中 升 集 團 控 股 有 限 公 司
Zhongsheng Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 881)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the "**Board**") of directors (the "**Directors**") of Zhongsheng Group Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2021, as follows:

GROUP FINANCIAL HIGHLIGHTS

- New car sales volume for the year ended 31 December 2021 increased by 5.5% to 528,154 units as compared to the year ended 31 December 2020.
- Luxury brand new car sales volume for the year ended 31 December 2021 increased by 8.7% to 299,305 units as compared to the year ended 31 December 2020.
- Pre-owned automobile trade volume for the year ended 31 December 2021 increased by 30.2% to 139,413 units as compared to the year ended 31 December 2020.

- Revenue for the year ended 31 December 2021 increased by 18.0% to RMB175,103.1 million as compared to the year ended 31 December 2020, among which:

  - revenue from new car sales increased by 13.5% to RMB142,465.7 million as compared to the year ended 31 December 2020;

  - revenue from after-sales and accessories business increased by 21.0% to RMB24,504.6 million as compared to the year ended 31 December 2020; and

  - revenue from pre-owned automobile sales increased by 215.7% to RMB8,132.8 million as compared to the year ended 31 December 2020.

- Income from value-added services for the year ended 31 December 2021 increased by 12.0% to RMB3,528.0 million as compared to the year ended 31 December 2020. Taking into account the gross profit for pre-owned automobile sales under the distribution model, income from value-added services for the year ended 31 December 2021 would increase by 20.0% as compared to the year ended 31 December 2020.

- Profit attributable to owners of the parent for the year ended 31 December 2021 was RMB8,329.0 million, representing an increase of 50.3% as compared to the year ended 31 December 2020.

- Basic earnings per Share was RMB3.56 for the year ended 31 December 2021 (the year ended 31 December 2020: RMB2.44).

MARKET REVIEW

Despite the complex and on-going effects of the pandemic, the People's Republic of China (the "**PRC**") economy recovered steadily in 2021. According to the data published by the National Bureau of Statistics and based on preliminary estimates, the PRC's gross domestic product (GDP) in 2021 reached RMB114.367 trillion, representing a year-on-year increase of 8.1% and an average two-year increase of 5.1%, and per capita GDP had exceeded US$12,000. The full-year gross sales proceeds from retail goods amounted to RMB44.0823 trillion, representing a year-on-year increase of 12.5%. The scale of market sales has expanded and consumer demand for upgrades continued to grow. The per capita disposable income of PRC residents reached RMB35,128 in 2021, with an actual increase of 8.1% (excluding the effects of price factors). The average unemployment rate in urban areas in the PRC was 5.1% for the year, and employment was generally stable.

Chinese economy continued to recover. Despite the global shortage of automobile semiconductor chips and surging upstream raw material prices, the PRC's automobile market continued to grow steadily in 2021, demonstrating strong resilience. According to the data of the China Association of Automobile Manufacturers, the PRC's automobile production and sales volume in 2021 were 26.082 million units and 26.275 million units respectively, representing a year-on-year increase of 3.4% and 3.8%, respectively, ending a three-year decline since 2018. Among them, the production and sales volume of passenger vehicles were 21.408 million units and 21.482 million units, respectively, representing a year-on-year increase of 7.1% and 6.5%, respectively, with their growth rates higher than the industry by 3.7% and 2.7%, respectively.

The demand in the luxury automobile market remained solid in 2021. According to the data from the China Passenger Car Association, the cumulative sales volume of luxury brands in the PRC's automobile market reached 2.6521 million units in 2021, representing a year-on-year increase of 4.9% despite the impact of various factors such as semiconductor chip shortages. With the relief of supply chain issues for semiconductor chips and other materials in the fourth quarter of last year, the sales volume of luxury brands began to recover in general. In terms of brands, the status of first-tier luxury brands (BBA) remained stable in 2021. Mercedes-Benz was relatively more affected by semiconductor chip shortages, and 758,900 units of new automobiles were delivered in the PRC for the year, representing a year-on-year decrease of 2%. However, benefiting from model restructuring due to semiconductor chip shortages, the profitable models such as GLE, GLS, G-Class, Maybach and AMG achieved double-digit growth, demonstrating strong brand power. The BMW brand was less affected by the shortage of semiconductor chips and 846,200 units of new automobiles were delivered for the year, representing a year-on-year increase of 8.9%. The sales volume of Audi in 2021 reached 700,100 units, representing a year-on-year decrease of 3.6%. The sales volume of Lexus, a Japanese luxury brand, in the PRC and Hong Kong achieved new automobiles sales volume of 227,000 units in 2021, representing a year-on-year increase of 1%. The new automobile sales volume of Toyota, a Japanese mid-to-high-end brand, in the PRC was 1.944 million units in 2021, representing a year-on-year increase of 8.2%. The new energy vehicle segment maintained a strong growth rate in 2021. According to the data of the China Association of Automobile Manufacturers, the production and sales volume of new energy vehicles reached 3.545 million units and 3.521 million units respectively, representing a year-on-year increase of 160%, with its market share going up to 13.4%.

With the continuous, stable and healthy macro-economic growth in the PRC and the accelerated growth of upgraded consumption behaviour, the structure of automobile consumption in the PRC has undergone gradual changes and entered the phase where consumers are increasingly looking to upgrade. Meanwhile, the consumption mentality of automobile consumers has become increasingly matured and they pay more attention to brands, comfort and services. In particular, the scarcity and high premium of car licences in high-tier cities due to purchase restrictions has led to a significant increase in consumer willingness to purchase luxury automobiles. At the same time, with the localisation of luxury brands and decrease in prices, the potential for consumer demand will be further stimulated. The luxury cars market will maintain healthy and rapid development in the future, providing strong drivers for the medium and long-term growth of the passenger vehicle market in the PRC.

In 2021, the PRC government launched a series of policies and measures to guide the high-quality development of the automobile industry, which mainly included comprehensive policies, new energy vehicle and pre-owned automobiles policies. On 5 January 2021, 12 ministries and commissions, including the Ministry of Commerce, jointly published the Notice on Several Measures to Boost Bulk Consumption and Consumption of Key Items and Unleash the Rural Consumption Potential (關於提振大宗消費重點消費促進釋放農村消費潛力若干措施的通知), which emphasised on the stabilisation and expansion of automobile consumption. On 9 February 2021, the Ministry of Commerce issued the Notice on the Publication of Guidelines for Promoting Automobile Consumption in the Commercial Sector and Some Local Experiences and Practices (關於印發商務領域促進汽車消費工作指引和部分地方經驗做法的通知), which effected the complete abolition of the policy restricting the relocation of pre-owned automobiles. On 19 April 2021, the Ministry of Commerce, the Ministry of Public Security and the State Administration of Taxation issued the Notice on Promoting the Cross-Province Registration of Pre-owned Automobile Transactions and Facilitating the Remote Transactions of Pre-owned Automobile (關於推進二手車交易登記跨省通辦，便利二手車異地交易的通知), promoting convenient transactions of pre-owned automobiles and facilitating the development of the pre-owned automobile market.

According to statistics published by the Ministry of Public Security of the PRC, the national automobile ownership reached 302 million units in 2021. The number of automobile drivers reached 444 million. The number of newly licensed drivers (with less than one year of driving experience) was 27.5 million nationwide, representing a year-on-year increase of 5.19 million. The newly registered automobiles nationwide in 2021 were 26.22 million units, representing a year-on-year increase of 1.98 million units. In 2021, a total of 29.23 million automobile transfer registrations were processed by public security and traffic control departments nationwide. In the past five years, the number of pre-owned automobile transfers registered has surpassed the number of new automobile registrations, and the pre-owned automobile market has become increasingly robust.

In 2021, the growth rate of pre-owned automobile sales nationwide remained relatively high compared to new automobile sales. According to the data of the China Automobile Dealers Association, the trade volume of pre-owned automobiles nationwide in 2021 was 17.5851 million units, representing a year-on-year increase of 22.62%. The trade volume of pre-owned automobiles for luxury brands was 1.68 million units, representing a year-on-year increase of 26.6%. The proportion of pre-owned automobiles transferring to other registries has been increasing year by year, and cross-regional circulation improved significantly, with the proportion of pre-owned automobiles transferring to other registries in 2021 reaching 27.32%. As the automobile market in the PRC enters peak period for upgrading and replacement, the pre-owned automobile market will gradually become standardised and professionalised, and industry policies will be fully established. The pre-owned automobile transactions will become an important growth driver for the entire automobile market. According to the data of the China Association of Automobile Manufacturers, the pre-owned to new ratio of automobiles in the PRC had already reached 0.74:1 in 2021. Compared to the more mature overseas automobile markets, such as the United States, where the pre-owned to new ratio of automobiles was 2.5:1, the PRC pre-owned automobile market still has tremendous market potential. At the same time, the pre-owned automobile transactions have gradually shifted from a single price competition to diversified competition in term of quality, price, service and consumer protection. The chain and branded dealership groups will benefit more from the rapid development of the pre-owned automobile market in the future, which has become a trend in the development of the pre-owned automobile industry.

BUSINESS REVIEW

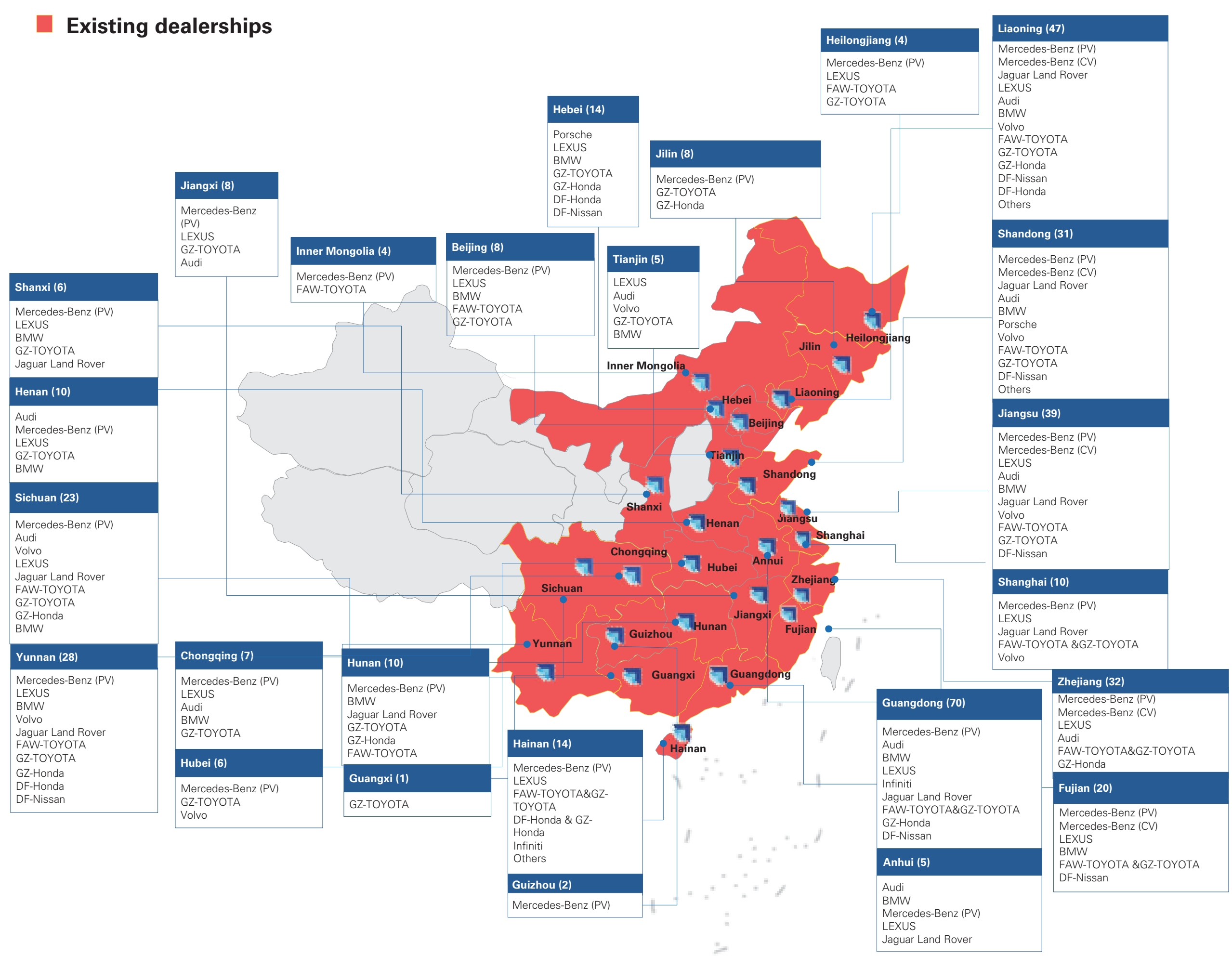
Adhering to the "Brand + Region" strategy, further optimising the existing brand portfolios and strengthening the leading advantages in key regions

Currently, the Group's brand portfolio includes luxury brands such as Mercedes-Benz, Lexus, BMW and Audi, as well as mid-to-high-end brands such as Toyota. It maintains the leading position in the market segment of all core brands.

In October 2021, the Group completed the acquisition of Zung Fu (China) Limited ("**Zung Fu China**") at a final consideration of approximately US$1,314 million. The Group's market share in the Mercedes-Benz brand has increased significantly to approximately 18%, which enhanced the Group's market position as the second biggest dealership for the Mercedes-Benz brand and further consolidated its regional leadership in the market segments in southern and western China. Currently, the acquisition of Zung Fu China has been progressing smoothly with rapid improvement in profitability. The Directors believe that the significant synergies in business, cost and other aspects brought about by the acquisition have been realised one after another, which will lay a solid foundation for the subsequent development of the Group.

As at 31 December 2021, the total number of the Group's dealerships increased to 412, of which 254 are luxury brand dealerships and 158 are mid-to-high-end brand dealerships, covering 25 provinces, municipalities and autonomous regions and over 110 cities in the PRC. As at 31 December 2021, the brand and geographical distributions of the Group's dealerships are as follows:

Brand and Dealership Chart



According to the statistics of the Ministry of Public Security of the PRC, in terms of distribution of automobile ownership in the PRC in 2021, 79 cities have more than one million units, representing a year-on-year increase of 9 cities. Among which, 35 cities have over two million units and 20 cities have exceeded three million units. Beijing, Chengdu and Chongqing each have over five million units; Suzhou, Shanghai, Zhengzhou and Xi'an each have over four million units; and 13 cities including Wuhan, Shenzhen, Dongguan, Tianjin, Hangzhou, Qingdao, Guangzhou, Ningbo, Foshan, Shijiazhuang, Linyi, Jinan and Changsha each have over three million units. With the increasing number of urban automobile ownership, the trend of consumption driven by the desire to upgrade is becoming more obvious, and the proportion of individual users of new automobile purchases and automobile replacement further increased in 2021. According to the data provided by the China Association of Automobile Manufacturers, the number of household new automobile purchases and automobile replacement by individual users in the PRC reached 6.38 million units in 2021, representing a year-on-year increase of 12.0%. This accounted for 29.9% of the overall passenger vehicle retail market and marks a further increase in market share, representing a year-on-year increase of 1.5%. In terms of regional distribution, the main consumers of new automobile purchases and automobile replacement are mainly those coming from developed cities including first-tier and new first-tier cities. The domestic population is accelerating its influx into the core and economically developed cities, which will drive the economy, residents' consumption and purchasing power of top-tier cities to continue to develop at a high speed. In the future, the development of the luxury car market in top-tier cities will continue to lead the lower-tier cities. The Group will continue to grow its network coverage in top-tier cities and key economically developed regions to enhance its sales networks as its leading advantage in such key regions.

Continuous growth across all business segments with significant improvements in profits, and strategic development of pre-owned automobiles and electric vehicles

In 2021, the Group achieved satisfactory results in several business segments including the new automobiles, value-added service and after-sales service segments, with significant improvements in profits. In terms of the new automobile segment, faced with the shortage of semiconductor chips, the Group worked closely with automobile makers by fully leveraging its advantage in its core dealerships and the growth in the sales of new automobiles from Mercedes-Benz and Lexus continued to outperform the industry, strengthening its scale advantage. At the same time, the Group focused on enhancing new automobile gross margin and inventory management, with new automobile gross margins for the brands of Mercedes-Benz and Lexus reaching record highs. In terms of value-added service, the growth in scalable financial loans brought by new automobile sales further deepened the Group's cooperation with commercial banks in the automobile loan agency business, which drove the growth of value-added services profits. The Group achieved new automobile sales volume of 528,154 units in 2021, representing a year-on-year increase of 5.5%, of which sales volume for luxury brands reached 299,305 units, representing a year-on-year increase of 8.7% and accounted for 56.7% of the Group's total sales volume. Such an increase was underpinned by further optimisation of its product mix. The annual revenue generated from new automobile sales amounted to RMB142,465.7 million, representing an increase of 13.5% over the corresponding period last year. The gross profit margin of new automobile increased significantly by 1.4% year-on-year. Revenue from the after-sales business reached RMB24,504.6 million in 2021, representing a year-on-year increase of 21.0% and accounted for 14.0% of the Group's total revenue. The value-added services business segment, such as automobile insurance and automobile finance, achieved good growth in 2021 with annual revenue from value-added services reaching RMB3,528.0 million for the year, representing a year-on-year increase of 12.0%. Taking into account gross profit for pre-owned automobile sales under distribution model, income from value-added services for the year ended 31 December 2021 would increase by 20% as compared to the year ended 31 December 2020. In 2021, the Group's financial penetration rate of new car sales further increased significantly to 67.1%, while the amount of the Group's financial loans also increased significantly to RMB61.7 billion.

Strategic development of pre-owned automobiles

The pre-owned automobiles business is expected to be a core business of the Group in the future and is also the business development focus at the current stage. In 2021, after further improving the construction of the pre-owned automobiles professional team, optimising its assessment and remuneration system as well as the ERP accounting system, the Group focused on investing resources to fully utilise the regional advantages of its national dealership group. The resources for pre-owned automobiles have been optimised nationwide and the proportion of pre-owned automobiles and its retail sales volume increased significantly through several measures such as intranet auction. At the same time, the Group continued to promote the pre-owned automobiles certification system. In 2021, the sales volume of pre-owned automobiles reached 139,413 units, representing a year-on-year increase of 30.2%, the pre-owned to new ratio of automobiles was 26.4%, while the percentage of retail sales of pre-owned automobiles increased by 10.2% over the corresponding period last year.

Strategic development of electric vehicles

In facing the developing trend of electric vehicles, traditional automobile makers such as Mercedes-Benz, BMW and Lexus have accelerated their electrification strategies. By 2030, Mercedes-Benz plans to invest more than 40 billion euros in pure electric automobiles, whilst Toyota plans to invest US$35 billion in this segment. In addition to strengthening the cooperation with traditional automobile makers in electric vehicles, the Group has also launched a strategic cooperation with new domestic automobile makers. In the first half of the year, the Group entered into strategic cooperation agreements with electric automobile makers such as Xpeng to conduct nationwide cooperation in a comprehensive and multi-dimensional approach and promote different business models step-by-step, including 4S dealerships, new automobile sales centres and delivery centres in top-tier cities, after-sales service centres in second-tier cities and after-sales service stations in third- and fourth-tier cities. In Shenzhen, the Group's new automobile delivery centre and superstore for Xpeng have already been put into operation.

The Group is laying down a solid foundation for the future development of the electric vehicle business, which is underpinned by its nationwide service network, especially the network advantage in top-tier cities and economically developed regions, its existing customer base of over 6.5 million and core automotive consumer service capabilities such as industry-leading services and operational capabilities.

Vigourous promotion of digitalisation and service quality

In addition to continuously optimising the industry-leading dealership ERP information system and the central integrated real-time decision support system, the Group has been vigourously promoting its digitalisation management from web portal to dealerships level, the core management in customer dimension and marketing digitisation for dealers, and its refined management has been continuously deepened. After the Group's official website was revamped, the cumulative total number of visits exceeded 400,000. The initial integrated CRM system for dealerships has been connected to the Group's EAS system, the Group's official website, WeChat service account and WeChat APP, covering many business aspects, including pre-sales, new insurance, insurance renewal, marketing materials placement, potential customer management, customer traffic management, customer return visits, and customer rights, becoming a platform for daily business management. The Group's self-developed digitalisation tools, such as the Accident Car Clue App, Financial Smart Butler and Mobility Scooter App, have also been widely used at the dealership level.

Relying on the existing digitalisation base, the Group continues to promote the improvement of service quality and brand image building. The Directors believe that the "Worry Free Double Insurance (雙保無憂)" of Zhongsheng has become an industry benchmark. The launch of quality services such as Zhongsheng courtesy car, E designated driving business, night services and 30-day return without reasons for pre-owned automobiles has greatly improved the convenience of customers' access to services and enhanced their satisfaction. At the same time, the promotion of new media branding has gradually been launched. Currently, the Group operates a total of 851 live streaming accounts in all major new media platforms, making the brand premium of Zhongsheng increasingly significant.

In 2021, the customer bare retained by the Group has further been expanded and the Group continued to outperform the industry. The Group's existing industry-leading advantages in the after-sales and pre-owned automobiles business have also been consolidated and strengthened.

FUTURE OUTLOOK

In 2022, despite the uncertainty of the pandemic, the PRC economy will continue its stable performance. With more supporting policies for the automobile industry and automobile consumption stimulation, the Director expect that the market for luxury automobiles will continue to maintain a steady growth. The market influence of leading luxury brands will also be further enhanced as more consumption is driven by the desire to upgrade. The influence of positive factors such as global semiconductor chip supply chain adjustment, weakening pandemic, gradual easing up of shortage of semiconductor chips in the industry and the progressive return of supplies back to normal, luxury automobile sales volume in the second half year is expected to achieve higher growth.

Facing new opportunities and challenges, the Group will continue to develop its pre-owned automobiles and electric vehicles businesses strategically on the basis of consolidating its "brand + regional" advantages, and will continue to adhere to the development path that places equal emphasis on scale advantages and efficiency improvements. While further exploiting economies of scale, the Group will deepen and refine its management through digitisation, focusing on core brands and key regions, strengthening internal benchmarking and process management through the "Billion Dollar Glory Club (億元榮耀俱樂部)" for after-sales services of Zhongsheng and the "Pre-owned Automobiles Club (二手車俱樂部)" for pre-owned automobiles to enhance the profitability and operational efficiency of major stores of core brands such as Mercedes-Benz and Lexus, thereby further consolidating the Group's core brands leading sales and profitability in the industry. In addition to intrinsic development, the Group will continue to focus on industry consolidation and external development opportunities to fully utilise its advantages in operational management and financial capability in the consolidation process, and continue to strengthen the Group's leading industry position by taking into account both scale and efficiency.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended 31 December 2021

The following table sets forth the consolidated statement of profit or loss of the Company for the years indicated:

	Notes	**2021** *RMB'000*	2020 *RMB'000*
REVENUE	*4*	**175,103,062**	148,348,067
Cost of sales and services provided	*5*	**(156,633,507)**	(134,866,359)
Gross profit		**18,469,555**	13,481,708
Other income and gains, net	*4*	**3,890,572**	3,423,881
Selling and distribution expenses		**(7,170,170)**	(5,729,655)
Administrative expenses		**(2,572,676)**	(2,239,263)
Profit from operations		**12,617,281**	8,936,671
Finance costs		**(1,120,121)**	(1,259,872)
Share of profits of joint ventures		**7,909**	3,523
Share of loss of an associate		**(1,487)**	(1,513)
Profit before tax	*5*	**11,503,582**	7,678,809
Income tax expense	*6*	**(3,096,252)**	(2,097,980)
Profit for the year		**8,407,330**	5,580,829
Attributable to:			
Owners of the parent		**8,328,950**	5,539,799
Non-controlling interests		**78,380**	41,030
		8,407,330	5,580,829
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the year (RMB)	*7*	**3.56**	2.44
Diluted			
— For profit for the year (RMB)	*7*	**3.47**	2.36

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

The following table sets forth the consolidated statement of comprehensive income of the Company for the years indicated:

	2021	2020
	RMB'000	*RMB'000*
Profit for the year	**8,407,330**	5,580,829
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		
Exchange differences on translation of foreign operations	**282,425**	511,747
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**282,425**	511,747
Other comprehensive income for the year, net of tax	**282,425**	511,747
Total comprehensive income for the year	**8,689,755**	6,092,576
Attributable to:		
Owners of the parent	**8,611,375**	6,051,546
Non-controlling interests	**78,380**	41,030
	8,689,755	6,092,576

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

The following table sets forth the consolidated statement of financial position of the Company as at the dates indicated:

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**17,371,855**	14,373,357
Right-of-use assets		**4,872,469**	4,413,846
Land use rights		**3,468,956**	2,930,356
Prepayments		**487,372**	1,081,311
Intangible assets		**10,337,459**	6,620,175
Goodwill		**8,296,827**	4,972,459
Investments in joint ventures		**55,694**	47,785
Investment in an associate		**—**	1,487
Deferred tax assets		**236,484**	209,492
Total non-current assets		**45,127,116**	34,650,268
CURRENT ASSETS			
Inventories	*8*	**11,192,016**	9,090,091
Trade receivables	*9*	**1,815,180**	1,429,528
Prepayments, other receivables and other assets		**15,169,171**	13,363,026
Amounts due from related parties		**28,558**	1,168
Financial assets at fair value through profit or loss		**160,991**	150,415
Pledged bank deposits		**797,094**	1,425,880
Cash in transit		**233,890**	180,280
Cash and cash equivalents		**10,950,038**	8,210,363
Total current assets		**40,346,938**	33,850,751
CURRENT LIABILITIES			
Bank loans and other borrowings		**15,219,401**	16,980,126
Lease liabilities		**395,983**	277,658
Trade and bills payables	*10*	**5,459,996**	4,980,288
Other payables and accruals		**4,856,063**	4,215,624
Other liabilities		**—**	245,000
Amounts due to related parties		**1,748**	1,345
Income tax payable		**2,447,698**	1,774,032
Dividends payable		**—**	9
Total current liabilities		**28,380,889**	28,474,082
NET CURRENT ASSETS		**11,966,049**	5,376,669
TOTAL ASSETS LESS CURRENT LIABILITIES		**57,093,165**	40,026,937

	Notes	**2021** **RMB'000**	2020 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**3,271,864**	2,119,632
Bank loans and other borrowings		**4,968,423**	2,351,234
Lease liabilities		**4,248,986**	3,847,101
Convertible bonds		**3,897,401**	4,827,223
Total non-current liabilities		**16,386,674**	13,145,190
Net assets		**40,706,491**	26,881,747
EQUITY			
Equity attributable to owners of the parent			
Share capital		**209**	198
Reserves		**40,243,582**	26,462,702
		40,243,791	26,462,900
Non-controlling interests		**462,700**	418,847
Total equity		**40,706,491**	26,881,747

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The Company has established a principal place of business in Hong Kong which is located at Rooms 1803–09, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 26 March 2010.

During the year, the Group was principally engaged in the sale and service of motor vehicles.

In the opinion of the directors of the Company (the "**Directors**"), the ultimate controlling shareholders of the Company are Mr. Huang Yi and Mr. Li Guoqiang.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021(early adopted)*

The nature and the impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

    The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate ("**HIBOR**") and United States dollars based on the London Interbank Offered Rate ("**LIBOR**") as at 31 December 2021. The Group expects that HIBOR will continue to exist and the interest rate benchmark reform has not had an impact on the Group's HIBOR-based borrowings. For the LIBOR-based borrowings, since the interest rates of these instruments were not replaced by RFRs during the year, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the "economically equivalent" criterion is met.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

    The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

    The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

3. OPERATING SEGMENT INFORMATION

The Group's principal business is the sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

Information about geographical area

Since over 90% of the Group's revenue and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's non-current assets other than deferred tax assets were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 Operating Segments.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented in accordance with HKFRS 8 Operating Segments.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue and other income and gains is as follows:

(a) Revenue:

	2021	2020
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods or service		
Revenue from sales of motor vehicles	**150,598,453**	128,102,934
Revenue from after-sales service	**24,504,609**	20,245,133
Total revenue from contracts with customers	**175,103,062**	148,348,067
Geographical markets		
— Mainland China	**175,103,062**	148,348,067
Timing of revenue recognition		
At a point in time	**175,103,062**	148,348,067

(b) **Other income and gains, net:**

	2021	2020
	RMB'000	*RMB'000*
Commission income	**3,528,049**	3,149,631
Rental income	**29,304**	26,009
Interest income	**183,437**	80,933
Government grants	**63,995**	46,465
Net gains on disposal of items of property, plant and equipment	**6,733**	12,898
Gain on disposal of a subsidiary	**928**	—
Fair value gains/(losses), net:		
Financial assets at fair value through profit or loss		
— listed equity investments	**20,674**	2,440
— financial products	**(54)**	(1,901)
Investment income from financial assets at fair value through profit or loss	**—**	28,330
Dividend income from listed equity investments	**2,086**	1,836
Others	**55,420**	77,240
	3,890,572	3,423,881

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2021	2020
	RMB'000	*RMB'000*
(a) Employee benefit expense (including directors' and chief executive officer's remuneration		
Wages and salaries	**4,600,269**	3,887,087
Pension scheme contributions	**675,606**	398,713
Other welfare	**376,735**	218,668
	5,652,610	4,504,468
(b) Cost of sales and services provided:		
Cost of sales of motor vehicles	**143,911,978**	124,196,476
Others	**12,721,529**	10,669,883
	156,633,507	134,866,359

	2021	2020
	RMB'000	*RMB'000*
(c) Other items:		
Depreciation and impairment of property, plant and equipment	**1,428,389**	1,114,378
Depreciation of right-of-use assets	**511,311**	455,392
Amortisation of land use rights	**98,133**	94,106
Amortisation of intangible assets	**335,863**	275,725
Auditors' remuneration	**6,800**	5,600
Lease expenses	**68,739**	2,566
Promotion and advertisement	**1,002,545**	1,008,450
Office expenses	**513,220**	328,619
Logistics expenses	**196,912**	151,479
Impairment of trade receivables	**4,993**	5,380
Write-down of inventories to net realisable value	**3,061**	1,353
Net gains on disposal of items of property, plant and equipment	**(6,733)**	(12,898)
Fair value (gains)/losses, net:		
Financial assets at fair value through profit or loss		
— listed equity investments	**(20,674)**	(2,440)
— financial products	**54**	1,901
Investment income from financial assets at fair value through profit or loss	**—**	(28,330)
Dividend income from listed equity investments	**(2,086)**	(1,836)
Gain on disposal of a subsidiary	**(928)**	—

6. INCOME TAX EXPENSE

(a) Tax in the consolidated statement of profit or loss represents:

	2021	2020
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**3,012,082**	2,040,819
Deferred tax	**84,170**	57,161
	3,096,252	2,097,980

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gain or appreciation shall apply to the Company or its operations.

The subsidiaries incorporated in the BVI are not subject to income tax as such subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

No Hong Kong tax has been provided as the Group had no assessable profits arising in Hong Kong during the year (2020: Nil).

According to the Corporate Income Tax Law ("**CIT**") of the People's Republic of China, the income tax rates for both domestic and foreign investment enterprises in Mainland China are unified at 25% effective from 1 January 2008.

Certain subsidiaries of the Group enjoyed preferential CIT rates which were lower than 25% during the reporting period as they obtained related approval from the relevant tax authorities or operated in designated areas with preferential CIT policies in the PRC.

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

A reconciliation of the tax expense applicable to profit before tax using the applicable rate for the regions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2021	2020
	RMB'000	*RMB'000*
Profit before tax	**11,503,582**	7,678,809
Tax at the statutory tax rate (25%)	**2,875,896**	1,919,702
Tax effect of non-deductible expenses	**109,955**	162,105
Income not subject to tax	**(17,796)**	(7,575)
Profits and losses attributable to jointly-controlled entities	**(1,605)**	(503)
Lower tax rates for specific provinces or enacted by local authority	**(140,441)**	(110,724)
Adjustments in respect of current tax of previous periods	**16,369**	16,149
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**220,129**	21,053
Tax losses not recognised	**33,745**	97,773
Tax charge	**3,096,252**	2,097,980

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,340,870,937 (2020: 2,272,669,021) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

Earnings

	2021	2020
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**8,328,950**	5,539,799
Interest on convertible bonds	**148,686**	188,195
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**8,477,636**	5,727,994

Shares

	Number of shares	
	2021	2020
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,340,870,937**	2,272,669,021
Effect of dilution — weighted average number of ordinary shares:		
Share option	**6,203,691**	5,113,843
Convertible bonds	**100,687,899**	150,187,858
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,447,762,527**	2,427,970,722

Earnings per share

	2021	2020
	RMB	*RMB*
Basic	**3.56**	2.44
Diluted	**3.47**	2.36

8. INVENTORIES

Inventories in the consolidated statement of financial position represent:

	2021	2020
	RMB'000	*RMB'000*
Motor vehicles	**10,233,397**	8,266,956
Spare parts and others	**972,615**	834,070
	11,206,012	9,101,026
Less: Provision for inventories	**13,996**	10,935
	11,192,016	9,090,091

As at 31 December 2021, certain of the Group's inventories with a carrying amount of approximately RMB3,079,937,000 (2020: RMB3,299,825,000) were pledged as security for the Group's bank loans and other borrowings.

As at 31 December 2021, certain of the Group's inventories with a carrying amount of approximately RMB1,381,072,000 (2020: RMB1,008,000,000) were pledged as security for the Group's bills payable.

9. TRADE RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Trade receivables	**1,834,840**	1,445,113
Impairment	**(19,660)**	(15,585)
	1,815,180	1,429,528

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**1,729,127**	1,348,423
More than 3 months but less than 1 year	**79,711**	75,013
Over 1 year	**6,342**	6,092
	1,815,180	1,429,528

The movements in the loss allowance for impairment of trade receivables are as follows:

	2021	2020
	RMB'000	*RMB'000*
At beginning of year	**15,585**	11,680
Amount written off as uncollectible	**(918)**	(1,475)
Impairment losses, net *(note 5)*	**4,993**	5,380
At end of year	**19,660**	15,585

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

10. TRADE AND BILLS PAYABLES

	2021	2020
	RMB'000	*RMB'000*
Trade payables	**2,394,947**	1,793,518
Bills payable	**3,065,049**	3,186,770
Trade and bills payables	**5,459,996**	4,980,288

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

	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**5,135,868**	4,378,013
3 to 6 months	**254,511**	517,792
6 to 12 months	**17,191**	18,723
Over 12 months	**52,426**	65,760
	5,459,996	4,980,288

The trade and bills payables are non-interest-bearing.

11. DIVIDENDS

	2021	2020
	RMB'000	*RMB'000*
Proposed final − HK$0.84 (approximately RMB0.69) (2020: HK$0.58) per ordinary share	**1,665,790**	1,107,960

The calculation of the proposed final dividend for the year ended 31 December 2021 is based on the proposed final dividend per ordinary share, and the total number of ordinary shares as at 17 March 2022.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year ended 31 December 2021, a final dividend of HK$0.58 per ordinary share in respect of the year ended 31 December 2020 was declared and paid to the ordinary equity holders of the Company. The aggregate amount of the final dividend declared and paid in the year ended 31 December 2021 was HK$1,342,923,000 (equivalent to RMB1,113,189,000).

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2021 was RMB175,103.1 million, representing an increase of RMB26,755.0 million or 18.0% as compared to the year ended 31 December 2020. Revenue from new automobile sales amounted to RMB142,465.7 million, representing an increase of RMB16,939.0 million or 13.5% as compared to the year ended 31 December 2020. Revenue from after-sales and accessories business amounted to RMB24,504.6 million, representing an increase of RMB4,259.5 million or 21.0% as compared to the year ended 31 December 2020. Revenue from pre-owned automobile sales amounted to RMB8,132.8 million, representing an increase of RMB5,556.5 million or 215.7% as compared to the year ended 31 December 2020.

New automobile sales business accounted for a substantial portion of the Group's revenue, representing 81.4% (the year ended 31 December 2020: 84.6%) of the total revenue for the year ended 31 December 2021. After-sales and accessories business accounted for 14.0% of the total revenue for the year 31 December 2021 (the year ended 31 December 2020: 13.6%). Pre-owned automobile sales accounted for 4.6% of the total revenue for the year 31 December 2021 (the year ended 31 December 2020: 1.8%). For the year ended 31 December 2021, almost all of the Group's revenue was derived from business located in the PRC.

In terms of revenue from new automobile sales, Mercedes-Benz is the Group's top selling brand, with revenue from the sales of which representing 33.6% of the Group's total revenue from new automobile sales (the year ended 31 December 2020: 29.4%).

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2021 amounted to RMB156,633.5 million, representing an increase of RMB21,767.1 million or 16.1% as compared to the year ended 31 December 2020. Costs for new automobile sales business amounted to RMB136,268.4 million for the year ended 31 December 2021, representing an increase of RMB14,451.2 million or 11.9% as compared to the year ended 31 December 2020. Costs for after-sales and accessories business amounted to RMB12,721.5 million for the year ended 31 December 2021, representing an increase of RMB2,051.6 million or 19.2% as compared to the year ended 31 December 2020. Costs for pre-owned automobile sales business amounted to RMB7,643.6 million for the year ended 31 December 2021, representing an increase of RMB5,264.3 million or 221.3% as compared to the year ended 31 December 2020.

Gross Profit

The Group's gross profit for the year ended 31 December 2021 amounted to RMB18,469.6 million, representing an increase of RMB4,987.8 million or 37.0% as compared to the year ended 31 December 2020. Gross profit from new automobile sales business amounted to RMB6,197.3 million, representing an increase of RMB2,487.8 million or 67.1% as compared to the year ended 31 December 2020. Gross profit from after-sales and accessories business amounted to RMB11,783.1 million, representing an increase of RMB2,207.8 million or 23.1% as compared to the year ended 31 December 2020. Gross profit from sales of pre-owned automobile amounted to RMB489.2 million, representing an increase of RMB292.2 million or 148.4% as compared to the year ended 31 December 2020. For the year ended 31 December 2021, gross profit from after-sales and accessories business accounted for 63.8% of the total gross profit (the year ended 31 December 2020: 71.0%).

The Group's gross profit margin for the year ended 31 December 2021 was 10.5% (the year ended 31 December 2020: 9.1%).

Other Income and Gains, Net

The other income and gains, net, for the year ended 31 December 2021 amounted to RMB3,890.6 million, representing an increase of RMB466.7 million or 13.6% as compared to the year ended 31 December 2020. The other income and gains mainly consisted of service income from automobile insurance and automobile financing services, commission from pre-owned automobile trading business, rental income and interest income, etc.

Profit from Operations

The profit from operations for the year ended 31 December 2021 amounted to RMB12,617.3 million, representing an increase of RMB3,680.6 million or 41.2% as compared to the year ended 31 December 2020. The operating profit margin for the year ended 31 December 2021 was 7.2% (the year ended 31 December 2020: 6.0%).

Profit for the Year

The profit for the year ended 31 December 2021 amounted to RMB8,407.3 million, representing an increase of RMB2,826.5 million or 50.6% as compared to the year ended 31 December 2020. The profit margin for the year ended 31 December 2021 was 4.8% (the year ended 31 December 2020: 3.8%).

Profit Attributable to Owners of the Parent

The profit attributable to owners of the parent for the year ended 31 December 2021 amounted to RMB8,329.0 million, representing an increase of RMB2,789.2 million or 50.3% as compared to the year ended 31 December 2020.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flow

The Group primarily uses cash to pay for new automobiles, spare parts and automobile accessories, to repay its indebtedness, to fund its working capital and normal operating expenses and to establish new dealerships and acquire additional dealerships. The Group finances its liquidity requirements mainly through a combination of cash flows generated from its operating activities, bank loans and other borrowings and other funds raised from the capital markets and currently expects that future liquidity will continue to be satisfied mainly by the foregoing.

The Group has adopted a prudent financial management approach towards its treasury policies and will revisit such policies from time to time, taking into account, among other thing, the cash flows requirement and expansion of the Group. The Group maintained a healthy liquidity position throughout the year ended 31 December 2021.

Cash Flow Generated from Operating Activities

For the year ended 31 December 2021, the net cash generated from operating activities by the Group amounted to RMB10,872.3 million, consisting primarily of operating profit before working capital movement and tax payment.

Cash Flow Used in Investing Activities

For the year ended 31 December 2021, the net cash used in investing activities by the Group amounted to RMB9,416.6 million.

Cash Flow Used in Financing Activities

For the year ended 31 December 2021, the net cash generated from financing activities by the Group amounted to RMB1,300.6 million.

Net Current Assets

As at 31 December 2021, the Group had net current assets of RMB11,966.0 million, representing an increase of RMB6,589.4 million from the net current assets of the Group as at 31 December 2020.

Capital Expenditures and Investment

The Group's capital expenditures comprised expenditures on property, plant and equipment, land use rights and business acquisition. For the year ended 31 December 2021, the Group's total capital expenditures amounted to RMB11,400 million. Save as disclosed above, the Group did not make any significant investments during the year ended 31 December 2021.

Inventory Analysis

The Group's inventories primarily consisted of new automobiles, spare parts and automobile accessories. Generally, each of the dealerships of the Group individually manages the quotas and orders for new automobiles, after-sales and accessories products. To leverage scale advantage and centralisation efficiency, the Group also coordinates and aggregates orders for automobile accessories and other automobile-related products across its dealership network. The Group manages its quotas and inventory levels through its information technology systems, including an Enterprise Resource Planning (ERP) system.

The Group's inventories increased from RMB9,090.1 million as at 31 December 2020 to RMB11,192.0 million as at 31 December 2021, primarily due to the further optimisation of inventory structure benefitted from its continuous improving stock management.

The following table sets forth the average inventory turnover days of the Group for the periods indicated:

	For the year ended 31 December	
	2021	2020
Average inventory turnover days	**21.6**	23.3

The inventory turnover days of the Group showed a healthy decrease during the year ended 31 December 2021 as compared to the year ended 31 December 2020, which was mainly due to improved inventory management. During the year ended 31 December 2021, the Group's inventory mix gradually optimised and the network scale further expanded.

Order Book and Prospect for New Business

Due to its business nature, the Group did not maintain an order book as at 31 December 2021. As at the date of this announcement, the Group has no new services to be introduced to the market.

Bank Loans and Other Borrowings

As at 31 December 2021, the Group's bank loans and other borrowings amounted to RMB20,187.8 million (31 December 2020: RMB19,331.4 million), and its convertible bonds liability portion amounted to RMB3,897.4 million (31 December 2020: RMB4,827.2 million). The increase in the Group's bank loans and other borrowings during the year ended 31 December 2021 was primarily due to the company increased its offshore borrowing for Zung Fu China acquisition. The annual interest rates of the bank loans and other borrowings ranged from 1.0% to 5.1%.

Interest Rate Risk and Foreign Exchange Rate Risk

The Group currently has not used any derivatives to hedge interest rate risk. The operations of the Group are mainly carried out in the PRC with most transactions settled in RMB. Most cash and bank deposits of the Group are denominated in RMB. The Group has not used any long-term contracts, currency borrowings or other means to hedge its foreign currency exposure. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

Employee and Remuneration Policy

The Group adheres to a strong belief that one of the most valuable assets of a corporation is its employees. The Group values its human resources and recognises the importance of attracting and retaining qualified staff for its continuing success.

As at 31 December 2021, the Group had 39,668 employees (31 December 2020: 31,460). The Group strives to offer a harmonious, efficient and productive working environment, a diversified range of training programmes as well as an attractive remuneration package to its employees. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. The Group endeavours to motivate its staff with performance-based remuneration and reward its staff who had outstanding performances with cash bonuses, honorary awards or a combination of all the above to further align the interests of the employees and the Company, to attract talented individuals and to create long-term incentive for its staff.

Pledge of the Group's Assets

The Group pledged its assets as securities for bank and other loan and banking facilities which were used to finance daily business operations. As at 31 December 2021, the pledged assets of the Group amounted to RMB5.6 billion (31 December 2020: RMB5.9 billion).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save for the acquisition of Zung Fu China and its subsidiaries as disclosed in the Company's announcements dated 1 July and 4, 8 October 2021 and 13 March 2022 and the Company's circular dated 20 August 2021, respectively, during the year ended 31 December 2021, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies.

Future Plans and Expected Funding

Going forward, the Company will continue to expand the reach and depth of its business in the luxury and mid-to-high end passenger vehicle market and capitalise on the market opportunities that align with the Group's business and growth objectives. The Company aims to expand its network coverage and scale through new store establishment and appropriate mergers and acquisitions in the future. The Group plans to fund its future capital expenditure through cash flows generated from its operating activities and various resources including internal funds and borrowings from financial institution. The Group currently has sufficient credit facilities granted by banks.

Gearing Ratio

As at 31 December 2021, the gearing ratio of the Group was 39.9% (31 December 2020: 50.9%), which was calculated from net debt divided by the sum of net debt and total equity.

CONVERTIBLE BONDS

2023 Convertible Bonds

On 4 May 2018, the Company and J.P. Morgan Securities plc (the "**2023 Convertible Bond Manager**") entered into a bond subscription agreement, according to which (i) the Company agreed to issue, and the 2023 Convertible Bond Manager agreed to subscribe and pay for (or procure subscribers to subscribe and pay for) zero coupon convertible bonds due 2023 of an aggregate principal amount of HK$3,925 million (the "**Original 2023 Convertible Bonds**"); and (ii) the Company agreed to grant the 2023 Convertible Bond Manager an option to subscribe for up to an additional HK$775 million in principal amount of the 2023 Convertible Bonds (the "**Option Bonds**", together with the Original 2023 Convertible Bonds, the "**2023 Convertible Bonds**"). On 14 May 2018, the 2023 Convertible Bond Manager exercised in full the option granted by the Company, pursuant to which the Company was required to issue the Option Bonds in the aggregate principal amount of HK$775 million.

The 2023 Convertible Bonds are convertible into shares of the Company (the "**Shares**") at the initial conversion price of HK$30.0132 per Share at the option of the holder thereof, at any time on or after the 41st day after the issue date up to the close of business on the tenth day prior to the maturity date, being a date falling on or about 23 May 2023.

The Company partially repurchased and cancelled the 2023 Convertible Bonds in the aggregate amount of HK$3,315 million on 22 May 2020. In addition, certain holders converted their 2023 Convertible Bonds into Shares.

Pursuant to the terms of the trust deed dated 23 May 2018 between the Company and The Bank of New York Mellon, London Branch (the "**Trustee**") and the agency agreement dated 23 May 2018 among the Company, the Trustee and The Bank of New York Mellon SA/NV, Luxembourg Branch entered into in connection with the issuance of the 2023 Convertible Bonds, all of the outstanding 2023 Convertible Bonds had been redeemed in full on 24 May 2021 at the early redemption amount, being HK$1,085,470.82 for each HK$1,000,000 principal amount of the 2023 Convertible Bonds, rounded to the nearest cent (half a cent being rounded upwards) (the "**Early Redemption**"). The Early Redemption took place on 24 May 2021 and as at the date of this announcement, there are no outstanding 2023 Convertible Bonds in issue.

Please refer to the announcements of the Company dated 4, 6, 15 and 23 May 2018, 12, 13, 14, 22 and 25 May and 20 and 27 November 2020 and 31 March and 25 May 2021, respectively, for further details on the 2023 Convertible Bonds.

2025 Convertible Bonds

On 12 May 2020, the Company, Merrill Lynch (Asia Pacific) Limited and Morgan Stanley & Co. International plc (the "**2025 Convertible Bond Managers**") entered into a bond subscription agreement, according to which the Company agreed to issue, and the 2025 Convertible Bond Managers agreed to subscribe and pay for (or procure subscribers to subscribe and pay for) zero coupon convertible bonds due 2025 of an aggregate principal amount of HK$4,560 million (the "**2025 Convertible Bonds**").

The 2025 Convertible Bonds are convertible into Shares at the initial conversion price of HK$45.61 per Share at the option of the holder thereof, at any time on or after 1 July 2020 up to the close of business on the tenth day prior to the maturity date, being a date falling on or about 21 May 2025. The issue of the 2025 Convertible Bonds in the aggregate amount of HK$4,560 million was completed on 21 May 2020.

There has been no conversion of the 2025 Convertible Bonds as at the date of this announcement. The Company will redeem each 2025 Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. Upon full conversion of the outstanding 2025 Convertible Bonds, the Company may issue 99,978,074 Shares, increasing the total issued Shares to 2,515,018,937 Shares (calculated as at the date of this announcement).

Please refer to the announcements of the Company dated 12, 13, 14, 21, 22 and 25 May 2020, respectively, for further details on the 2025 Convertible Bonds.

BONDS

2026 Bonds

On 6 January 2021, the Company and Merrill Lynch (Asia Pacific) Limited, Mizuho Securities Asia Limited, CCB International Capital Limited, MUFG Securities Asia Limited and Morgan Stanley & Co. International plc (the "**2026 Bond Managers**") entered into a bond subscription agreement, according to which the 2026 Bond Managers have conditionally agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the 3.00 per cent coupon rate. bonds to be issued by the Company in an aggregate principal amount of US$450 million (the "**2026 Bonds**"). The maturity date of the 2026 Bonds is 13 January 2026, on which the Company is scheduled to redeem each 2026 Bond at its principal amount.

Please refer to the announcements of the Company dated 4, 7, 13 and 14 January 2021, respectively, for further details on the 2026 Bonds.

SHARE OPTION SCHEME

The Share Option Scheme (as defined in the Company's prospectus dated 16 March 2010) was conditionally approved by a resolution of the shareholders of the Company (the "**Shareholders**") on 9 February 2010 and adopted by a resolution of the Board on the same day. The Share Option Scheme expired on 25 March 2020. No further options can be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to exercise any subsisting options granted prior to the expiry of the Share Option Scheme or otherwise as handled in accordance with the provisions of the Share Option Scheme.

Details of the outstanding options to subscribe for Shares pursuant to the Share Option Scheme and the movement during the year ended 31 December 2021 are set out below:

Name of Grantees	Date of grant	Exercise price per Share	Outstanding as at 31 December 2020	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period	Outstanding as at 31 December 2021
Mr. Du Qingshan — Executive Director	26 April 2018	HK$22.60	5,500,000[1]	—	—	—	5,500,000
Mr. Zhang Zhicheng — Executive Director	26 April 2018	HK$22.60	5,500,000[1]	—	—	—	5,500,000
Total							11,000,000

Note:

(1) On 26 April 2018, the Company offered to grant share options (the "**Share Options**") to Mr. Du Qingshan and Mr. Zhang Zhicheng under the Share Option Scheme, which will entitle them to subscribe for an aggregate of 11,000,000 new Shares. The Share Options were fully vested on 26 April 2019. The Share Options are exercisable from 26 April 2019 to 25 April 2028 (both dates inclusive) at a price of HK$22.60 per Share. The closing price of the Shares immediately before 26 April 2018 is HK$22.35 per Share.

During the year ended 31 December 2021, no options had been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 31 December 2021, the total number of Shares that may be issued under the Share Option Scheme was 11,000,000 Shares, representing 0.46% of the issued share capital of the Company as at the date of this announcement.

CONNECTED TRANSACTIONS

Save for the acquisition of Zung Fu China and its subsidiaries as disclosed in the Company's announcements dated 1 July and 4, 8 October 2021 and 13 March 2022 and the Company's circular dated 20 August 2021, respectively, there was no connected transaction entered into by the Group during the year ended 31 December 2021 that is required to be disclosed under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

There have not been any significant events affecting the Group after 31 December 2021.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Throughout the year ended 31 December 2021 and up to the date of this announcement, the Company has been in compliance with the code provisions set out in the CG Code.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2021 and up to the date of this announcement.

Purchase, Sale or Redemption of the Company's Listed Securities

In January 2021, as the Board was of the view that share buy-backs and the subsequent cancellation of the bought Shares could enhance the value of the Shares thereby improving returns to the Shareholders, the Board determined to exercise its powers under the general mandate to buy back Shares granted by the Shareholders at the general meeting held on 10 June 2020 to buy back a total of 660,500 Shares at the highest and lowest prices of HK$49.50 and HK$47.65 per Share, respectively. The aggregate purchase price paid (excluding commissions and other expenses) for the bought Shares was approximately HK$32,300,000. The Board believes that the share buy-backs could reflect the Board's confidence in the Company's long-term business prospects. All of the bought Shares have been cancelled as at the date of this announcement.

Save as disclosed above, neither the Company, nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities throughout the year ended 31 December 2021 and up to the date of this announcement.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, being Mr. Ying Wei, Mr. Shen Jinjun and Mr. Chin Siu Wa Alfred.

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management, including the review of the consolidated financial results of the Company for the year ended 31 December 2021. The Audit Committee considers that the financial results for the year ended 31 December 2021 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

SCOPE OF WORK OF THE AUDITOR

The figures above in respect of this annual results announcement for the year ended 31 December 2021 have been agreed with the Company's auditor, Ernst & Young ("**Ernst & Young**"), certified public accountants, to be consistent with the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an 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 Ernst & Young on this announcement.

PROPOSED DISTRIBUTION OF FINAL DIVIDEND

The Board resolved to propose to the Shareholders at the forthcoming annual general meeting on 17 June 2022 (the "**AGM**") for the distribution of a final dividend of HK$0.84 per Share for the year ended 31 December 2021 payable to the Shareholders whose names are listed in the register of the Company on 27 June 2022, in an aggregate amount of HK$2,037 million (equivalent to approximately RMB1,666 million). It is expected that the final dividend will be paid on 8 July 2022. The proposal for the distribution of the final dividend above is subject to the consideration and approval of the Shareholders at the AGM.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining who is entitled to attend the AGM, the register of members of the Company will be closed from Tuesday, 14 June 2022 to Friday, 17 June 2022 (both days inclusive), during which no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, unregistered holders of Shares shall lodge share transfer documents, together with relevant share certificates, with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Monday, 13 June 2022.

In addition, the Company's register of members will be closed from Thursday, 23 June 2022 to Monday, 27 June 2022 (both days inclusive) for the purpose of determining the Shareholder's entitlement to the proposed final dividend of the Company. In order to qualify for the proposed final dividend (subject to the approval by Shareholders at the AGM), unregistered holders of Shares shall lodge share transfer documents, together with relevant share certificates, with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at the above-mentioned address for registration before 4:30 p.m. on Wednesday, 22 June 2022.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.zs-group.com.cn).

The annual report of the Company for the year ended 31 December 2021 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the above websites in due course.

APPRECIATION

The Group's continuous development and progress despite facing market competition and challenges rest on the dedication and contributions of its staff from all departments as well as the trust, support and encouragement from all Shareholders and business partners. The Board would like to express its sincere gratitude to everyone for their valuable contributions to the Group's development.

By order of the Board of
Zhongsheng Group Holdings Limited
HUANG Yi
Chairman

Hong Kong, 17 March 2022

As at the date of this announcement, the executive Directors are Mr. Huang Yi, Mr. Li Guoqiang, Mr. Du Qingshan, Mr. Zhang Zhicheng, Mr. Li Guohui and Mr. Tang Xianfeng; the non-executive Directors are Mr. Chan Ho Yin and Mr. Hsu David; and the independent non-executive Directors are Mr. Shen Jinjun, Mr. Ying Wei, Mr. Chin Siu Wa Alfred and Mr. Li Yanwei.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and development strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond control of the Group. These forward-looking statements may prove to be incorrect and may not be realised in the future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Furthermore, this announcement also contains statements based on the Group's management accounts, which have not been audited by the Group's auditor. Shareholders and potential investors of the Company should therefore not place undue reliance on such statements.