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China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1728)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

HIGHLIGHT OF RESULTS

As the traditional automobile dealership industry experienced unprecedented adversity and challenges in 2023, the Group continued to maintain its sales of mid-to-high-end brands and actively sought business growth opportunities in automotive extension areas such as pre-owned automobiles and automobile exports. During the reporting period, the market share of luxury brand automobiles steadily increased, and the Group recorded an increase in sales units and a growth in revenue. However, fierce competition has resulted in a decline in new automobile prices which has led to a decrease in gross profit margin. The Board and the management of the Group believe that we would be able to overcome short-term uncertainties and remain confident about the future development prospects and long-term stability and improvement of the industry. Our state-owned shareholder will also continue to provide guarantee and support in terms of development, resources, talent training and financing.

For the year ended 31 December 2023:

- The Group's revenue was approximately RMB24,132 million, representing an increase of approximately 7% as compared to the revenue of approximately RMB22,607 million in 2022.

- Overall gross profit was approximately RMB1,009 million, representing a decrease of approximately 36% as compared to approximately RMB1,587 million in 2022. The overall gross profit margin was approximately 4%, representing a decrease of 3 percentage points as compared to approximately 7% in 2022.

- Profit from operations was approximately RMB168 million, representing a decrease of approximately RMB666 million as compared with profit from operations of approximately RMB834 million in 2022.
- Loss for the year increased by approximately 176% to approximately RMB820 million from approximately RMB297 million in 2022.

The board (the "**Board**") of directors (the "**Directors**") of China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (the "**Company**" or "**ZhengTong**", together with its subsidiaries, the "**Group**") is pleased to announce the Group's annual consolidated results for the year ended 31 December 2023:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2023
(Expressed in RMB'000)

		For the year ended 31 December	
	Note	**2023**	2022
		RMB'000	*RMB'000*
Revenue	*3*	**24,131,975**	22,606,790
Cost of sales		**(23,123,382)**	(21,019,912)
Gross profit		**1,008,593**	1,586,878
Other income	*4*	**1,327,026**	1,506,316
Selling and distribution expenses		**(1,082,892)**	(1,211,482)
Administrative expenses		**(1,084,526)**	(1,280,537)
Reversal of impairment losses on intangible assets	*8, 9*	**—**	232,426
Profit from operations		**168,201**	833,601
Finance costs	*5(a)*	**(1,054,301)**	(1,006,998)
Share of (loss)/profit of associates		**(500)**	43,055
Loss before taxation	*5*	**(886,600)**	(130,342)
Income tax	*6*	**66,120**	(167,079)
Loss for the year		**(820,480)**	(297,421)
Loss for the year attributable to:			
Ordinary shareholders of the Company		**(890,990)**	(296,285)
Perpetual bond holders of the Company	*18*	**41,708**	—
Non-controlling interests		**28,802**	(1,136)
Loss for the year		**(820,480)**	(297,421)
Basic and diluted loss per share (RMB cents)	*7*	**(31.9)**	(10.9)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2023
(Expressed in RMB'000)

	For the year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Other comprehensive income for the year (after tax):		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of:		
Financial statements of entities outside the Mainland China	**(3,638)**	(20,623)
Other comprehensive income for the year	**(3,638)**	(20,623)
Total comprehensive income for the year	**(824,118)**	(318,044)
Attributable to:		
Ordinary shareholders of the Company	**(894,628)**	(316,908)
Perpetual bond holders of the Company	**41,708**	—
Non-controlling interests	**28,802**	(1,136)
Total comprehensive income for the year	**824,118**	(318,044)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023
(Expressed in RMB'000)

	Note	At 31 December 2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment		**6,075,954**	5,766,306
Investment properties		**431,510**	303,593
Right-of-use assets		**2,487,855**	2,606,585
Intangible assets	*8*	**2,540,361**	2,705,072
Goodwill	*9*	**566,736**	566,736
Interests in associates	*10*	**15,191**	15,341
Interest in a joint venture	*11*	**26,798**	—
Deferred tax assets		**758,013**	673,051
Long-term receivables		**381,655**	321,037
Other financial assets	*15*	**829,028**	944,947
Pledged bank deposits		**975,420**	—
		15,088,521	13,902,668
Current assets			
Inventories	*12*	**3,771,902**	4,064,270
Trade and bills receivables	*13*	**941,949**	907,442
Prepayments, deposits and other receivables	*14*	**4,941,148**	4,063,517
Other financial assets	*15*	**126,344**	103,561
Pledged bank deposits		**3,900,082**	3,957,215
Cash and cash equivalents		**744,855**	734,086
		14,426,280	13,830,091
Current liabilities			
Loans and borrowings		**16,272,920**	12,234,030
Lease liabilities		**319,641**	363,493
Trade and other payables	*16*	**5,638,481**	5,827,775
Income tax payables		**391,173**	394,662
Other financial liabilities	*15*	**22,177**	91,516
		22,644,392	18,911,476
Net current liabilities		**(8,218,112)**	(5,081,385)
Total assets less current liabilities		**6,870,409**	8,821,283

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
At 31 December 2023
(Expressed in RMB'000)

	Note	**At 31 December 2023** *RMB'000*	2022 *RMB'000*
Non-current liabilities			
Loans and borrowings		**3,488,141**	6,439,857
Lease liabilities		**960,309**	981,073
Deferred tax liabilities		**970,800**	989,261
Trade and other payables	*16*	**139,567**	186,648
Other financial liabilities		**24,532**	—
		5,583,349	8,596,839
NET ASSETS		**1,287,060**	224,444
CAPITAL AND RESERVES			
Share capital		**246,394**	235,203
Perpetual bonds	*18*	**1,010,921**	—
Reserves		**(895,485)**	(41,814)
Total equity attributable to equity shareholders of the Company		**361,830**	193,389
Non-controlling interests		**925,230**	31,055
TOTAL EQUITY		**1,287,060**	224,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China ZhengTong Auto Services Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in 4S dealership business, supply chain business and comprehensive properties business in the People's Republic of China (the "**PRC**").

2 MATERIAL ACCOUNTING POLICIES

(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 ("**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**").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(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 Group and the Group's interests in associates and a joint venture.

These consolidated financial statements are presented in Renminbi ("**RMB**") which is the Group's presentation currency, rounded to the nearest thousand, except for where otherwise stated.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for certain financial instruments are stated at fair value as explained in the accounting policies set out below.

— other investments in securities; and

— derivative financial instruments.

The Group incurred a net loss of RMB820 million for the year ended 31 December 2023 and had net current liabilities of RMB8,218 million as at 31 December 2023. The Group's liabilities included a sum of short-term and long-term loans and borrowings due to Xiamen ITG Holding Group Co., Ltd. ("**ITG Holding**") and its subsidiaries of RMB2,177 million and RMB2,035 million, respectively. Notwithstanding these conditions, the Company's consolidated financial statements for the year ended 31 December 2023 have been prepared on a going concern basis and the directors of the Company consider that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern. This is because, based on the cash flow projections for at least the next twelve months, the directors of the Company concluded that the Group will have adequate funds having considered the current available banking facilities as well as the financial support from ITG Holding, which has informed the Group that, on the basis that in compliant with regulatory regime applicable to state owned enterprises and after obtaining internal resolutions and approvals, it will provide such financial support to the Group as is necessary to enable the Group to continue operation as a going concern for at least the next twelve months.

(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*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Except the amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction,* 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 in this consolidated financial statements. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

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.

3 REVENUE

The Group is mainly engaged in sales of passenger motor vehicles, provision of after-sales services, provision of logistics services and sales of lubricant oil. Revenue represents the sales of goods and services income rendered to customers.

(i) Disaggregation of revenue

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

	For the year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of passenger motor vehicles	**20,224,295**	18,844,892
Provision of after-sales services	**3,240,248**	3,081,406
Provision of logistics services	**435,120**	472,588
Sales of lubricant oil	**232,282**	207,089
	24,131,945	22,605,975
Revenue from other sources		
Others	**30**	815
	24,131,975	22,606,790

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for passenger vehicles such that the Group does not include information about revenue that the Group will be entitled to when it satisfied the remaining performance obligations under the contracts for sales of passenger vehicles that had an original expected duration of one year or less.

4 OTHER INCOME

	Note	For the year ended 31 December 2023 RMB'000	2022 RMB'000
Service income		**1,014,471**	633,895
Interest income		**57,273**	37,443
Net gain on disposal of property, plant and equipment and right-of-use assets		**67,976**	118,095
Dividend income		**39,538**	—
Fair value change related to interest in Dongfeng Logistics		**(115,919)**	424,271
Realised/unrealised gain of other financial instruments		**45,586**	242,654
Remeasurement gain due to loss of control over a subsidiary	*11*	**23,388**	—
Gross rentals from investment properties		**29,386**	15,787
Compensation income		**54,509**	—
Others		**110,818**	34,171
		1,327,026	1,506,316

5 LOSS BEFORE TAXATION

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

	Note	For the year ended 31 December 2023 RMB'000	2022 RMB'000
(a) Finance costs:			
Interest on loans and borrowings and bonds payable		**1,031,600**	957,414
Interest on lease liabilities		**74,307**	90,556
Finance costs for consideration of business combination		**—**	9,083
Other finance costs	*(i)*	**29,133**	22,852
Less: Interest capitalised*		**(80,739)**	(72,907)
		1,054,301	1,006,998

* The borrowing costs have been capitalised at a rate of 5.2%–5.8% per annum (2022: 5.7%–5.8%).

	Note	For the year ended 31 December	
		2023	2022
		RMB'000	*RMB'000*
(b) Staff costs:			
Salaries, wages and other benefits		**899,648**	924,812
Contributions to defined contribution retirement plans	*(ii)*	**55,020**	58,640
Equity settled share-based transactions		**1,082**	1,867
		955,750	985,319

(i) It mainly represents the interest expenses arising from discounting of bills payable.

(ii) Employees of the Group's PRC subsidiaries are required to participate in defined contribution retirement schemes administered and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal government to the schemes to fund the retirement benefits of the employees. The Group remits all pension fund contributions to the respective tax bureau, which are responsible for the payment and liabilities relating to the pension funds.

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 Company's and its subsidiaries' contributions made to the above defined contribution schemes are non-refundable and cannot be used to reduce the future or existing level of contribution of the Company and its subsidiaries should any forfeiture be resulted from the Schemes.

The Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

	For the year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
(c) Other items:		
Cost of inventories	**22,558,926**	20,454,963
Depreciation		
— owned property, plant and equipment	**336,860**	306,469
— right-of-use assets	**321,757**	342,546
— investment properties	**20,103**	3,955
Amortisation of intangible assets	**165,036**	160,999
Operating lease charges	**7,349**	6,878
Net foreign exchange loss	**100,474**	398,206
Reversal of impairment losses on		
— intangible assets	**—**	(232,426)
— property, plant and equipment	**—**	(21,239)
Auditors' remuneration of audit service	**9,800**	9,800

6 INCOME TAX

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

	For the year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Current tax:		
Provision for income tax for the year	**37,303**	73,849
Deferred tax:		
Origination and reversal of temporary differences	**(103,423)**	93,230
	(66,120)	167,079

Reconciliation between income tax and accounting loss at applicable tax rates:

		For the year ended 31 December	
		2023	2022
		RMB'000	*RMB'000*
Loss before taxation		**(886,600)**	(130,342)
Notional tax on loss before taxation, calculated at PRC income tax rate of 25%		**(221,650)**	(32,586)
Non-deductible expenses, net of non-taxable income		**114,985**	185,961
Unused tax losses not recognised		**68,727**	24,468
Effect on deferred tax reversal due to changes in income tax rate applicable to a subsidiary	*(iii)*	**(28,307)**	—
Share of loss/(profits) recognised under the equity method		**125**	(10,764)
Income tax		**(66,120)**	167,079

(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.

(ii) No provision for Hong Kong Profits Tax was made for the subsidiaries located in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year.

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25% (2022: 25%), except for Shengze Jietong Supply Chain Co., Ltd. ("**Shengze Jietong**"), an automotive logistics supplier in the PRC. Shengze Jietong is subject to a preferential rate of 15% for high-tech enterprises for three years commenced from 2023.

Taxation for the Group's PRC subsidiaries is calculated using the estimated annual effective rates of taxation that are expected to be applicable.

(iv) Under the CIT law and its relevant regulations, capital gains and dividends receivable on investment by non-PRC resident enterprises from PRC resident enterprises for earnings beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements.

7 LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2023 was based on the loss attributable to ordinary shareholders of the Company of RMB890,990,000 (2022: loss attributable to ordinary shareholders of the Company of RMB296,285,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2023 of 2,792,629,543 (2022: 2,720,254,036), calculated as follows:

Weighted average number of ordinary shares:

	For the year ended 31 December	
	2023	2022
Issued ordinary shares at 1 January	**2,722,942,420**	2,716,922,420
Effect of placing of new shares under general mandate	**66,820,384**	—
Effect of restricted shares vested to employees	**2,866,739**	3,331,616
Weighted average number of ordinary shares at 31 December	**2,792,629,543**	2,720,254,036
Basic loss per share *(RMB cents)*	**(31.9)**	(10.9)

The potential ordinary shares in respect of vesting of restricted shares on 12 June 2023 and the remaining unvested restricted shares pursuant to the Share Award Scheme was anti-dilutive, as they would lead to a decline in the loss per share. Therefore, diluted loss per share is equal to basic loss per share.

8 INTANGIBLE ASSETS

	Car dealerships & Dealership operation rights *RMB'000*	Favourable lease contracts *RMB'000*	Trademark *RMB'000*	Software *RMB'000*	Others *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2022	4,848,553	36,904	362,732	26,284	363	5,274,836
Additions	—	—	—	1,911	—	1,911
At 31 December 2022, and 1 January 2023	4,848,553	36,904	362,732	28,195	363	5,276,747
Additions	—	—	—	325	—	325
Disposal	—	—	—	(896)	—	(896)
At 31 December 2023	**4,848,553**	**36,904**	**362,732**	**27,624**	**363**	**5,276,176**
Accumulated amortisation:						
At 1 January 2022	1,383,979	36,887	—	11,252	—	1,432,118
Additions	154,305	11	—	6,683	—	160,999
At 31 December 2022, and 1 January 2023	1,538,284	36,898	—	17,935	—	1,593,117
Additions	158,244	6	—	6,786	—	165,036
Disposal	—	—	—	(896)	—	(896)
At 31 December 2023	**1,696,528**	**36,904**	**—**	**23,825**	**—**	**1,757,257**
Accumulated impairment losses						
At 1 January 2022	1,065,357	—	145,627	—	—	1,210,984
Reversal of impairment losses	(232,426)	—	—	—	—	(232,426)
At 31 December 2022, 1 January 2023 and 31 December 2023	**832,931**	**—**	**145,627**	**—**	**—**	**978,558**
Net book Value:						
At 31 December 2023	**2,319,094**	**—**	**217,105**	**3,799**	**363**	**2,540,361**
At 31 December 2022	2,477,338	6	217,105	10,260	363	2,705,072

The car dealerships arise from prior business combinations and relate to relationships with automakers, with an estimated useful life of 40 years. The fair value of the car dealerships as at the respective acquisition date was determined by using the multiple excess earning method.

The dealership operation rights arise from a prior business combination through an agreement on strategic operation management cooperation scheme, with an estimated useful life of 10 years. The fair value of the dealership operation rights as at the acquisition date was determined by using the multiple excess earning method.

The amortisation charge for the year is included in administrative expenses in the consolidated statement of profit or loss.

Impairment testing of intangible assets — car dealerships and goodwill

Having considered the impacts of macroeconomic environment changes, the intense competition in automobile dealership industry and the recent development in customer demand observed in automobile sector, the management of the Group performed an impairment assessment, assisted by an external valuer, to determine the recoverable amount of the cash generating units (CGUs) containing intangible assets — car dealerships and/or goodwill as at 31 December 2023. No impairment loss of intangible assets — car dealerships or goodwill was recognised during the year ended 31 December 2023.

The recoverable amounts of CGUs have been determined based on the value-in-use calculations using cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated by using an estimated growth rate of 3% (2022: 3%) which is consistent with the forecasts included in industry reports. The pre-tax discount rates applied to the cash flow projections beyond the one-year period are with a range from 13% to 15% (2022: from 12% to 15%).

Key assumptions used in the value-in-use calculation for CGUs containing intangible assets — car dealerships and/or goodwill

Key assumptions used in the value in use calculations include: (i) annual revenue growth rates during the forecast period, (ii) gross profit margin, (iii) working capital as a percentage of revenue and (iv) discount rates.

The key inputs and assumptions used in the impairment test for the year of 2023 and 2022 are listed as follows:

As at 31 December 2023

Inputs	**2024**	**2025**	**2026~2028**
Annual Revenue Growth Rate	**1.5%~24.3%**	**2.7%~27.8%**	**2.7%~44.3%**
Gross Profit Margin	**3.1%~12.0%**	**5.9%~13.8%**	
Working Capital as a % of Revenue	**−22.4%~15.7%**	**−21.6%~19.2%**	

As at 31 December 2022

Inputs	2023	2024	2025~2027
Annual Revenue Growth Rate	3.0%~46.4%	3.0%~48.9%	3.0%~30.0%
Gross Profit Margin	5.1%~13.0%	5.2%~14.0%	
Working Capital as a % of Revenue	−11.4%~7.4%	−11.4%~14.2%	

The key assumptions are estimated by the management with reference to the actual and historical financial performance, expected market growth trend for different brands based on open market data and the trend estimation for repositioned stores:

— The estimated revenue growth rates for 2024 through 2028 were based on historical performance of each store and reflected the recent development in customer demand observed in automobile sector.

— Gross profit margin was mainly estimated based on the historical performance of each store, the intense competition in automobile dealership industry and took into consideration of mix for different revenue categories like new car sales and after-sale services.

— Working capital as percentage of revenue was estimated by calculation based on historical trend of turnover days of different balance sheet items or expense to revenue ratios of different profit or loss items, which is generally in line with years comparable to the forecast periods.

The pre-tax discount rate applied to the impairment test was within a range from 13% to 15% (2022: 12% to 15%) which reflected current market assessment of the time value of money and the risk specific to CGUs.

There have been no changes in the valuation methods used compared with those adopted in the year ended 31 December 2022.

Intangible assets — trademark

The trademark, arising from the acquisition of Top Globe Limited, has an indefinite useful life because it is expected to contribute net cash inflows to the Group indefinitely. The fair value of the trademark as at the acquisition date was determined by using the relief from royalty method.

Management engaged an external valuer to assist with an impairment assessment on the carrying amount of the trademark. No impairment of trademark was recognised for the year ended 31 December 2023 (2022: Nil).

9 GOODWILL

	RMB'000
Cost:	
At 1 January 2022, 31 December 2022 and 31 December 2023	2,006,335
Accumulated impairment losses:	
At 1 January 2022, 31 December 2022 and 31 December 2023	1,439,599
Carrying amount:	
At 31 December 2023	566,736
At 31 December 2022	566,736

Goodwill is allocated to the Group's CGUs identified according to the operating segments as follows:

	At 31 December	
	2023	2022
	RMB'000	*RMB'000*
4S dealership business	**566,736**	566,736

No impairment loss of goodwill was recognised during the year ended 31 December 2023 (note 8).

10 INTERESTS IN ASSOCIATES

Associates are accounted for using the equity method in the consolidated financial statements. Information of the associates that are not individually material:

	At 31 December 2023 RMB'000	2022 RMB'000
Amounts of the Group's share of the associates — Loss for the year	**(500)**	(790)
Total comprehensive income	**(500)**	(790)
Carrying amount of individually immaterial associates in the consolidated financial statements	**15,191**	15,341
Total carrying amount of interest in associates	**15,191**	15,341

11 INTEREST IN A JOINT VENTURE

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Shanghai Yige Science & Technology Trading Co., Ltd. ("**Shanghai Yige**")	Incorporated	Mainland China	Registered capital RMB15,000,000	50%	—	50%	Sales of lubricant oil *(Note 1)*

Note 1: Shanghai Yige, principally engaged in sales of lubricant oil, was previously treated as a subsidiary of the Group because the Group has rights to variable returns from its involvement with the entity and has the ability to affect those returns by virtue of an agreement signed with the other equity shareholder which holds 50% interest in this entity, that result in the Group has the power to appoint the sole director of the entity.

To focus on its core 4S dealership business based on the Group's 2021−2025 development strategy plan, the Group decided to cease its control over Shanghai Yige within 2023. After several rounds of discussion, a new written agreement has been reached between the Group and the other equity shareholder of Shanghai Yige in December 2023, pursuant to which the financial and operating policies of Shanghai Yige should be co-determined by the other equity shareholder and the Group, and the other equity shareholder has the right to appoint the sole director. Since then, the Group has lost its control over but still retains joint control in Shanghai Yige. Therefore, the Group has ceased to consolidate the assets, liabilities and transactions of Shanghai Yige and has recognised its interests in Shanghai Yige as a joint venture by remeasuring at fair value at the date of loss of control and adopting the equity method of accounting for Shanghai Yige afterwards.

In accordance with the valuation report issued by an external valuer on 22 March 2024, the fair value of the equity interests held by the Group in Shanghai Yige as whole at the date of loss of control was RMB26,798,000. Accordingly, upon the loss of control the Group has recognised a remeasurement gain of RMB23,388,000 in "Other income" for the year ended 31 December 2023, representing the difference between the fair value of the retained interest and the Group's share of the carrying amounts of the underlying assets and liabilities of Shanghai Yige.

The loss of control over Shanghai Yige had the following effect on the Group's assets and liabilities upon the date when control was lost:

	Note	**At the date of loss of control** *RMB'000*
Net assets/(liabilities) of Shanghai Yige immediately before loss of control		
Assets		103,761
Liabilities		(91,209)
		12,552
Gain on deconsolidation of subsidiary:		
Fair value of interest in Shanghai Yige held by the Group		26,798
Add: non-controlling interest derecognised		9,546
Less: net assets derecognised		(12,552)
Account payables due to related parties		(404)
Gain on deconsolidation of a subsidiary	*4*	23,388

An analysis of the net outflow of cash and cash equivalents as at the date of loss of control over Shanghai Yige is as follows:

	RMB'000
Cash considerations:	—
Less: Cash and cash equivalent held by Shanghai Yige	(1,563)
Net outflow of cash and cash equivalents as at the date of loss of control over Shanghai Yige	(1,563)

Information of the only joint venture that is not individually material:

	For the period from the date of loss of control to 31 December 2023 *RMB'000*
Amounts of the Group's share of a joint venture	
— Profit for the year	—
Total comprehensive income	—
Carrying amount of an individually immaterial joint venture in the consolidated financial statements as at 31 December 2023	**26,798**
Total carrying amount of interest in a joint venture	**26,798**

12 INVENTORIES

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

	At 31 December	
	2023	2022
	RMB'000	*RMB'000*
4S dealership business		
Motor vehicles	**2,734,186**	3,044,340
Automobile spare parts	**309,238**	313,179
Others	**49,339**	46,166
	3,092,763	3,403,685
Comprehensive properties business		
Properties under development for sale	**679,139**	660,585
	3,771,902	4,064,270

Inventories with carrying amount of RMB1,189,522,000 have been pledged as security for the bills payable as at 31 December 2023 (2022: RMB1,048,425,000).

Inventories with carrying amount of RMB1,212,183,000 have been pledged as security for loans and borrowings from banks and other financial institutions as at 31 December 2023 (2022: RMB1,121,577,000).

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

		For the year ended 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Carrying amount of inventories sold		**22,515,445**	20,426,938
Write-down of inventories		**48,764**	54,386
Reversal of write-down of inventories	*(i)*	**(5,283)**	(26,361)
		22,558,926	20,454,963

(i) The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain motor vehicles as a result of a change in consumer preferences.

13 TRADE AND BILLS RECEIVABLES

	At 31 December	
	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**941,949**	907,123
Bills receivable	**—**	319
	941,949	907,442

All of the trade and bills receivables are expected to be recovered within one year.

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date, is as follows:

	At 31 December	
	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**932,958**	900,002
More than 3 months but within 1 year	**5,193**	2,178
Over 1 year	**3,798**	5,262
	941,949	907,442

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	At 31 December **2023** ***RMB'000***	2022 *RMB'000*
Prepayments		**407,382**	402,403
Deposits		**387,351**	399,940
Other receivables	*(i)*	**4,146,415**	3,261,174
		4,941,148	4,063,517

(i) Other receivables include vendor rebates receivables of RMB3,700,997,000 (2022: RMB2,848,570,000) from automobile manufacturers. The Group earns vendor rebates under various and differing arrangements with automobile manufacturers. Rebates based on purchase or sales volumes are granted by vendors if certain purchase or sales targets are met. Performance rebates are granted by vendors in accordance with the vendors' comprehensive assessment of the Group's business performance.

All of the prepayments, deposits and other receivables are excepted to be recovered within one year.

15 OTHER FINANCIAL ASSETS/LIABILITIES

	Note	At 31 December **2023** ***RMB'000***	2022 *RMB'000*
Other financial assets carried at FVPL			
Current			
Wealth management products	*(i)*	**84,285**	89,969
Forward contracts	*(ii)*	**7,585**	13,592
Option contracts	*(iii)*	**34,474**	—
		126,344	103,561
Non-current			
Equity investment in Dongfeng Logistics	*(iv)*	**829,028**	944,947
		955,372	1,048,508
Other financial liabilities carried at FVPL			
Current			
Forward contracts	*(ii)*	**—**	(91,516)
Option contracts	*(iii)*	**(22,177)**	—
		(22,177)	(91,516)
Non-current			
Option contracts	*(iii)*	**(11,723)**	—
Swap contracts	*(v)*	**(12,809)**	—
		(46,709)	(91,516)

(i) Wealth management products included investment in wealth management products purchased from Western Trust Co., Ltd ("**Western Trust**") and investments with banks in the PRC.

The underlying assets of wealth management products purchased from Western Trust are a wide range of government and corporate bonds, bank deposits as well as money market funds, etc. During the year ended 31 December 2023, the Group redeemed part of these wealth management products with proceeds of RMB850,000 (2022: RMB37,220,000). An unrealised loss for the investment of RMB5,181,000 was recognised as a loss in other income for the year ended 31 December 2023 (2022: a gain of RMB4,600,000).

The remaining wealth management products represented the investments with banks. These investments with no guarantee of principal and interest were classified as FVPL. During the year ended 31 December 2023, the net realized/unrealized gain for these investments of RMB411,000 was recognized as a gain in other income in the consolidated statement of profit or loss (2022: nil).

(ii) Forward contracts are used to mitigate the effect of the Group's foreign currency exposure arising from the loans and borrowings. A financial asset or a financial liability is recognised for each unsettled forward contract as at 31 December 2023 and cannot be offset in the financial position, as the Group do not have a legally enforceable right to net off the amounts among different forward contracts.

During the year ended 31 December 2023, net realised/unrealised loss of RMB39,771,000 from the forward contracts (2022: a gain of RMB228,208,000) was recognised as a loss in other income in the consolidated statement of profit or loss.

(iii) The Group entered into several USD/RMB foreign currency option contracts with PRC banks in order to manage the Group's foreign currency risk. The Group is required to transact with banks for designated notional amount on each of the valuation dates specified within the respective contracts ("**Valuation Date**").

At the Valuation Date, the reference rate, which represents the spot rate as specified within the respective contracts, shall be compared against the strike rates (upper and lower)/barrier rate as specified within the respective contracts, and the Group may receive from/pay to the banks an amount as specified in the contracts if certain conditions specified within the respective contracts are met.

During the year ended 31 December 2023, net realised/unrealised gain of RMB101,005,000 (2022: nil) from the option contracts was recognised in other income in the consolidated statement of profit or loss.

(iv) Equity investment in Dongfeng Logistics

Dongfeng Logistics is an unlisted entity incorporated in the PRC and is principally engaged in the provision of logistics services. Since 16 January 2020, the Company has indirectly held 14.43% equity interest in Dongfeng Logistics and had been equity-accounting for the interest as an interest in an associate. As the Group lost significant influence over Dongfeng Logistics in December 2022, the Group has ceased the use of the equity method of accounting in respect of its investment in Dongfeng Logistics since then and has recognised its interests in Dongfeng Logistics as a financial asset at fair value through profit or loss.

On 18 December 2023, the Group has entered into a share transfer agreement with Xiamen Xindeco Co., Ltd., a fellow subsidiary of the Company (the "**Purchaser**"), pursuant to which the Group has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire 5.77% of the entire issued share of Dongfeng Logistics held by the Group, for a total consideration of RMB331,496,300 which is payable in cash (the "**Share Transfer Transaction**"). Upon completion, the Group will continue to hold 8.66% equity interest in Dongfeng Logistics which continues to be recognized as a financial asset at FVPL. As of 31 December 2023, the Share Transfer Transaction has not been completed.

As at 31 December 2023, considering that i) the sales of 5.77% equity interest in Dongfeng Logistics held by the Group needs to be approved by the extraordinary general meeting of the Company, the result of which is uncertain at that time; and that ii) no binding sales and purchase agreements had been entered into with any potential purchasers for the remaining 8.66% equity interest, therefore the whole 14.43% equity interest in Dongfeng Logistics held by the Group was still retained as a financial assets at FVPL.

In accordance with the valuation report issued by an external valuer on 22 March 2024, which has taken the agreed consideration of the Share Transfer Transaction into consideration, the fair value of the 14.43% equity interest held by the Group in Dongfeng Logistics at 31 December 2023 was RMB829,028,000 (2022: RMB944,947,000). Accordingly, the Group has recognised a loss in fair value change of RMB115,919,000 (2022: a gain of RMB424,271,000) in the "Other income" for the year ended 31 December 2023. A corresponding deferred tax expense amounting to RMB56,849,000 was reversed due to the fair value change and changes in applicable income tax rate.

Besides, a dividend income of RMB39,538,000 was received from this investment during the year ended 31 December 2023 and was recognised in the "Other income".

Up to date of this announcement, the Share Transfer Transaction has been completed.

(v) Swap contracts are used to mitigate the effect of the Group's variable interest rate risk exposure arising from the loans and borrowings denominated in the USD. A financial asset or a financial liability is recognised for each unsettled swap contract as at 31 December 2023 and cannot be offset in the financial position, as the Group do not have a legally enforceable right to net off the amounts among different swap contracts.

During year ended 31 December 2023, net realised/unrealised loss of RMB10,879,000 from the swap contracts (2022: Nil) was recognised as a loss in other income in the consolidated statement of profit or loss.

The Group did not formally designate or document the hedging transactions with respect to the forward contracts, option contracts and swap contracts. Therefore, those transactions were not designated for hedge accounting.

16 TRADE AND OTHER PAYABLES

	Note	At 31 December 2023 RMB'000	2022 RMB'000
Current			
Trade payables		**396,378**	358,737
Bills payable	*(i)*	**3,713,965**	3,481,434
		4,110,343	3,840,171
Contract liabilities	*(ii)*	**935,900**	1,215,170
Other payables and accruals		**573,406**	771,927
Payables due to related parties		**18,832**	507
		5,638,481	5,827,775
Non-current			
Long-term payables		**139,567**	186,648
		5,778,048	6,014,423

(i) Bills payable of RMB2,847,070,000 as at 31 December 2023 (2022: RMB2,574,097,000) were secured by pledged bank deposits amounting to RMB1,742,422,000 (2022: RMB1,413,887,000).

Bills payable of RMB3,609,422,000 as at 31 December 2023 (2022: RMB3,481,434,000) were secured by inventories amounting to RMB1,189,522,000 (2022: RMB1,048,425,000).

As of the end of reporting period, the ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	At 31 December 2023 RMB'000	2022 RMB'000
Within 3 months	**3,413,579**	3,379,485
Over 3 months but within 6 months	**686,253**	454,091
Over 6 months but within 12 months	**10,511**	6,595
	4,110,343	3,840,171

(ii) The amount of revenue recognised in the year that was included in the contract liabilities balance at the beginning of the year was RMB1,193,568,000 (2022: RMB1,129,473,000).

17 DIVIDENDS

a. No final dividend was proposed or paid after the end of reporting periods of years ended 31 December 2023 and 2022.

b. No dividend was proposed in respect of the previous financial years, approved and paid during the years ended 31 December 2023 and 2022.

18 PERPETUAL BONDS

Perpetual Bond 1

On 28 February 2023, Wuhan Zhengtong United Industrial Investment Group Co., Ltd. ("**Wuhan Zhengtong**"), an indirect wholly-owned subsidiary of the Company, issued perpetual bonds to a third party with a principal amount of RMB200 million at an initial interest rate of 8.5% per annum ("**Perpetual Bond 1**"). The proceeds from issuance of the Perpetual Bond 1 were RMB200 million. Coupon interest of 8.5% per annum are expected to be paid quarterly with the payment date being the 20th of the last month in each quarter in arrears and may be deferred at the discretion of Wuhan Zhengtong.

The Perpetual Bond 1 has no fixed maturity and is callable at Wuhan Zhengtong's option at its principal amount together with any accrued, unpaid or deferred coupon interest payments ("**Call Option 1**"). The coupon rate will be 1) increased by a margin of 150 basis points (i.e., 1.5%) per annum and applied prospectively but with an annual interest cap of 10% if the Call Option 1 is not exercised by Wuhan Zhengtong after two years of issuance, or 2) adjusted to increase by 10% a time and applied prospectively once Wuhan Zhengtong elects to defer coupon interest payments at each payment date but with an annual interest cap of 10%. While any coupon interest is unpaid or deferred, Wuhan Zhengtong cannot declare or pay dividends or reduce registered capital. Pursuant to the terms of Perpetual Bond 1, Wuhan Zhengtong has no contractual obligations to repay the principal or to pay any coupon interest.

Perpetual Bond 2

On 14 April 2023 and 12 June 2023, Wuhan Zhengtong issued perpetual bonds to a third party with a principal amount of RMB100 million and RMB100 million at an initial interest rate of 8.5% and 8.0% per annum, respectively ("**Perpetual Bond 2**"). The total proceeds from issuance of the Perpetual Bond 2 were RMB200 million. Coupon interest of 8.5% and 8.0% per annum are expected to be paid quarterly with the payment date being the 20th of the last month in each quarter in arrears and may be deferred at the discretion of Wuhan Zhengtong.

The Perpetual Bond 2 has no fixed maturity and is callable at Wuhan Zhengtong's option at its principal amount together with any accrued, unpaid or deferred coupon interest payments ("**Call Option 2**"). The coupon rate will be 1) increased by a margin of 150 basis points (i.e., 1.5%) per annum and applied prospectively but with an annual interest cap of 10% and 9.5%, respectively if the Call Option 2 is not exercised by Wuhan Zhengtong after two years of issuance, or 2) adjusted to increase by 10% a time and applied prospectively once Wuhan Zhengtong elects to defer coupon interest payments at each payment date but with an annual interest cap of 10% and 9.5%, respectively. While any coupon interest is unpaid or deferred, Wuhan Zhengtong cannot declare or pay dividends or reduce registered capital. Pursuant to the terms of Perpetual Bond 2, Wuhan Zhengtong has no contractual obligations to repay the principal or to pay any coupon interest.

Perpetual Bond 3

On 30 June 2023 and 31 August 2023, ITG Holding Investment (HK) Limited ("**ITG HK**"), a fellow subsidiary controlled by the controlling shareholder of the Company, entered into written agreements and a written supplemental agreement with the Company, pursuant to which the existing unsecured short-term interest-bearing borrowing provided by ITG HK to the Company with a principal amount of USD140,000,000 (equivalent to RMB1,010,921,000) was converted into a debt with no fixed maturity ("**Perpetual Bond 3**") and is callable at the Company's option. Coupon interest of 8.5% per annum are paid annually in arrears and may be deferred at the discretion of the Company.

Pursuant to the terms of Perpetual Bond 3, the Company has no contractual obligation to repay the principal or to pay any coupon interest.

Perpetual Bond 4

On 11 November 2023 and 26 December 2023, Xiamen ZhengTong Automobile Group Co., Ltd ("**Xiamen Zhengtong**"), an indirect wholly-owned subsidiary of the Company, issued perpetual bonds to a third party with a principal amount of RMB350 million and RMB150 million at an initial interest rate of 7.2% and 7.0% per annum, respectively ("**Perpetual Bond 4**"). The total proceeds from issuance of the Perpetual Bond 4 were RMB500 million. Coupon interest of 7.2% and 7.0% per annum are expected to be paid quarterly with the payment date being the 20th of the last month in each quarter in arrears and may be deferred at the discretion of Xiamen Zhengtong.

The Perpetual Bond 4 has no fixed maturity and is callable at Xiamen Zhengtong's option at its principal amount together with any accrued, unpaid or deferred coupon interest payments ("**Call Option 3**"). The coupon rate will be 1) increased by a margin of 150 basis points (i.e., 1.5%) per annum and applied prospectively but with an annual interest cap of 8.7% and 8.5%, respectively, if the Call Option 3 is not exercised by Xiamen Zhengtong after two years of issuance, or 2) adjusted to increase by 10% a time and applied prospectively once Xiamen Zhengtong elects to defer coupon interest payments at each payment date but with an annual interest cap of 8.7% and 8.5%, respectively. While any coupon interest is unpaid or deferred, Xiamen Zhengtong cannot declare or pay dividends or reduce registered capital. Pursuant to the terms of Perpetual Bond 4, Xiamen Zhengtong has no contractual obligations to repay the principal or to pay any coupon interest.

As the Perpetual Bonds 1 to 4 only impose contractual obligations on the Group to repay the principal or to pay any distributions under certain circumstances which are at the Group's discretion, they have in substance conferred upon the Group an unconditional right to avoid delivering cash or other financial asset to settle contractual obligations, and therefore do not meet the definition of a financial liability in accordance with HKAS 32 *Financial Instruments: Presentation*. As a result, Perpetual Bonds 1 to 4 are classified as equity and distributions, if and when declared, are treated as equity dividends.

As Perpetual Bonds 1, 2 and 4 were issued by Wuhan Zhengtong and Xiamen Zhengtong, indirect wholly-owned subsidiaries of the Company, respectively, to external third parties, and could not be treated as equity attributable directly or indirectly to the equity shareholders of the Company, therefore, they are recorded in the non-controlling interests in the consolidated statement of financial position according to HKFRS 10, *Consolidated Financial Statements*. During the year ended 31 December 2023, the profit attributable to the bond holders of Perpetual Bonds 1, 2 and 4, based on the applicable coupon interest rate, amounted to RMB27,808,000 (2022: Nil), out of which RMB26,061,000 has been distributed to the relevant bond holders (2022: Nil).

Perpetual Bond 3 was recorded directly in equity attributable to equity shareholders of the Company. During the year ended 31 December 2023, based on the applicable coupon interest rate, amounted to RMB41,708,000 (2022: Nil), out of which RMB41,708,000 has been distributed to the relevant bond holders (2022: Nil).

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. Note 2(b) explains management's plans for managing the liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities (other than financial guarantees), which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	At 31 December 2023					At 31 December 2022				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand	**More than 1 year but less than 5 years**	**More than 5 years**	**Total**	**Balance sheet carrying amount**	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Balance sheet carrying amount
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings	**16,636,498**	**3,835,327**	**13,879**	**20,485,704**	**19,761,061**	12,260,131	6,889,521	22,095	19,171,747	18,673,887
Lease liabilities	**385,886**	**762,301**	**439,887**	**1,588,074**	**1,279,950**	369,019	939,532	394,460	1,703,011	1,344,566
Other financial liabilities	**22,177**	**24,921**	**—**	**47,098**	**46,709**	91,578	—	—	91,578	91,516
Trade and other payables	**4,702,581**	**200,575**	**—**	**4,903,156**	**4,842,148**	4,612,605	355,000	—	4,967,605	4,799,253
Total liquidity exposure other than the financial guarantees issued	**21,747,142**	**4,823,124**	**453,766**	**27,024,032**	**25,929,868**	17,333,333	8,184,053	416,555	25,933,941	24,909,222

Financial guarantees issued

In March 2016, Wuhan Zhengtong United Industrial Investment Group Co., Ltd. ("**Wuhan Zhengtong**"), an indirect wholly-owned subsidiary of the Company, had entered into an undertaking (the "**2016 Undertaking**") to provide financial guarantees for Beijing Guangze Real Estate Development Co., Ltd. ("**Beijing Guangze**")'s obligations to: 1) pay the redemption price for the equity investment made by Ningbo Yuchen Fengze Equity Investment Partnership (Limited Partnership) ("**Yuchen Fengze**") in Beijing Zunbaocheng Real Estate Co., Ltd. ("**Beijing Zunbaocheng**") and Beijing Baoze Automobile Technology Development Co., Ltd. ("**Beijing Baoze**") ("**Equity Investment Redemption Obligation**"); and 2) repay the outstanding loan balance owed by Beijing Guangze to Yuchen Fengze ("**Unsettled Loan Balance**"). In March 2020, Wuhan Zhengtong renewed the 2016 Undertaking as certain shortfall agreements ("**2020 Shortfall Agreements**") to further provide financial guarantees for the Equity Investment Redemption Price and the Unsettled Loan Balance.

Beijing Guangze is a company indirectly controlled by a family member of Mr. Wang Muqing. Wang Muqing and Wang Muqing's family member had been the controlling shareholder of the Group when the 2020 Shortfall Agreements were entered into and until 31 August 2021, and ceased to be a related party of the Group from 23 June 2022. Beijing Guangze holds 8.6758% and 4.3478% equity interest in Beijing Zunbaocheng and Beijing Baoze, respectively.

Other than by the financial guarantees provided by Wuhan Zhengtong as mentioned above, the Equity Investment Redemption Obligation and Unsettled Loan Balance were also secured by, among other things, certain land use rights and properties located in Beijing, belonging to Beijing Zunbaocheng and Beijing Baoze (the "**Pledged Assets**") since 2016.

On 17 December 2021, the Company was notified that a court judgement had been granted by the Ningbo Intermediate People's Court in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong.

On 28 December 2021, the Company was notified that another court judgement had been granted in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong by the Yangzhou Intermediate People's Court (together with the aforementioned court judgement being notified on 17 December 2021, as "**First Instance Judgement**").

Pursuant to the First Instance Judgement, Beijing Guangze shall:

— pay to Yuchen Fengze a principal amount of RMB420 million together with interest, comprising, among others, the redemption price for the equity investment made by Yuchen Fengze in Beijing Zunbaocheng and Beijing Baoze. Wuhan Zhengtong was held jointly and severally liable for the same amount (the "**Equity Investment First Instance Judgement**");

— pay to Yuchen Fengze approximately RMB1.41 billion (comprising the loan principal of RMB1.35 billion, accrued interest, default interest and compound interest) and late payment interest, the actual amount of which will increase with time and relevant costs. Wuhan Zhengtong was held jointly and severally liable for the same amount (the "**Loan First Instance Judgement**").

Wuhan Zhengtong filed appeals against the First Instance Judgement through Zhejiang, Jiangsu Higher People's Court, respectively (the "**Appeals**").

The Company received the second instance judgement in respect of the Equity Investment First Instance Judgement from Zhejiang Higher People's Court on 23 June 2022, pursuant to which, Zhejiang Higher People's Court disagreed with and overturned the first instance judgement that Wuhan Zhengtong was jointly and severally liable for the amounts involved. Pursuant to the second instance judgement, Wuhan Zhengtong was the guarantor but not an obligor who was jointly and severally liable for the amounts owed by Beijing Guangze (i.e. Wuhan Zhengtong was responsible for only the shortfalls if Beijing Guangze fails to fulfill its repayment obligations), and after paying Yuchen Fengze under its guarantee obligations, Wuhan Zhengtong shall be entitled to claim a repayment from Beijing Guangze to the extent of the guarantee obligation it has performed.

On 12 January 2023, Wuhan Zhengtong and Yuchen Fengze entered into a settlement agreement (the "**Settlement Agreement**"), pursuant to which Wuhan Zhengtong withdrew its appeal against the Loan First Instance Judgement and Yuchen Fengze agreed to facilitate the disposal of the collateral assets, including the Pledged Assets, in satisfaction of the debt owed to it.

According to the PRC legal opinion issued by an external legal advisor, the Group is only obliged to pay the shortfall based on the 2020 Shortfall Agreements and the Settlement Agreement, if any, when Yuchen Fengze has shortfalls to recover the debt owed to it, by collecting the proceeds of disposal of the collateral assets.

Accordingly, cash shortfalls for the Group are the expected payments to reimburse Yuchen Fengze for any shortfall after Yuchen Fengze has collected the proceeds of the disposal of the collateral assets to recover the debt owed to it.

The maximum amount guaranteed by Wuhan Zhengtong with the 2020 Shortfall Agreements was RMB1.93 billion as at 31 December 2023 (31 December 2022: RMB1.93 billion). Both the Equity Investment Redemption Obligation and the Unsettled Loan Balance were collateralised by the Pledged Assets.

The fair value of the Pledged Assets and the estimated net realisable amount calculated as fair value less cost to sell were RMB2.72 billion and RMB1.93 billion as at 31 December 2023 (31 December 2022: RMB2.79 billion and RMB1.97 billion), respectively, according to the valuation reports issued by an external valuer on 27 March 2024.

The initial fair value of the financial guarantees was measured for the future net cash outflow based on the credit spread (after considering macroeconomic and industry factors) of Beijing Guangze, the maximum exposure and value of the Pledged Assets, as well as a discount factor. Subsequently, the financial guarantee contract was measured at the higher of the initial recognised amount, minus accumulated amortisation (which was nil accordingly), and the expected credit loss allowance. As at 31 December 2023 and 2022, the expected credit loss allowances for the financial guarantees, based on the Group's expected net cash outflows, were assessed to be immaterial based on the value of the Pledged Assets, and other factors such as the volatility of the value, and disposal expenses, of the Pledged Assets.

20 CONTINGENT LIABILITIES

(a) In 2018, Wuhan Zhengtong, a subsidiary of the Company, and Beijing Guangze entered into a general contractor agreement (the "**General Contractor Agreement**") pursuant to which Wuhan Zhengtong engaged Beijing Guangze to undertake the development, establishment, re-establishment and expansion of 4S stores and relevant commercial projects owned by the Group. The contract consideration shall be utilized by Beijing Guangze as the general contractor for such costs as consultant fees for hiring professional service companies, approval and construction application fees, construction and installation fees and ancillary facilities fees. Details of the General Contractor Agreement had been disclosed in the Company's announcement dated 13 March 2018.

In July 2022, the Group received a payment request of RMB6 million from one of the sub-contractors that had been involved in certain 4S Stores and commercial projects (the "**Subcontractor**"), as Beijing Guangze failed to fulfil its obligations under the General Contractor Agreement.

In accordance with the PRC legal opinion obtained by the Company from an external legal advisor, Beijing Guangze is the primary obligor for the relevant construction payments taking into account such facts and circumstances among others (i) Beijing Guangze had undertaken its general contractor role for the projects since the establishment of relevant contracts in prior years and the Group had entrusted Beijing Guangze with the projects and (ii) the Group had already fulfilled its obligations including the payment made to Beijing Guangze in accordance with the General Contractor Agreement. The historical payments to Beijing Guangze in relation to the Subcontractor is assessed to be approximately RMB236 million.

While the Subcontractor has not initiated any formal legal proceedings against the Group in this connection 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 be sued by the Subcontractor and will need to make payments to the Subcontractor. Therefore, no provision has been made in respect of this matter as at 31 December 2023 (31 December 2022: nil).

(b) In 2023, the Group was informed by receipt of two civil complaints that Wuhan Zhengtong has entered into certain agreements in 2016 to provide guarantees (the "**Guarantee Contracts**") against two fixed assets mortgage loan contracts (the "**Fixed Assets Loan Contracts**") entered into by Wuhan Economic and Technological Development Zone Branch of Hubei Bank Co., Ltd. (the "**Hubei Bank**") with Beijing Guangze and Inner Mongolia Shengze Dingjie Automobile Trading Company Limited (the "**Inner Mongolia Shengze**"), respectively.

In March 2024, Wuhan ZhengTong received judgments in relation to aforementioned two civil lawsuits (the "**First Instance Judgment**") from the Wuhan Intermediate People's Court, pursuant to which i) the Guarantee Contracts were executed but are of no legal effect; and ii) Wuhan Zhengtong shall only bear half of the compensation liability for the failure of Beijing Guangze and Inner Mongolia Shengze to repay the debts.

In accordance with a PRC legal opinion obtained by the Company from an external legal advisor, the First Instance Judgment confirmed that Wuhan Zhengtong ranks lower in the order of priority in meeting payment commitments, and there are several collaterals and other defendants who are also guarantors, the directors of the Company, having given due consideration of the legal advice and the relevant facts and circumstances including their understanding of the value of the collaterals, are of the opinion that it is not probable that the Company will be required to make any payments. Therefore, no provision has been made in respect of this matter as at 31 December 2023.

As at 31 December 2023, except for the aforementioned contingencies, the Group did not have any other material contingent liabilities.

BUSINESS REVIEW

In 2023, an excessive supply and relatively insufficient demand became the main contradiction within the PRC automobile industry. The traditional automobile dealership industry experienced unprecedented adversity and challenges due to the explosive rise of new energy vehicles and sudden changes in consumer habits. The Group actively responded to the unfavorable market environment and circumstances, continued to maintain its sales of mid-to-high-end brands, and expanded its automobile-related derivative businesses in line with market trend. Taking "4S business", "new retail" and "emerging businesses" as the three core business pillars, the Group will strive to create its "second growth curve" and gradually put its five-year strategic development plan into practice.

For the year ended 31 December 2023, the Group recorded a revenue of approximately RMB24,132 million, representing a year-on-year increase of approximately 6.7%, and a gross profit of approximately RMB1,009 million, representing a year-on-year decrease of approximately 36.4%.

In 2023, the Group ranked 22nd among the top 100 China's Automobile Dealership Groups, and won a series of major awards, including the "2023 Outstanding Member of China Automobile Distribution Industry — Industry Innovation Award* (2023年中國汽車流通行業優秀會員—行業創新獎)" and "Outstanding Automobile Dealership Group* (優秀汽車經銷商集團)" in China's Automobile After-sales Service Quality Competition. The Group's stores were granted 515 awards in total by automobile manufacturers, local governments, industry media and industry associations, among which, 492 were awarded by manufacturers and 23 were from the government, media and industry associations.

The following is a review of the business development of the Group's various business sectors during 2023, and the progress made in improving management:

(I) Automobile dealership segment

In 2023, the Group forged ahead with the management target of enhancing quality and improving efficiency. We maintained close communication and cooperation with manufacturers, striving for more high-quality commercial vehicle resources and manufacturers' business policies to improve the quality of our operations. Internally, we improved our resources management, enhanced the inventory management of commercial vehicles, continued to give full play to the advantages of our network layout, coordinated the deployment of the resources of our dealerships and expanded the supply chain business with major customers.

The Group continuously enriched its product portfolio and improved its service efficiency to differentiate its marketing. Each of its stores has developed a diversified and competitive portfolio, and some of them offer model customization to allow customers a range of options to choose from, so as to cater to the individual needs of customers. The Group has given full play to the strengths of its dealerships and strengthened its co-operation with financial institutions to provide customers with a wide range of financial products. It has coordinated with the Group's internal and external units to tap into other areas and provided value-added services to customers for car purchases through the organization of vehicle owners' activities, thematic forums and seminars, and joint marketing activities. The Group has enhanced its information technology service capability to provide electronic signing services for sales documents to cut down on signing time, which has greatly improved the customer experience and sales efficiency.

1. Sales of new automobiles business

In 2023, the Group proactively responded to the complex market environment and challenges by focusing on enhancing quality and improving efficiency of the main business line. The Group achieved a growth amid the upward trend in market share of its core distribution brands. For the year ended 31 December 2023, the Group achieved sales of new automobiles of 60,845 units, representing a year-on-year increase of approximately 8.1%. Among those units, 51,872 units were luxury and ultra-luxury branded automobiles, which represents a year-on-year increase of approximately 14.4%. The Group has further secured the authorisation of OEMs and/or achieved a significant increase in the rankings within their systems, and has been honoured with various awards:

1) The BMW brand entered a rapid recovery phase, with relatively robust growth in new vehicle sales and after-sales business. Specifically, new energy vehicle sales increased more than 130% year-on-year. The Group received 143 awards during the year, including the "2022 BMW Dealer Excellence in Dealer Performance Award* (2022年BMW經銷商卓越經銷商表現獎)" presented by BMW China & BMW Brilliance, and the "Pioneer Finance 2023 National Outstanding Performance Award* (先鋒金融2023年全國傑出表現獎)" presented by BMW Leasing China.

2) During the year, ZhengTong Auto steadily increased its sales in Mercedes Benz as a strategic dealer of Mercedes Benz in China. The Company received a total of 61 awards, including 16 national awards from manufacturers, such as the "Mercedes-Benz National Boutique Sales Star (梅賽德斯-奔馳全國精品銷售之星)" and the "National New Media Pioneer Award (全國媒體開拓先鋒獎)" by Beijing Mercedes-Benz.

3) The Dalian Hengyuehang Porsche Center* (大連恆悅行保時捷中心) of Porsche brand officially opened in 2023. The Group currently has 5 operating stores nationwide, which further consolidated the position of ZhengTong Auto as Porsche's strategic dealer in China. In addition, it received a total of 55 awards during the year. To win the Gentlemen's

Group Championship of the 2023 Asian Porsche Carrera Race, the ZhengTong fleet teamed up with driver Bao Jinlong for the sixth time, marking its winning of the championship for the third time.

4) Audi brand has actively sought innovative marketing and management improvement. Through the establishment of a large customer public relations team, it has achieved sales of nearly a thousand new automobiles with the cooperation of eHi Car and actively embraced new media channels which led to a cumulative increase of over 350,000 fans, laying a solid foundation for the future transformation of sales channels. During the year, it received a total of 82 awards, including the "2023 FAW Audi Franchised Dealer — Outstanding Dealer Group Award" presented by FAW Audi.

5) Jaguar Land Rover brand grew rapidly, and its retail scale and total after-sales output value maintained a stable high proportion. It won a total of 89 awards during the year, including the "2023 National Excellent Dealer" and "2023 Best Order Quality Award" presented by Jaguar Land Rover China.

6) The comprehensive brand continued to promote transformation and upgrade work, with 6 projects accelerating the implementation of transformation and upgrading, and established cooperative relationships with VOYAH, NIO, Tesla, BYD, etc. While accelerating transformation and store adjustments, we also focused on basic operations. During the year, it won a total of 59 awards, including the "2022 Full Year Sales 3-star Dealer" and "2022 Full Year After Sales 3-star Dealer" presented by SAIC GM.

Faced with the sluggish traditional automobile distribution model, the Company has comprehensively improved its new media marketing coverage, created a media matrix for its stores and emphasized the acquisition and conversion of sales leads. By the end of the period, the Group's store media had accumulated over 2 million fans for its live broadcast accounts. The Group also organized internal case sharing session from time to time to disseminate practical experience in new media marketing, which effectively improved the marketing level of each store. During the period, several stores won market communication awards from manufacturers and live broadcast platforms.

2. After-sales services business

The Group prioritizes customer centricity throughout the entire customer usage cycle and strives to improve customer operational standards and experience in after-sales service.

The Group uses its Cheweixing (車微星) mini-program and enterprise WeChat to establish stable and close relationships with its customers by regularly sending them maintenance information, customer rights reminders and activity information, and committing to being attentive service managers for them. The Group offers customers with various services, such as transportation vehicles, door-to-door pick-up and drop off, 24-hour rescue, to meet their different usage needs and provide more convenience for vehicle maintenance. In addition, the Group provides quick repair and rapid car body spray services, which effectively reduces customer waiting time and improves customer experience. The Group also started night maintenance services, extended business hours and provided more flexible maintenance time options for commuter customers, which brought in business growth. The Group also values customer experience and listens to customer feedback, and each store has its own professional customer service personnel to address customer concerns and solve customer problems promptly, thereby improving customer satisfaction.

In terms of extended services, the Group offers the "dual-guarantee worry-free" (雙保無憂) product, which provides customers with more comprehensive services for their driving cycle. The Group timely reminds customers to conduct pre-guarantee inspections and cooperates with them to enjoy the dual-guarantee service more conveniently, which provides safety protection for customers, and continuously improves customer satisfaction, as well as further increases service opportunities for customers. During the reporting period, the Group's customer base continued to grow.

For the year ended 31 December 2023, the Group provided after-sales service for 1,150,436 units in total and recorded revenue from after-sales service of approximately RMB3,240 million.

3. *Pre-owned automobile business*

2023 is the first year of the comprehensive implementation of the new policy on pre-owned automobiles. The policy effect gradually becomes apparent with the removal of restrictive factors and the unblocking of bottlenecks, leading the pre-owned automobiles market to enter a new stage of development. According to the data issued by the China Automobile Dealers Association, the cumulative transaction volume of pre-owned automobiles in 2023 amounted to 18,413.3 thousand units, representing a year-on-year increase of 2,385 thousand units or 14.88%, with a cumulative transaction amount of RMB1,179.532 billion.

The Group has always attached great importance to the healthy development of its pre-owned automobile business, and further improved the standardized system for the management of pre-owned automobiles of the Group during the period, strengthening cooperation with multiple online second-hand car auction platforms. During the reporting period, the Group concentrated on the enhancement of its pre-owned automobile retail business by strengthening external procurement, establishing 4 pre-owned automobile demo stores and establishing a mechanism for sharing and competition among the Group's pre-owned automobile retail sources, so as to effectively improve the quality of the operation of the pre-owned automobile retail business, thereby further improving the profitability of the pre-owned automobile business.

In July 2023, the Group obtained the qualification to export pre-owned automobiles and exported 64 units of its pre-owned automobile during the year. It also completed the construction of a cross-border e-commerce trading platform for its pre-owned automobile. To take advantage of the rapid development trend of the automobile export business in the PRC and the favourable national policies, the Group will promote the expansion of its pre-owned automobile export business and establish a comprehensive supply chain system for its pre-owned automobile export business.

4. Auto finance business

Benefiting from the Group's overall synergy and the interconnection of its businesses, the Group's Dingze Insurance Agency had 55,000 units for new insurance in 2023, representing a year-on-year increase of 4%. In particular, the new car insurance rate reached 92%, and renewal insurance was made for 200,000 units, representing a year-on-year increase of 11%.

In addition to adhering to the business strategy of focusing on the growth of business indicators, Dingze Insurance Agency also focuses on the composition of the profit sources of the business and the sustainable growth of profits. In 2023, in order to further adapt to the changes in the business market, maintain the competitiveness of the products, enhance the customer retention rate of the stores in multiple dimensions and reduce the cost of accidental vehicle resources, the Group strengthened the on-site training of the sales skills of dual insurance agency, and developed and introduced a new "loaner vehicle insurance product (代步車險產品)" on a trial basis to improve and enhance the accidental vehicle business of 4S stores while helping stores to increase the profitability of the product and further increase customer stickiness.

In addition to continuously developing the traditional automobile insurance business, Dingze Insurance Agency also continued to improve its service by effectively building a communication bridge between the stores and insurance companies to enhance business synergy and service satisfaction, which further empowered the principal business of the Group's 4S stores.

Development and layout of company network

As a leading dealership group of luxury brands in the PRC, the Group represents mass-market luxury and ultra-luxury automobile brands including Porsche, Mercedes-Benz, BMW, Audi, Jaguar Land Rover and Volvo. In addition, the Group also engages in the dealership of mid-to-high-end brands such as FAW-Volkswagen, Buick, Dongfeng-Nissan, FAW Toyota and Dongfeng-Honda, as well as independent brands such as Hongqi, GWM Haval and Great Wall-Tank-WEY.

As of 31 December 2023, the Group had 109 dealership stores in 37 cities across 16 provinces and municipalities in China, and had 3 additional authorized and constructed dealership stores, namely an Audi 4S store, an authorized after-sales service center of NIO and a Land Rover 4S store. The Group opened 4 new dealership outlets during 2023, namely, a Mercedes-Benz 4S store in Longhua District, Shenzhen, a Mercedes-Benz repair center in Yiwu City, a Great Wall Haval 4S store in Hohhot City, Inner Mongolia and a Great Wall-Tank-WEY joint brand 4S store in Yizhuang, Beijing. In view of the outstanding business performance of the Land Rover brand, the Group has newly obtained the authorization of the 4S Store program for Land Rover in Wuhan, which will enable it to continue expanding its network of traditional luxury brands while being mindful of the rapid rise of independent brands and cultivating new growth points. In addition, the Group continued to expand its business layout in the new energy field, especially in the repair field with relatively stable profits. During the reporting period, the Group established stable relationship with a number of new energy OEMs. In October 2023, Shanghai Shenxie successfully transformed and obtained the authorization of the after-sales service center of NIO, and rented out the showroom for the construction of the NIO dual-branded flagship store, the first of its kind in China, where direct sales of the manufacturer is combined with an authorized after-sales service center.

The following table sets forth the details of the Group's dealership stores as of 31 December 2023:

	Dealership stores in operation	**Dealership stores in development**	**Total**
5S/4S stores for luxury and ultra-luxury brands	63	1	64
4S stores for mid-to-high-end and new energy brands	13		13
Urban showrooms for luxury brands	5		5
Authorized repair centres for luxury brands	6		6
Showrooms for mid-to-high-end and new energy brands	1		1
Mid-to-high-end and new energy brand service centres	2	1	3
Self-operated stores	19		19
Total	109	2	111

In 2023, facing the challenges and uncertainties of the automobile dealership industry, the Group leveraged its internal resources and strengths to promote and launch its core and profitable brand projects as planned. At the same time, the Group also actively cooperated with OEMs in various aspects such as upgrading brand image and shifting to new energy by completing the upgrading and transformation of 21 projects in collaboration with the OEMs, including 7 Audi vitalisation projects, 11 BMW leadership projects, 2 Mercedes-Benz MAR2020 projects and 1 Porsche Ruijing projects to further enhance customer experience and the operational capabilities of its dealership stores.

In addition, we have continued to streamline and strategically reposition low-performing brands and stores, and promoted brand conversion and property revitalization and leasing, so as to improve the overall utilization of the Group's resources. During the year, the Group completed business transformation and optimization of 10 stores in total. The direction of transformation includes various methods such as brand replacement, leasing in cooperation with new energy OMEs or other dealerships while the region covers a number of cities including but not limited to Beijing, Shanghai, Wuhan, Hohhot, Baotou and Shangrao. The overall business transformation and optimization has yielded results.

In terms of long-term network expansion strategy, the Group will continue to consolidate the base of its luxury automobile brands, deepen its all-round cooperation with various OEMs including new energy projects, strengthen its position as a strategic partner with the OEMs of mainstream domestic luxury and ultra-luxury brands, and continue to optimize its brand structure and the profitability of its stores. At the same time, the Group will proactively explore the development trends and directions of the automobile dealership industry, pay attention to market opportunities arising from new energy and new dealership models, seize opportunities to participate in the dealership, maintenance and related emerging businesses of new brands and traditional domestic brands with relatively large development potential, focus on the after-sales service area which can improve the utilization rate of existing properties and generate relatively stable and predictable revenue, so as to develop new growth.

(II) Supply chain business segment

In 2023, Shengze Jietong Supply Chain Co., Limited* (聖澤捷通供應鏈有限公司) ("**Shengze Jietong**"), a subsidiary of the Group, achieved a total operating revenue of RMB392 million. During the year, the construction of the Hannan logistics base entered the final stage and was officially put into use in the first quarter of 2024.

Regarding the vehicle logistics business, the gross profit margin of the business increased by 1.34 percentage points through the introduction of other brand suppliers and the optimisation of the mix of distribution routes. We further increased the share of Nissan's business after several rounds of negotiations and discussions.

Despite the impact of new energy vehicles on the market, the spare parts business maintained a growth of 7.72% in operating revenue. During the reporting period, the relocation of the spare parts warehouse from the main warehouse and the Xingguang warehouse (星光庫) to the Hannan base was completed, which greatly improved FAW-Volkswagen's spare parts warehousing capacity in central China, while the automated multi-penetration warehouse has also been put into operation.

Regarding the vehicle warehousing business, the construction of the vehicle warehousing site was completed in May 2023, providing high-standard warehousing sites for clients such as Xiaopeng Motors' Wuhan plant.

(III) Emerging business segment

In 2023, the Group gradually and steadily promoted the new energy vehicle business. Currently, there are 3 new independently authorized new energy after-sales stores, namely HYCAN 4S store in Guangzhou, Hohhot Jieyunhang and Tesla authorized body and paint centre in Jieyang.

While consolidating the operation of its main business, the Group has made full use of its advantages in terms of geographical location and industrial resources to proactively expand and deploy emerging businesses related to the automobile industry chain to create a "second growth curve" in line with its strategic planning.

In June 2023, the Group and the CCRE Group established a joint venture company, Hubei Guomao New Energy Technology Co., Ltd.* (湖北國貿新能源科技有限公司), to expand its photovoltaic and energy storage related businesses with Wuhan as the centre. At present, we have accumulated more than 100 MW of reserves and tracked key photovoltaic projects, of which the Wuhan Shengze Logistics Park project has officially commenced.

(IV) Management improvement and social responsibilities

In 2023, the Group continued to strengthen its corporate governance, organisational structure, internal supervision, risk prevention, human resources and digital development, and made the following optimizations and improvements, as well as proactively assumed its social responsibilities.

- In terms of organizational structure, as a listed company, the Group has actively implemented an investment philosophy and corporate standard focused on corporate environment, social responsibility and corporate governance performance. The Group has established an Environmental, Social and Governance Committee (ESG Committee) under the Board to oversee ESG-related work and organized two ESG training sessions during the year to improve employees' awareness of listing compliance and foster a good compliance culture. In accordance with the principles of effective management, flat streamlining and stable adaptation, we further optimized the organizational structure and position mapping to promote organizational effectiveness.

- In terms of corporate governance, the Company has comprehensively revised and further optimized and improved rules and regulations in 2023; it has reorganized the responsibilities of functional departments in the headquarters and optimized management boundaries; the Company has clarified decision-making, implementation and supervision responsibilities and authorities, and developed a scientific and effective division of responsibilities and checks and balances mechanism. The Company has also optimized the review and approval authorities of various automobile dealerships businesses and headquarters departments in accordance with appropriate rights and responsibilities, hierarchical authorization, conciseness and efficiency.

- In terms of internal supervision, under the guidance of the Group's operating policy of "increasing revenue, reducing costs and increasing efficiency ", the Group's internal audit and supervision work revolved around "strengthening audit supervision and enhancing audit rectification", with 41 audit projects launched during the year, including 32 regular audits and 5 special audits. The Group enhanced the audit on procurement, outsourcing, costs and expenses, and project settlement, and also promoted the continuous enhancement of management capacity and the transformation of audit results by strengthening the rectification of audit issues. In order to build a sound internal control system, the Group initiated projects on internal control research, diagnosis and optimization. Meanwhile, the Group constructed a general supervision system of "party committee leading and coordinating all parties" and established a joint meeting mechanism to coordinate the degree of supervision and strengthen the quality of supervision.

- In terms of risk prevention, the Group dynamically analyzed and evaluated risks based on its development stage and business expansion, and adjusted its risk response strategies accordingly. It established an emergency management and public opinion management team and developed emergency disposal and public opinion response mechanisms. Regarding the emerging businesses, such as the export of pre-owned automobiles, the Group formulated a series of relevant systems and work guidelines during the year to set clear boundaries for the development of emerging businesses, which further improved the risk prevention and control system of the Company. In addition, to effectively integrate integrity risk prevention and control with operation and production, the Group has formulated the Management Measures for Embedding Integrity Risk Prevention and Control into Business Risk Prevention and Control (廉潔風險防控嵌入經營風險防控工作管理辦法) and the Manual for Integrity Prevention and Control (廉政風險防控手冊), and identified integrity risk points in ten key risk areas, such as selection and employment, fund operation and bidding management, to develop prevention and control measures in sequence, so as to restrict the exercise of power.

- In terms of digital construction, the Group has formulated a three-year strategic plan for digital transformation and upgrading. The Group continued to optimize its existing systems through the introduction of RPA (Robot Process Automation) technology to achieve a seamless connection between the manufacturer system and the Company's OMS system. The Group also independently developed various business systems such as intelligent inventory, consignment mode and digital counting, to enhance the refinement of operation management. Regarding vehicle warehousing and logistics, it also collaborated with JD.com to launch the Jietong Spare Parts Smart Warehouse System (捷通備件智慧倉系統), which can respond timely and effectively to changes in market conditions and the increasing demands of consumers.

- Adhering to its obligation as a listed company, the Group actively fulfilled its obligation of corporate social responsibility, strengthened employee care and established an "Employee Care Fund" to donate money to employees in need. In 2023, a total of RMB34,000 was distributed to 4 employees. Meanwhile, the Company actively participated in social charity donations and conducted outreach in disaster areas. Following the earthquake in Linxia, Gansu Province on 18 December, the Company responded quickly and organized all staff to make donations, raising more than RMB200,000 within one day to aid the people in the disaster area. It demonstrated our commitment to overcoming difficulties together and shouldering social responsibilities.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2023, the Group recorded a revenue of approximately RMB24,132 million, representing an increase of approximately 6.7% as compared to the revenue of approximately RMB22,607 million in 2022. The increase was mainly due to an increase in the sales of new automobiles during the year. Revenue of the Group was derived from the sales of new automobiles, after-sales services, and other business. Revenue from the sales of new automobiles amounted to approximately RMB20,224 million in 2023, representing an increase of approximately 7.3% as compared to approximately RMB18,845 million in 2022, and accounted for approximately 83.8% and 83.4% of the total revenue in 2023 and 2022, respectively. Revenue from the sales of luxury and ultra-luxury branded automobiles increased by approximately 9.4% to approximately RMB19,139 million in 2023 from approximately RMB17,491 million in 2022, which was mainly due to the increase in sales of luxury automobiles, which accounted for approximately 94.6% and 92.8% of revenue from the sales of new automobiles in 2023 and 2022, respectively. Revenue from the after-sales services was approximately RMB3,240 million, representing an increase of approximately 5.2% from approximately RMB3,081 million in 2022. In 2023, revenue from the after-sales services accounted for approximately 13.4% of our total revenue, representing a decrease of approximately 0.2 percentage points in revenue from that of last year.

Cost of sales

For the year ended 31 December 2023, the Group's cost of sales increased by approximately 10.0% to approximately RMB23,123 million as compared to approximately RMB21,020 million in 2022, which was mainly due to the increase in volume of sales scale. In 2023, the cost of sales for new automobiles of the Group increased by approximately 10.5% to approximately RMB20,579 million from approximately RMB18,630 million in 2022. The increase was mainly due to the increase in volume sales of new automobiles. Cost of sales for after-sales services increased by approximately 7.9% to approximately RMB1,948 million as compared to approximately RMB1,806 million in 2022, which was mainly due to the expansion of our after-sales services.

Gross profit and gross profit margin

For the year ended 31 December 2023, the gross profit of the Group was approximately RMB1,009 million, representing a decrease of approximately 36% from approximately RMB1,587 million in 2022. The decrease was mainly attributable to the decrease in the average unit sales price of new vehicles. The Group's gross profit margin was approximately 4.2% in 2023, while its gross profit margin in 2022 was approximately 7.0% in 2022.

The Group's gross profit was principally generated from the sales of new automobiles and after-sales services business. In 2023, the Group recorded a gross loss from the sales of new automobiles business of approximately RMB354 million, while the Group's gross profit from the sales of new automobiles business was approximately RMB215 million in 2022. The reversal was mainly attributable to the decrease in the average unit sales price of new vehicles. In 2023, the Group's gross profit from after-sales services increased by approximately 1.3% to approximately RMB1,292 million from approximately RMB1,275 million in 2022.

Selling and distribution expenses

For the year ended 31 December 2023, the Group's selling and distribution expenses decreased by approximately 10.6% to approximately RMB1,083 million from approximately RMB1,211 million in 2022. The decrease in selling and distribution expenses was mainly attributable to the Group's cost-saving measures and the decrease in depreciation and amortisation of certain stores.

Administrative expenses

For the year ended 31 December 2023, the Group's administrative expenses amounted to approximately RMB1,085 million, representing a decrease of approximately 15.3% from approximately RMB1,281 million in 2022. The relevant decrease was mainly attributable to the Group's operational cost control measures.

Profit from operations

For the year ended 31 December 2023, the Group's profit from operations was approximately RMB168 million, as compared to a profit from operations of approximately RMB834 million in 2022. The decrease was mainly due to a decrease in average unit price of new vehicles and gross profit from sales. The Group's operating profit margin was approximately 0.7% in 2023 (2022: 3.7%).

Income tax

For the year ended 31 December 2023, the Group's income tax amounted to approximately RMB66 million (2022: RMB167 million) and the effective tax rate was approximately 7.5% (2022: −128.2%).

Loss for the year

For the year ended 31 December 2023, the Group's loss for the year increased by approximately 176.1% to approximately RMB820 million from approximately RMB297 million in 2022. The increase was mainly due to a decrease in average unit price of new vehicles and gross profit from sales. The Group's loss margin was approximately 3.4%, representing an increase of 2.1 percentage points as compared to 1.3% in 2022.

Contingencies

As at 31 December 2023, the Group did not have any significant contingent liabilities other than those disclosed in note 20 to the consolidated financial statements.

Current assets and current liabilities

As at 31 December 2023, the Group's current assets amounted to approximately RMB14,426 million, representing an increase of approximately RMB596 million as compared to approximately RMB13,830 million as at 31 December 2022. The increase was mainly due to the increase in other receivables. As at 31 December 2023, the Group's current liabilities amounted to approximately RMB22,644 million, representing an increase of approximately RMB3,733 million as compared to the current liabilities of approximately RMB18,911 million as at 31 December 2022, which was mainly due to an increase in short-term loans and borrowings.

Cash flow

As at 31 December 2023, the Group had cash and cash equivalents amounting to approximately RMB745 million, representing an increase of approximately RMB11 million from approximately RMB734 million as at 31 December 2022. The Group's transactions and monetary assets were principally conducted in Renminbi. The Group's primary uses of capital were to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to fund the Group's working capital and ordinary recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the year ended 31 December 2023, the Group had net cash inflow of approximately RMB37 million generated from its operating activities (2022: RMB159 million).

Capital expenditure and investment

For the year ended 31 December 2023, the Group's capital expenditure and investment were approximately RMB1,009 million (2022: RMB859 million). The increase was mainly due to the upgrade and renovation of dealership stores and the construction of a logistics base.

Inventory

The Group's inventories included vehicles, automobile spare parts and properties under development for sale. In general, each of the Group's dealership stores manages the quotas and orders for new automobiles, automobile spare parts and other inventories separately. In addition, the Group utilizes its information technology systems to manage its inventory, and also monitors the inventories within its whole dealership network, and may transfer automobiles from one dealership store to another to rebalance inventory levels. The inventories of the Group were approximately RMB3,772 million as at 31 December 2023, representing a decrease of approximately RMB292 million from RMB4,064 million as at 31 December 2022. Such change was mainly due to the decrease in the inventories of new automobiles. The Group's average inventory turnover days for 2023 was 48.0 days (2022: 48.4 days).

Risks of foreign exchange

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. However, the Group's operating cash flow and liquidity have not been significantly affected by fluctuations in exchange rate. The Group used forward foreign exchange contracts and foreign exchange option contracts to hedge its risk of foreign currency related to its loans and borrowings denominated in US dollar.

Liquidity and capital resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks and other financial institutions. As at 31 December 2023, the Group's cash and cash equivalent and bank deposits were approximately RMB5,620 million (including: pledged bank deposits of approximately RMB4,875 million and cash and cash equivalents of RMB745 million), representing an increase of approximately RMB929 million from that of approximately RMB4,691 million as at 31 December 2022. The increase was mainly due to an increase in financing. As at 31 December 2023, the Group's loans and borrowings and lease liabilities amounted to approximately RMB21,041 million (31 December 2022: loans and borrowings and lease liabilities amounted to approximately RMB20,018 million). This increase was mainly due to an increase in certain bank loans and borrowings. As at 31 December 2023, the net gearing ratio of the Group was approximately 1,198.1% (31 December 2022: approximately 6,828.9%). Net gearing ratio as at 31 December 2023 was calculated as loans and borrowings and lease liabilities less cash and cash equivalents and pledged bank deposits divided by total equity. The Group will actively enhance its business efficiency and consider various methods to improve its existing financial position and reduce the degree of leverage of the Group.

Pledged assets

The Group has pledged certain assets as securities for the bank loans and the issuance of bills payables. As at 31 December 2023, the pledged assets of the Group amounted to approximately RMB9,468 million (31 December 2022: approximately RMB8,003 million). The increase was mainly due to the increase in the pledged bank deposits.

Investments held in foreign currency and hedging

For the year ended 31 December 2023, the Group did not hold any material investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the change in exchange rate.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2023, the Group had a total of 6,669 employees (as at 31 December 2022: 7,181 employees) in the PRC. For the year ended 31 December 2023, the staff costs of the Group for the continuing operations amounted to approximately RMB956 million (2022: approximately RMB985 million).

The Group attaches great importance to human resources and understands the importance of attracting and retaining high-quality employees to the long-term success of the Group. The Group offers reasonable remuneration packages and welfare benefits including pension, work-related compensation benefits, maternity insurance, medical plans and unemployment benefit plans on a long-term basis.

In 2023, the Group established and improved its corporate culture action program, shaped its corporate vision, mission, core values, and business and management philosophy, and adopted a specific code of conduct that is consistent with its core values. It continued to improve average efficiency indicators and achieved job optimization through performance evaluation. During the year, the Group optimized the cadre selection mechanism by implementing internal job rotation system, reserve talent pool, AB post and other specific workstreams, and selected 164 outstanding cadres and talents through internal competition and market recruitment. The Group established a salary system and employee career management system compatible with its development strategy to promote the mutual sustainable development of the employees and the organization.

In 2023, the Group developed a four-level training which includes training in creation, wisdom, leadership and innovation, as well as special training programs such as the Vitality Plan (活力計劃) and the Dandelion Plan (蒲公英計劃). It enhanced its multi-level training to improve the professional knowledge and skills of management and business personnel. During the year, the Group organized and conducted 167 internal training sessions in total, which were attended by 11,511 participants. The Company also trained and systematically cultivated employees at different levels according to their aptitude through online empowerment, front-line practice and active reinforcement, so as to support employees in their development and evolve into a learning based organization. The results of enterprise training have been applied to actual job performance, and work quality has effectively improved as a result. The Group also carried out popular activities such as reading and sharing sessions, advanced employee selection, creating and enjoying music and themed essays, acknowledged the good work of hardworking individuals, in order to help employees achieve their goals, and to promote and implement a good corporate culture.

FUTURE OUTLOOK AND STRATEGY

At the Central Economic Work Conference held at the end of 2023, there was a strong emphasis on technological innovation which is expected to lead to industry upgrade and a continuous increase in domestic demand, progress supply side reforms, stimulate consumption potential, expand effective demand and effective investment space, leverage the advantages of a huge market with strong production capacity, and promote a cycle of mutual growth in consumption and investment. At the recent meeting of the Central Committee of Finance and Economics, it was emphasized that the trade in of durable consumer goods such as automobiles, large-scale recycling and reuse, and the development of a "trade in + recycling" logistics system are to be encouraged. China is now the world's largest automobile market, and the rise of automation and smart technology has accelerated a change in the supply and demand of the automotive industry. We believe that with the recovery of the national economy and the gradual release of favorable national policies, the automobile industry is bound to usher in a new round of development opportunities.

As the core automotive platform of ITG Holding (our single largest shareholder), the Group will continue to take "4S system", "new retail" and "emerging business" as its core business pillars. In the future, it will continue to focus on mainstream luxury brands, accelerate the optimization of brand structure, improve the quality of its main business operations, strengthen the control of automobile sales prices, launch more derivative service products, and promote the transformation and upgrading of some of its loss-making stores. At the same time, it will leverage the synergy within the ITG Holding group, implement cost reduction and efficiency improvement, take advantage of its scale, and increase resource utilization.

In terms of the development of emerging businesses, the Group will invest in promising new energy dealerships/brand distributors and authorized after-sales body and paint businesses through active applications, mergers and acquisitions, so as to enrich its new energy portfolio. Meanwhile, the Group will utilize its location advantages and industry resources, focus on its own strategic planning, actively develop and expand emerging businesses related to the automobile industry chain, continue to explore opportunities in emerging fields such as new energy, pre-owned automobile exports, recycling, and strive to implement projects as soon as practicable.

In addition, the Group will seize opportunities brought forth by the rapid rise of Chinese brands abroad and favorable national policies encouraging pre-owned automobile exports, and accelerate and increase its efforts in expanding the pre-owned automobile export business to implement, promote and drive the application of cross-border e-commerce platforms for pre-owned automobile overseas. By accelerating the expansion of our business team, seeking joint venture partners in the industry with whom we can share resources, and accelerating our overseas expansion, the Group would be able to expand the coverage of its export supply chain and expand the scope of its export business.

PLACING OF NEW SHARES UNDER GENERAL MANDATE

On 7 June 2023 (after trading hours), the Company entered into a placing agreement with Huatai Financial Holdings (Hong Kong) Limited (the "**Placing Agent**"), pursuant to which the Company agreed to place, through the Placing Agent, an aggregate of 122,560,000 placing shares to not less than six independent placees at a price of HK$0.48 per placing share.

The placing shares rank pari passu in all aspects with the existing shares upon issuance. The placing price of HK$0.48 per placing share represented a discount of approximately 15.79% to the closing price of HK$0.570 per share as quoted on the Stock Exchange on 7 June 2023, being the date of the placing agreement.

The net placing price (after deducting the costs and expenses of the placing) is approximately HK$0.46 per placing share. Based on a nominal value of HK$0.10 per share, the aggregate nominal value of the placing shares is HK$12,256,000.

The Directors consider that the placing is an opportunity to tap the market for funds to retire some of the more expensive bank loans coming due.

Completion of the placing took place on 15 June 2023. A total of 122,560,000 placing shares have been successfully placed by the Placing Agent to no less than six placees at the placing price of HK$0.48 per placing share.

The net proceeds from the placing were approximately HK$56.34 million (after deducting related costs and expenses).

The table below sets out the planned application of the proceeds and actual usage up to 31 December 2023:

	% of use of proceeds	Proceeds from the placing *(HK$ million)*	Actual usage during the reporting period *(HK$ million)*	Unutilized net proceeds as of 31 December 2023 *(HK$ million)*
Repaying bank loans	100%	56.34	56.34	0

For further details of the placing, please refer to the announcements of the Company dated 8 June 2023 and 15 June 2023.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save for the above placing, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2023.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix C1 to the Listing Rules as its corporate governance framework. So far as the Board is aware, during the year ended 31 December 2023, the Company has complied with the provisions set out in the CG Code.

REVIEW OF ANNUAL RESULTS

The audit committee of the Board ("**Audit Committee**") comprises three independent non-executive Directors, namely, Dr. WONG Tin Yau, Kelvin (Chairman of the Audit Committee), Ms. YU Jianrong and Mr. SONG Tao. The Group's annual results for the year ended 31 December 2023 have been reviewed by the Audit Committee.

The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF RESULTS ANNOUNCEMENT

This results announcement is available for viewing on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com), and the annual report for the year ended 31 December 2023 of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders and published on the above websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management team and employees of the Group for their commitment and diligence, and would also like to thank our shareholders and business associates for their strong support to the Group.

For and on behalf of the Board
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
WANG Mingcheng
Chairman

Hong Kong, 27 March 2024

As at the date of this announcement, the Board comprises Mr. WANG Mingcheng (Chairman), Mr. LI Zhihuang and Mr. HUANG Junfeng as executive Directors; and Dr. WONG Tin Yau, Kelvin, Ms. YU Jianrong and Mr. SONG Tao as independent non-executive Directors.