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中升集團控股有限公司

Zhongsheng Group Holdings Limited

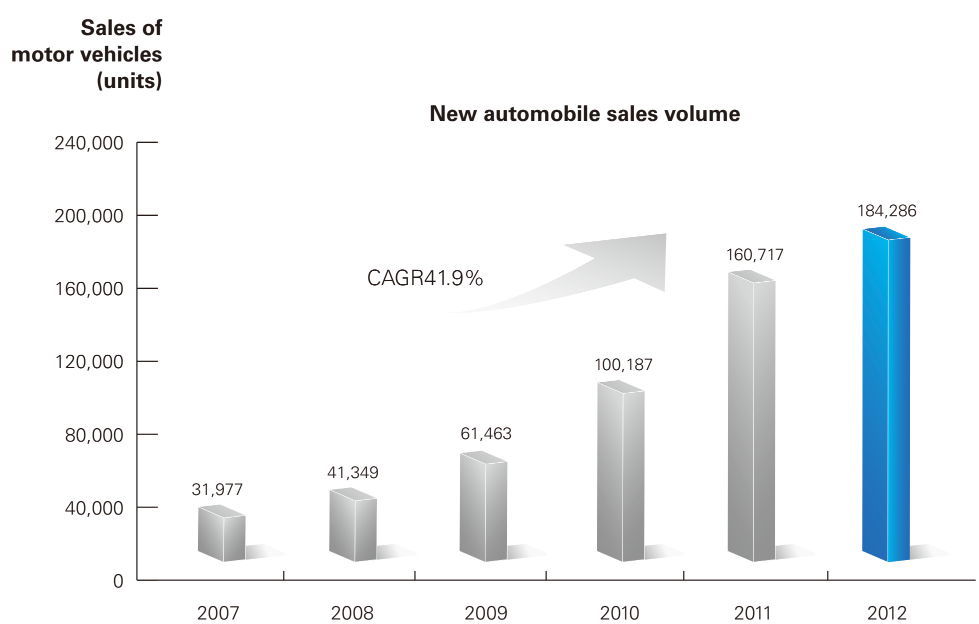
(Incorporated in the Cayman Islands with limited liability)

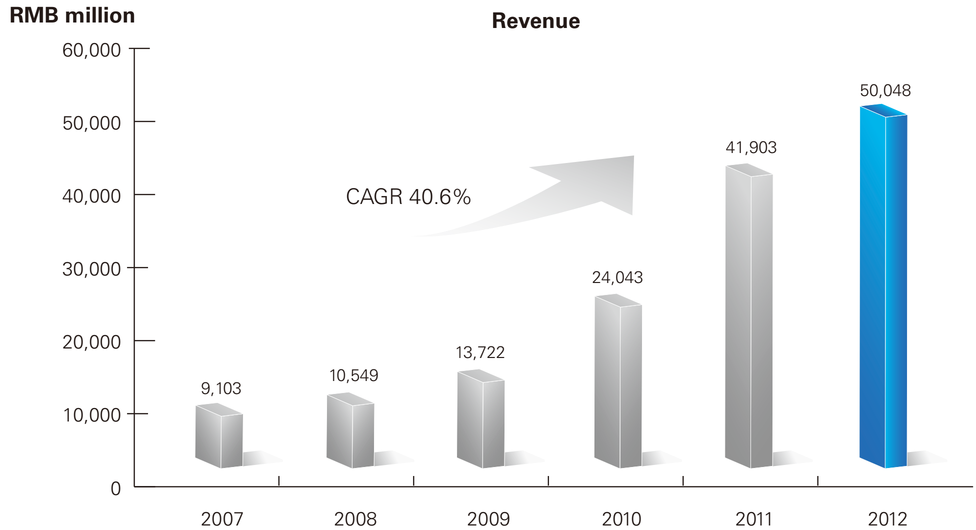
(Stock Code: 881)

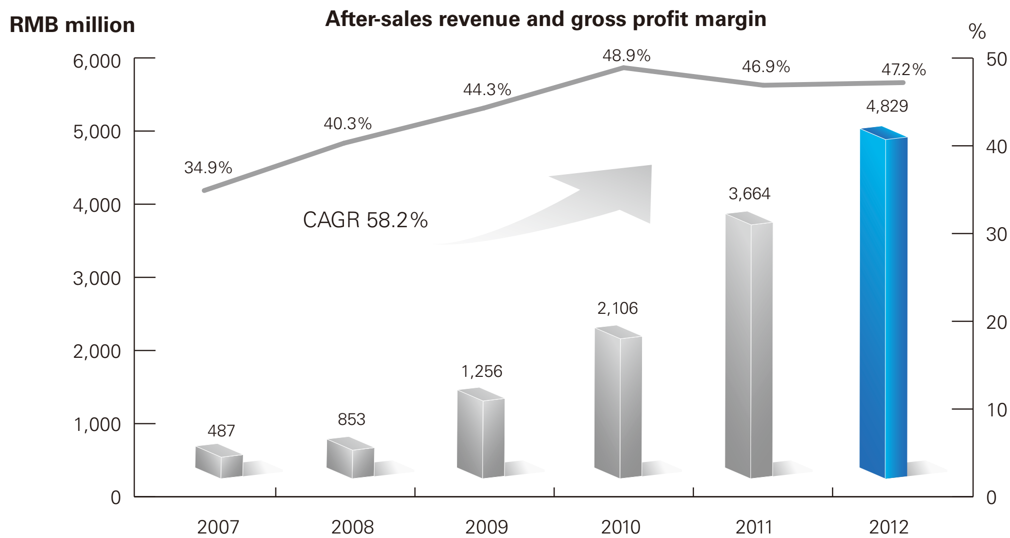
Announcement of Annual Results for the Year Ended 31 December 2012

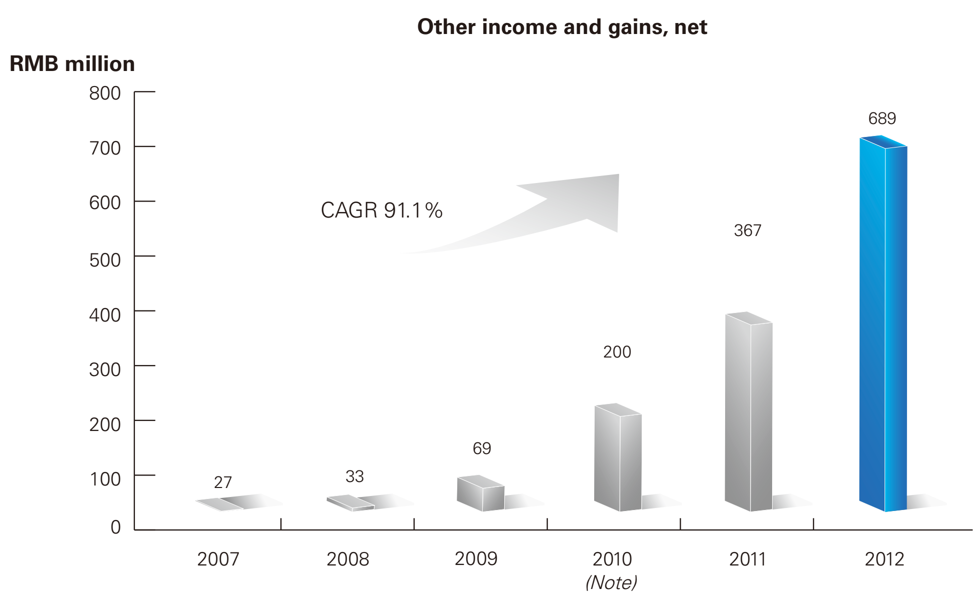
The board of directors (the "**Board**") of Zhongsheng Group Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (together, the "**Group**" or "**we**") for the year ended 31 December 2012 (the "**Reporting Period**"), together with comparative figures for the year ended 31 December 2011 as follows:

FINANCIAL HIGHLIGHTS









Note: Excluding the non-recurring gains of RMB122 million in 2010 arising from disposal of land use rights, property, plant and equipment and a subsidiary.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

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

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	*4*	**50,048,288**	41,903,414
Cost of sales and services provided	*5*	**(45,764,357)**	(37,595,170)
Gross profit		**4,283,931**	4,308,244
Other income and gains, net	*4*	**689,459**	367,362
Selling and distribution expenses		**(1,951,472)**	(1,325,790)
Administrative expenses		**(838,531)**	(616,267)
Profit from operations		**2,183,387**	2,733,549
Finance costs		**(1,032,130)**	(549,375)
Share of profits of jointly-controlled entities		**5,309**	9,549
Profit before tax	*5*	**1,156,566**	2,193,723
Income tax expense	*6*	**(291,023)**	(550,637)
Profit for the year		**865,543**	1,643,086
Attributable to:			
Owners of the parent		**750,480**	1,417,279
Non-controlling interests		**115,063**	225,807
		865,543	1,643,086
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
– For profit for the year (RMB)	*7*	**0.39**	0.74
Diluted			
– For profit for the year (RMB)	*7*	**0.39**	0.74

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2012

The following table sets forth our consolidated statement of financial position for the years indicated:

		31 December	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**5,039,957**	3,886,831
Land use rights		**1,447,091**	1,084,623
Prepayments		**1,463,918**	861,837
Intangible assets		**2,471,513**	2,241,290
Goodwill		**2,033,576**	1,697,884
Investments in jointly-controlled entities		**49,834**	44,525
Available-for-sale investments		**–**	132,928
Deferred tax assets		**132,086**	38,078
Total non-current assets		**12,637,975**	9,987,996
CURRENT ASSETS			
Inventories	*8*	**6,346,679**	6,380,195
Trade receivables	*9*	**576,706**	466,697
Prepayments, deposits and other receivables		**5,504,213**	4,631,948
Amounts due from related parties		**1,451**	4,369
Financial assets at fair value through profit or loss		**63,949**	49,749
Pledged bank deposits		**2,079,167**	1,664,888
Cash in transit		**187,910**	186,721
Cash and cash equivalents		**4,096,803**	4,487,819
Total current assets		**18,856,878**	17,872,386
CURRENT LIABILITIES			
Bank loans and other borrowings		**13,540,899**	10,016,585
Short term bonds		**821,198**	–
Senior notes, current portion		**11,581**	11,518
Trade and bills payables	*10*	**3,739,674**	5,679,875
Other payables and accruals		**1,354,499**	1,505,078
Amounts due to related parties		**16,094**	2,096
Income tax payable		**455,298**	392,622
Dividends payable		**402**	5,718
Total current liabilities		**19,939,645**	17,613,492
NET CURRENT (LIABILITIES)/ASSETS		**(1,082,767)**	258,894
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,555,208**	10,246,890

	Notes	31 December **2012** *RMB'000*	2011 *RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**778,629**	706,439
Senior notes		**1,239,951**	1,232,693
Bank loans and other borrowings		**706,738**	29,945
Total non-current liabilities		**2,725,318**	1,969,077
NET ASSETS		**8,829,890**	8,277,813
EQUITY			
Equity attributable to owners of the parent			
Share capital		**168**	168
Reserves		**7,385,870**	6,844,136
Proposed final dividend	*11*	**152,679**	247,929
		7,538,717	7,092,233
Non-controlling interests		**1,291,173**	1,185,580
Total equity		**8,829,890**	8,277,813

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 Main Board of the Stock Exchange of Hong Kong Limited on 26 March 2010.

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

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

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for 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.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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:

	2012	2011
	RMB'000	*RMB'000*
Revenue from the sale of motor vehicles	**45,219,229**	38,239,543
Others	**4,829,059**	3,663,871
	50,048,288	41,903,414

(b) Other income and gains, net:

	2012	2011
	RMB'000	*RMB'000*
Commission income	**445,968**	234,254
Advertisement support received from motor vehicle manufacturers	**34,787**	28,704
Rental income	**27,643**	10,957
Interest income	**40,502**	35,901
Government grants	**19,178**	7,481
Net loss on disposal of items of property, plant and equipment	**(10,511)**	(763)
Net loss on disposal of intangible assets	**(797)**	(533)
Gain on disposal of available-for-sale investments	**3,370**	1,594
Fair value (losses)/gains, net:		
Available-for-sale investments (transfer from equity on disposal)	**(1,820)**	582
Financial assets at fair value through profit or loss		
– listed equity investments held for trading	**14,189**	(26,940)
– equity linked note	**–**	(2,783)
Dividend income from listed equity investments	**1,250**	1,517
Others	**115,700**	77,391
	689,459	367,362

5. PROFIT BEFORE TAX

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

	2012	2011
	RMB'000	*RMB'000*
(a) Employee benefit expense (including directors' remuneration):		
Wages and salaries	**1,098,629**	657,221
Pension scheme contributions	**157,592**	104,004
Other welfare	**80,000**	53,180
	1,336,221	814,405
(b) Cost of sales and services provided:		
Cost of sales of motor vehicles	**43,215,761**	35,650,976
Others	**2,548,596**	1,944,194
	45,764,357	37,595,170
(c) Other items:		
Depreciation and impairment of property, plant and equipment	**351,430**	256,204
Amortisation of land use rights	**24,529**	18,251
Amortisation of intangible assets	**117,099**	86,054
Auditors' remuneration	**5,400**	5,000
Lease expenses	**108,642**	76,250
Advertisement expenses	**146,743**	105,161
Office expenses	**159,349**	113,751
Logistics expenses	**95,604**	67,116
Business promotion expenses	**257,425**	205,172
Provision/(reversal of provision) for impairment of trade receivables and other receivables	**27**	(26)
Net loss on disposal of items of property, plant and equipment	**10,511**	763
Net loss on disposal of intangible assets	**797**	533
Fair value losses/(gains), net:		
Available-for-sale investments (transfer from equity on disposal)	**1,820**	(582)
Financial assets at fair value through profit or loss		
– listed equity investments held for trading	**(14,189)**	26,940
– equity linked note	**–**	2,783
Dividend income from listed equity investments	**(1,250)**	(1,517)
Gain on disposal of available-for-sale investments	**(3,370)**	(1,594)

6. TAX

(a) Tax in the consolidated income statement represents:

	2012	2011
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**364,796**	566,138
Current Hong Kong corporate income tax	**–**	201
Deferred tax	**(73,773)**	(15,702)
	291,023	550,637

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% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

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

	2012	2011
	RMB'000	*RMB'000*
Profit before tax	**1,156,566**	2,193,723
Tax at the statutory tax rate (25%)	**289,142**	548,431
Tax effect of non-deductible expenses	**16,383**	13,994
Income not subject to tax	**(6,838)**	(10,182)
Profits attributable to jointly-controlled entities	**(1,327)**	(2,387)
Lower tax rates for specific provinces or enacted by local authority	**2,961**	(4,304)
Utilisation of tax losses from previous periods	**(9,834)**	–
Tax losses not recognised	**536**	5,085
Tax charge	**291,023**	550,637

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 (2011: 1,908,481,295) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented in 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during 2012 and 2011.

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

Earnings

	2012	2011
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent	**750,480**	1,417,279

Shares

	2012	2011
Weighted average number of ordinary shares in issue during the year	**1,908,481,295**	1,908,481,295

Earnings per share

	2012	2011
	RMB	*RMB*
Basic	**0.39**	0.74
Diluted	**0.39**	0.74

8. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Motor vehicles	**5,694,250**	5,900,111
Spare parts and others	**652,429**	480,084
	6,346,679	6,380,195

As at 31 December 2012, certain of the Group's inventories with an aggregate carrying amount of approximately RMB1,132,547,000 (2011: RMB899,556,000) were pledged as security for the Group's bank loans and other borrowings.

As at 31 December 2012, certain of the Group's inventories with an aggregate carrying amount of approximately RMB445,218,000 (2011: RMB703,959,000) were pledged as security for the Group's bills payable.

9. TRADE RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**576,924**	466,888
Impairment	**(218)**	(191)
	576,706	466,697

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:

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**507,171**	433,202
More than 3 months but less than 1 year	**51,283**	28,831
Over 1 year	**18,252**	4,664
	576,706	466,697

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

	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**570,832**	462,033
Over one year past due	**5,874**	4,664
	576,706	466,697

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

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**602,601**	600,322
Bills payable	**3,137,073**	5,079,553
Trade and bills payables	**3,739,674**	5,679,875

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:

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**3,066,559**	3,258,824
3 to 6 months	**666,262**	2,165,436
6 to 12 months	**2,577**	251,715
Over 12 months	**4,276**	3,900
	3,739,674	5,679,875

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

11. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Proposed final – HK$0.10 (approximately RMB0.08) (2011: HK$0.16) per ordinary share	**152,679**	247,929

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

MARKET REVIEW

Affected by the global economic uncertainties and the slow down of domestic macro-economic growth, the passenger vehicles market in China grew at a moderate pace in 2012. According to the statistics of China Association of Automobile Manufacturers (中國汽車工業協會), the monthly average and accumulated automobile sales in China amounted to over 1.5 million units and over 19 million units respectively in 2012, representing an increase of 4.3% as compared to last year. The sales volume of passenger vehicles reached 15.5 million units, representing an increase of 7.1% from last year. Though the automobile sales growth in China failed to resume the double-digit level in 2012, the industry remained optimistic towards the development of the passenger vehicles market in China thanks to its gradually maturing market demand, higher market concentration and improving industry structure.

The PRC Government escalated the expansion of domestic demand to the "strategic policy" level and proposed long-term measures of accelerating the expansion of consumption demand to unleash the nation's consumption potentials and expand the domestic market. According to the China Institute for Reform and Development, the urban population in China is expected to increase by approximately 400 million in the next decade, bringing in the investment of RMB40,000 billion. According to a survey on urban residents in the fourth quarter of 2012, the consumption sentiments of urban residents have improved and 15.4% of urban residents intend to purchase automobiles in the next three months, a record high since the first documented survey in 1999. With the accelerating urbanization, the market demand for automobiles in the second-, third-, and fourth-tier cities and rural areas would be further stimulated, bringing new development opportunities for the automobile industry.

BUSINESS REVIEW

Strategic Expansion of Nationwide Dealership across China

During the year under review, the Group further detailed the strategic plan in response to the market trend and focused on reinforcing and expanding the market share and competitive edges in a number of key regions. Since the beginning of the year, we have set up 16 new dealerships in economically affluent or potential-rich regions such as Shandong, Zhejiang, Guangdong, Fujian and Sichuan, including 6 luxury brand dealerships and 10 mid-to-high-end brand dealerships. Moreover, we successfully acquired 4 dealerships in Zhejiang, Fujian and Guangdong, including one Mercedes-Benz dealership, two Audi dealerships and one FAW-Toyota dealership. As at the date of this announcement, the dealerships of the Group totaled 160, representing an increase of 20 dealerships from the date of the 2011 Annual Report. The Group's dealerships comprise 53 luxury brand dealerships and 107 mid-to-high-end brand dealerships across 15 provinces and regions and nearly 60 cities in China.

Optimization of Brand Portfolio and Improvement in Inventory Level

During the year under review, the Group further enhanced its existing brand portfolio by opening two dealerships of Jaguar Land Rover, two dealerships of Volvo and one dealership of Chrysler. Our luxury brands include Mercedes-Benz, Lexus, Audi, Porsche, Lamborghini, Jaguar Land Rover, Volvo and Chrysler. Our mid-to-high-end brands include Toyota, Nissan and Honda. The diversified and balanced brand portfolio allowed us to satisfy the market demand in different regions.

In the second half of 2012, the Group continuously improved its inventory level amidst intense industry competition and market change. As at the end of 2012, the inventory turnovers significantly improved as compared to the first half of 2012. Improved inventory level lowers the capital cost and enhances the profitability of the Group as a whole.

Diversifying After-sales Service Channels and Seizing Significant Business Opportunities in Other Value-added Services

China has been the world's largest new passenger vehicle market for four consecutive years. Meanwhile, automobile ownership in China has exceeded 120 million units. Yet the huge revenue potential of the after-sales market has not been fully explored. As a one-stop automobile service dealer, we have had the insight into seizing this business opportunity. Adhering to the motto of "Zhongsheng Group – Lifetime Partner", we developed a competitive edge from our scale of integrated business, utilised its advantage based on the new automobile sales and deeply exploring the business value chain of the after-sales market.

In addition to promoting the sales of new automobile, we also strengthened our financing and insurance agency service business, enabling more people to fulfil the dream of car ownership while expanding our revenue channels. In respect of repairs and maintenance, we have been offering a more rapid, professional and comprehensive service to our customers through regular reminders and frequent tracking of the maintenance progress by our professional after-sales team.

As the sales of new automobile was thriving, the second-hand car market also sprouted in China. Under the guidelines on the 12th 5-year plan on the development of the automotive distribution industry launched by The Ministry of Commerce, it was expressly stated that the country would promote the brand second-hand car market, and expedite the establishment of a reliable, systematic and effective second-hand car dealership network. The Group also made more effort in promoting second-hand car service business, highlighting our advantages in diversified brand portfolios, and providing professional services to cater to various needs of our customers.

In order to fulfil the unique needs of our high-end customers, the Group acquired a 70% equity interest in Carlsson Autotechnik GmbH, a world class automobile tuning company in May, 2012. The acquisition extended our business scope from traditional automobile dealership to new areas of professional customized automobile tuning as well as design and production of automobile accessories.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2012 was RMB50,048.3 million, representing an increase of RMB8,144.9 million or 19.4% as compared to the corresponding period in 2011. 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 RMB45,219.2 million, representing an increase of RMB6,979.7 million or 18.3% as compared to the corresponding period in 2011. Revenue from after-sales business amounted to RMB4,829.1 million, representing an increase of RMB1,165.2 million or 31.8% as compared to the corresponding period in 2011. Our new car sales business generated a substantial portion of our revenue, accounting for 90.4% of our revenue for the year ended 31 December 2012 (2011: 91.3%).

For the year ended 31 December 2012, revenue from sales of luxury brand automobiles amounted to RMB26,717.9 million (2011: RMB19,155.5 million), accounting for 59.1% (2011: 50.1%) of our revenue from new car sales for the same period. Revenue from sales of mid-to-high-end brand automobiles amounted to RMB18,501.3 million (2011: RMB19,084.0 million), accounting for 40.9% (2011: 49.9%) 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 24.3% and 23.6% of our total new car sales revenue respectively (2011: 29.2% and 20.1% respectively).

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2012 amounted to RMB45,764.4 million, representing an increase of RMB8,169.2 million or 21.7% as compared to the corresponding period in 2011. Cost attributable to our new car sales business amounted to RMB43,215.8 million for the year ended 31 December 2012, representing an increase of RMB7,564.8 million or 21.2% as compared to the corresponding period in 2011. Cost attributable to our after-sales business amounted to RMB2,548.6 million for the year ended 31 December 2012, representing an increase of RMB604.4 million or 31.1% as compared to the same period of 2011.

Gross Profit

Gross profit for the year ended 31 December 2012 amounted to RMB4,283.9 million, representing a decrease of RMB24.3 million or 0.6% as compared to the corresponding period in 2011, of which the gross profit from new car sales business amounted to RMB2,003.5 million, representing a decrease of RMB585.1 million or 22.6% as compared to the corresponding period in 2011. Gross profit from after-sales services was RMB2,280.5 million, representing an increase of RMB560.8 million or 32.6% as compared to the corresponding period of 2011. For the year ended 31 December 2012, the gross profit from after-sales services accounted for 53.2% of the total gross profit (2011: accounted for 39.9% of the total gross profit). Our gross profit margin for the year ended 31 December 2012 was 8.6% (2011: 10.3%), of which the gross profit margin of new car sales business was 4.4% (2011: 6.8%). Gross profit margin of after-sales services was 47.2% (2011: 46.9%).

Profit from Operations

Profit from operations for the year ended 31 December 2012 amounted to RMB2,183.4 million, representing a decrease of RMB550.1 million or 20.1% as compared to the corresponding period in 2011. Our operating profit margin for the year ended 31 December 2012 was 4.4% (2011: 6.5%).

Profit for the Year

Our profit for the year ended 31 December 2012 amounted to RMB865.5 million, representing a decrease of RMB777.6 million or 47.3% as compared to the corresponding period in 2011. Our net profit margin for the year ended 31 December 2012 was 1.7% (2011: 3.9%).

Profit Attributable to Owners of the Parent

Our profit attributable to owners of our Company for the year ended 31 December 2012 was RMB750.5 million, representing a decrease of RMB666.8 million or 47.0% as compared to the corresponding period in 2011.

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

Cash Flow Generated from Operating Activities

For the year ended 31 December 2012, our net cash generated from operating activities was RMB114.4 million, arising from operating profit of RMB2,630.3 million before working capital change deducting an increase in working capital of RMB2,197.0 million and payment of tax of RMB318.9 million.

Cash Flow Used in Investing Activities

For the year ended 31 December 2012, our net cash used in investing activities was RMB3,040.3 million, consisting primarily of payment for purchases of property, plant and equipment of RMB1,501.6 million, payment for purchases of land use rights of RMB315.4 million and acquisition of subsidiaries of RMB901.1 million, partially offset by proceeds from disposal of items of property, plant and equipment of RMB351.1 million.

Cash Flow Generated from Financing Activities

For the year ended 31 December 2012, our net cash generated from financing activities was RMB2,534.6 million, consisting of proceeds from bank loans and other borrowings of RMB25,965.4 million and net proceeds from issue of short term bonds of RMB796.8 million, partially offset by repayment of bank loans and other borrowings of RMB21,935.2 million and interest paid for bank loans and other borrowings of RMB1,014.5 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 2012, our total capital expenditures were RMB2,080.7 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 decreased by 0.5% from RMB6,380.2 million as at 31 December 2011 to RMB6,346.7 million as at 31 December 2012. The decrease is primarily due to our continuous efforts in raising inventory turnovers so as to keep the inventories at a lower and safer level.

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

	Year ended 31 December	
	2012	2011
Average inventory turnover days	**50.1**	44.9

Our average inventory turnover days in 2012 increased to 50.1 days from 44.9 days in 2011, primarily due to the significant increase of new dealership stores, which have not yet reached their optimal level of new car sales. Compared to the average inventory turnover days of 57.0 days for the first half of 2012, our inventory turnovers improved significantly and are continuously optimizing.

Bank Loans and Other Borrowings and Short Term Bonds

Our bank loans and other borrowings and short term bonds as at 31 December 2012 amounted to RMB15,068.8 million. Our bank loans and other borrowings and short term bonds increased during the year primarily to finance our working capital for 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 2012, the pledged group assets amounted to approximately RMB4.2 billion (2011: RMB3.8 billion).

Contingent Liabilities

As at 31 December 2012, neither the Company nor the Group had any significant contingent liabilities.

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

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 2012.

FUTURE OUTLOOK

With our sound foundation, nationwide dealership network, diversified brand portfolios and experienced core management team, we have still enjoyed our leadership position amid fierce market competition. 2012 was a year full of challenges but it has strengthened our confidence for the development in 2013. Facing the constantly changing automobile industry in China, the Group will make use of its existing resources and competitive edges to focus on developing luxury automobile brands business in more mature first-tier and second-tier cities, and continue integrating mid-to-high-end automobile brands in potential-rich third-tier and fourth-tier cities. On the other hand, the Group will also continue to enhance the after-sales business and other value-added businesses by injecting more resources so as to further advance our service standards, earn more customer satisfaction and loyalty, and further boost our profitability.

Looking forward, with a corporate motto of "Zhongsheng Group – Lifetime Partner", the Group will actively capture market opportunities to strengthen the core business and spare no effort to develop other businesses along the industrial chain, in order to provide comprehensive quality services to customers and become their lifelong partner.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"). Throughout the Reporting Period, the Company has complied with the 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 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 2012.

AUDIT COMMITTEE

The Company's annual results for the year ended 31 December 2012 have been reviewed by the Audit Committee on 25 March 2013.

PROPOSED DISTRIBUTION OF FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company in the annual general meeting to be held on 18 June 2013 (the "**AGM**") the distribution of a final dividend of HK$0.10 per share for the year ended 31 December 2012 payable to the shareholders of the Company, whose names are listed in the register of the Company on 27 June 2013, in an aggregate amount of HK$190.8 million (equivalent to RMB152.7 million). The proposed 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 Friday, 14 June 2013 to Tuesday, 18 June 2013 (both days inclusive) and from Tuesday, 25 June 2013 to Thursday, 27 June 2013 (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 Thursday, 13 June 2013. 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 Monday, 24 June 2013.

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 to 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, 25 March 2013

As at the date of this announcement, the executive directors of the Company are Mr. Huang Yi, Mr. Li Guoqiang, Mr. Du Qingshan, Mr. Yu Guangming and Mr. Si Wei; 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.