中升集團控股有限公司

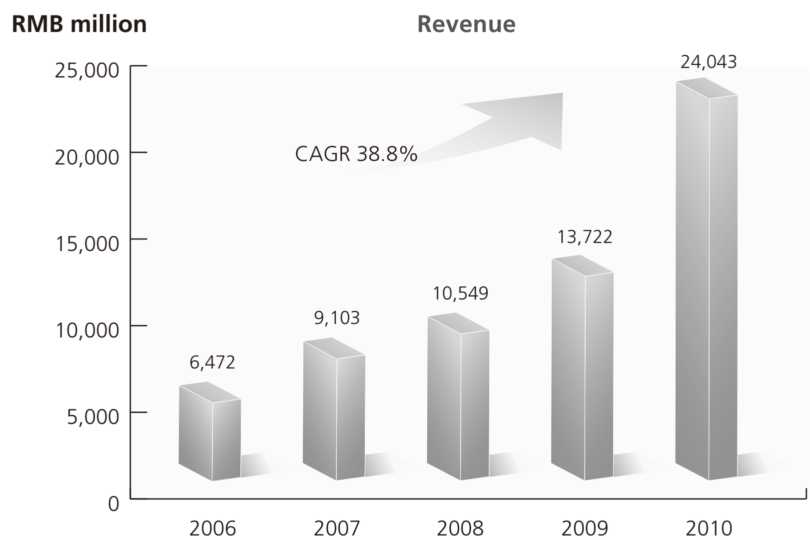
Zhongsheng Group Holdings Limited

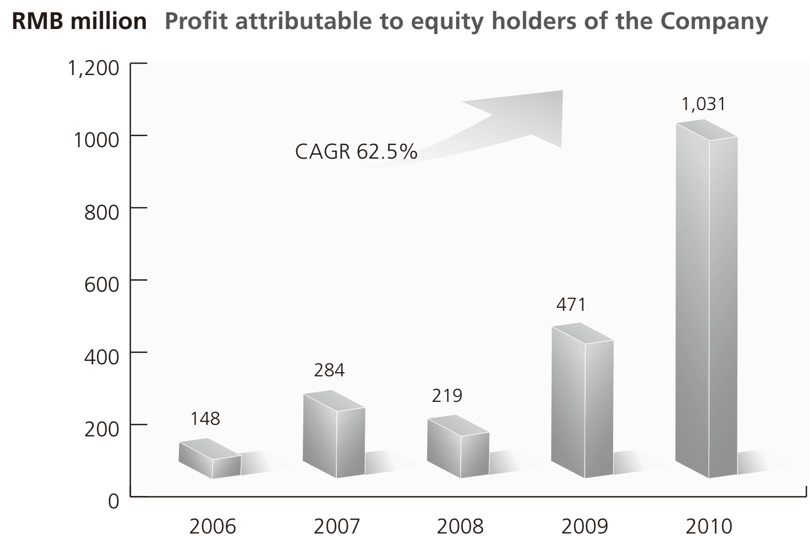
(Incorporated in the Cayman Islands with limited liability)

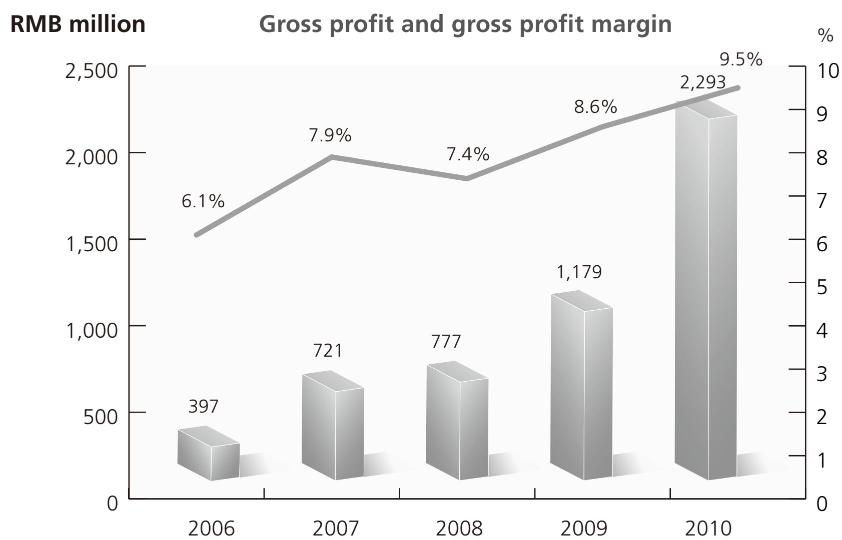
(Stock Code: 881)

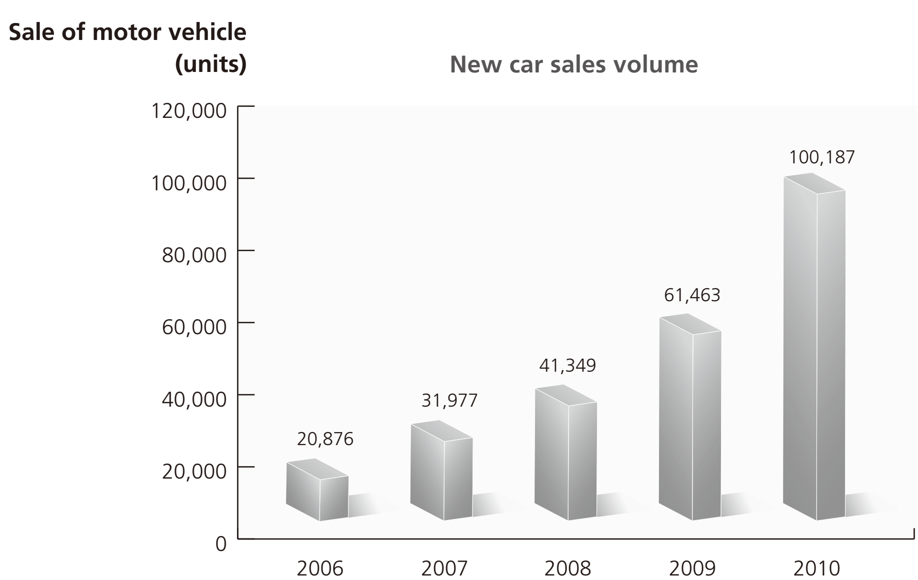
ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The board of directors (the "Board") 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 2010 (the "reporting period"), together with comparative figures for the year ended 31 December 2009 as follows:




RMB million
Profit attributable to equity holders of the Company
1,200
1000
800
600
400
200
0
CAGR 62.5%
148
284
219
471
1,031
2006
2007
2008
2009
2010


RMB million
Gross profit and gross profit margin
%
2,500
2,000
1,500
1,000
500
0
10
9
8
7
6
5
4
3
2
1
0
6.1%
7.9%
7.4%
8.6%
9.5%
397
721
777
1,179
2,293
2006
2007
2008
2009
2010


Sale of motor vehicle (units)
New car sales volume
120,000
100,000
80,000
60,000
40,000
20,000
0
20,876
31,977
41,349
61,463
100,187
2006
2007
2008
2009
2010

OVERVIEW

Our 4S dealerships are concentrated in cities with relatively affluent populations in the northeastern, northern, eastern and southern coastal regions of China, as well as inland areas in southwestern and northwestern regions of China. We have grown rapidly from 47 4S dealerships as of 31 December 2009 to 98 4S dealerships as of the date of this announcement.

We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus, Audi, Porsche and Lamborghini, and mid-to-high-end automobile brands including Toyota, Nissan and Honda. We are one of the largest automobile dealership groups in China in terms of sales volume and number of 4S dealerships for Toyota and Lexus.

Through our "One-stop Automobile Shop" business model, we offer a comprehensive range of new automobiles and after-sales products and services in each of our 4S dealerships. In addition to our new automobile sales business, our after-sales businesses offer spare parts, automobile accessories, repair and maintenance services, car detailing services, quick repair services, local insurance brokerage and other automobile-related products and services. Each of the new automobile sales business and after-sales businesses has its own features in terms of business model and contributions to the revenue and profitability of our Group.

The following table sets forth our consolidated income statement for the years indicated:

		Year ended 31 December	
		2010	2009
	Notes	**RMB'000**	RMB'000
REVENUE	*4*	**24,042,907**	13,722,185
Cost of sales and services provided	*5*	**(21,750,181)**	(12,542,762)
Gross profit		**2,292,726**	1,179,423
Other income and gains, net	*4*	**321,779**	69,203
Selling and distribution costs		**(693,372)**	(346,521)
Administrative expenses		**(318,414)**	(161,967)
Profit from operations		**1,602,719**	740,138
Finance costs		**(226,917)**	(80,688)
Share of profits of jointly-controlled entities		**8,195**	7,254
Profit before tax	*5*	**1,383,997**	666,704
Tax	*6*	**(301,624)**	(173,701)
Profit for the year		**1,082,373**	493,003
Attributable to:			
Owners of the parent		**1,031,190**	470,881
Non-controlling interests		**51,183**	22,122
		1,082,373	493,003
Earnings per share attributable to equity holders of the parent			
Basic			
– For profit for the year	*7*	**0.56**	0.30
Diluted			
– For profit for the year	*7*	**0.56**	0.30

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

	Notes	31 December 2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,788,709**	838,379
Land use rights		**700,650**	422,899
Prepayments		**703,785**	56,271
Intangible assets		**1,382,349**	254,632
Goodwill		**790,947**	200,492
Interests in jointly-controlled entities		**46,894**	38,699
Available-for-sale investments		**178,294**	100
Held-to-maturity investments		**–**	5,283
Deferred tax assets		**8,785**	4,532
Total non-current assets		**5,600,413**	1,821,287
CURRENT ASSETS			
Inventories	*8*	**3,453,046**	1,024,240
Trade receivables	*9*	**284,951**	86,764
Prepayments, deposits and other receivables		**2,615,120**	1,113,186
Amounts due from related parties		**2,229**	556
Financial assets at fair value through profit or loss		**83,369**	–
Pledged bank deposits		**1,029,932**	382,929
Cash in transit		**140,852**	44,542
Cash and cash equivalents		**2,989,718**	1,030,960
Total current assets		**10,599,217**	3,683,177
CURRENT LIABILITIES			
Bank loans and other borrowings		**4,924,455**	1,797,149
Trade and bills payables	*10*	**2,984,507**	1,093,013
Other payables and accruals		**954,396**	277,702
Amounts due to related parties		**10,026**	24,236
Income tax payable		**188,161**	60,012
Dividends payable		**919**	–
Total current liabilities		**9,062,464**	3,252,112
NET CURRENT ASSETS		**1,536,753**	431,065
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,137,166**	2,252,352
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**422,597**	104,545
NET ASSETS		**6,714,569**	2,147,807
EQUITY			
Equity attributable to equity holders of the parent			
Share capital		**168**	–
Reserves		**5,742,660**	2,110,915
Proposed final dividends	*11*	**192,765**	–
		5,935,593	2,110,915
Non-controlling interests		**778,976**	36,892
Total equity		**6,714,569**	2,147,807

Notes:

1. CORPORATE INFORMATION

The Company was incorporated on 23 June 2008 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company has established a principal place of business which is located at Rooms 3504-12, 35/F, Sun Hung Kai Centre, 30 Harbour Road, Wai Chai, Hong Kong. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 holding company of the Company is Blue Natural Development Ltd., which was incorporated in the British Virgin Islands ("BVI").

2.1 BASIS OF PRESENTATION

Through a group reorganisation (the "Reorganisation") as set out in the section headed "Our History and Reorganisation" in the Prospectus dated 16 March 2010 for the public listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 22 February 2010. Since Mr. Huang Yi and Mr. Li Guoqiang (the "Controlling Shareholder") control the Group before and after the Reorganisation, the Reorganisation is accounted for as a reorganisation under common control using the principles of merger accounting in accordance with Accounting Guidance 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The consolidated 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 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 available-for-sale investments and financial assets at fair value through profit or loss which have been measured at fair value. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs issued in October 2008*	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation *4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of 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 identifiable assets and liabilities were located in Mainland China, no geographical segment 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 customers segment information is presented in accordance with HKFRS 8 Operating Segments.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

	2010	2009
	RMB'000	RMB'000
Revenue from the sale of motor vehicles	**21,936,868**	12,466,358
Others	**2,106,039**	1,255,827
	24,042,907	13,722,185

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

	2010	2009
	RMB'000	RMB'000
Commission income	**113,614**	46,535
Advertisement support received from motor vehicle manufacturers	**18,225**	3,120
Rental income	**782**	2,682
Interest income	**18,954**	10,100
Government grants	**4,783**	141
Net gain on disposal of property, plant and equipment	**69,685**	3,933
Net gain on disposal of land use rights	**46,009**	–
Gain on disposal of a subsidiary	**6,789**	–
Gain on disposal of held-to-maturity investments	**299**	–
Fair value gains, net:		
Available-for-sale investments		
– gains during the holding period	**8,245**	–
Financial assets at fair value through profit or loss		
– listed equity investments held for trading	**4,066**	–
– equity linked notes	**2,110**	–
Others	**28,218**	2,692
	321,779	69,203

5. PROFIT BEFORE TAX

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

	2010	2009
	RMB'000	RMB'000
(a) Employee benefit expense (including directors' remuneration)		
Wages and salaries	**399,516**	142,415
Pension scheme contributions	**55,318**	24,816
Other welfare	**27,966**	13,027
	482,800	180,258
(b) Cost of sales and services:		
Cost of sales of motor vehicles	**20,674,431**	11,843,413
Others	**1,075,750**	699,349
	21,750,181	12,542,762

(c) Other items

Depreciation and impairment of property, plant and equipment	**109,508**	67,765
Amortisation of land use rights	**9,223**	7,036
Amortisation of intangible assets	**34,306**	13,352
Auditors' remuneration	**5,000**	4,000
Lease expenses	**33,325**	20,184
Advertisement expenses	**83,796**	37,202
Office expenses	**64,375**	30,822
Logistics expenses	**36,821**	9,664
Business promotion expenses	**73,787**	26,723
(Reversal)/provision for impairment of trade receivables and other receivables	**(485)**	7
Net gain on disposal of property, plant and equipment	**(69,685)**	(3,933)
Net gain on disposal of land use rights	**(46,009)**	–
Gain on disposal of a subsidiary	**(6,789)**	–
Gain on disposal of held-to-maturity investments	**(299)**	–
Fair value gains, net:		
Available-for-sale investments		
– gains during the holding period	**(8,245)**	–
Financial assets at fair value through profit or loss		
– listed equity investments held for trading	**(4,066)**	–
– equity linked note	**(2,110)**	–

6. TAX

(a) Tax in the consolidated income statement represents:

	2010	2009
	RMB'000	RMB'000
Current Mainland China corporate income tax	**297,200**	151,898
Current Hong Kong corporate income tax	**1,924**	–
Deferred tax	**2,500**	21,803
	301,624	173,701

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 or income or 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.

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations on 6 December 2007, which has been effective since 1 January 2008. According to the new CIT Law, the income tax rates for both domestic and foreign investment enterprises 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 approved by 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 rates for the regions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2010	2009
	RMB'000	RMB'000
Profit before tax	**1,383,997**	666,704
Tax at applicable tax rate (25%)	**345,999**	166,676
Tax effect of non-deductible expenses	**3,564**	2,634
Income not subject to tax	**(28,494)**	–
Profits attributable to jointly-controlled entities	**(2,049)**	(1,814)
Effect of tax concessions obtained	**(17,396)**	(17,521)
Effect of withholding tax at 5% on the distributable profits of the Group's subsidiaries of Mainland China	**–**	23,726
Tax charge	**301,624**	173,701

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

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of shares in issue, during the year 2010 and 2009, respectively.

Earnings

	2010	2009
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent	**1,031,190**	470,881

Shares

Weighted average number of ordinary shares in issue during the year	**1,828,281,202**	1,559,992,795

The weighted average number of shares used to calculate the basic earnings per share in 2009 includes the pro forma issued share capital of the Company of 1,559,992,795 shares, comprising:

(a) the 100,000 shares of the Company issued on incorporation; and

(b) the 1,559,892,795 shares of the Company issued as consideration for the acquisition of subsidiaries now comprising the Group pursuant to the Reorganisation, on the assumption that the shares had been issued on 1 January 2009.

The weighted average number of shares used to calculate the basic earnings per share for the year of 2010 includes the weighted average of 348,488,500 shares issued in connection with the Company's IPO and over-allotment option as defined in the Prospectus, in addition to the aforesaid 1,559,992,795 ordinary shares.

Earnings per share

	2010	2009
	RMB	RMB
Basic	**0.56**	0.30
Diluted	**0.56**	0.30

No adjustment has been made to the basic earnings per share amounts presented in 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during 2010 and 2009.

8. INVENTORIES

	2010	2009
	RMB'000	RMB'000
Motor vehicles	**3,169,476**	880,753
Spare parts	**276,636**	128,294
Others	**6,934**	15,193
	3,453,046	1,024,240

As at 31 December 2010, certain of the Group's inventories with a carrying amount of approximately RMB711,358,000 (2009: RMB76,735,000) were pledged as security for the Group's bank loans and other borrowings.

As at 31 December 2010, certain of the Group's inventories with a carrying amount of approximately RMB502,918,000 (2009: RMB221,427,000) were pledged as security for the Group's bills payable.

9. TRADE RECEIVABLES

	2010	2009
	RMB'000	RMB'000
Trade receivables	**285,183**	87,054
Impairment	**(232)**	(290)
	284,951	86,764

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. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period (based on the invoice date) is as follows:

	2010	2009
	RMB'000	RMB'000
Within 3 months	**263,126**	76,885
More than 3 months but less than 1 year	**18,855**	9,692
Over 1 year	**2,970**	187
	284,951	86,764

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	281,981	86,577
Over one year past due	2,970	187
	284,951	86,764

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

10. TRADE AND BILLS PAYABLES

	2010	2009
	RMB'000	RMB'000
Trade payables	269,480	111,976
Bills payable	2,715,027	981,037
Trade and bill payables	2,984,507	1,093,013

An aged analysis of the trade and bills payables as at the end of reporting period is as follows:

	2010	2009
	RMB'000	RMB'000
Within 3 months	2,370,683	1,080,587
4 to 6 months	529,650	11,383
7 to 12 months	78,527	648
Over 12 months	5,647	395
	2,984,507	1,093,013

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

11. DIVIDENDS

	2010	2009
	RMB'000	RMB'000
Proposed final – HK$0.12 (approximately RMB0.10) per ordinary share	192,765	–

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

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2010 was RMB24,042.9 million, representing an increase of RMB10,320.7 million or 75.2% as compared to the corresponding period in 2009. This increase was primarily due to the increase in the number of our dealerships in operation, and the mid-to-high-end and luxury passenger vehicle sales and after-sale business of our existing dealerships continued to maintain a stable growth. Revenue from new automobile sales amounted to RMB21,936.9 million, representing an increase of RMB9,470.5 million or 76.0% compared to the corresponding period in 2009. Revenue from after-sales business amounted to RMB2,106.0 million, representing an increase of RMB850.2 million or 67.7% compared to the corresponding period in 2009. Our new automobile sales business generated a substantial portion of our revenue, accounting for 91.2% of our revenue for the year ended 31 December 2010. The remaining portion of our revenue during the period was generated by our after-sales business. All of our revenue is derived from our business located in the PRC.

For the year ended 31 December 2010, revenue from sales of mid-to-high-end brand automobiles amounted to RMB13,749.5 million (2009: RMB8,679.6 million), accounting for 62.6% (2009: 69.5%) of our revenue from new automobile sales. Revenue from sales of luxury brand automobiles amounted to RMB8,210.3 million (2009: RMB3,802.5 million), accounting for 37.4% (2009: 30.5%) of our revenue from new automobile sales for the same period.

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2010 amounted to RMB21,750.2 million, representing an increase of RMB9,207.4 million or 73.4% as compared to the corresponding period in 2009. Costs attributable to our new automobile sales business amounted to RMB20,674.4 million for the year ended 31 December 2010, representing an increase of RMB8,831.0 million or 74.6% as compared to the corresponding period in 2009. Costs attributable to our after-sales business amounted to RMB1,075.8 million for the year ended 31 December 2010, representing an increase of RMB376.5 million or 53.8% as compared to the same period of 2009.

Gross Profit

Gross profit for the year ended 31 December 2010 amounted to RMB2,292.7 million, representing an increase of RMB1,113.3 million or 94.4% as compared to the corresponding period in 2009, of which the gross profit from new automobile sales business amounted to RMB1,262.5 million, representing an increase of RMB639.6 million or 102.7% as compared to the corresponding period in 2009. Gross profit from after-sales services was RMB1,030.3 million, representing an increase of RMB473.7 million or 85.1% as compared to the same period of 2009. During the year ended 31 December 2010, the gross profit from after-sales services accounted for 44.9% of the total gross profit. Our gross profit margin for the year ended 31 December 2010 was 9.5% (2009: 8.6%), of which the gross profit margin of new automobile sales business was 5.8% (2009: 5.0%). Gross profit margin of after-sales services was 48.9% (2009: 44.3%). The increase in gross profit margin for the year ended 31 December 2010 was primarily due to our achievements in cost reduction through our brand mix optimization, strengthened the internal management of our 4S dealerships and centralized procuring of automobile products at the group level.

Profit from Operations

Profit from operations for the year ended 31 December 2010 amounted to RMB1,602.7 million, representing an increase of RMB862.6 million or 116.5% as compared to the corresponding period in 2009. Our operating profit margin for the year ended 31 December 2010 was 6.7% (2009: 5.4%).

Profit for the Year

Our profit for the year ended 31 December 2010 amounted to RMB1,082.4 million, representing an increase of RMB589.4 million or 119.6% as compared to the corresponding period in 2009. Our net profit margin for the year ended 31 December 2010 was 4.5% (2009: 3.6%).

Profit Attributable to Equity Holders of the Parent

Our profit attributable to equity holders of our Company for the year ended 31 December 2010 was RMB1,031.2 million, representing an increase of RMB560.3 million or 119.0% as compared to the corresponding period in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our cash is primarily used to pay for the purchase of new automobiles, spare parts and automobile accessories, repay our indebtedness, fund our working capital and normal operating expenses and establish new 4S dealerships and acquire additional 4S dealerships. We finance our liquidity requirements through a combination of cash flows generated from our operating activities and bank loans and other borrowings.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of the proceeds from the Global Offering, bank loans and other borrowings, cash flow generated from our operating activities and other funds raised from the capital markets from time to time.

Cash Flow Used in Operating Activities

For the year ended 31 December 2010, our net cash used in operating activities was RMB855.7 million, consisting primarily of an increase in inventories of RMB1,763.4 million, an increase in pledged bank deposit of RMB647.0 million and an increase in prepayments, deposits and other receivables of RMB627.0 million, primarily offset by profit before taxation of RMB1,384.0 million and an increase in trade and bills payable of RMB1,068.2 million.

Cash Flow Used in Investing Activities

For the year ended 31 December 2010, our net cash used in investing activities was RMB2,300.5 million, consisting primarily of purchases of property, plant and equipment of RMB627.3 million, purchases of land use rights of RMB588.5 million, prepayment for potential acquisition of RMB265.2 million and acquisition of subsidiaries of RMB604.6 million, partially offset by proceeds from disposal of items of property, plant and equipment of RMB103.4 million.

Cash Flow Generated from Financing Activities

For the year ended 31 December 2010, our net cash generated from financing activities was RMB5,150.6 million, consisting of proceeds from bank loans and other borrowing of RMB10,423.3 million and net proceeds from issue of new shares in connection with the listing of RMB2,910.5 million, partially offset by repayment of bank loans and other borrowings of RMB7,943.4 million and interest paid of RMB238.4 million.

Net Current Assets

As at 31 December 2010, we had net current assets of RMB1,536.8 million, representing an increase of RMB1,105.7 million from our net current assets as at 31 December 2009. The increase in our net current assets was primarily due to the net proceeds from issue of new shares in connection with our initial public offering.

Capital Expenditure and Investment

Our capital expenditures comprise expenditures on property, plant and equipment and land use rights. During the year ended 31 December 2010, our total capital expenditures were RMB858.9 million.

Inventory Analysis

Our inventories primarily consist of new automobiles, spare parts and automobile accessories. Generally, each of our 4S dealerships individually manages the quotas and orders for new automobiles and after-sales products. We also coordinate and aggregate orders for automobile accessories and other automobile-related products across our 4S dealership network. We manage our quotas and inventory levels through our information technology systems, including our ERP system. Our inventories increased by 237.1% from RMB1,024.2 million as at 31 December 2009 to RMB3,453.0 million as at 31 December 2010. The increase is primarily due to an increase in our sales resulting from the increased market demand during the year ended 31 December 2010, which facilitated an increase in our inventory of new automobiles by RMB2,288.7 million, or 259.8%, to RMB3,169.5 million as at 31 December 2010.

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

	Year ended 31 December	
	2010	2009
Average inventory turnover days	**37.6**	31.4

Our average inventory turnover days in 2010 increased to 37.6 days from 31.4 days in 2009, primarily due to the significant increase of new dealership stores, which not yet reached their optimal level of new car sales.

Bank Loans and Other Borrowings

Our bank loans and other borrowings as at 31 December 2010 were RMB4,924.5 million. Our bank loans and other borrowings were increased during the year to finance our expanded operations.

Pledge of the Group's Assets

The Group pledged its group assets as securities for bank loans and other loans and banking facilities which were used to finance our daily business operation. As at 31 December 2010, the pledged group assets amounted to approximately RMB2.4 billion (2009: RMB0.8 billion).

Mergers and Acquisitions of the Group

During the year ended 31 December 2010 and till the date of this announcement, the Group entered into a series of mergers and acquisitions in order to expand our operations and enhance our competitive strength, the most important three of which were the acquisition of 100% equity interest in Fuzhou Huarui Automobile Sales Service Co., Ltd. and Fuzhou Grand Rich Da Trade Co., Ltd., the acquisition of 50% equity interest in B&L Motor Holding Co., Ltd. and the acquisition of 55% equity interest in New Wing Enterprises Limited.

Acquisition of 100% equity interest in Fuzhou Huarui Automobile Sales Service Co., Ltd. and Fuzhou Grand Rich Da Trade Co., Ltd.

The Group acquired 100% equity interest in Fuzhou Huarui Automobile Sales Service Co., Ltd. and Fuzhou Grand Rich Da Trade Co., Ltd. The acquisition added 6 4S dealerships to the Group's 4S dealership network and further expanded the Group's operational scale and competitive advantages in Fujian Province. The Group's market share in Fujian Province was also further enlarged as a result.

Acquisition of 50% equity interest in B&L Motor Holding Co., Ltd.

The Group acquired 50% equity interest in B&L Motor Holding Co., Ltd. The acquisition further expanded the Group's operational scale in Beijing and Tianjin, strengthened the Group's market position in these areas and facilitated the Group's better services to the high-end customers located in these areas. In addition, the acquisition further enriched the Group's automobile brand mix by introducing new luxurious automobile brands, such as Porsche and Lamborghini.

Acquisition of 55% equity interest in New Wing Enterprises Limited

During January 2011, the Group acquired 55% equity interest in New Wing Enterprises Limited. The acquisition further expanded the Group's operational scale and competitive advantages in Liaoning and Shaanxi Provinces, further enhanced the Group's market position in those areas and facilitated the Group's better services to the customers located in those areas.

Future Plans and the Expected Funding

Going forward, the Company will continue to expand its business in the luxury and mid-to-high end passenger vehicle market by capitalizing on the opportunities arising from the market and exploring acclaimed brands with potential. We aim to increase the number of our 4S dealerships to over 130 in 2011 through new establishment and appropriate mergers and acquisitions. We currently plan to fund our future capital expenditure through various resources including but not limited to our internal fund and borrowings from banks, and we currently have sufficient credit facilities granted by our banks.

Risk of Exposure to Exchange Rate Fluctuations and Related Hedging

All our businesses are conducted in mainland China and we conduct our business primarily in Renminbi. We make all our procurement with Renminbi and all our incomes are denominated in Renminbi as well. We do not expect any material impact on our business from the exchange rate fluctuations, and we currently do not engage in hedging activities designed or intended to manage the foreign exchange risks. However, we will consider arranging for proper financial instruments at appropriate times to avoid the currency risks when necessary.

Employees Remuneration Policies and Training

As at 31 December 2010, the Group had a total of 9,705 employees. As at 31 December 2010, the total staff costs (including Directors' remunerations) amounted to approximately RMB482.8 million.

The remuneration we paid to our staff mainly comprised wages, commissions, discretionary bonuses and contributions to defined contribution welfare schemes (including pension funds). The management determines the remuneration of the employees with reference to performance, experiences and industry practice.

Share option scheme were adopted to attract and retain eligible employees to contribute to the Group. Please refer to the section headed "share option scheme" below for details. In the future, we plan to provide various internal and external trainings for our senior management, general managers of our subsidiary 4S dealerships, middle-level executives as well as other employees, so as to improve the management capability and quality throughout the Group, growing more "Quality" employees into "Outstanding" ones.

FUTURE OUTLOOK

Looking ahead, the Company will continue to expand its businesses in the luxury and mid-to-high end passenger vehicle market by capitalizing on the opportunities arising from the market and exploring acclaimed brands with potential. The Company will consolidate its development in coastal cities at northeastern China, northern China, eastern China and southern China as well as selected inland regions where the customers have higher consumption power, so as to increase our market share in these regions. In terms of strategic network layout, the Company is planning to develop luxury brands in the first and second tier cities, and mid-to-high end brands in the third and fourth tier cities when opening new dealerships in 2011. We will also continue to identify merger and acquisitions opportunities and aim to increase the number of our 4S dealerships to over 130.

By adhering to our motto of "Zhongsheng Group – Lifetime Partner", the Company is committed to maintain a close relationship with its customers. In order to provide "one-stop service" in a more comprehensive manner, the Company will continue to expand and consolidate the businesses in quick repair shop, second-hand automobiles, car rental, insurance brokerage and automobile financing brokerage. The Company is planning to offer internal and external training to senior management and staff at all levels through various means. At the same time, we will introduce advanced performance appraisal mechanisms and optimize the existing Zhongsheng's unique ERP administration platform so as to ensure the delivery of better services to our customers and satisfactory return to shareholders for their support.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on 23 June 2008. Through a series of the Group Reorganization procedures, the Company became the holding company of the Group on 22 February 2010. Details of the Group Reorganisation are set out in the prospectus of the Company dated 16 March 2010.

INITIAL PUBLIC OFFERING AND SHARE CAPITAL

The Company's shares were listed on the Main Board of the Stock Exchange on 26 March 2010. A total of 348,488,500 shares were issued during the Initial Public Offering (including the shares issued upon the exercise of the over-allotment option by the joint bookrunners and the anti-dilution right by General Atlantic Partners (Dalian), L.P.). Upon the completion of the Initial Public Offering, there were a total of 1,000,000,000,000 shares in the authorised share capital of the Company, of which 1,908,481,295 shares were issued shares.

The price as determined for the Initial Public Offering was HK$10. A total of HK$3,315 million (after deducting the issue expenses) were raised and were applied according to the uses as set out in the prospectus of the Company dated 16 March 2010.

Upon the completion of the Initial Public Offering and until the end of the reporting period, there is no change to the authorised or issued share capital of the Company.

PRINCIPAL ACTIVITIES

The Group's operations are conducted in the PRC through its subsidiaries in the PRC. The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the sale and service of motor vehicles. There were no significant changes in the nature of the Group's principal activities during the reporting period.

We are a leading national automobile dealership group in China. We have dealership agreements to operate our 4S dealerships for a diversified portfolio of automobile brands, consisting of luxury automobile brands including Mercedes-Benz, Lexus, Audi, Porsche and Lamborghini, and mid-to-high end automobile brands including Toyota, Nissan and Honda. Through our"One-stop Automobile Shop" business model, we offer a comprehensive range of new automobiles and after-sales products and services in each of our 4S dealerships. In addition to our new automobile sales business, our after-sales businesses offer spare parts, automobile accessories, repair and maintenance services, detailing services, and other automobile-related products and services.

FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company on the forthcoming Annual General Meeting ("AGM") for the payment of a final dividend of HK$0.12 per share for the year ended 31 December 2010 payable to the shareholders of the Company whose names are listed in the register of the Company on 28 June 2011, in an aggregate of HK$229.0 million (equivalent to RMB192.8 million). The proposal for the payment of the final dividend above is subject to the approval of the shareholders at the AGM of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of our Directors, the Company has maintained the amount of public float as approved by the Stock Exchange and as permitted under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as at the date of this announcement.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS

The Directors of the Company during the reporting period and up to the date of this announcement are:

Executive Directors

Mr. Huang Yi *(chairman)*
Mr. Li Guoqiang *(vice-chairman and chief executive officer)*
Mr. Du Qingshan
Mr. Yu Guangming

Non-executive Director

Mr. Leng Xuesong

Independent Non-executive Directors

Mr. Shigeno Tomihei
Mr. Ng Yuk Keung
Mr. Shen Jinjun

Pursuant to the Articles of Association of the Company, Mr. Huang Yi, Mr. Li Guoqiang and Mr. Du Qingshan shall retire from their offices by rotation at the forthcoming AGM of the Company and, being eligible, will offer themselves for re-election at the said meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than three months' notice in writing served by either the executive Directors or the Company. Each of the non-executive Director and independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the independent non-executive Directors, namely Mr. Shigeno Tomihei, Mr. Ng Yuk Keung and Mr. Shen Jinjun, the confirmation of their respective independence pursuant to rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors. We consider that our independent non-executive Directors have been independent from the date of their appointment to 31 December 2010 and remain so as of the date of this announcement.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests of our Directors and chief executives in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

Interest in Shares of the Company

Name of Director	Capacity/ Nature of Interest	Total number of shares	Approximate percentage of shareholding (%)
Mr. Huang Yi	Deemed interest, interest of controlled company	1,245,993,876 (Long position)	65.29
Mr. Li Guoqiang	Deemed interest, interest of controlled company	1,245,993,876 (Long position)	65.29

Save as disclosed above, as at the end of the reporting period, none of the Directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which has to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which is required, pursuant to section 352 of the SFO, to be entered in the register required to be kept thereunder or which is required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the followings persons, other than the Directors or chief executives of the Company, had the following interests or short positions in the shares and underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name	Capacity/ Nature of Interest	Total number of shares	Approximate percentage of shareholding (%)
General Atlantic Partners (Dalian) L.P.	Beneficial owner	181,384,042 (Long position)	9.50
GAP Bermuda Limited	Deemed interest, interest of controlled company	223,403,419 (Long position)	11.71
Blue Natural Development Ltd.	Beneficial owner	1,245,993,876 (Long position)	65.29
Light Yield Ltd.	Deemed interest, interest of controlled company	1,245,993,876 (Long position)	65.29
Vest Sun Ltd.	Deemed interest, interest of controlled company	1,245,993,876 (Long position)	65.29

Save as disclosed above, as at the end of the reporting period, the Directors and the chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year ended 31 December 2010 was the Company or any of its subsidiaries or holding company or any subsidiary of the Company's holding company, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2010 and up to the date of this announcement, none of the Directors and Controlling Shareholders (i.e. Mr. Huang Yi, Mr. Li Guoqiang, Light Yield Ltd., Vest Sun Ltd. and Blue Natural Development Ltd.) of the Company was interested in any business which competes or is likely to compete with the businesses of our Group.

We have received an annual written confirmation from our Controlling Shareholders, including Mr. Huang Yi and Mr. Li Guoqiang, in respect of the compliance by and with the provisions of the non-competition deed entered into between the Company and our Controlling Shareholders (the "Non-competition Deed").

Our independent non-executive Directors have reviewed the compliance with the Non-competition Deed during the financial year ended 31 December 2010 and up to the date of this announcement based on information and confirmation provided by or obtained from Controlling Shareholders, and were satisfied that our Controlling Shareholders, including Mr. Huang Yi and Mr. Li Guoqiang, have duly complied with the Non-competition Deed.

CONNECTED TRANSACTIONS

During the year ended 31 December 2010 and up to the date of this announcement, we have not entered into any continuing connected transaction which should be disclosed pursuant to the requirements of Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of our Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2010 and up to the date of this announcement.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the reporting period and up to the date of this announcement.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally approved by a resolution of the shareholders on 9 February 2010 and adopted by a resolution of the Board on the same day. Unless it is terminated by the Board or our shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of ten years on the date which it becomes unconditional. After the period, no further options will 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 this ten year period or otherwise as handled in accordance with the provisions of the Share Option Scheme. The amount payable by a participant upon of a grant of option is HK$1.00.

The Board may, at its absolute discretion, offer any employee, management member or director of the Company, or any of our subsidiaries and third party service providers the options to subscribe for shares on the terms set out in the Share Option Scheme. The purpose of the Share Option Scheme is to attract and retain skilled and experienced personnel, to incentivize them to remain with us and to give effect to our customer-focused corporate culture, and to motivate them to strive for our future development and expansion, by providing them with the opportunity to acquire equity interests in the Company.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the share in issue as at the date of approval of the Share Options Scheme. No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to that person in any 12 month period up to the date of the latest grant exceeds 1% of our issued share capital from time to time, unless the approval of our shareholders is obtained.

The amount payable for each share to be subscribed for under an option upon exercise shall be determined by the Board and notified to a proposed beneficiary at the time of offer of the option and shall be not less than the higher of: (a) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of the Shares. The Share Option Scheme does not contain any minimum period(s) for which a option must be held before it can be exercised. However, at the time of grant of the options, the Company may specify any such minimum period(s).

During the reporting period and up to the date of this announcement, no options have been granted pursuant to the Share Option Scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Since the shares of the company were listed on the Stock Exchange on 26 March 2010, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2010.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2010 have been audited by Ernst & Young, certified public accountants. A resolution to re-appoint Ernst & Young as the auditors of the Company in the following year will be proposed at the Company's forthcoming AGM.

COMPLIANCE WITH THE CG CODE

The Company has applied the principles as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules. Since the listing of the shares of the Company on the Stock Exchange on 26 March 2010, the Company is in compliance with the mandatory code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2010.

AUDIT COMMITTEE

The Company's annual results for the year ended 31 December 2010 have been reviewed by the Audit Committee on 21 March 2011.

CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company in 2011 will be held on Tuesday, 28 June 2011, and the register of members of the Company will be closed from Thursday, 23 June 2011 to Tuesday, 28 June 2011 (both dates inclusive) during which period no transfer of shares will be registered. In order to qualify for the final dividend proposed for the year ended 31 December 2010 and to attend the annual general meeting, unregistered holders of shares should ensure that all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 22 June 2011.

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

This announcement will be published on the websites of Stock Exchange (www.hkexnews.hk) and the Company (www.zs-group.com.cn). The annual report for the year containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders and published in the websites of the Stock Exchange and the Company in due course.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere gratitude to our Board members and management team, and to all the employees, business partners, customers and shareholders of the Group, for their support and contribution to the Group.

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

Hong Kong, 21 March 2011

As at the date of this announcement, the executive directors of the Company are Mr. Huang Yi, Mr. Li Guoqiang, Mr. Du Qingshan and Mr. Yu Guangming; the non-executive director of the Company is Mr. Leng Xuesong; and the independent non-executive directors of the Company are Mr. Shigeno Tomihei, Mr. Ng Yuk Keung and Mr. Shen Jinjun.