cost control, cash flow management, and operational efficiency.

Meanwhile, as the pricing, specifications, and recharge mileage of new energy vehicles became increasingly competitive, the new energy vehicle market also experienced sustained and significant growth in China, signified by its rising sales and market penetration. According to data from the China Passenger Car Association, sales volume of new energy vehicles surged by nearly 36.4% to approximately 7.74 million units, while its market penetration rate also rose by 8.1 percentage points to 35.7%. However, despite the rapid growth, new energy vehicle brands also faced intense competition. In addition to the price concessions offered by leading brands, there was also increasing competition from the traditional brands that previously focused on internal combustion engine (“ICE”) vehicles. Due to the increasing number of market participants, some brands had to adjust their prices during the Year to maintain competitiveness and market share. For traditional ICE manufacturers and dealerships, it remains to be seen what is the best way, through what brands, and by what business model to embrace the transition to new energy vehicles, especially given the rapidly changing new energy vehicle market, along with its lower average price and margin profile.

BUSINESS AND FINANCIAL REVIEW

During the Year, despite the challenging operating environment, the Group continued to maintain its efficient inventory turnover to ensure financial stability and reduce business uncertainties. In particular, given the lack of purchasing power and visibility in the market, the Group actively drove its inventory turnover to 12 days, as an attempt to speed up cash turnover and reduce inventory level that may represent a greater future loss in a downward-trending market. Meanwhile, the Group was able to deliver solid growth and satisfactory margin performance for its after-sales services. The healthy absorption rate of 116.7%, in turn, has laid a solid foundation for its overall financial performance. On the cost control front, the Group has also exercised caution, with operating expenses (distribution costs, administrative expenses, and finance costs) as a percentage of revenue decreasing by 0.1 percentage points year-on-year to 6.7%. In addition, the Group also maintained a healthy balance sheet and cash flow status.

Revenue

The Group recorded a revenue of approximately RMB28,554.6 million (2022: approximately RMB28,654.7 million), representing a slight decrease of approximately 0.3% yoy. In particular, revenue from sales of new passenger vehicles decreased by approximately 3.5% yoy to approximately RMB24,421.2 million (2022: approximately RMB25,297.0 million), accounting for approximately 85.5% (2022: approximately 88.3%) of total revenue. Revenue from after-sales services increased by approximately 23.1% yoy to approximately RMB4,133.4 million (2022: approximately RMB3,357.7 million), accounting for approximately 14.5% (2022: approximately 11.7%) of total revenue.

Cost of Sales

Cost of sales increased by approximately 1.3% from approximately RMB26,137.3 million in 2022 to approximately RMB26,476.6 million for the Year. The increase in cost of sales was mainly due to an increase in cost of sales for after-sales services by approximately 11.8% as a result of its expanding revenue.

Gross Profit

During the Year, gross profit decreased by approximately 17.5% from approximately RMB2,517.5 million in 2022 to approximately RMB2,077.9 million. Overall gross profit margin decreased by approximately 1.5 percentage points to approximately 7.3% (2022: approximately 8.8%). Among which, gross profit margin of sales of new passenger vehicles decreased by approximately 4.0 percentage points to approximately -0.6% (2022: approximately 3.4%), as a result of weakened market demand and price concessions on offer; whereas gross profit margin of after-sales services increased by 4.7 percentage points to approximately 53.7% (2022: approximately 49.0%).

Costs and Expenses

During the Year, the Group incurred the following additional expenses in relation to the acquisition of seven Porsche stores: 1) amortized interest expenses of approximately RMB108.7 million for the liability portion of 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”) using effective interest method; 2) amortized cost recorded in administrative expenses of approximately RMB153.1 million for the relevant dealership right (2022: approximately RMB102.1 million). As the Group completed such acquisition in April 2022, the corresponding expenses in 2022 only represent an eight-month period, setting a low base for 2022 when comparing with the higher, full year expenses in 2023. In addition, the Group also incurred the following expenses during the Year: 1) withholding tax on dividend in respect of dividends paid by subsidiaries in Mainland China to foreign controlling company amounted to approximately RMB80.5 million (2022: approximately RMB42.5 million); 2) litigation expenses recorded in administrative expenses of approximately RMB59.0 million in relation to the settlement of legal disputes involving certain investments made by certain subsidiaries of the Group prior to the year of 2022; 3) impairment of goodwill and dealership of approximately RMB43.5 million and RMB18.0 million, respectively. Overall, total expenses reported a decrease during the Year due to effective cost control, of which distribution costs amounted to approximately RMB763.6 million, accounting for 2.7% of total revenue, representing a decrease of 0.3 percentage points as compared to 3.0% for the same period of last year. Administrative expenses amounted to approximately RMB846.7 million, accounting for 3.0% of total revenue, representing a slight increase of 0.2 percentage points from 2.8% for the same period of last year due to the litigation expenses and amortized cost of dealership right recorded in 2023 as mentioned above. Finance costs amounted to approximately RMB291.2 million, accounting for 1.0% of total revenue, which stayed relatively flattish as the same period of last year.

Taxation

During the Year, the Group’s income tax expenses amounted to approximately RMB228.7 million, representing a decrease of approximately 25.7% as compared to approximately RMB307.6 million for the same period of last year. The decrease in income tax expenses was mainly due to the decrease in profit before tax.

Profit for the Year

During the Year, the gross profit margin of new car sales was affected by the fierce competition in the market as a whole, together with the additional aforesaid additional expenses incurred, the Group’s profit for the Year decreased by approximately 72.0% yoy to approximately RMB155.8 million (2022: approximately RMB555.9 million). Profit margin also decreased by 1.4 percentage points from approximately 1.9% to approximately 0.5%.

Dividend

The interim dividend for 2023 was RMB0.0087 per ordinary share of the Company (“Share”). The Board recommended a final dividend of RMB0.0330 per Share for the year ended 31 December 2023 (2022: RMB0.1170 per Share). Taking into account the final dividend recommended, the dividend paid for the Year amount to RMB0.0417 per Share (2022: RMB0.1978 per Share), representing a payout ratio of approximately 40% (2022: 50%). 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 ended 31 December 2023, share of profit of a joint venture amounted to approximately RMB20.5 million, representing a decrease of approximately 18.0% as compared to approximately RMB24.9 million for the same period of last year.

New Passenger Vehicles Sales

During the Year, amid the uncertain and challenging market environment, the Group's new passenger vehicle sales recorded a slight decrease, with revenue reaching approximately RMB24,421.2 million (2022: approximately RMB25,297.0 million), representing a decrease of approximately 3.5% as compared to the same period of last year. Sales of premium brand vehicles remained the major revenue contributor, accounting for approximately 88.3% of new passenger vehicles sales revenue. In particular, the sales of new passenger vehicles of Porsche, BMW and Lexus amounted to approximately RMB10,439.7 million, RMB7,753.8 million and RMB3,343.1 million respectively, accounting for approximately 42.7%, 31.8% and 13.7% of new passenger vehicles sales revenue, respectively. In terms of sales volume, benefiting from the Group's efficient operations and low inventory strategy, the Group's sales volume remained largely stable, with a total of 66,370 new passenger vehicles sold during the Year (2022: 67,871 units). Porsche, BMW and Lexus recorded sales volume of 12,291 units, 23,329 units and 11,330 units, respectively.

After-Sales Services

During the Year, riding on the expanding customer base and after service services enhancement strategy which has been adopted since the second half of 2023, the Group's after-sales service delivered healthy growth despite the challenging operating environment. After-sales services revenue reached approximately RMB4,133.4 million, representing an increase of approximately 23.1% as compared to the same period of last year (2022: approximately RMB3,357.7 million). The total number of vehicles served was 772,888 units, representing an increase of approximately 9.4% yoy. The gross profit margin from after-sales services remained at a healthy level of 53.7% (2022: 49.0%).

Current Network

During the Year, the Group explored opportunities in NEVs by opening two new after-sales service centers for Tesla. As at 31 December 2023, the Group has 78 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 and two after-sales service centers for Tesla.

As at 31 December 2023, the number of stores operated by the Group was as follows:

Number of stores under operation	2023	2022	Change
Porsche	16	16	–
BMW	27	27	–
Lexus	20	20	–
Toyota	12	12	–
Audi	1	1	–
Tesla after-sales service center	2	0	+2
	<hr/>	<hr/>	<hr/>
Total	78	76	+2

Liquidity, Financial Resources and Position

As at 31 December 2023, total equity of the Group amounted to approximately RMB5,286.1 million (31 December 2022: approximately RMB4,433.8 million). Its current asset amounted to approximately RMB6,372.7 million (31 December 2022: approximately RMB5,888.5 million), and current liabilities amounted to approximately RMB4,447.4 million (31 December 2022: approximately RMB4,873.7 million).

As at 31 December 2023, the Group's loans and borrowings amounted to approximately RMB1,444.4 million, representing a decrease of approximately 24.2% as compared to approximately RMB1,906.7 million as of 31 December 2022. Of which, short-term loans and borrowings as at 31 December 2023 amounted to approximately RMB1,244.9 million, while long-term loans and borrowings amounted to approximately RMB199.5 million, along with convertible bonds amounting to RMB2,206.8 million (31 December 2022: 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 97.7% as at 31 December 2023 (31 December 2022: approximately 131.9%).

As at 31 December 2023, cash and cash equivalents, fixed deposits with more than three months to maturity when placed and pledged bank deposits amounted to approximately RMB2,361.7 million, RMB561.9 million and RMB971.5 million, respectively. Most of the cash and cash equivalents, fixed deposits with more than three months to maturity when placed and pledged bank deposits were denominated in Renminbi, USD and Hong Kong dollars. Apart from part of the cash and fixed deposits with more than three months to maturity when placed that are denominated in USD and Renminbi in overseas companies, the Group's business operations are located principally in China and a majority of its transactions are denominated in Renminbi. Therefore, the Group expects that its foreign exchange risks will have a minimal effect on the Group and have no material adverse effect on its normal operations. During the Year, the Group did not employ any significant financial instruments such as forward foreign exchange contracts, nor did it employ any financial instruments for hedging purposes. The management of the Company closely monitors 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, and proceeds from equity financing. The Group has adequate financial resources to meet all contractual obligations and operating requirements.

Contingent Liabilities

As at 31 December 2023, the Group did not have any material contingent liabilities.

Significant Investments, Material Acquisition and Disposals

The Group did not hold any significant investments, and did not make any material acquisitions nor disposals of subsidiaries, associates or joint ventures during the Year. There were no future plans for material investments or capital assets which have been approved by the Board as of the date of this announcement.

Pledged Assets of the Group

As at 31 December 2023, the Group pledged property, plant and equipment, right-of-use assets, inventories, trade and other receivables, and pledged bank deposits of approximately RMB229.5 million in aggregate (31 December 2022: approximately RMB127.7 million) to secure certain bills payable, loans and borrowings.

PROSPECTS

Looking ahead to 2024, factors such as uncertain macroeconomic outlook and intense competition in the automotive industry are expected to bring sustained and significant uncertainties to the sector. On one hand, the Group will strive to maintain its efficient turnover, focus on improving the profitability of its new passenger car sales and after-sales services businesses, and at the same time, maintain a low inventory level to mitigate the risk of incurring larger future losses. On the other hand, considering the Group's relatively low average store age, the Group will actively expand its after-sales service business through boosting customer foot traffic and conversion rates, in the hope to improve its absorption rate, thus laying the solid foundation for future operations and financial performance.

In response to the rapid development of the new energy vehicles in recent years, the Group will also explore market opportunities using a light-asset and low-risk approach, selling new energy vehicle models from its existing luxury brands and providing corresponding aftersales services. Meanwhile, the two Tesla after-sales service centers, which officially commenced operation during the Year, also reported stable performance. That would offer the Group with the necessary exposure and experience to further develop its after-sales service business for new energy vehicles in the future.

To maintain its agility in face of the dynamic market, the Group will continue to adhere to its prudent and cautious approach, maintaining sufficient cash on hand, and flexibly utilizing its capital to evaluate potential merger and acquisition opportunities and other future development needs. The Group will also proactively reduce its debt level by gradually repaying certain loans and convertible bonds, so as to lower its gearing ratio and finance costs, yielding a more streamlined and efficient balance sheet that is suitable for sustainable development.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Except as described under the heading "Partial Repurchase And Cancellation Of The Convertible Bonds" of this announcement, during the year ended 31 December 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

SIGNIFICANT EVENTS

Top-up placing of existing shares and subscription of new shares under general mandate

On 4 January 2023, the Company, Apex Sail Limited (“**Apex Sail**”) and Citigroup Global Markets Limited (the “**Placing Agent**”) entered into the placing and subscription agreement (the “**Placing and Subscription Agreement**”), pursuant to which (i) Apex Sail agreed to sell, and the Placing Agent agreed, as Apex Sail’s agent, to procure not less than six placees to purchase (or failing which, to purchase itself) a total of 68,000,000 Placing Shares at the Placing Price of HK\$15.05 per Share; and (ii) Apex Sail agreed to subscribe as principal for, and the Company agreed to issue to Apex Sail, 68,000,000 Subscription Shares (the “**Subscription Shares**”) (being equivalent to the number of Placing Shares) at the Subscription Price of HK\$15.05 per Share (which is equivalent to the Placing Price) (the “**Subscription**”), in each case on the terms and subject to the conditions set out in the Agreement. The Board considers that the Placing and the Subscription represent 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 of the Company.

STATUS ON USE OF PROCEEDS

In January 2023, the Company placed 68,000,000 new Shares at the subscription price of HK\$15.05 per Share. The Company received approximately HK\$1,012 million after deducting placement cost in respect of it.

Set out below is the Company’s plan on use of net proceeds from the Placing and Subscription:

Intended use of net proceeds	Percentage of total net proceeds of such issue (approximately)	Unutilised proceeds as at 31 December 2023 (in HK\$ million)
Proceeds from issue in January 2023		
Business expansion (including strategic investments and acquisitions)	50%	506
Working capital and other general corporate purposes	50%	506
Total	100%	1,012

Note: The net proceeds has not yet been utilised during the Period. The Company intends to utilise the proceeds within three years from the date of allotment. The expected timeline for utilising the proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

During the Period, (i) upon exercise of share options under the employee’s share option scheme, 1,455,000 Shares were issued at an aggregate exercise price of approximately RMB5.5 million, and (ii) upon exercise of the Convertible Bonds at the then prevailing conversion price of HK\$45.4881 per Share, 219,837 Shares were issued.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions as set out in the Corporate Governance Code (the “**Code**”) as contained in Appendix C1 to the Rules (the “**Listing Rules**”) Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in force during the Year. Details of the corporate governance of the Group will be set out in the section headed “Corporate Governance Report” in the annual report of the Company for 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 C3 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.

REASON WHY NON-HKFRS FINANCIAL MEASURE IS NO LONGER PRESENTED

Unlike in 2022, the Company will not present non-GAAP measure in this announcement or in the financial statements or annual report for the Year, i.e. profit for the year excluding non-operating expenses, will no longer be disclosed or used. Profit for the year excluding non-operating expenses is a non-GAAP financial measure designed to remove the impact of non-operating items, however, management considers that due to the difficulty in meeting the enhanced disclosure requirements in the guidance letter issued by the Stock Exchange for listed companies on the presentation of non-GAAP measures, the Company will not present the profit for the year excluding non-operating expenses in this announcement or in the financial statements or annual report for the Year.

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. 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, consolidated cash flow statement and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary 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 of 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 Tuesday, 14 May 2024. For details of the AGM, please refer to the notice of the AGM which is expected to be published in April 2024.

FINAL DIVIDEND

The Board recommended the payment of a final cash dividend of RMB0.0330 per Share for the Year (2022: RMB0.1170 per Share) to shareholders whose names are on the register of members of the Company on Friday, 21 June 2024. 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 RMB44.4 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 Wednesday, 21 August 2024.

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 Thursday, 9 May 2024 to Tuesday, 14 May 2024, 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 Wednesday, 8 May 2024; and
2. From Tuesday, 18 June 2024 to Friday, 21 June 2024, 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 Monday, 17 June 2024.

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 Friday, 26 April 2024 and Wednesday, 5 June 2024, respectively.

EVENTS AFTER THE REPORTING PERIOD

Partial Repurchase And Cancellation Of The Convertible Bonds

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 Listing Rules) 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. Listing of the Convertible Bonds commenced on the Stock Exchange on 14 January 2022.

As of 24 January 2024, an aggregate principal amount of HK\$315,000,000 of the Bonds (the “**Repurchased Bonds**”, representing approximately 11.45% of the aggregate principal amount of the Bonds initially issued) have been repurchased. The Repurchased Bonds carried rights to convert into 7,037,816 (round down to the nearest whole number of shares) Conversion Shares (based on the prevailing Conversion Price of HK\$44.7582 per Conversion Share as of 24 January 2024). The Board is of the view that the purchase of the Repurchased Bonds had no material adverse effect on the financial position of the Company.

As of the date of this announcement, principal amount of HK\$2,425 million of the Convertible Bonds remains outstanding, and accordingly, 54,180,016 Shares may be issued based on the prevailing conversion price of HK\$44.7582 per Share (adjusted during the Year for share placement and distribution of final dividend).

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND 2023 ANNUAL REPORT

This annual results 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 annual report of the Group for the year ended 31 December 2023, which contains all the information required under the Listing Rules, will be available on the above websites 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, 27 March 2024

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

Certain figures in this announcement have been subject to rounding adjustments.

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