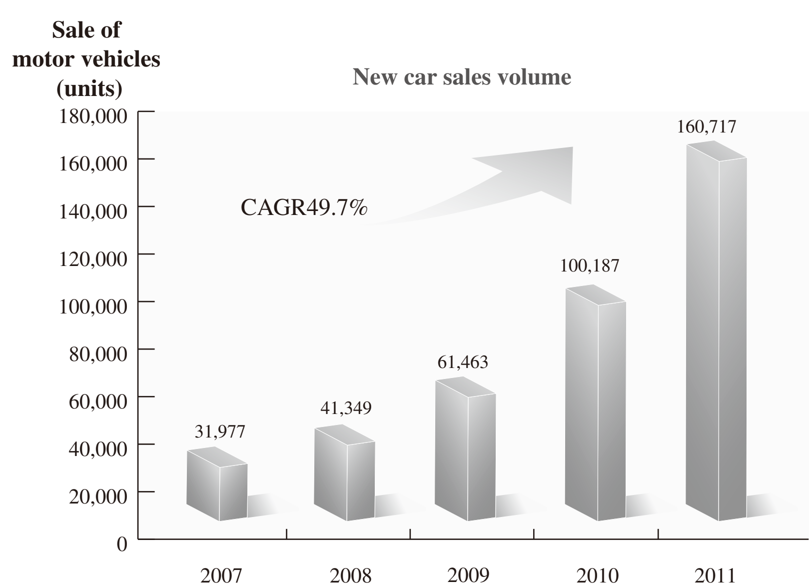
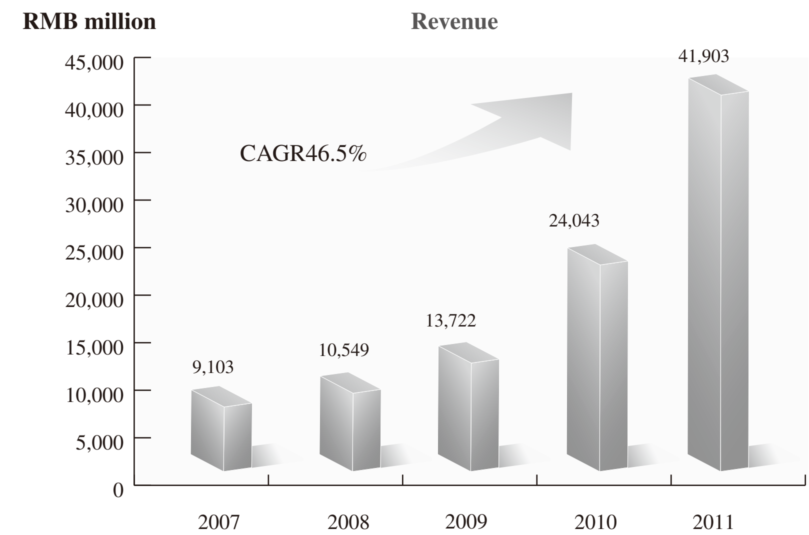
中升集團控股有限公司
Zhongsheng Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 881)

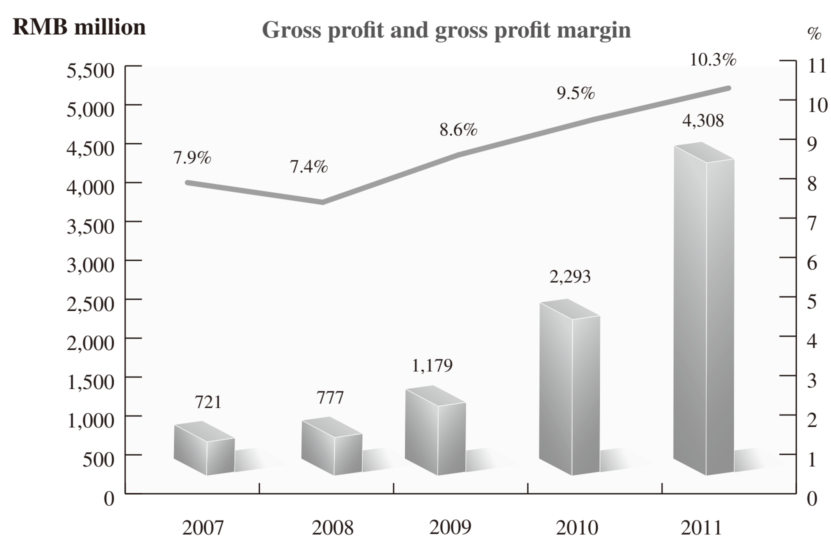
Announcement of Annual Results for the Year Ended 31 December 2011

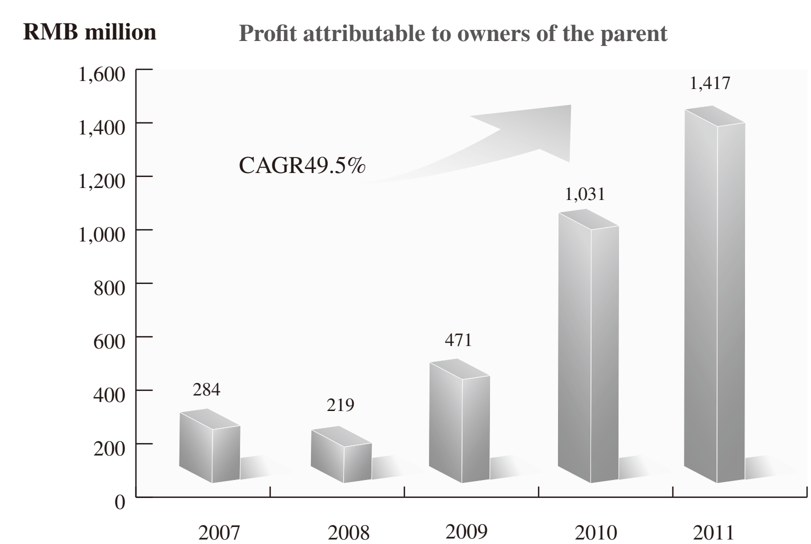
The board of directors (the "Board") of Zhongsheng Group Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "Group" or "we") for the year ended 31 December 2011 (the "Reporting Period"), together with comparative figures for the year ended 31 December 2010 .

FINANCIAL HIGHLIGHTS




RMB million
Revenue
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
CAGR46.5%
9,103
10,549
13,722
24,043
41,903
2007
2008
2009
2010
2011


RMB million
Gross profit and gross profit margin
%
5,500
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
11
10
9
8
7
6
5
4
3
2
1
0
7.9%
7.4%
8.6%
9.5%
10.3%
721
777
1,179
2,293
4,308
2007
2008
2009
2010
2011


RMB million
Profit attributable to owners of the parent
1,600
1,400
1,200
1,000
800
600
400
200
0
CAGR49.5%
284
219
471
1,031
1,417
2007
2008
2009
2010
2011

CONSOLIDATED INCOME STATEMENT

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

	Notes	**2011** **RMB'000**	2010 *RMB'000*
REVENUE	*4*	**41,903,414**	24,042,907
Cost of sales and services provided	*5*	**(37,595,170)**	(21,750,181)
Gross profit		**4,308,244**	2,292,726
Other income and gains, net	*4*	**367,362**	321,779
Selling and distribution costs		**(1,325,790)**	(693,372)
Administrative expenses		**(616,267)**	(318,414)
Profit from operations		**2,733,549**	1,602,719
Finance costs		**(549,375)**	(226,917)
Share of profits of jointly-controlled entities		**9,549**	8,195
Profit before tax	*5*	**2,193,723**	1,383,997
Tax	*6*	**(550,637)**	(301,624)
Profit for the year		**1,643,086**	1,082,373
Attributable to:			
Owners of the parent		**1,417,279**	1,031,190
Non-controlling interests		**225,807**	51,183
		1,643,086	1,082,373

		2011 ***RMB***	2010 *RMB*
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
– For profit for the year	*7*	**0.74**	0.56
Diluted			
– For profit for the year	*7*	**0.74**	0.56

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

		31 December	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,886,831**	1,788,709
Land use rights		**1,084,623**	700,650
Prepayments		**861,837**	703,785
Intangible assets		**2,241,290**	1,382,349
Goodwill		**1,697,884**	790,947
Investments in jointly-controlled entities		**44,525**	46,894
Available-for-sale investments		**132,928**	178,294
Deferred tax assets		**38,078**	8,785
Total non-current assets		**9,987,996**	5,600,413
CURRENT ASSETS			
Inventories	*8*	**6,380,195**	3,453,046
Trade receivables	*9*	**466,697**	284,951
Prepayments, deposits and other receivables		**4,631,948**	2,615,120
Amounts due from related parties		**4,369**	2,229
Financial assets at fair value through profit or loss		**49,749**	83,369
Pledged bank deposits		**1,664,888**	1,029,932
Cash in transit		**186,721**	140,852
Cash and cash equivalents		**4,487,819**	2,989,718
Total current assets		**17,872,386**	10,599,217
CURRENT LIABILITIES			
Bank loans and other borrowings		**10,016,585**	4,924,455
Senior notes, current portion		**11,518**	–
Trade and bills payables	*10*	**5,679,875**	2,984,507
Other payables and accruals		**1,505,078**	954,396
Amounts due to related parties		**2,096**	10,026
Income tax payable		**392,622**	188,161
Dividends payable		**5,718**	919
Total current liabilities		**17,613,492**	9,062,464
NET CURRENT ASSETS		**258,894**	1,536,753
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,246,890**	7,137,166
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**706,439**	422,597
Senior notes		**1,232,693**	–
Bank loans and other borrowings		**29,945**	–
Total non-current liabilities		**1,969,077**	422,597
NET ASSETS		**8,277,813**	6,714,569

		31 December	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to owners of the parent			
Share capital		**168**	168
Reserves		**6,844,136**	5,742,660
Proposed final dividend	*11*	**247,929**	192,765
		7,092,233	5,935,593
Non-controlling interests		**1,185,580**	778,976
Total equity		**8,277,813**	6,714,569

Notes:

1. CORPORATE 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 Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1–1111, Cayman Islands. The Company has established a principal place of business in Hong Kong which is located at Rooms 3504–12, 35th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The shares of the Company were listed on the Hong Kong 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 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, 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. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is 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.

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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010,* the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations:* The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements:* The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements:* The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 identifiable assets and liabilities 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 customers' information is presented in accordance with HKFRS 8 Operating Segments.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue:

	2011	2010
	RMB'000	*RMB'000*
Revenue from the sale of motor vehicles	**38,239,543**	21,936,868
Others	**3,663,871**	2,106,039
	41,903,414	24,042,907

(b) Other income and gains, net:

	2011	2010
	RMB'000	*RMB'000*
Commission income	**234,254**	113,614
Advertisement support received from motor vehicle manufacturers	**28,704**	18,225
Rental income	**10,957**	782
Interest income	**35,901**	27,199
Government grants	**7,481**	4,783
Net (loss)/gain on disposal of property, plant and equipment	**(763)**	69,685
Net loss on disposal of intangible assets	**(533)**	–
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
Gain on disposal of available-for-sale investments	**1,594**	–
Fair value (losses)/gains, net:		
Available-for-sale investments (transfer from equity on disposal)	**582**	–
Financial assets at fair value through profit or loss		
– listed equity investments held for trading	**(26,940)**	4,066
– equity linked note	**(2,783)**	2,110
Dividend income from listed equity investments	**1,517**	–
Others	**77,391**	28,218
	367,362	321,779

5. PROFIT BEFORE TAX

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

	2011	2010
	RMB'000	*RMB'000*
(a) Employee benefit expense (including directors' remuneration):		
Wages and salaries	**657,221**	399,516
Pension scheme contributions	**104,004**	55,318
Other welfare	**53,180**	27,966
	814,405	482,800
(b) Cost of sales and services provided:		
Cost of sales of motor vehicles	**35,650,976**	20,674,431
Others	**1,944,194**	1,075,750
	37,595,170	21,750,181

	2011	2010
	RMB'000	*RMB'000*

(c) Other items:

	2011	2010
	RMB'000	*RMB'000*
Depreciation and impairment of property, plant and equipment	**256,204**	109,508
Amortisation of land use rights	**18,251**	9,223
Amortisation of intangible assets	**86,054**	34,306
Auditors' remuneration	**5,000**	5,000
Lease expenses	**76,250**	33,325
Advertisement expenses	**105,161**	83,796
Office expenses	**113,751**	64,375
Logistics expenses	**67,116**	36,821
Business promotion expenses	**205,172**	73,787
Reversal for impairment of trade receivables and other receivables	**(26)**	(485)
Net loss/(gain) on disposal of property, plant and equipment	**763**	(69,685)
Net loss on disposal of intangible assets	**533**	–
Fair value losses/(gains), net:		
Available-for-sale investments (transfer from equity on disposal)	**(582)**	–
Financial assets at fair value through profit or loss		
– listed equity investments held for trading	**26,940**	(4,066)
– equity linked note	**2,783**	(2,110)
Dividend income from listed equity investments	**(1,517)**	–
Gain on disposal of available-for-sale investments	**(1,594)**	–
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)

6. TAX

(a) Tax in the consolidated income statement represents:

	2011	2010
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**566,138**	297,200
Current Hong Kong corporate income tax	**201**	1,924
Deferred tax	**(15,702)**	2,500
	550,637	301,624

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

Certain subsidiaries of the Group enjoyed preferential CIT rates which were lower than 25% during the Reporting Period as 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:

	2011	2010
	RMB'000	*RMB'000*
Profit before tax	**2,193,723**	1,383,997
Tax at the statutory tax rate (25%)	**548,431**	345,999
Tax effect of non-deductible expenses	**13,994**	3,564
Income not subject to tax	**(10,182)**	(28,494)
Profits attributable to jointly-controlled entities	**(2,387)**	(2,049)
Lower tax rates for specific provinces or enacted by local authority	**(4,304)**	(17,396)
Tax losses not recognised	**5,085**	–
Tax charge	**550,637**	301,624

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

The calculation of basic earnings per share amounts 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 1,908,481,295 (2010: 1,828,281,202) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented in 2011 and 2010 in respect of a dilution as the group had no potentially dilutive ordinary shares in issue during 2011 and 2010.

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

Earnings

	2011	2010
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent	**1,417,279**	1,031,190

Shares

	2011	2010
Weighted average number of ordinary shares in issue during the year	**1,908,481,295**	1,828,281,202

Earnings per share

	2011	2010
	RMB	*RMB*
Basic	**0.74**	0.56
Diluted	**0.74**	0.56

8. INVENTORIES

	2011	2010
	RMB'000	*RMB'000*
Motor vehicles	**5,900,111**	3,169,476
Spare parts	**470,317**	276,636
Others	**9,767**	6,934
	6,380,195	3,453,046

As at 31 December 2011, certain of the Group's inventories with a carrying amount of approximately RMB899,556,000 (2010: RMB711,358,000) were pledged as security for the Group's bank loans and other borrowings.

As at 31 December 2011, certain of the Group's inventories with a carrying amount of approximately RMB703,959,000 (2010: RMB502,918,000) were pledged as security for the Group's bills payable.

9. TRADE RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**466,888**	285,183
Impairment	**(191)**	(232)
	466,697	284,951

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 and net of provision, is as follows:

	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**433,202**	263,126
More than 3 months but less than 1 year	**28,831**	18,855
Over 1 year	**4,664**	2,970
	466,697	284,951

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2011	2010
	RMB'000	*RMB'000*
Neither past due nor impaired	**462,033**	281,981
Over one year past due	**4,664**	2,970
	466,697	284,951

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.

10. TRADE AND BILLS PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**600,322**	269,480
Bills payable	**5,079,553**	2,715,027
Trade and bills payables	**5,679,875**	2,984,507

An aged analysis of the trade and bills payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	2011	2010
	RMB'000	*RMB'000*
Within 3 months	**3,258,824**	2,370,683
3 to 6 months	**2,165,436**	529,650
6 to 12 months	**251,715**	78,527
Over 12 months	**3,900**	5,647
	5,679,875	2,984,507

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

11. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Proposed final – HK$0.16 (approximately RMB0.13) (2010: HK$0.12) per ordinary share	**247,929**	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.

BUSINESS REVIEW

Huge growth potential with increasing demand for mid-to-high-end and luxury automobiles in China

Despite the rapid growth in the last few years, the penetration of automobile in China is still years behind other more mature and developed countries. As the country's economy continues to develop and the people's spending power continues to grow, the increasing market demand remains the constant driving force for the rapid growth of China's automobile industry. Benefiting from the government's favourable tax concession on consumption of low-emission automobiles, the passenger vehicle sales volume in China grew by 47% in 2009 and 34% in 2010, with the sales of low-emission automobiles achieving the most outstanding results. Car replacement and upgrade needs will provide golden opportunities for the growth in mid-to-high-end automobiles for the coming years. Furthermore, the multi-level nature and the large demand in China provide a very strong foundation for the luxury automobile market, making such continuous growth in China's automobile market predictable and foreseeable in the long run. We believe that there is a huge potential of future growth for the automobile market in China.

Significant after-sales business opportunities

A total of 18.5 million cars were sold in China in 2011, making China the world's biggest automobile market for the third consecutive year. Car ownership in China exceeded one hundred million by August 2011. The high new car sales and car ownership volumes indicate huge business opportunities and sustainable rapid growth for after-sales service market ancillary to the automobile industry. China's automobile after-sales market is currently unstructured and dispersed, with low degree of specialization and lacking economies of scale. As the leading automobile dealership group in China, we will utilise our large customer base and professional and standardized operating system on new car sales to further explore and develop the value chain of the automobile after-sales business. We believe that with more cars sold every year which brings in continuous supply to our customer base, the income and profit of after-sales service will represent an increasingly important proportion to the overall profitability of the 4S dealership, which could further enhance the dealership group's abilities to cope with cyclical fluctuations in new car sales, and help the dealership group to maintain a highly visible and sustainable growth.

Steady expansion of 4S dealership network

During the Reporting Period, the Group expanded its existing dealership network through both organic growth as well as strategic acquisitions to enhance and improve its market share and competitive advantages in several cities. In 2011, the Company has set up 18 new dealerships in Liaoning, Zhejiang, Fujian, Guangdong, Yunnan, Sichuan and Chongqing, including 10 luxury brand dealerships such as Mercedes-Benz, Audi, Lexus and imported Volkswagen. Furthermore, the Group also further expanded its dealership network through strategic acquisitions. We have successfully acquired 24 dealerships in Yunnan, Shandong, Guangdong, Zhejiang and Jiangsu in 2011, including luxury brands like Audi, Lexus and Infiniti, as well as mid-to-high-end brands like Toyota and Nissan. As at the date of this announcement, our 4S dealership network included a total of 140 dealerships, representing an addition of 42 dealerships from the date of 2010 Annual Report, covering 15 provinces and regions with almost 60 cities in China.

Further enhancement of brand portfolio

As the income level and living standard of Chinese customers keep increasing, their purchasing power and consumption needs also continuously grow up. The Group has been focusing on developing luxury and mid-to-high-end brand portfolio as our development strategy to meet customer demands. In 2011, we successfully introduced dealership of luxury automobile brands, Infiniti and imported Volkswgen, and we have obtained dealership authorization from Land Rover to further enhance our brand portfolio. Our brand portfolio currently includes luxury brands such as Mercedes-Benz, Lexus, Audi, Porsche, Lamborghini, imported Volkswagen and Infiniti, as well as mid-to-high-end brands such as Toyota, Nissan and Honda.

Continuous improvement of customer service

The Group has always strived to put customers first, to understand their needs and actively build a long-term and stable relationship with them. As a "one-stop automobile service provider", the Group provides customers with reliable after-sales services including repairs, maintenance, detailing services and automobile accessories and products. We believe that high quality and diversified services can greatly enhance customer satisfaction and customer loyalty. In addition, the continuing increase in the accumulative volume of new car sales and the high-level growth in the passenger vehicle penetration rate in China create great potential in our after-sales services business future growth.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2011 was RMB41,903.4 million, representing an increase of RMB17,860.5 million or 74.3% as compared to the corresponding period in 2010. This increase was primarily due to the increase in the number of our dealerships in operation and the new car sales and after-sales business of our existing dealerships continued to maintain a stable organic growth. Revenue from new car sales amounted to RMB38,239.5 million, representing an increase of RMB16,302.6 million or 74.3% as compared to the corresponding period in 2010. Revenue from after-sales business amounted to RMB3,663.9 million, representing an increase of RMB1,557.9 million or 74.0% as compared to the corresponding period in 2010. Our new car sales business generated a substantial portion of our revenue, accounting for 91.3% of our revenue for the year ended 31 December 2011 (2010: 91.2%).

For the year ended 31 December 2011, revenue from sales of luxury brand automobiles amounted to RMB19,155.5 million (2010: RMB8,210.3 million), accounting for 50.1% (2010: 37.4%) of our revenue from new car sales for the same period. Revenue from sales of mid-to-high-end brand automobiles amounted to RMB19,084.0 million (2010: RMB13,749.5 million), accounting for 49.9% (2010: 62.6%) of our revenue from new car sales. In terms of new car sales revenue, Toyota and Mercedes-Benz are our top-selling brands representing approximately 29% and 20% of our total new car sales revenue respectively (2010: 42% and 11% respectively).

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2011 amounted to RMB37,595.2 million, representing an increase of RMB15,845.0 million or 72.8% as compared to the corresponding period in 2010. Cost attributable to our new car sales business amounted to RMB35,651.0 million for the year ended 31 December 2011, representing an increase of RMB14,976.6 million or 72.4% as compared to the corresponding period in 2010. Cost attributable to our after-sales business amounted to RMB1,944.2 million for the year ended 31 December 2011, representing an increase of RMB868.4 million or 80.7% as compared to the same period of 2010.

Gross Profit

Gross profit for the year ended 31 December 2011 amounted to RMB4,308.2 million, representing an increase of RMB2,015.5 million or 87.9% as compared to the corresponding period in 2010, of which the gross profit from new car sales business amounted to RMB2,588.5 million, representing an increase of RMB1,326.1 million or 105.0% as compared to the corresponding period in 2010. Gross profit from after-sales services was RMB1,719.7 million, representing an increase of RMB689.4 million or 66.9% as compared to the corresponding period of 2010. For the year ended 31 December 2011, the gross profit from after-sales services accounted for 39.9% of the total gross profit (2010: accounted for 44.9% of the total gross profit). Our gross profit margin for the year ended 31 December 2011 was 10.3% (2010: 9.5%), of which the gross profit margin of new car sales business was 6.8% (2010: 5.8%). Gross profit margin of after-sales services was 46.9% (2010: 48.9%). The increase in gross profit margin for the year ended 31 December 2011 was primarily due to our achievements in brand portfolio optimization, strengthening the internal management of our dealership and centralized procurement of automobile spare parts and accessory products at the group level to lower the cost.

Profit from Operations

Profit from operations for the year ended 31 December 2011 amounted to RMB2,733.5 million, representing an increase of RMB1,130.8 million or 70.6% as compared to the corresponding period in 2010. Our operating profit margin for the year ended 31 December 2011 was 6.5% (2010: 6.7%). Excluding the non-recurring gains arising from the disposal of land use rights, properties, plant and equipment and a subsidiary of RMB122.5 million in 2010, the recurring operating profit margin in 2010 was 6.2%. Our operating profit margin for 2011 has actually improved as compared to 2010.

Profit for the Year

Our profit for the year ended 31 December 2011 amounted to RMB1,643.1 million, representing an increase of RMB560.7 million or 51.8% as compared to the corresponding period in 2010. Our net profit margin for the year ended 31 December 2011 was 3.9% (2010: 4.5%). Excluding the non-recurring gains arising from the disposal of land use rights, properties, plant and equipment and a subsidiary of RMB122.5 million in 2010, the recurring profit margin in 2010 was 4.0%, which is about the same level as that of 2011.

Profit Attributable to Owners of the Parent

Our profit attributable to owners of our Company for the year ended 31 December 2011 was RMB1,417.3 million, representing an increase of RMB386.1 million or 37.4% as compared to the corresponding period in 2010.

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, establish new 4S dealerships and acquire other 4S dealerships. We finance our liquidity requirements through a combination of cash flows generated from our operating activities and financing activities.

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, senior notes, cash flow generated from our operating activities and other funds raised from the capital markets from time to time.

Cash Flow Generated from Operating Activities

For the year ended 31 December 2011, our net cash generated from operating activities was RMB359.3 million, arising from operating profit of RMB3,085.5 million before working capital movement, deducting an increase in working capital of RMB2,364.2 million and payment of tax of RMB361.9 million.

Cash Flow Used in Investing Activities

For the year ended 31 December 2011, our net cash used in investing activities was RMB3,420.3 million, consisting primarily of purchases of property, plant and equipment of RMB1,727.1 million, purchases of land use rights of RMB533.7 million and acquisition of subsidiaries of RMB1,385.7 million, partially offset by proceeds from disposal of items of property, plant and equipment of RMB260.0 million.

Cash Flow Generated from Financing Activities

For the year ended 31 December 2011, our net cash generated from financing activities was RMB4,560.6 million, consisting of proceeds from bank loans and other borrowing of RMB15,638.4 million and net proceeds from issue of senior notes of RMB1,227.9 million, partially offset by repayment of bank loans and other borrowings of RMB11,365.4 million and interest paid for bank loans and other borrowings of RMB615.7 million.

Capital Expenditure and Investment

Our capital expenditures comprise expenditures on property, plant and equipment and land use rights. For the year ended 31 December 2011, our total capital expenditures were RMB2,019.4 million.

Inventory Analysis

Our inventories primarily consist of new automobiles, spare parts and automobile accessories. Generally, each of our 4S dealerships independently manages the orders for new automobiles and part of the 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 ERP system. Our inventories increased by 84.8% from RMB3,453.0 million as at 31 December 2010 to RMB6,380.2 million as at 31 December 2011. The increase is primarily due to an increase in our sales resulting from the increased market demand during the year ended 31 December 2011, which facilitated an increase in our inventory of new automobiles by RMB2,730.6 million, or 86.2%, to RMB5,900.1 million as at 31 December 2011.

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

	Year ended 31 December	
	2011	2010
Average inventory turnover days	**44.9**	37.6

Our average inventory turnover days in 2011 increased to 44.9 days from 37.6 days in 2010, 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 2011 were RMB10,046.5 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 borrowings and banking facilities which were used to finance our daily business operation. As at 31 December 2011, the pledged group assets amounted to approximately RMB3.8 billion (2010: RMB2.4 billion).

Contingent Liabilities

As at 31 December 2011, our Group had no significant contingent liabilities.

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

Neither the Company, or any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

FUTURE OUTLOOK

With a corporate motto of "Zhongsheng Group – Lifetime Partner", we place great emphasis on our service quality to provide premium service experience to our customers. We will continue to consolidate and improve our leadership position in the luxury and mid-to-high-end automobile dealership industry in China, by continuing to strengthen our core business in automobile distribution and explore value chain through continuously enlarged customer base. We will continue to look for outstanding and profitable automobile brands to expand our business scale through organic growth and acquisitions, so as to expand our dealership network and optimise our brand portfolio. The Group plans to focus on developing luxury automobile brands in the more mature market of the first and second tier cities, and continue integrating mid-to-high-end automobile brands in the third and fourth tier cities which have larger market capacity, so as to capture various business opportunities in different markets.

Moreover, the Group will continue to enhance its internal control and business integration to upgrade the enterprise core competitiveness in all aspects. We will utilise our unique ERP platform to further optimise our operation and process in order to achieve improvement in our management standards and lowering our costs. Looking ahead, we will endeavor to make Zhongsheng Group the leading enterprise in the automobile dealership industry, by further optimising our brand portfolio, expanding our dealership network and improving after-sales services to provide satisfactory return for our shareholders.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). Throughout the Reporting Period, the Company has complied with the mandatory code provisions in 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 of 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 2011.

AUDIT COMMITTEE

The Company's annual results for the year ended 31 December 2011 have been reviewed by the Audit Committee on 26 March 2012.

FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company on the forthcoming annual general meeting on 15 June 2012 (the "AGM") for the distribution of a final dividend of HK$0.16 per share for the year ended 31 December 2011 payable to the shareholders of the Company whose names are listed in the register of the Company on 25 June 2012, in an aggregate of HK$305.4 million (equivalent to RMB247.9 million). The proposal for the distribution of the final dividend above is subject to the consideration and approval of the shareholders at the AGM of the Company.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 11 June 2012 to Friday, 15 June 2012 (both days inclusive) and from Thursday, 21 June 2012 to Monday, 25 June 2012 (both days inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming AGM, unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Friday, 8 June 2012. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the forthcoming AGM), unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Wednesday, 20 June 2012.

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 and the Company. The annual report for the year containing all the information required by Appendix 16 of the Listing Rules will be despatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 26 March 2012

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.