# 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 2022

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 2022, as follows:

**GROUP FINANCIAL HIGHLIGHTS**

- New car sales volume for the year ended 31 December 2022 decreased by 1.5% to 520,396 units as compared to the year ended 31 December 2021.
- Luxury brand new car sales volume for the year ended 31 December 2022 increased by 2.7% to 307,434 units as compared to the year ended 31 December 2021.
- Pre-owned automobile trade volume for the year ended 31 December 2022 increased by 0.5% to 140,121 units as compared to the year ended 31 December 2021.
- Revenue for the year ended 31 December 2022 increased by 2.7% to RMB179,857.0 million as compared to the year ended 31 December 2021, among which:
    - revenue from new car sales increased by 2.1% to RMB145,419.9 million as compared to the year ended 31 December 2021;
    - revenue from after-sales and accessories business increased by 0.4% to RMB24,608.9 million as compared to the year ended 31 December 2021; and
    - revenue from pre-owned automobile sales increased by 20.8% to RMB9,828.2 million as compared to the year ended 31 December 2021.

- Income from value-added services for the year ended 31 December 2022 increased by 6.7% to RMB3,764.3 million as compared to the year ended 31 December 2021. 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 2022 would increase by 6.3% as compared to the year ended 31 December 2021.

- Profit attributable to owners of the parent for the year ended 31 December 2022 was RMB6,667.6 million, representing a decrease of 19.9% as compared to the year ended 31 December 2021.

- Basic earnings per Share was RMB2.76 for the year ended 31 December 2022 (the year ended 31 December 2021: RMB3.56).

## MARKET REVIEW

The demand for luxury brand automobiles remained solid in 2022. According to industry insurance sales data, the total number of luxury brand vehicles sold was flat at 3.74 million, despite numerous operational disruptions that swept the industry throughout the year. In terms of breakdown by brand, Mercedes-Benz delivered 751,714 units of new automobiles last year, representing a year-on-year decrease of 0.9%. BMW sold 791,985 units of new automobiles last year, representing a year-on-year decrease of 6.4%. The sales volume of Audi in 2022 reached 642,548 units, representing a year-on-year decrease of 8.2%. Lexus faced more challenging environments in its cross-border supply chain and only delivered 176,071 units in 2022, representing a year-on-year decrease of 22.4%. The new automobile sales volume of Toyota in the People's Republic of China (the "**PRC**") remained resilient at 1.94 million units in 2022, representing a year-on-year decrease of 0.2%. The NEV segment had another strong year in 2022. According to the information from the China Association of Automobile Manufacturers, the production and sales volume of new energy vehicles reached 7.058 million units and 6.887 million units respectively, representing a year-on-year increase of 96.9% and 93.4%, respectively, with its market share going up to 25.6%, though the majority of them were in subcompact and compact segments that are priced below RMB200,000.

The overall Chinese automobile market is becoming more mature and Chinese consumers are becoming more sophisticated in automobile consumption. According to McKinsey's Chinese automobile consumer insight report, for those who have owned a vehicle valued at more than RMB200,000, more than 80% of them choose to either stay in the same price band or upgrade to the next band when purchasing their next vehicles. 32% and 23% of the consumers surveyed indicated upgrade purchase to a higher price band for those whose current vehicles fall into the RMB200,000–RMB300,000 and RMB300,000–RMB400,000 ranges respectively. For those whose present vehicles are priced above RMB400,000, 90% of them choose to remain in the same price range. Moreover, the report further revealed that apart from some purely technical aspects relevant to battery (mileage, charging time, charging support, etc.), both ICEV and NEV owners, when making purchase decisions, have very similar considerations that are related to brand trustworthiness, driving experience, cabin experience, ongoing running costs, and after-sales services. The Directors are very much encouraged by these insights, as the Directors believe auto incumbents and NEV startups will be competing on the same ground very soon. The Company is also seeing auto incumbents expediting the launch of brand new NEV models, with Mercedes-Benz having its EQS SUV, adding to its existing 5-model EQ series, and Lexus launching its first brand new battery electric vehicle RZ.

According to statistics published by the Ministry of Public Security, national automobile ownership reached 417 million units in 2022. The number of automobile drivers reached 502 million. The number of newly licensed drivers (with less than one year of driving experience) was 29.2 million nationwide, representing a year-on-year increase of 1.73 million. The number of newly registered automobiles nationwide in 2022 was 23.23 million units. In 2022, there was a total of 28.69 million automobile registration transfers 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 vehicle registrations, and the pre-owned automobile market has been increasingly robust.

In 2022, the passenger vehicle pre-owned automobile market was hit by the COVID-19 pandemic. According to the information of the China Automobile Dealers Association, the trade volume of used passenger vehicles was 9.52 million units in 2022 in the PRC, representing a year-on-year decrease of 10.1%. As regulatory framework for the pre-owned automobile market in the PRC becomes more established, the Directors believe the pre-owned passenger vehicle market will become more institutionalised, where large dealership groups like the Company will take part in more pre-owned automobile transactions. According to the information from the China Association of Automobile Manufacturers, the pre-owned to new car sales transaction ratio was 0.7 in 2022. Compared to the more mature overseas automobile markets, such as the United States, where the same ratio was 2.5, the Chinese pre-owned automobile market has tremendous market potential. With a more institutionalised market dynamic, customers will value services from large branded dealership groups more and become more receptive to purchasing and driving pre-owned vehicles. The Directors believe that the pre-owned passenger vehicle market and the entire auto market in the PRC will enter into a new circulation dynamic in the near future with a more balanced pre-owned to new car transaction ratio.

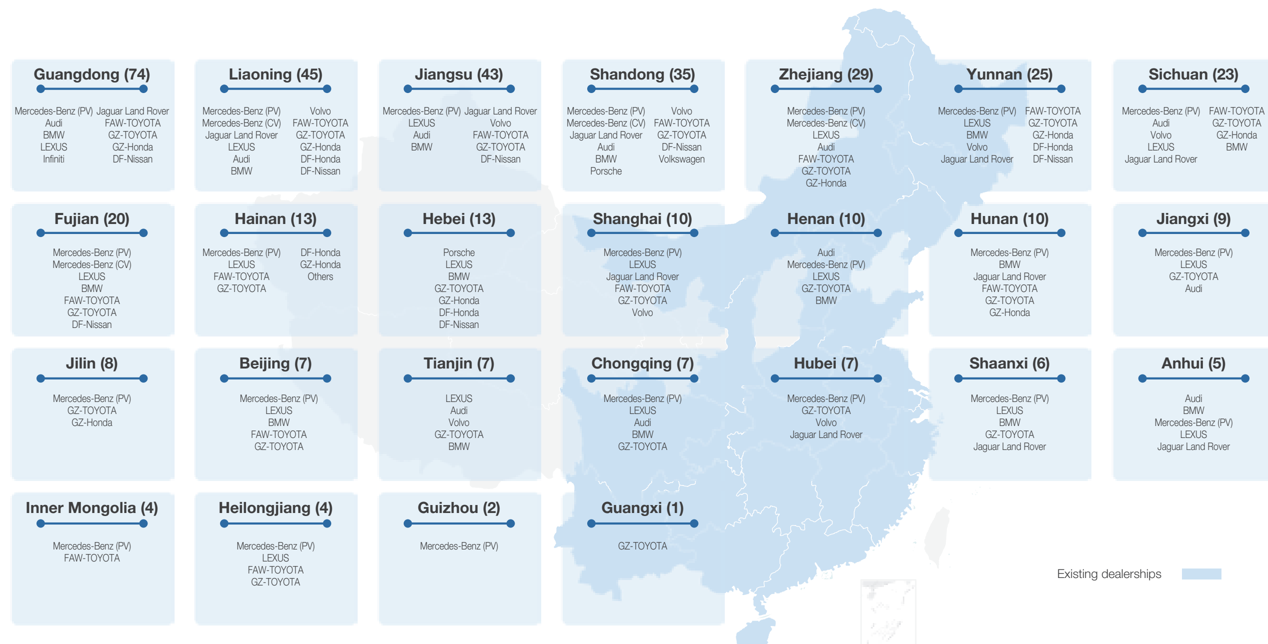
## BUSINESS REVIEW

### Adhering to the "Brand + Region" strategy and ongoing optimisation among core regions

As at 31 December 2022, Zhongsheng has a total number of 417 dealerships, of which 267 are luxury brand dealerships and 150 are mid-to-high-end brand dealerships, covering 25 provinces, municipalities and autonomous regions and over 110 cities in the

PRC. To date, about half of the Group's stores are located in economically more developed cities in the PRC with an annual Gross Domestic Product (GDP) of over RMB1 trillion. As at 31 December 2022, the brand and geographical distributions of the Group's dealerships are as follows:

***Nationwide Network Layout***




Currently, the Group maintains a leading position among luxury brands such as Mercedes-Benz, Lexus, BMW and Audi, as well as mid-to-high-end brands such as Toyota. The Group is the second largest dealer for Mercedes-Benz and the largest dealer for Lexus in terms of sales volume in the PRC. The Group also has one of the leading used car institutional networks, with approximately 140,000 units in annual sales volume.

**Resilient business performances in tandem with greater efficiency from after-sales and pre-owned automobile businesses**

Throughout 2022, 284 of the Group's stores were not operational to various degrees due to COVID-19 pandemic related disruptions, among which 86 stores had been closed for more than 15 days. The Group sold 520,396 new automobiles in 2022, of which sales volume for luxury brands reached 307,434 units, representing a year-on-year increase of 2.7% and accounted for 59.1% of the Group's total new car sales volume. NEV vehicle sales volume grew 69.4% year-over-year, attributed to a strong pipeline of NEV models from the Group's core brands. On the other hand, the Group sold 140,121 units of pre-owned automobiles, of which the retail portion accounted for 25.3% or 35,450 units. Public mobility was severely affected during these difficult times and yet the Group managed to deliver stable business results in its after-sales service segment. The Group serviced 6.72 million units of vehicles during the year, representing a year-on-year increase of 3.7%, defying adverse macroeconomic conditions. The Group's after-sales service units have been growing at a cumulative average rate of 15.6% since 2019, showcasing its strong ties with a large and loyal customer base.

The Group has demonstrated its agility and resilience in coping with these disruptions by implementing a middle-office platform (MOP) strategy to manage various aspects of its business operations in a much more coordinated manner, as opposed to siloed store-level management, in order to achieve optimal managerial and economic efficiency in various aspects of its operations, from customer relations, to procurement (auto parts and ancillaries as well as financial products), to pre-owned automobiles. Such a strategy also echoes the Group's dedication to customer centricity and its determination to change its financial profile to be less cyclical to new auto sales in the PRC. From an organisational structure perspective, the Group has designated 32 core regional offices, which will each be spearheading various MOP strategy executions to cover stores within each core region.

The Group's centralised Customer Relationship Management (CRM) centres, a core part of its MOP strategy, are now responsible for executing the Group's omni-channel customer access. There are so far 24 of them up and running among the core regional offices and another eight scheduled to open in 2023. Almost four million of the Group's customers and prospects are now connected with the Group through Zhongsheng WeCom accounts, the Group's official corporate WeChat accounts. Taking the Group's more established CRM centre in Dalian as an example, the average number of customers managed per CRM employee increased almost four times to approximately 9,000 people compared to a conventional call centre, while the interaction with each customer per month reached more than four times, compared to only once via phone call. Interactions between the Group's CRM representatives and customers are becoming nudges that are less hard marketing driven. Relationships with customers are gradually becoming more amicable as the Group keeps nudging them with innovative value-added after-sales services to gain more mindshare of the Group's branded services and provide more timely responses to their various ad-hoc inquiries and needs. Such services vary from one-for-all non-auto insurances that cover all after-sales maintenance and service needs, to courtesy cars for customers whose vehicles are under repair, to courtesy pickups or preferential short-term leasing options for those who are travelling elsewhere. The Group believes, through less invasive interactions and constantly providing its customers with enhanced service experiences, they will recognise Zhongsheng's brand, value the Group's services and eventually see the Group as their trusted "lifetime partner" for auto ownership and further for automobile needs in general.

As another part of the Group's MOP strategy, the Group established eight centralised pre-owned automobile command centres (UCC) to execute more coordinated inventory acquisition and circulation processes for pre-owned automobile retail business. In Chengdu, the Group's first pre-owned automobile marketplace was opened in May 2022, another customer-centric approach which puts the Zhongsheng brand at the forefront. Average pre-owned automobile turnover was just 12.4 days. Retail volume of pre-owned automobile sales has grown at a cumulative average growth rate of 42.3% since 2019.

At the back-end of the Group's operations, the Group has also endeavoured to launch the first batch of its centralised body and spray (CBS) workshops run straight at the group level, each covering up to a couple dozen physically adjacent stores, which is another key component of the Group's MOP strategy. The benefits of these CBS workshops are multifold. The Group's operations become more efficient by increasing technician workload and facility loading, while dramatically reducing its headcount and capital expenditure under a typical single store body and spray setting. Among the seven CBS workshops that have passed the ramp-up period, the Group is seeing an average cut in painting ovens by more than 63% and production loading jumped by 31%. The move of adopting stricter standards in upgrading the Group's CBS facilities from an ESG perspective has also put the Group ahead of its industry peers. At all facilities across Zhongsheng, the Group has been using water soluble paints and powering its painting ovens by electricity, both of which are more environmentally friendly, yet less often adopted by the industry due to higher unit costs, especially for smaller scale players. Locations of the Group's CBS workshops are also carefully chosen and properly licensed in anticipation of tighter environmental regulations being promulgated by local governments. The Directors expect rising entry barriers for body and spray operations in general and corresponding heightened running costs to be fully compliant with stricter environmental regulations, which could gradually push individual workshops and smaller players out of business.

A lesser known but very critical component of the Group's MOP strategy is its centralised procurement centre, which carries out bulk purchases and, more importantly, puts orders from stores under scrutiny for cost control. During the year, the procurement centre was responsible for a total purchase of RMB3 billion, ranging from auto parts, consumables, accessories and other ancillary products to machinery and other capital expenditure items.

The Group's delicacy management has also exhibited scalability, as the Group continued integrating Zung Fu China into its operations in 2022. Monthly after-sales revenue per employee increased by 25% and monthly overhead savings reached RMB18 million, or a 16% reduction year-over-year. With market conditions stabilised, the Directors are very confident that the Group's acquisition of Zung Fu China will evidently further deliver synergistic growth to the Group.

## FUTURE OUTLOOK

In the recent National People's Congress, economic stability and expanding consumption were stressed in the government work report. As a major component of household consumption, there are positive local government policies and supportive auto financing offered by various banks. The Directors believe such a macro environment will likely help stimulate a swift economic recovery in the PRC with cascading positive effects in retail automobile needs and therefore the Group's businesses.

Zhongsheng came out of the pandemic ever stronger by adhering to its mission of practicing customer centricity and delivering customer satisfaction. The Group will continue to enhance operating efficiency and attune its operations to evolving customer needs. The Zhongsheng team will be observant to market consolidation opportunities, especially through unconventional approaches that may circumvent a bitter bidding process. The Directors believe the Group's future growth is well bolstered by the Group's unmatched scale, delicate management system and great people. The Company sincerely thanks its staff for their unwavering support.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*Year ended 31 December 2022*

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

| | Notes | 2022 RMB'000 | 2021 RMB'000 |
|---|---|---|---|
| **REVENUE** | 4 | **179,856,972** | 175,103,062 |
| Cost of sales and services provided | | **(163,825,377)** | (156,633,507) |
| Gross profit | | **16,031,595** | 18,469,555 |
| Other income and gains, net | 4 | **4,424,144** | 3,890,572 |
| Selling and distribution expenses | | **(7,841,405)** | (7,170,170) |
| Administrative expenses | | **(2,445,495)** | (2,572,676) |
| **Profit from operations** | | **10,168,839** | 12,617,281 |
| Finance costs | | **(1,218,636)** | (1,120,121) |
| Share of profits of joint ventures | | **240** | 7,909 |
| Share of profit/(loss) of an associate | | **328** | (1,487) |
| **Profit before tax** | 5 | **8,950,771** | 11,503,582 |
| Income tax expense | 6 | **(2,336,337)** | (3,096,252) |
| **Profit for the year** | | **6,614,434** | 8,407,330 |
| **Attributable to:** | | | |
| Owners of the parent | | **6,667,555** | 8,328,950 |
| Non-controlling interests | | **(53,121)** | 78,380 |
| | | **6,614,434** | 8,407,330 |
| **Earnings per share attributable to ordinary equity holders of the parent** | | | |
| Basic | | | |
| — For profit for the year *(RMB)* | 7 | **2.76** | 3.56 |
| Diluted | | | |
| — For profit for the year *(RMB)* | 7 | **2.71** | 3.47 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*Year ended 31 December 2022*

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

| | **2022** | 2021 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Profit for the year** | **6,614,434** | 8,407,330 |
| **Other comprehensive income/(loss)** | | |
| *Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:* | | |
| Exchange differences on translation of foreign operations | **(457,052)** | 152,112 |
| **Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods** | **(457,052)** | 152,112 |
| *Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:* | | |
| Exchange differences on translation of foreign operations | **(446,142)** | 130,313 |
| **Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods** | **(446,142)** | 130,313 |
| **Other comprehensive income/(loss) for the year, net of tax** | **(903,194)** | 282,425 |
| **Total comprehensive income for the year** | **5,711,240** | 8,689,755 |
| **Attributable to:** | | |
| Owners of the parent | **5,764,361** | 8,611,375 |
| Non-controlling interests | **(53,121)** | 78,380 |
| | **5,711,240** | 8,689,755 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2022*

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

| | *Notes* | **2022** **RMB'000** | 2021 *RMB'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **17,796,425** | 17,371,855 |
| Right-of-use assets | | **4,470,997** | 4,872,469 |
| Land use rights | | **3,593,814** | 3,468,956 |
| Prepayments | | **415,375** | 487,372 |
| Intangible assets | | **9,957,190** | 10,337,459 |
| Goodwill | | **8,326,151** | 8,296,827 |
| Investments in joint ventures | | **55,934** | 55,694 |
| Investment in an associate | | **5,368** | — |
| Deferred tax assets | | **206,646** | 236,484 |
| Total non-current assets | | **44,827,900** | 45,127,116 |
| **CURRENT ASSETS** | | | |
| Inventories | *8* | **15,237,427** | 11,192,016 |
| Trade receivables | *9* | **1,796,318** | 1,815,180 |
| Prepayments, other receivables and other assets | | **16,054,929** | 15,169,171 |
| Amounts due from related parties | | **7,179** | 28,558 |
| Financial assets at fair value through profit or loss | | **99,031** | 160,991 |
| Term deposits and pledged bank deposits | | **1,809,195** | 797,094 |
| Cash in transit | | **149,720** | 233,890 |
| Cash and cash equivalents | | **11,679,029** | 10,950,038 |
| Total current assets | | **46,832,828** | 40,346,938 |
| **CURRENT LIABILITIES** | | | |
| Bank loans and other borrowings | | **14,678,659** | 15,219,401 |
| Lease liabilities | | **484,076** | 395,983 |
| Trade and bills payables | *10* | **8,205,899** | 5,459,996 |
| Other payables and accruals | | **3,373,286** | 4,856,063 |
| Amounts due to related parties | | **2,209** | 1,748 |
| Income tax payable | | **2,145,565** | 2,447,698 |
| Dividends payable | | **2,000** | — |
| Total current liabilities | | **28,891,694** | 28,380,889 |
| **NET CURRENT ASSETS** | | **17,941,134** | 11,966,049 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **62,769,034** | 57,093,165 |

| | Notes | **2022** *RMB'000* | 2021 *RMB'000* |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **3,176,028** | 3,271,864 |
| Bank loans and other borrowings | | **7,185,161** | 4,968,423 |
| Lease liabilities | | **3,876,489** | 4,248,986 |
| Convertible bonds | | **4,413,796** | 3,897,401 |
| Total non-current liabilities | | **18,651,474** | 16,386,674 |
| Net assets | | **44,117,560** | 40,706,491 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | | **208** | 209 |
| Treasury shares | | **(51,742)** | — |
| Reserves | | **43,865,258** | 40,243,582 |
| | | **43,813,724** | 40,243,791 |
| **Non-controlling interests** | | **303,836** | 462,700 |
| Total equity | | **44,117,560** | 40,706,491 |

# 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 Third 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, 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 3 | *Reference to the Conceptual Framework* |
| Amendment to HKFRS 16 | *Covid-19-Related Rent Concessions beyond 30 June 2021* |
| Amendments to HKAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use* |
| Amendments to HKAS 37 | *Onerous Contracts — Cost of Fulfilling a Contract* |
| *Annual Improvements to HKFRSs 2018–2020* | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 |

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "**Conceptual Framework**") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC) — Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC) — Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

    HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

## 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:**

| | **2022** | 2021 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Revenue from contracts with customers** | | |
| Disaggregated revenue information | | |
| **Type of goods or service** | | |
| Revenue from sales of motor vehicles | **155,248,023** | 150,598,453 |
| Revenue from after-sales service | **24,608,949** | 24,504,609 |
| Total revenue from contracts with customers | **179,856,972** | 175,103,062 |
| **Geographical markets** | | |
| Mainland China | **179,856,972** | 175,103,062 |
| **Timing of revenue recognition** | | |
| At a point in time | **179,856,972** | 175,103,062 |

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

| | **2022** *RMB'000* | 2021 *RMB'000* |
|---|---|---|
| Commission income | **3,764,292** | 3,528,049 |
| Rental income | **35,968** | 29,304 |
| Interest income | **239,854** | 183,437 |
| Government grants | **156,792** | 63,995 |
| Net gains on disposal of items of property, plant and equipment | **98,497** | 6,733 |
| Net gain on disposal of land use rights | **26,563** | — |
| Gain on disposal of a subsidiary | **1,063** | 928 |
| Fair value (losses)/gains, net: | | |
| Financial assets at fair value through profit or loss | | |
| — listed equity investments | **(10,093)** | 20,674 |
| — financial products | **(16)** | (54) |
| Dividend income from listed equity investments | **2,017** | 2,086 |
| Others | **109,207** | 55,420 |
| | **4,424,144** | 3,890,572 |

## 5. PROFIT BEFORE TAX

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

| | **2022** *RMB'000* | 2021 *RMB'000* |
|---|---|---|
| **Employee benefit expense (including directors' and chief executive officer's remuneration):** | | |
| Wages and salaries | **4,281,073** | 4,600,269 |
| Pension scheme contributions (defined contribution scheme)* | **830,416** | 675,606 |
| Other welfare | **380,986** | 376,735 |
| | **5,492,475** | 5,652,610 |

| | 2022<br>*RMB'000* | 2021<br>*RMB'000* |
|---|---|---|
| Cost of inventories sold | **161,663,435** | 154,664,762 |
| Depreciation and impairment of property, plant and equipment | **1,713,613** | 1,428,389 |
| Depreciation of right-of-use assets | **608,618** | 511,311 |
| Amortisation of land use rights | **123,801** | 98,133 |
| Amortisation of intangible assets | **405,276** | 335,863 |
| Auditors' remuneration | **6,800** | 6,800 |
| Lease payments not included in the measurement of lease liabilities | **81,107** | 68,739 |
| Promotion and advertisement | **817,971** | 1,002,545 |
| Office expenses | **483,408** | 513,220 |
| Logistics expenses | **255,848** | 196,912 |
| Impairment of trade receivables | **7,894** | 4,993 |
| Write-down of inventories to net realisable value | **14,073** | 3,061 |
| Net gains on disposal of items of property, plant and equipment | **(98,497)** | (6,733) |
| Net gain on disposal of land use rights | **(26,563)** | — |
| Fair value (gains)/losses, net: | | |
| Financial assets at fair value through profit or loss | | |
| — listed equity investments | **10,093** | (20,674) |
| — financial products | **16** | 54 |
| Dividend income from listed equity investments | **(2,017)** | (2,086) |
| Gain on disposal of a subsidiary | **(1,063)** | (928) |

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

## 6. INCOME TAX EXPENSE

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

| | 2022<br>*RMB'000* | 2021<br>*RMB'000* |
|---|---|---|
| Current Mainland China corporate income tax | **2,356,201** | 3,012,082 |
| Deferred tax | **(19,864)** | 84,170 |
| | **2,336,337** | 3,096,252 |

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 (having 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 (2021: Nil).

According to the Corporate Income Tax Law ("**CIT**") of the PRC, 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:

| | **2022** | 2021 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **8,950,771** | 11,503,582 |
| Tax at the statutory tax rate (25%) | **2,237,693** | 2,875,896 |
| Tax effect of non-deductible expenses | **224,179** | 109,955 |
| Income not subject to tax | **(64,870)** | (17,796) |
| Profits and losses attributable to jointly-controlled entities and an associate | **(142)** | (1,605) |
| Lower tax rates for specific provinces or enacted by local authority | **(328,335)** | (140,441) |
| Adjustments in respect of current tax of previous periods | **30,230** | 16,369 |
| Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries | **15,000** | 220,129 |
| Tax losses not recognised | **222,582** | 33,745 |
| Tax charge | **2,336,337** | 3,096,252 |

## 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 2,411,562,186 (2021: 2,340,870,937) 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**

| | 2022<br>*RMB'000* | 2021<br>*RMB'000* |
|---|---|---|
| Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation | **6,667,555** | 8,328,950 |
| Interest on convertible bonds | **149,091** | 148,686 |
| Profit attributable to ordinary equity holders of the parent before interest on convertible bonds | **6,816,646** | 8,477,636 |

**Shares**

| | Number of shares<br>2022 | <br>2021 |
|---|---|---|
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **2,411,562,186** | 2,340,870,937 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| Share option | **6,054,910** | 6,203,691 |
| Convertible bonds | **99,978,074** | 100,687,899 |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation | **2,517,595,170** | 2,447,762,527 |

**Earnings per share**

| | 2022<br>*RMB* | 2021<br>*RMB* |
|---|---|---|
| Basic | **2.76** | 3.56 |
| Diluted | **2.71** | 3.47 |

## 8. INVENTORIES

Inventories in the consolidated statement of financial position represent:

| | 2022<br>*RMB'000* | 2021<br>*RMB'000* |
|---|---|---|
| Motor vehicles | **14,044,783** | 10,233,397 |
| Spare parts and others | **1,220,713** | 972,615 |
| | **15,265,496** | 11,206,012 |
| Less: Provision for inventories | **28,069** | 13,996 |
| | **15,237,427** | 11,192,016 |

As at 31 December 2022, certain of the Group's inventories with a carrying amount of approximately RMB4,329,902,000 (2021: RMB3,079,937,000) were pledged as security for the Group's bank loans and other borrowings.

As at 31 December 2022, certain of the Group's inventories with a carrying amount of approximately RMB2,617,537,000 (2021: RMB1,381,072,000) were pledged as security for the Group's bills payable.

## 9. TRADE RECEIVABLES

| | **2022** | 2021 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **1,823,016** | 1,834,840 |
| Impairment | **(26,698)** | (19,660) |
| | **1,796,318** | 1,815,180 |

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:

| | **2022** | 2021 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **1,728,833** | 1,729,127 |
| More than 3 months but less than 1 year | **60,265** | 79,711 |
| Over 1 year | **7,220** | 6,342 |
| | **1,796,318** | 1,815,180 |

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

| | **2022** | 2021 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At beginning of year | **19,660** | 15,585 |
| Amount written off as uncollectible | **(856)** | (918) |
| Impairment losses, net | **7,894** | 4,993 |
| At end of year | **26,698** | 19,660 |

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

| | **2022** | 2021 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **2,554,588** | 2,394,947 |
| Bills payable | **5,651,311** | 3,065,049 |
| Trade and bills payables | **8,205,899** | 5,459,996 |

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:

| | **2022** | 2021 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **7,152,996** | 5,135,868 |
| 3 to 6 months | **1,020,977** | 254,511 |
| 6 to 12 months | **1,778** | 17,191 |
| Over 12 months | **30,148** | 52,426 |
| | **8,205,899** | 5,459,996 |

The trade and bills payables are non-interest-bearing and are normally settled on 90-day terms.

## 11. DIVIDENDS

| | **2022** | 2021 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Proposed final dividend — HK$1.09 (approximately RMB0.97) (2021: HK$0.84) per ordinary share | **2,333,644** | 1,665,790 |

The calculation of the proposed final dividend for the year ended 31 December 2022 is based on the proposed final dividend per ordinary share, and the total number of ordinary shares as at 23 March 2023.

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 2022, a final dividend of HK$0.84 per ordinary share in respect of the year ended 31 December 2021 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 2022 was HK$2,027,389,000(equivalent to RMB1,728,450,000).

## FINANCIAL REVIEW

### Revenue

Revenue for the year ended 31 December 2022 was RMB179,857.0 million, representing an increase of RMB4,753.9 million or 2.7% as compared to the year ended 31 December 2021. Revenue from new automobile sales amounted to RMB145,419.9 million, representing an increase of RMB2,954.2 million or 2.1% as compared to the year ended 31 December 2021. Revenue from after-sales and accessories business amounted to RMB24,608.9 million, representing an increase of RMB104.3 million or 0.4% as compared to the year ended 31 December 2021. Revenue from pre-owned automobile sales amounted to RMB9,828.2 million, representing an increase of RMB1,695.4 million or 20.8% as compared to the year ended 31 December 2021.

New automobile sales business accounted for a substantial portion of the Group's revenue, representing 80.9% (the year ended 31 December 2021: 81.4%) of the total revenue for the year ended 31 December 2022. After-sales and accessories business accounted for 13.7% of the total revenue for the year 31 December 2022 (the year ended 31 December 2021: 14.0%). Pre-owned automobile sales accounted for 5.4% of the total revenue for the year 31 December 2022 (the year ended 31 December 2021: 4.6%). For the year ended 31 December 2022, 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 41.1% of the Group's total revenue from new automobile sales (the year ended 31 December 2021: 33.6%).

### Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2022 amounted to RMB163,825.4 million, representing an increase of RMB7,191.9 million or 4.6% as compared to the year ended 31 December 2021. Costs for new automobile sales business amounted to RMB141,480.3 million for the year ended 31 December 2022, representing an increase of RMB5,212.0 million or 3.8% as compared to the year ended 31 December 2021. Costs for after-sales and accessories business amounted to RMB13,023.1 million for the year ended 31 December 2022, representing an increase of RMB301.6 million or 2.4% as compared to the year ended 31 December 2021. Costs for pre-owned automobile sales business amounted to RMB9,322.0 million for the year ended 31 December 2022, representing an increase of RMB1,678.3 million or 22.0% as compared to the year ended 31 December 2021.

**Gross Profit**

The Group's gross profit for the year ended 31 December 2022 amounted to RMB16,031.6 million, representing a decrease of RMB2,438.0 million or 13.2% as compared to the year ended 31 December 2021. Gross profit from new automobile sales business amounted to RMB3,939.6 million, representing a decrease of RMB2,257.8 million or 36.4% as compared to the year ended 31 December 2021. Gross profit from after-sales and accessories business amounted to RMB11,585.8 million, representing a decrease of RMB197.2 million or 1.7% as compared to the year ended 31 December 2021. Gross profit from sales of pre-owned automobile amounted to RMB506.2 million, representing an increase of RMB17.0 million or 3.5% as compared to the year ended 31 December 2021. For the year ended 31 December 2022, gross profit from after-sales and accessories business accounted for 72.3% of the total gross profit (the year ended 31 December 2021: 63.8%).

The Group's gross profit margin for the year ended 31 December 2022 was 8.9% (the year ended 31 December 2021: 10.5%).

**Other Income and Gains, Net**

The other income and gains, net, for the year ended 31 December 2022 amounted to RMB4,424.1 million, representing an increase of RMB533.6 million or 13.7% as compared to the year ended 31 December 2021. 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 2022 amounted to RMB10,168.8 million, representing a decrease of RMB2,448.4 million or 19.4% as compared to the year ended 31 December 2021. The operating profit margin for the year ended 31 December 2022 was 5.7% (the year ended 31 December 2021: 7.2%).

**Profit for the Year**

The profit for the year ended 31 December 2022 amounted to RMB6,614.4 million, representing a decrease of RMB1,792.9 million or 21.3% as compared to the year ended 31 December 2021. The profit margin for the year ended 31 December 2022 was 3.7% (the year ended 31 December 2021: 4.8%).

**Profit Attributable to Owners of the Parent**

The profit attributable to owners of the parent for the year ended 31 December 2022 amounted to RMB6,667.6 million, representing a decrease of RMB1,661.4 million or 19.9% as compared to the year ended 31 December 2021.

## 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 things, the cash flows requirement and expansion of the Group. The Group maintained a healthy liquidity position throughout the year ended 31 December 2022.

### Cash Flow Generated from Operating Activities

For the year ended 31 December 2022, the net cash generated from operating activities by the Group amounted to RMB8,784.8 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 2022, the net cash used in investing activities by the Group amounted to RMB3,599.8 million.

### Cash Flow Used in Financing Activities

For the year ended 31 December 2022, the net cash used in financing activities by the Group amounted to RMB4,526.8 million.

### Net Current Assets

As at 31 December 2022, the Group had net current assets of RMB17,941.1 million, representing an increase of RMB5,975.1 million from the net current assets of the Group as at 31 December 2021.

### Capital Expenditures and Investment

The Group's capital expenditures comprised of expenditures on property, plant and equipment, land use rights and business acquisition. For the year ended 31 December 2022, the Group's total capital expenditures amounted to RMB1,948.8 million. Save as disclosed above, the Group did not make any significant investments during the year ended 31 December 2022.

**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 plans 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 RMB11,192.0 million as at 31 December 2021 to RMB15,237.4 million as at 31 December 2022, primarily due to the impact of lockdown measures adopted by the PRC government to curb the spread of the COVID-19 pandemic in the PRC.

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

| | **For the year ended 31 December** | |
|---|---|---|
| | **2022** | 2021 |
| Average inventory turnover days | **27.0** | 21.6 |

The inventory turnover days of the Group showed a increase during the year ended 31 December 2022 as compared to the year ended 31 December 2021, which was mainly due to the impact of lockdown measures adopted by the PRC government to curb the spread of the COVID-19 pandemic in the PRC. During the year ended 31 December 2022, 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 2022. 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 2022, the Group's bank loans and other borrowings amounted to RMB21,863.8 million (31 December 2021: RMB20,187.8 million), and its convertible bonds liability portion amounted to RMB4,413.8 million (31 December 2021: RMB3,897.4 million). The increase in the Group's bank loans and other borrowings during the year ended 31 December 2022 was primarily due to the increase in inventories financed by financial institutions. The annual interest rates of the bank loans and other borrowings ranged from 1.5% to 6.7%.

## 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. In general, the Group's bank loans and other borrowings were denominated in RMB, United States dollars and Hong Kong dollars, and the liability component of convertible bonds were denominated in Hong Kong dollars. 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 2022, the Group had 32,943 employees (31 December 2021: 39,668). 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 incentives 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 2022, the pledged assets of the Group amounted to RMB8.6 billion (31 December 2021: RMB5.6 billion).

## Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save for the completion of the acquisition of Zung Fu (China) Limited and its subsidiaries as disclosed in the Company's announcement dated 13 March 2022, during the year ended 31 December 2022, 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 institutions. The Group currently has sufficient credit facilities granted by banks.

### Gearing Ratio

As at 31 December 2022, the gearing ratio of the Group was 39.3% (31 December 2021: 39.9%), which was calculated from net debt divided by the sum of net debt and total equity.

## 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 2,503,274,937 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 2022 are set out below:

| Name of Grantees | Date of grant | Exercise price per Share | Outstanding as at 31 December 2021 | Granted during the period | Exercised during the period | Lapsed/ Cancelled during the period | Outstanding as at 31 December 2022 |
|---|---|---|---|---|---|---|---|
| Mr. Zhang Zhicheng — Executive Director | 26 April 2018 | HK$22.60 | 5,500,000[1] | — | — | — | 5,500,000 |
| Mr. Du Qingshan — Former 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 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 was HK$22.35 per Share.

During the year ended 31 December 2022, no options had been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 31 December 2022, the total number of Shares that may be issued under the Share Option Scheme was 11,000,000 Shares, representing approximately 0.46% of the issued share capital of the Company as at the date of this announcement.

## CONNECTED TRANSACTIONS

Save for the completion of the acquisition of Zung Fu (China) Limited and its subsidiaries as disclosed in the Company's announcement dated 13 March 2022, there was no connected transaction entered into by the Group during the year ended 31 December 2022 that is required to be disclosed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

## EVENTS AFTER THE REPORTING PERIOD

There have not been any significant events affecting the Group after 31 December 2022.

## 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 Listing Rules. Throughout the year ended 31 December 2022 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 2022 and up to the date of this announcement.

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

During the Reporting Period, the Company bought back a total of 13,217,500 shares at prices ranging from HK$50.40 to HK$29.55 per Share on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), with an aggregate consideration of approximately HK$475.9 million (excluding commissions and other expenses). Details of the share buy-backs by the Company on the Stock Exchange during the Reporting Period are as follows:

| Month of repurchase | No. of Shares repurchased | Price per Share Highest | Price per Share Lowest | Total paid |
|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$* |
| May | 1,483,000 | 50.40 | 48.60 | 73,594,776 |
| August | 279,000 | 37.80 | 36.40 | 10,329,050 |
| September | 5,521,500 | 36.90 | 31.10 | 188,914,225 |
| October | 3,795,000 | 33.10 | 29.55 | 118,372,326 |
| November | 211,500 | 35.10 | 34.95 | 7,408,975 |
| December | 1,927,500 | 40.65 | 39.25 | 77,324,880 |
| | 13,217,500 | | | 475,944,232 |

The Board believes that the share buy-backs could reflect the Board's confidence in the Company's long-term business prospects. 1,483,000 Shares and 10,261,000 Shares of the bought Shares were cancelled on 30 May 2022 and 30 December 2022, respectively. As at the date of this announcement, 1,473,500 Shares of the bought Shares are yet to be cancelled.

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 2022.

**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 statements of the Group for the year ended 31 December 2022. The Audit Committee considers that the financial results for the year ended 31 December 2022 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been made.

## SCOPE OF WORK OF THE AUDITOR

The figures above in respect of this annual results announcement for the year ended 31 December 2022 have been agreed with the Company's auditor, 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 HKICPA 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 (the "**AGM**") on 19 June 2023 for the distribution of a final dividend of HK$1.09 per Share for the year ended 31 December 2022 payable to the Shareholders whose names are listed in the register of members of the Company on 29 June 2023, in an aggregate amount of HK$2,613 million (equivalent to approximately RMB2,334 million). It is expected that the final dividend will be paid on 14 July 2023. The proposal for the distribution of the above final dividend 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 Wednesday, 14 June 2023 to Monday, 19 June 2023 (both days inclusive), during which period 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 Tuesday, 13 June 2023.

In addition, the Company's register of members will be closed from Tuesday, 27 June 2023 to Thursday, 29 June 2023 (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 Monday, 26 June 2023.

## 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 (www.hkexnews.hk) and the Company (www.zs-group.com.cn).

The annual report of the Company for the year ended 31 December 2022 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, 23 March 2023

*As at the date of this announcement, the executive Directors are Mr. Huang Yi, Mr. Li Guoqiang, Mr. Zhang Zhicheng and Mr. Tang Xianfeng; the non-executive Directors are Mr. Chan Ho Yin and Mr. Sun Yanjun; 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.*