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 2023

The board (the "**Board**") of directors (the "**Directors**") of Zhongsheng Group Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2023, as follows:

KEY HIGHLIGHTS

	2023	2022 (Restated)	Year-on-year change
	(Renminbi in millions, unless specified)		
Financial Summary			
Revenue			
Sales of motor vehicles	**154,199.7**	155,248.0	–0.7%
Accessories and after-sales services	**25,090.4**	24,608.9	2.0%
thereof after-sales services (Maintenance, warranty and collision)	**20,076.0**	17,377.1	15.5%
Revenue	**179,290.1**	179,856.9	–0.3%

	2023	2022 (Restated)	Year-on-year change
	(Renminbi in millions, unless specified)		
Gross profit			
Sales of motor vehicles	**1,997.9**	4,445.7	–55.1%
Accessories and after-sales services	**11,766.4**	11,585.9	1.6%
thereof after-sales services (Maintenance, warranty and collision)	**9,293.8**	7,511.1	23.7%
Total gross profit	**13,764.3**	16,031.6	–14.1%
Commission income	**4,132.1**	3,764.3	9.8%
Aggregate Profit	**17,896.4**	19,795.9	–9.6%
Profit for the period	**4,990.9**	6,635.2	–24.8%
Basic earnings per Share attributable to ordinary equity holders of the parent *(RMB)*	**2.09**	2.77	–24.5%

	2023	2022	Year-on-year change
Operating Metrics			
New car sales volume *(Units)*	**501,570**	520,396	–3.6%
thereof Luxury brands (Units)	**304,782**	307,434	–0.9%
Pre-owned automobiles trade volume *(Units)*	**164,109**	140,121	17.1%

STRATEGY UPDATES

The Chinese economy grew 5.2% in 2023, beating the original target of 5%. We have seen some fluctuations in various macroeconomic readings including GDP, inflation, retail sales, purchasing manager index, etc., bouncing between growth and contraction territories in the past few months leading into 2024. Some are even arguing the Chinese economy has been struggling and the outlooks are bleak because of issues with its debt level, deflationary tendency, and demographic challenge. Yet on the ground across our 400 some stores nationwide, we are seeing local governments implementing various policies to stimulate auto consumption, which we believe would be beneficial to cultivating a more consumption-centric economy. Our new automobile sales volume increased more than 20% in the second half of 2023 compared with that of the first half. To most of the households in China, an automobile is usually the single largest purchase item other than properties. More importantly, it is a major change in lifestyle that stimulates prolific demands for first-time owners. The number of travellers almost doubled during the Chinese New Year holiday in 2024 and it was mainly attributed to the surge in travelers taking road trips. We are also seeing more experienced auto owners becoming more discerning and demanding when seeking auto services as they become more and more sophisticated, which is in our favour as a branded premium service provider. We believe with an economic growth target of 5% in 2024 and the auto sector being repeatedly addressed in the work report delivered by the premier of the People's Republic of China ("**China**") in February 2024, the overall automobile and auto services sector will carry its strong momentum into 2024. As at the date of this announcement, the Chinese government has announced plans to stimulate equipment replacement and consumption goods trade-in, under which the scrappage volume and preowned automobile volume are set to increase 100% and 45% by 2027 respectively from the 2023 level. We believe both the new automobile and preowned automobile segments will benefit from this new plan and are excited to see more specific implementation measures to be promulgated in due course.

2023 was a very special year in Chinese auto history. The entire new automobile market in China experienced cut-throat price competition that was unprecedented and unexpected yet destined. While we are seeing a barrage of fresh price cuts as we start 2024, we noticed a prevailing tendency that manufacturer's suggested retail price (MSRP) cuts are being implemented together with new model launches rather than regional dealership level price cuts. This works in dealerships' favour as dealer margin is likely to be protected. A consequent change is that clickbait or misinformation about price cuts on social media that were viral last year dramatically reduced, therefore averting a vicious cycle of unsustainable and unnecessary price competition among dealers in general. Global major original equipment manufacturers (OEMs) at various occasions have expressed their strong support to protect their existing dealer networks in China. We see these developments as testimonies of the strong will and effort from both OEMs and dealers to put words into action to stabilise the new automobile market.

2023 was even a more remarkable year in Zhongsheng's history. We announced our new strategic vision that is "to become the most trusted auto service brand for premium consumers in China", and to realise our vision, we also set "Triple One" strategic targets — to build 100 Zhongsheng-branded collision centres; to double our accident car repair business; to reach 1.0 used-to-new automobile sales ratio — as specific actionables. These vision and targets are set not just in response to the rapid changes in the Chinese auto market or overall auto electrification. Rather, they are set because the Chinese auto market has fully transformed into a car parc market, in which maintaining a local customer base becomes the key to long-term success. This is in stark contrast to an adoption and penetration driven new car market, which was how we amassed our scale for the past two decades. In today's car parc market, we focus on forging local presence density and service coverage, building local market share in various business segments, and exercising local customer relationship management in a centralised and Zhongsheng-branded ecosystem.

To achieve these, we have to keep striving to build Zhongsheng as a household name for local auto services and making our operations more brand agnostic and more centralised/consolidated at the local market level. Customer relations are no longer oriented at the brand-specific store level based on unique vehicle identification numbers (VIN). Instead, they are now oriented from individual and/or household auto owners, breaking up the boundaries among the individual brand-specific dealership stores. We pioneered centralised brand-agnostic operations across multiple business segments at the local market level among our core cities. These include our centralised customer relationship management (CRM) and centralised collision operations by consolidating previously individual store-level businesses to local market level across the brands we operate and even beyond. For example, a Cadillac or BYD owner may renew her auto insurance through us or have her accident car repaired by our brand-agnostic collision centre or simply enjoy our auto cosmetic services (washing, polishing, waxing, filming, etc.) at any of our outlets. Her profile and service history will be logged in our digitised membership platform under our WeChat Mini-program, which also serves as a location-based auto services booking system for vehicles of any brands. Her spending with us will also earn her reward points that could be used as cash for any purchases on our Zhongsheng GO e-commerce platform, which provides a wide array of popular household goods to our customers and is intended to stimulate more customer interactions with us. Our holistic brand-agnostic approach encompasses multiple closed loop business models that are catered to acquiring customers in the local markets and subsequently interacting with them in a Zhongsheng-branded ecosystem to stimulate ongoing demand for all other auto services and online shopping. The directors of the Company (the "**Directors**") believe that such a strategy will thrive in the long run because of the value we create for and trust we build with our customers, and will help us gradually consolidate the various auto services segments in the local markets, which in turn will enhance our local market share and customer loyalty as our brand-agnostic operations and customer centric approach continue to serve the same group of local customers regardless of what brands of their vehicles are or how their vehicles are powered.

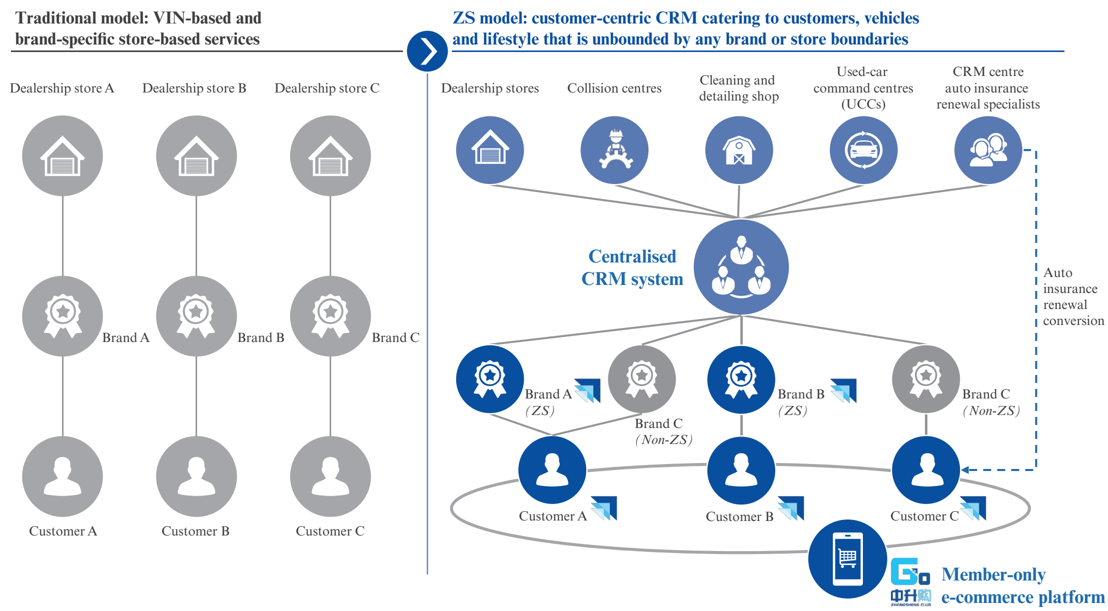
2023 was a year full of surprises in auto electrification. We saw meaningful slowdown in EV penetration in Northern America and Europe, or even reversion in UK's case. In substitute, there were meaningful upticks in hybrid electric vehicle (HEV) and plug-in hybrid electric vehicle (PHEV) penetration. Global major OEMs have all publicly expressed their caution on too aggressive EV investment and announced updated plans to push out deadlines for full electrification. According to their latest plans, almost all of them estimate by the end of the decade, 50% of their vehicles will be electric vehicles, a much less proportion than previously committed. A similar trend also exhibited in the Chinese auto market, where PHEV, including extended range electric vehicle (EREV), penetration grew faster than battery electric vehicle (BEV) in 2023. According to McKinsey, for the first time since 2017, the proportion of Chinese consumers who are considering buying a new energy vehicle (NEV), including both BEV and PHEV, dropped, largely attributed to the unpleasant user experiences of BEV. We believe these abrupt changes in trends, which were widely unexpected by BEV proponents, were market driven as consumers become more educated and experienced. While we believe in the long-term electrification of the global auto industry, we see clear bottlenecks in current BEV technologies and infrastructure that lead to range anxiety, safety concern and high total ownership cost on the user end, and high production cost and unsustainable profitability on the OEM side. We believe our current strategy to focus on centralised operations to serve local market customers puts us in good position for a balanced and smooth transition into the full electrified future, when the same group of customers would have strong recognition of our Zhongsheng brand and services.

BUSINESS REVIEW AND OUTLOOK

As we continue executing our strategy, we have continued making progress in terms of organisational upgrades, procedural optimisation and efficiency improvements. We have highlighted some of the key areas below.

Centralised customer relationship management

We have designed, created and ramped up rapidly the various components — a centralised CRM system, Zhongsheng GO platform, core-city level centralised CRM operations — that are key to providing a centralised CRM experience for our customers in 2023, moving away from brand-specific VIN-based customer relationships tied to specific stores. Our centralised CRM system, native to WeChat Mini-program, really enables us to acquire customers across all our business segments (new automobile, preowned automobile, after-sales services, auto insurance brokerage, courtesy car, etc.) and outlets (dealership stores, collision centres, auto cosmetic shops, Zhongsheng GO platform, WeCom chats, etc.) all in a synchronised brand-agnostic manner. A customer, who enters into our ecosystem from any touchpoint, as illustrated in the diagram below, will be exposed and guided to all other business segments through ongoing interactions on our Zhongsheng GO platform, or with our representatives from various business segments either in person or via WeCom chats.



All of our auto insurance renewal business has been consummated by our core-city level CRM centres, whose offerings, including brand-agnostic body and paint service vouchers and auto cosmetic vouchers, as well as coveted household items from Zhongsheng GO platform, are very competitive in converting any auto owners in the respective local markets. More than 60% of our 3.8 million active customers in 2023 have become subscribed members on our Zhongsheng GO platform. Our WeCom chats have also linked more than 6.8 million contacts with our representatives. Customers are being increasingly nudged that they are receiving Zhongsheng branded services, whether when they are browsing what seasonal deals are on Zhongsheng GO or when they are redeeming our service vouchers at various Zhongsheng operated outlets. The vouchers are even more prolific because of our centralised operations as they could be easily transferred/shared and redeemed by any family and friends, terms and conditions applied, so the good words of our services and experiences can spread.

Preowned automobile business

We have achieved tremendous growth both in terms of number of transactions and aggregate profit in the preowned automobile business in 2023. Since our revamp of our preowned automobile business strategy in the beginning of 2023, monthly volume had kept growing from seven thousand transactions per month in January to 20 thousand transactions per month in December. Total number of preowned automobile transactions grew 17% year over year to over 164 thousand transactions. The corresponding aggregate profit of the preowned automobile business increased 55% year-on-year to over RMB1.2 billion, contributing an all-time high 6.9% of total aggregate profit this year. This is an exhilarating result and a strong testament of our new strategy and execution in running the business, especially against the backdrop of the volatility in the new automobile market, which inevitably exerted pressure over the preowned automobile market in general in China.

Our quality growth in both volume and profit of the preowned automobile business lies in our strategy to relentlessly push for higher quality preowned automobile sourcing (entry) and retail customer leads (exit) and strive for stronger execution in between. The entire strategy and execution again centered around our local-market-centric business mentality, leveraging our existing local scale, local resources and local facilities as well as in-depth Chinese auto industry know-how and relationships, to create a business model that is unique and unassailable in the Chinese preowned automobile market history.

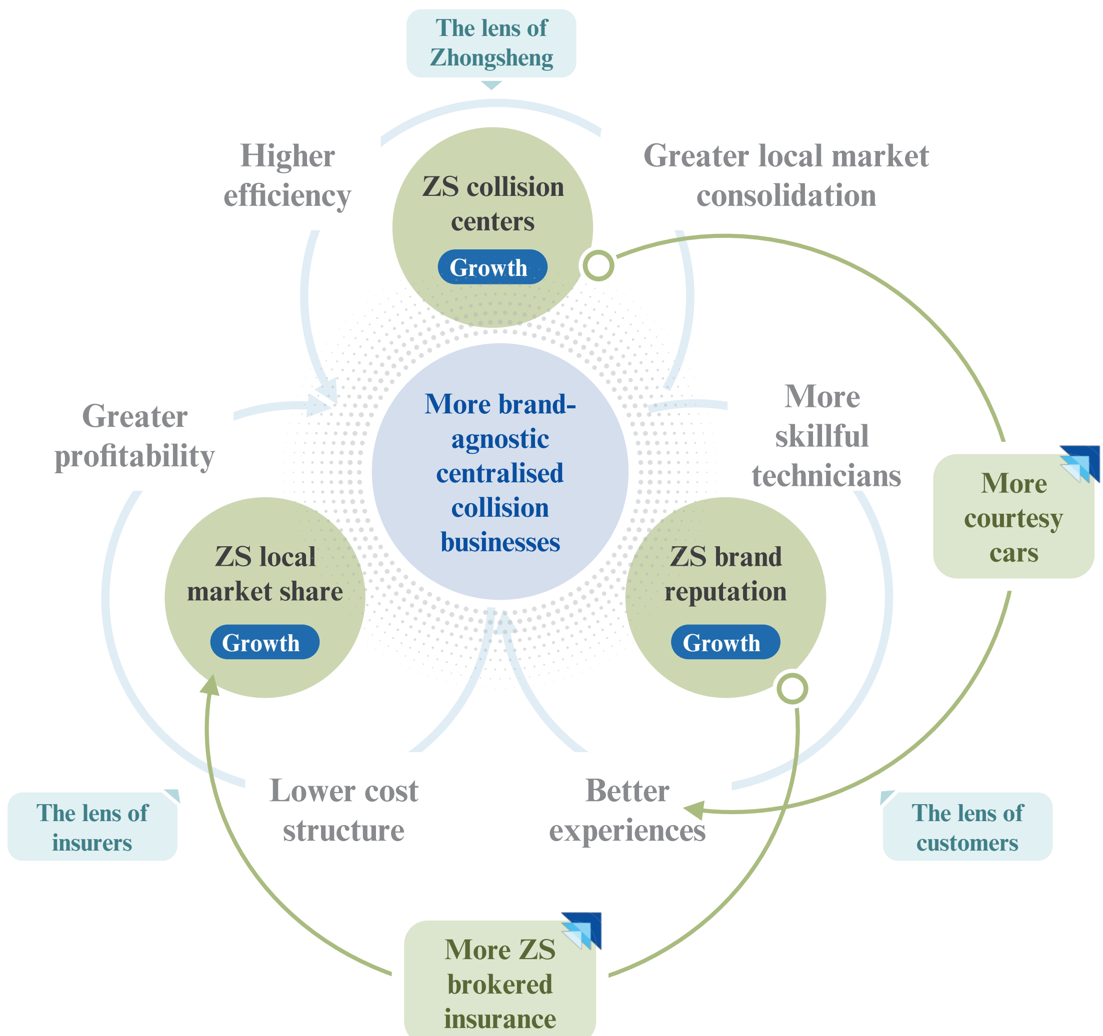
On the entry front, trade-ins are still predominantly the main source of our inventories. The overall trade-in ratio in 2023 was 30% and is expected to continue to increase. In contrast to off-rental vehicles, commonly seen in the developed markets as a major source of used car inventories but absent in Chinese market, our own fleets, run as test-drive and courtesy cars, are becoming an increasingly important source of inventories in the preowned automobile business. Our centralised collision centre strategy, which will be more discussed in the next section, requires more deployment of courtesy car fleets. The strategic attractiveness is that these fleets put our three major segments (new automobile, preowned automobile and collision businesses) into a synergistically arranged flow. Thanks to our brand-agnostic collision centres, we are becoming a major buyer of courtesy fleets of any brands, ready to scoop up "special situation" or bulk new automobile deals at attractive prices that are becoming more common in Chinese auto market today. The option of running these direct purchases as courtesy fleets allows to avert fire-sale situations commonly run into by preowned automobile dealers, creating more opportunities to reap profits as we time the market to maximise resale value.

In terms of exit, we strive to consummate more retail preowned automobile transactions, through which we would have greater profit potential and the opportunity to cultivate long-term loyal customers to Zhongsheng with subsequent after-sales and peripheral auto service needs. Building our own fleets, similar to vehicle inventories sourced through auctions, allows us to better target specific brands or models for retail sales later. In terms of retail preowned automobile customer leads, in addition to our natural foot traffic at our stores, we have built an expansive social media presence, like Douyin or Redbook, catering to the prevailing decision-making processes among retail preowned automobile buyers in China these days. Take one of our social media accounts run by our Mercedes preowned automobile flagship store in Nanjing as an example, they now have over 450,000 followers that are generating over 10,000 retail sales leads (viewers leaving valid contact information) every month. Close to two thirds of retail preowned automobile transactions at this store are consummated with customers originated from social media. With the expansion of our centralised brand-agnostic collision centres, we are gradually leveraging the traffic there to exploit potential preowned automobile cross-selling opportunities. When accident car owners visit our collision centres, with courtesy cars to be arranged and some preowned automobile for sale displayed, this would be an ideal setting for our representatives to approach the customers to promote an old-for-old trade-in solution for their existing vehicles. All these efforts are intended to draw as much as retail attention into our ecosystem as we could to potentially generate a greater portion of retail preowned automobile transactions that have a bigger pot of gold.

From an operational perspective, we fully mobilise our used car command centres (UCCs) to fully coordinate real-time pricing and inventory circulation within our group. At the local core city level, we intend to create as much impact as we could in the market by building preowned automobile flagship stores based on our existing dealership network. At this stage, we are still at an initial stage of building our preowned automobile business especially on the retail side. Operational format like flagship stores makes more business sense because they allow us to best leverage our competitive advantages across all our business segments. Potential customers visiting our flagship stores would also be more impressed by the scale of our operations, the depth of our inventory selection and the caliber of our representatives, all of which work in our favour for customer conversion. For our top 30 preowned automobile flagship stores in our group, retail transaction proportion increased by six percentage points in 2023 as compared to 2022. Preowned automobile retail customers have become another major propellor of customer base growth, reaching 80% of new automobile customers every month in some of our leading flagship stores' cases. We will continuously build more flagship stores across regions and brands in the near future to strengthen our local market share and forging stronger bonds between Zhongsheng and preowned automobile customers as a trusted vendor.

Collision centres

As at the end of March 2024, we have 20 Zhongsheng-branded collision centres operational across 15 cities with additional 14 that are under construction and another 12 that have been planned. When complete, all these 46 Zhongsheng-branded collision centres together will cover about 65% of our stores and 70% of our active customer base in a total of 29 cities — almost all our 32 core cities. While we are excited about the great progress we have achieved so far in executing our brand-agnostic collision strategy, we also reckon that to achieve our strategic target of consolidating local collision markets in a centralised and brand-agnostic manner, we ought to bring the other two other stakeholders, insurers and customers, closer into our business dynamics so as to fully realise the underlying network effect potential.



As illustrated here, our Zhongsheng branded collision centres, together with insurers and customers, will all benefit from these centres generating more accident car repair businesses, which is where all the three individual network effect cycles intersect. In our perspective, Zhongsheng branded collision centres could achieve higher efficiency and lower cost structure as brand-agnostic collision repair volume grows. Insurers would be financially better off in managing their claim ratios, when our collision centres take up more local market share to realise economies of scale. Their network effect could further unlock the potential value of courtesy cars in conjunction with our preowned automobile business to improve our customer experience. Greater volume also means Zhongsheng is able to attract and retain the most skilled technicians and mechanics with generous packages. These enhanced customer experiences boosted by superior repair quality, faster turnaround time, and hassle-free courtesy car offering would in turn trigger the network effect among our customers that fosters long-term Zhongsheng brand trust and loyalty. Last but not least, happier and more loyal Zhongsheng customers would be more willing to renew their annual auto insurances through us, fully appreciating our centralised CRM system discussed above. Our local market share in both insurance brokerage and collision repair could therefore be further reinforced.

As you may realise now, what we have had in place so far are just the right components of this multi-lateral flywheel system individually in each of the local market. As depicted, the potential here is enormous. Nevertheless, it also requires time and effort for us to streamline all the necessary business procedures and market dynamics among our stakeholders at the individual local market level. While these ramp-up periods for individual markets could be full of twists and turns, we believe in our strong organisational prowess, sector expertise and business knowhow. The Directors believe that if we were not able to pull them off in China, nobody ever will.

MARKET UPDATES

In 2023, amidst various initiatives to bolster the automotive economy, Chinese passenger vehicle sales volume saw a steady increase. According to insurance data, total passenger vehicle sales volume reached 21.70 million units, representing a year-on-year increase of 5.8%. The sales volume of traditional luxury brands maintained robust growth. BMW (excluding MINI) reported sales volume of 810,000 units, achieving a year-on-year increase of 5.0%; Audi sales volume reached 700,000 units, with a year-on-year increase of 9.1%; Mercedes-Benz and Lexus sales volume stood at 770,000 units and 180,000 units, respectively, both remaining essentially on par year-on-year. In the mid-to-high-end segment, as the number of participants in the domestic market increased, brand sales concentration became more dispersed. Toyota's new car sales volume in China in 2023 totalled 1.70 million units, representing a year-on-year decrease of 7.6%.

In 2023, we kept working on the core brands we represent. As the largest Lexus dealership group, the second-largest Mercedes-Benz dealership group, and the third-largest BMW dealership group in China, we maintained stable market shares of 31%, 18%, and 6%, respectively, for the three brands. Additionally, we held 9% and 5% of the market shares for Toyota and Audi in China, respectively.

New energy vehicles (NEV) have seen rapid growth in recent years as China pushes for its development as part of broader industrial upgrades. According to industry insurance sales data, the retail sales volume of new energy passenger vehicles in 2023 rose by 38.9% year-on-year to 7.32 million units, with the penetration rate increasing to 33.7%, indicating that a slowdown in sales growth and penetration rate increment as compared to the previous two years. Meanwhile, sales volume of internal combustion engine (ICE) vehicles has stabilised with a much smaller year-on-year decline. In response to the dynamic development of Chinese auto market and consumer demand, global major OEMs have advanced their electrification process in the Chinese market in an orderly manner. In 2023, BMW, Mercedes-Benz, Audi, and Toyota (including Lexus) collectively achieved a 75.2% increase in NEV sales year-on-year, outperforming the overall market. The penetration rate of NEVs within each brand also saw significant improvement. For example, NEV sales accounted for 13.5% of BMW's total sales in China, with a comprehensive NEV lineup enabling a monthly sales volume exceeding 10,000 units at the end of the year. Various brands have also laid out clear plans for the launch of NEV products in 2024 and the ongoing localisation of new electric platforms.

In the used car market, according to data from the China Automobile Dealers Association (CADA), the total transaction volume of preowned passenger automobile for 2023 was 14.42 million units, representing a 15.0% increase year-on-year, with the new-used-car ratio rising to 66.4%. Against the backdrop of China's expanding automobile ownership which provides more opportunities for the preowned automobile industry, as well as the support of national and local government policies aimed at promoting automobile replacement and accelerating the development of the preowned automobile market, there were not only an increase in sales volumes of preowned automobile but also a monthly rise in transaction prices since the second quarter. Furthermore, the transaction price range shifted upwards, indicating a trend towards higher end of the market. Benefiting from the advantages such as the national network and local market scale, the preowned automobile segment of Zhongsheng capitalised on this momentum and achieved a transaction volume of over 164,000 units for the year, representing an increase of 17% year-on-year.

As China's auto ownership has increased, reaching 336 million units by the end of 2023 according to the Ministry of Public Security of China, the after-sales industry is set to embrace broader development opportunities. According to independent third-party research, the number of after-sales service visits in 2023 nationwide increased by 10% year-on-year, with corresponding industry value growing by 13%, and accident car repair value increased by 10%. At Zhongsheng, thanks to our centralised CRM effort and diversified automotive service offerings, we achieved an 11% increase in after-sales visits year-on-year, reaching 7.47 million, and corresponding overall after-sales services revenue grew by 16%, within which accident car repair revenue increased by 14%. Moreover, the gross profit growth of after-sales services reached 24% this year. As at 8 October 2023, nine departments, including the Ministry of Commerce, jointly issued the Guidance on Promoting High-Quality Development of the Automotive Aftermarket (《關於推動汽車後市場高質量發展的指導意見》), which proposed a systematic deployment to enhance the high-quality development of the automotive aftermarket, promote the steady growth of the scale of the automotive aftermarket, and constantly optimise the market structure. The expansion of the after-sales market and the support of government policies will undoubtedly bring more development opportunities to the after-sales segment that Zhongsheng has been strategically prioritising.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

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

	Notes	**2023** **RMB'000**	2022 *RMB'000* (Restated)
REVENUE	*4*	**179,290,093**	179,856,972
Cost of sales and services provided	*5*	**(165,525,773)**	(163,825,377)
Gross profit		**13,764,320**	16,031,595
Other income and gains, net	*4*	**4,730,929**	4,424,144
Selling and distribution expenses		**(7,736,991)**	(7,841,405)
Administrative expenses		**(2,418,598)**	(2,445,495)
Profit from operations		**8,339,660**	10,168,839
Finance costs		**(1,507,393)**	(1,218,636)
Share of (losses)/profits of joint ventures		**(3,582)**	240
Share of profits of associates		**2,263**	328
Profit before tax	*5*	**6,830,948**	8,950,771
Income tax expense	*6*	**(1,840,063)**	(2,315,551)
Profit for the year		**4,990,885**	6,635,220
Attributable to:			
Owners of the parent		**5,018,077**	6,688,119
Non-controlling interests		**(27,192)**	(52,899)
		4,990,885	6,635,220
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the year *(RMB)*	*7*	**2.09**	2.77
Diluted			
— For profit for the year *(RMB)*	*7*	**2.08**	2.72

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2023

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

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Profit for the year	**4,990,885**	6,635,220
Other comprehensive loss		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(35,070)**	(457,052)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(35,070)**	(457,052)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(80,983)**	(446,142)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(80,983)**	(446,142)
Other comprehensive loss for the year, net of tax	**(116,053)**	(903,194)
Total comprehensive income for the year	**4,874,832**	5,732,026
Attributable to:		
Owners of the parent	**4,902,024**	5,784,925
Non-controlling interests	**(27,192)**	(52,899)
	4,874,832	5,732,026

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

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

	Notes	**31 December 2023** *RMB'000*	31 December 2022 *RMB'000* (Restated)	1 January 2022 *RMB'000* (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment		**18,055,099**	17,796,425	17,371,855
Right-of-use assets		**5,077,814**	4,470,997	4,872,469
Land use rights		**3,493,701**	3,593,814	3,468,956
Prepayments		**399,420**	415,375	487,372
Intangible assets		**9,629,424**	9,957,190	10,337,459
Goodwill		**8,364,196**	8,326,151	8,296,827
Investments in joint ventures		**54,852**	55,934	55,694
Investments in associates		**9,881**	5,368	—
Debt investments at amortised cost		**72,065**	—	—
Deferred tax assets		**513,352**	375,337	337,002
Total non-current assets		**45,669,804**	44,996,591	45,227,634
CURRENT ASSETS				
Inventories	*8*	**16,366,096**	15,237,427	11,192,016
Trade receivables	*9*	**4,108,501**	1,796,318	1,815,180
Prepayments, other receivables and other assets		**17,340,686**	16,054,929	15,169,171
Amounts due from related parties		**33,322**	7,179	28,558
Financial assets at fair value through profit or loss		**148,551**	99,031	160,991
Term deposits and pledged bank deposits		**3,871,391**	1,809,195	797,094
Cash in transit		**118,126**	149,720	233,890
Cash and cash equivalents		**15,611,984**	11,679,029	10,950,038
Total current assets		**57,598,657**	46,832,828	40,346,938

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000 (Restated)	1 January 2022 RMB'000 (Restated)
CURRENT LIABILITIES				
Bank loans and other borrowings		**15,873,276**	14,678,659	15,219,401
Lease liabilities		**609,762**	484,076	395,983
Trade and bills payables	*10*	**11,041,368**	8,205,899	5,459,996
Other payables and accruals		**3,686,529**	3,373,286	4,856,063
Amounts due to related parties		**6,801**	2,209	1,748
Income tax payable		**2,309,847**	2,145,565	2,447,698
Dividends payable		**2,000**	2,000	—
Total current liabilities		**33,529,583**	28,891,694	28,380,889
NET CURRENT ASSETS		**24,069,074**	17,941,134	11,966,049
TOTAL ASSETS LESS CURRENT LIABILITIES		**69,738,878**	62,937,725	57,193,683
NON-CURRENT LIABILITIES				
Deferred tax liabilities		**3,418,851**	3,397,854	3,446,303
Bank loans and other borrowings		**12,499,506**	7,185,161	4,968,423
Lease liabilities		**4,598,066**	3,876,489	4,248,986
Convertible bonds		**3,175,879**	4,413,796	3,897,401
Total non-current liabilities		**23,692,302**	18,873,300	16,561,113
Net assets		**46,046,576**	44,064,425	40,632,570
EQUITY				
Equity attributable to owners of the parent				
Share capital		**207**	208	209
Treasury shares		**—**	(51,742)	—
Reserves		**45,797,089**	43,812,939	40,170,699
		45,797,296	43,761,405	40,170,908
Non-controlling interests		**249,280**	303,020	461,662
Total equity		**46,046,576**	44,064,425	40,632,570

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

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

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

2. ACCOUNTING POLICIES

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**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Changes in accounting policies and disclosures

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

HKFRS 17	*Insurance Contracts*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform — Pillar Two Model Rules*

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

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022.

Upon initial application of these amendments, the Group recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets as at 1 January 2022, with cumulative effect recognised as an adjustment to the balances of retained profits and non-controlling interests at that date. The quantitative impact on the financial information is summarised below.

Impact on the consolidated statements of financial position:

	Increase/(decrease)		
	As at 31 December 2023	As at 31 December 2022	As at 1 January 2022
	RMB'000	*RMB'000*	*RMB'000*
Assets			
Deferred tax assets	**205,999**	168,691	100,518
Total non-current assets	**205,999**	168,691	100,518
Total assets	**205,999**	168,691	100,518
Liabilities			
Deferred tax liabilities	**239,021**	221,826	174,439
Total non-current liabilities	**239,021**	221,826	174,439
Total liabilities	**239,021**	221,826	174,439
Net assets	**(33,022)**	(53,135)	(73,921)
Equity			
Retained profits (included in reserves)	**(30,735)**	(52,319)	(72,883)
Equity attributable to owners of the parent	**(30,735)**	(52,319)	(72,883)
Non-controlling interests	**(2,287)**	(816)	(1,038)
Total Equity	**(33,022)**	(53,135)	(73,921)

Note: The deferred tax asset and the deferred tax liability arising from lease contracts of the same subsidiary have been offset in the statement of financial position for presentation purposes.

Impact on the consolidated statements of profit or loss:

	Increase/(decrease) For the year ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Income tax credit	**20,113**	20,786
Profit for the period	**20,113**	20,786
Attributable to:		
Owners of the parent	**21,584**	20,565
Non-controlling interests	**(1,471)**	221

The adoption of amendments to HKAS 12 did not have any impact on other comprehensive income and the consolidated statements of cash flows for the years ended 31 December 2023 and 2022.

Impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent:

	Increase For the year ended 31 December	
	2023	2022
	RMB	*RMB*
Basic	**0.01**	0.01
Diluted	**0.01**	0.01

(d) Amendments to HKAS 12 *International Tax Reform — Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT INFORMATION

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

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

Information about geographical area

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

Information about major customers

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

4. REVENUE, OTHER INCOME AND GAINS

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

(a) Revenue:

	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods or services		
Sales of motor vehicles	**154,199,703**	155,248,023
Accessories and after-sales services	**25,090,390**	24,608,949
Total	**179,290,093**	179,856,972
Geographical market		
Chinese Mainland	**179,290,093**	179,856,972
Timing of revenue recognition		
At a point in time	**179,290,093**	179,856,972

(b) Other income and gains, net:

	2023	2022
	RMB'000	*RMB'000*
Commission income	**4,132,099**	3,764,292
Rental income	**29,702**	35,968
Interest income	**454,532**	239,854
Government grants	**49,816**	156,792
Net (losses)/gains on disposal of items of property, plant and equipment	**(94,911)**	98,497
Net gain on disposal of land use rights	**—**	26,563
Gain on disposal of a subsidiary	**—**	1,063
Interest income from debt investments at amortised cost	**3,796**	—
Gain on the extinguishment of convertible bond	**58,084**	—
Fair value gains/(losses), net:		
Financial assets at fair value through profit or loss		
— listed equity investments	**23,893**	(10,093)
— funds	**1,266**	(16)
Dividend income from listed equity investments	**2,284**	2,017
Others	**70,368**	109,207
	4,730,929	4,424,144

5. PROFIT BEFORE TAX

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

	2023	2022
	RMB'000	*RMB'000*
Employee benefit expense (including directors' and chief executive officer's remuneration):		
Wages and salaries	**3,616,953**	4,281,073
Pension scheme contributions (defined contribution scheme)*	**788,788**	830,416
Other welfare	**381,418**	380,986
	4,787,159	5,492,475
Cost of inventories sold	**162,851,998**	161,663,435
Depreciation and impairment of property, plant and equipment	**966,560**	1,713,613
Depreciation of right-of-use assets	**737,502**	608,618
Amortisation of land use rights	**114,684**	123,801
Amortisation of intangible assets	**399,753**	405,276
Auditors' remuneration	**6,800**	6,800
Lease payments not included in the measurement of lease liabilities	**143,247**	81,107
Promotion and advertisement	**1,407,713**	817,971
Office expenses	**490,798**	483,408
Logistics expenses	**355,772**	255,848
Impairment of trade receivables	**46,759**	7,894
Write-down of inventories to net realisable value	**27,264**	14,073
Net losses/(gains) on disposal of items of property, plant and equipment	**94,911**	(98,497)
Net gains on disposal of land use rights	**—**	(26,563)
Gain on the extinguishment of convertible bond	**(58,084)**	—
Fair value (gains)/losses, net:		
Financial assets at fair value through profit or loss		
— listed equity investments	**(23,893)**	10,093
— funds	**(1,266)**	16
Dividend income from listed equity investments	**(2,284)**	(2,017)
Gain on disposal of a subsidiary	**—**	(1,063)

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

6. INCOME TAX EXPENSE

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

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Current Chinese Mainland corporate income tax	**1,937,984**	2,356,201
Deferred tax	**(97,921)**	(40,650)
Total	**1,840,063**	2,315,551

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

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

No Hong Kong tax has been provided as the Group had no assessable profits arising in Hong Kong during the year (2022: Nil).

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

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

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

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

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Profit before tax	**6,830,948**	8,950,771
Tax at the statutory tax rate (25%)	**1,707,737**	2,237,693
Tax effect of non-deductible expenses	**70,645**	203,393
Income not subject to tax	**(42,705)**	(64,870)
Profits and losses attributable to jointly-controlled entities and associates	**330**	(142)
Lower tax rates for specific provinces or enacted by local authority	**(268,080)**	(328,335)
Adjustments in respect of current tax of previous periods	**65,942**	30,230
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**114,220**	15,000
Tax losses not recognised	**191,974**	222,582
Tax charge	**1,840,063**	2,315,551

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,396,898,896 (2022: 2,411,562,186) in issue during the year.

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

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

Earnings

	2023	2022
	RMB'000	*RMB'000*
		(Restated)
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**5,018,077**	6,688,119
Interest on convertible bonds	**126,507**	149,091
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**5,144,584**	6,837,210

Shares

	Number of shares	
	2023	2022
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,396,898,896**	2,411,562,186
Effect of dilution — weighted average number of ordinary shares:		
Share options	**2,515,168**	6,054,910
Convertible bonds	**69,391,381**	99,978,074
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,468,805,445**	2,517,595,170

Earnings per share

	2023	2022
	RMB	*RMB*
Basic	**2.09**	2.77
Diluted	**2.08**	2.72

8. INVENTORIES

Inventories in the consolidated statement of financial position represent:

	2023 *RMB'000*	2022 *RMB'000*
Motor vehicles	**14,418,816**	14,044,783
Spare parts and others	**2,002,613**	1,220,713
	16,421,429	15,265,496
Less: Provision for inventories	**55,333**	28,069
Total	**16,366,096**	15,237,427

As at 31 December 2023, certain of the Group's inventories with a carrying amount of approximately RMB4,367,244,000 (2022: RMB4,329,902,000) were pledged as security for the Group's bank loans and other borrowings.

As at 31 December 2023, certain of the Group's inventories with a carrying amount of approximately RMB5,064,734,000 (2022: RMB2,617,537,000) were pledged as security for the Group's bills payable.

9. TRADE RECEIVABLES

	2023 *RMB'000*	2022 *RMB'000*
Trade receivables	**4,181,131**	1,823,016
Impairment	**(72,630)**	(26,698)
Net carrying amount	**4,108,501**	1,796,318

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. On 31 December 2023, the Group had certain concentrations of credit risk as 39.9% of the Group's trade receivables were due from the Group's five largest customer. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2023 *RMB'000*	2022 *RMB'000*
Within 3 months	**3,649,488**	1,728,833
More than 3 months but less than 1 year	**432,608**	60,265
Over 1 year	**26,405**	7,220
Total	**4,108,501**	1,796,318

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

	2023	2022
	RMB'000	*RMB'000*
At beginning of year	**26,698**	19,660
Amount written off as uncollectible	**(827)**	(856)
Impairment losses, net	**46,759**	7,894
At end of year	**72,630**	26,698

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

10. TRADE AND BILLS PAYABLES

	2023	2022
	RMB'000	*RMB'000*
Trade payables	**3,956,492**	2,554,588
Bills payable	**7,084,876**	5,651,311
Trade and bills payables	**11,041,368**	8,205,899

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

	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**10,450,209**	7,152,996
3 to 6 months	**527,770**	1,020,977
6 to 12 months	**41,409**	1,778
Over 12 months	**21,980**	30,148
Total	**11,041,368**	8,205,899

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

11. DIVIDENDS

	2023	2022
	RMB'000	*RMB'000*
Proposed final — HK$0.797 (approximately RMB0.736) (2022: HK$1.09) per ordinary share	**1,756,327**	2,333,644

The calculation of the proposed final dividend for the year ended 31 December 2023 is based on the proposed final dividend per ordinary share, and the total number of ordinary shares as at 27 March 2024.

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

During the year ended 31 December 2023, a final dividend of HK$1.09 per ordinary share in respect of the year ended 31 December 2022 was declared and paid to the ordinary equity holders of the Company. The aggregate amount of the final dividend declared and paid in the year ended 31 December 2023 was HK$2,609,188,000 (equivalent to RMB2,374,883,000).

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2023 was RMB179,290.1 million, representing a decrease of RMB566.8 million or 0.3% as compared to the year ended 31 December 2022. Revenue from new automobile sales amounted to RMB140,214.9 million, representing a decrease of RMB5,205.1 million or 3.6% as compared to the year ended 31 December 2022, primarily due to the decline in the sales volume of new automobile for the year. Revenue from accessories and after-sales services business amounted to RMB25,090.4 million, representing an increase of RMB481.5 million or 2.0% as compared to the year ended 31 December 2022. Such change was relatively small, among which the revenue from after-sales services (maintenance, warranty and collision) was RMB20,076.0 million, representing an increase of RMB2,698.9 million or 15.5% as compared to the year ended 31 December 2022, which was primarily due to the increase in the number of visits for after-sales services and the average revenue contribution per visit for the year. Revenue from pre-owned automobile sales amounted to RMB13,984.8 million, representing an increase of RMB4,156.8 million or 42.3% as compared to the year ended 31 December 2022, primarily due to the growth of the sales volume of pre-owned automobile for the year.

New automobile sales business accounted for a substantial portion of the Group's revenue, representing 78.2% (the year ended 31 December 2022: 80.9%) of the total revenue for the year ended 31 December 2023. Accessories and after-sales services business accounted for 14.0% of the total revenue for the year ended 31 December 2023 (the year ended 31 December 2022: 13.7%). Pre-owned automobile sales accounted for 7.8% of the total revenue for the year ended 31 December 2023 (the year ended 31 December 2022: 5.4%). For the year ended 31 December 2023, almost all of the Group's revenue was derived from business located in the PRC.

In terms of revenue from new automobile sales, Mercedes-Benz is the Group's top selling brand, with revenue from the sales of which representing 40.9% of the Group's total revenue from new automobile sales (the year ended 31 December 2022: 41.1%).

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2023 amounted to RMB165,525.8 million, representing an increase of RMB1,700.4 million or 1.0% as compared to the year ended 31 December 2022. Costs for new automobile sales business amounted to RMB139,157.0 million for the year ended 31 December 2023, representing a decrease of RMB2,323.4 million or 1.6% as compared to the year ended 31 December 2022. Costs for accessories and after-sales services business amounted to RMB13,324.0 million for the year ended 31 December 2023, representing an increase of RMB300.9 million or 2.3% as compared to the year ended 31 December 2022, of which the cost for after-sales services (maintenance, warranty and collision) was RMB10,782.2 million, representing an increase of RMB916.2 million or 9.3% as compared to the year ended 31 December 2022. Costs for pre-owned automobile sales business amounted to RMB13,044.8 million for the year ended 31 December 2023, representing an increase of RMB3,722.9 million or 39.9% as compared to the year ended 31 December 2022.

Gross Profit

The Group's gross profit for the year ended 31 December 2023 amounted to RMB13,764.3 million, representing a decrease of RMB2,267.3 million or 14.1% as compared to the year ended 31 December 2022. Gross profit from new automobile sales business amounted to RMB1,057.9 million, representing a decrease of RMB2,881.7 million or 73.1% as compared to the year ended 31 December 2022, primarily due to the decline in new automobile sales volume for the year, and the narrowing of gross margin for new automobile sales at the dealership end as a result of the increasing competition in the domestic new automobile market. Gross profit from accessories and after-sales services business amounted to RMB11,766.4 million, representing an increase of RMB180.5 million or 1.6% as compared to the year ended 31 December 2022. In particular, the gross profit from after-sales services (maintenance, warranty and collision) was RMB9,293.8 million, representing an increase of RMB1,782.7 million or 23.7% as compared to the year ended 31 December 2022. Such change was primarily due to the growth of the business scale of the after-sales services for the year, as well as the increase in the proportion of high-margin service items. Gross profit from sales of pre-owned automobile amounted to RMB940.0 million, representing an increase of RMB433.9 million or 85.7% as compared to the year ended 31 December 2022, primarily due to the growth of the sales of pre-owned automobile for the year, as well as the growth of average contribution to profit per pre-owned automobile sold. For the year ended 31 December 2023, gross profit from accessories and after-sales services business accounted for 85.5% of the total gross profit (the year ended 31 December 2022: 72.3%).

The Group's gross profit margin for the year ended 31 December 2023 was 7.7% (the year ended 31 December 2022: 8.9%).

Other Income and Gains, Net

The other income and gains mainly consisted of commission income, interest income, rental income, government grants, other gains and losses, etc. The other income and gains, net, for the year ended 31 December 2023 amounted to RMB4,730.9 million, representing an increase of RMB306.8 million or 6.9% as compared to the year ended 31 December 2022. Such increase was primarily due to the increase in commission income (commission from automobile insurance, automobile financing and automobile registration services, etc.), which amounted to RMB4,132.1 million for the year ended 31 December 2023, representing an increase of RMB367.8 million or 9.8% as compared to the year ended 31 December 2022.

Profit from Operations

The profit from operations for the year ended 31 December 2023 amounted to RMB8,339.7 million, representing a decrease of RMB1,829.2 million or 18.0% as compared to the year ended 31 December 2022. Such change was primarily due to the changes in gross profit and other income and gains, net as discussed above, and the changes in other items affecting the profit from operations were relatively small for the year. The operating profit margin for the year ended 31 December 2023 was 4.7% (the year ended 31 December 2022: 5.7%).

Profit for the Year

The profit for the year ended 31 December 2023 amounted to RMB4,990.9 million, representing a decrease of RMB1,644.3 million or 24.8% as compared to the year ended 31 December 2022. The profit margin for the year ended 31 December 2023 was 2.8% (the year ended 31 December 2022: 3.7%).

Profit Attributable to Owners of the Parent

The profit attributable to owners of the parent for the year ended 31 December 2023 amounted to RMB5,018.1 million, representing a decrease of RMB1,670.0 million or 25.0% as compared to the year ended 31 December 2022.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flow

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

The Group has adopted a prudent financial management approach towards its treasury policies and will revisit such policies from time to time, taking into account, among other things, the cash flows requirement and expansion of the Group. The Group maintained a healthy liquidity position throughout the year ended 31 December 2023.

Cash Flow Generated from Operating Activities

For the year ended 31 December 2023, the net cash generated from operating activities by the Group amounted to RMB6,426.0 million.

Cash Flow Used in Investing Activities

For the year ended 31 December 2023, the net cash used in investing activities by the Group amounted to RMB497.0 million, primarily used for the acquisitions of property, plant and equipment (fleet).

Cash Flow Used in Financing Activities

For the year ended 31 December 2023, the net cash used in financing activities by the Group amounted to RMB2,001.3 million, primarily used for payment of dividend and interest, redemption of convertible bonds payable and increasing term deposits.

Net Current Assets

As at 31 December 2023, the Group had net current assets of RMB24,069.1 million, representing an increase of RMB6,127.9 million from the net current assets of the Group as at 31 December 2022.

Capital Expenditures and Investment

The Group's capital expenditures comprised of expenditures on property, plant and equipment, land use rights and business acquisition. For the year ended 31 December 2023, the Group's total capital expenditures amounted to RMB1,426.5 million. Save as disclosed above, the Group did not make any significant investments during the year ended 31 December 2023.

Inventory Analysis

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

The Group's inventories increased from RMB15,237.4 million as at 31 December 2022 to RMB16,366.1 million as at 31 December 2023, primarily due to the increase in the Group's inventories of spare parts and other goods because of the expansion of the Group's after-sale services during the year ended 31 December 2023.

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

	For the year ended 31 December	
	2023	2022
Average inventory turnover days	**31.2**	27.0

The inventory turnover days of the Group showed an increase during the year ended 31 December 2023 as compared to the year ended 31 December 2022, which was mainly because the Group adjusted and controlled the level of its inventory to adapt to market changes. During the year ended 31 December 2023, the Group still had a healthy level of average inventory turnover days, and the Group's inventory mix gradually optimised.

Order Book and Prospect for New Business

Due to its business nature, the Group did not maintain an order book as at 31 December 2023. As at the date of this announcement, the Group has no new services to be introduced to the market.

Bank Loans and Other Borrowings

As at 31 December 2023, the Group's bank loans and other borrowings amounted to RMB28,372.8 million (31 December 2022: RMB21,863.8 million), and its convertible bonds liability portion amounted to RMB3,175.9 million (31 December 2022: RMB4,413.8 million). The increase in the Group's bank loans and other borrowings during the year ended 31 December 2023 was primarily due to the increase in inventories financed by financial institutions. The annual interest rates of the bank loans and other borrowings ranged from 0.5% to 7.2%. The decrease in the liability portion of the Group's convertible bonds during the year was primarily because the Company redeemed an outstanding principal amount of HK$1,436,000,000 of its zero coupon convertible bonds due 2025 on 21 May 2023, as disclosed in the announcement of the Company dated 26 April 2023.

Interest Rate Risk and Foreign Exchange Rate Risk

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

Employee and Remuneration Policy

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

As at 31 December 2023, the Group had 31,180 employees (31 December 2022: 32,943). The Group strives to offer a harmonious, efficient and productive working environment, a diversified range of training programmes as well as an attractive remuneration package to its employees. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. The Group endeavours to motivate its staff with performance-based remuneration and reward its staff who had outstanding performances with cash bonuses, honorary awards or a combination of all the above to further align the interests of the employees and the Company, to attract talented individuals and to create long-term incentives for its staff.

Pledge of the Group's Assets

The Group pledged its assets as securities for bank and other loan and banking facilities which were used to finance daily business operations. As at 31 December 2023, the pledged assets of the Group amounted to RMB11.6 billion (31 December 2022: RMB8.6 billion).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

The Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies.

Future Plans and Expected Funding

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

Gearing Ratio

As at 31 December 2023, the gearing ratio of the Group was 40.9% (31 December 2022: 39.3%), which was calculated from net debt divided by the sum of net debt and total equity.

CONVERTIBLE BONDS

2025 Convertible Bonds

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

The 2025 Convertible Bonds are convertible into share(s) of the Company (the "**Share(s)**") at an initial conversion price of HK$45.61 per Share at the option of the holder thereof, at any time on or after 1 July 2020 up to the close of business on the tenth day prior to the maturity date, being a date falling on or about 21 May 2025. The issue of the 2025 Convertible Bonds in the aggregate amount of HK$4,560 million was completed on 21 May 2020. Pursuant to the terms and conditions of the 2025 Convertible Bonds, certain holders of the 2025 Convertible Bonds served notices of redemption on the Company, requiring the Company to redeem an outstanding principle amount of HK$1,436,000,000 of the 2025 Convertible Bonds at 110.15% of their principal amount on 21 May 2023, representing approximately 31.49% of the principal amount of the 2025 Convertible Bonds. Immediately after the early redemption, such redeemed 2025 Convertible Bonds were cancelled and the principal amount of the outstanding 2025 Convertible Bonds is HK$3,124,000,000 (the "**Outstanding 2025 Convertible Bonds**").

Pursuant to the terms and conditions of the 2025 Convertible Bonds, in light of the payment of a final dividend of HK$1.09 per Share for the year ended 31 December 2022, the conversion price of the 2025 Convertible Bonds was adjusted from HK$45.61 to HK$45.02 per Share with effect from 29 June 2023.

There has been no conversion of the Outstanding 2025 Convertible Bonds as at the date of this announcement. The Company will redeem each Outstanding 2025 Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. Upon full conversion of the Outstanding 2025 Convertible Bonds, the Company may issue 69,391,381 Shares, increasing the total issued Shares to 2,455,059,744 Shares (calculated as at the date of this announcement).

Please refer to the announcements of the Company dated 12, 13, 14, 21, 22 and 25 May 2020 and 26 April 2023 and 19 June 2023, respectively, for further details on the 2025 Convertible Bonds.

BONDS

2026 Bonds

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

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

SHARE OPTION SCHEME

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

Details of the outstanding options to subscribe for Shares pursuant to the Share Option Scheme and the movement during the year ended 31 December 2023 are set out below:

Name of Grantees	Date of grant	Exercise price per Share	Outstanding as at 31 December 2022	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period	Outstanding as at 31 December 2023
Mr. Zhang Zhicheng — Executive Director	26 April 2018	HK$22.60	5,500,000[(1)]	—	—	—	5,500,000
Mr. Du Qingshan — Former Executive Director	26 April 2018	HK$22.60	5,500,000[(1)]	—	—	5,500,000[(2)]	—
Total							5,500,000

Notes:

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

(2) On 30 October 2023, the Company cancelled the 5,500,000 Share Options granted to Mr. Du Qingshan under the Share Option Scheme.

Save for the cancellation of the 5,500,000 Share Options granted to Mr. Du Qingshan on 30 October 2023 as disclosed in this announcement, during the year ended 31 December 2023, no options had been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 31 December 2023, the total number of Shares that may be issued under the Share Option Scheme was 5,500,000 Shares, representing approximately 0.23% of the issued share capital of the Company as at the date of this announcement, and approximately 0.23% of the weighted average number of Shares in issue during the year ended 31 December 2023.

CONNECTED TRANSACTIONS

There was no connected transaction entered into by the Group during the year ended 31 December 2023 that is required to be disclosed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

EVENTS AFTER THE REPORTING PERIOD

There have not been any significant events affecting the Group after 31 December 2023.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix C1 to the Listing Rules. Throughout the year ended 31 December 2023 and up to the date of this announcement, the Company has been in compliance with the code provisions set out in the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2023 and up to the date of this announcement.

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

During the Reporting Period, the Company bought back a total of 16,155,000 Shares at prices ranging from HK$38.30 to HK$20.0731 per Share on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), with an aggregate consideration of approximately HK$473.6 million (excluding commissions and other expenses). Details of the share buy-backs by the Company on the Stock Exchange during the Reporting Period are as follows:

Month of repurchase	**No. of Shares repurchased**	**Price per Share**		**Total paid**
		Highest	**Lowest**	
		HK$	*HK$*	*HK$*
March	1,357,500	37.60	36.40	50,489,350
April	4,495,000	38.30	32.75	164,933,200
May	2,220,000	31.75	28.25	65,733,506
June	300,000	31.35	29.35	8,941,175
July	2,382,500	28.99	26.70	66,314,359
September	4,900,000	23.0975	20.75	107,125,526
October	500,000	20.30	20.0731	10,108,272
	16,155,000			473,645,388

The Board believes that the share buy-backs could reflect the Board's confidence in the Company's long-term business prospects. 1,473,500 Shares, 8,072,500 Shares, 2,682,500 Shares and 5,400,000 Shares of the bought Shares were cancelled on 28 March 2023, 20 June 2023, 25 August 2023 and 28 December 2023, respectively. As at the date of this announcement, all of the bought Shares have been cancelled.

Save as disclosed above, neither the Company, nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities throughout the year ended 31 December 2023.

Audit Committee

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

The Audit Committee has considered and reviewed the accounting principles and practices adopted by the Group and has discussed matters in relation to internal control and financial reporting with the management, including the review of the consolidated financial statements of the Group for the year ended 31 December 2023. The Audit Committee considers that the financial results for the year ended 31 December 2023 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been made.

SCOPE OF WORK OF THE AUDITOR

The figures above in respect of this annual results announcement for the year ended 31 December 2023 have been agreed with the Company's auditor, Ernst & Young, certified public accountants, to be consistent with the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on this announcement.

PROPOSED DISTRIBUTION OF FINAL DIVIDEND

The Board resolved to propose to the Shareholders at the forthcoming annual general meeting (the "**AGM**") on 21 June 2024 for the distribution of a final dividend of HK$0.797 per Share for the year ended 31 December 2023 payable to the Shareholders whose names are listed in the register of members of the Company on 3 July 2024, in an aggregate amount of HK$1,902 million (equivalent to approximately RMB1,756 million). It is expected that the final dividend will be paid on 12 July 2024. The proposal for the distribution of the above final dividend is subject to the consideration and approval of the Shareholders at the AGM.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining who is entitled to attend the AGM, the register of members of the Company will be closed from Tuesday, 18 June 2024 to Friday, 21 June 2024 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, unregistered holders of Shares shall lodge share transfer documents, together with relevant share certificates, with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Monday, 17 June 2024.

In addition, the Company's register of members will be closed from Friday, 28 June 2024 to Wednesday, 3 July 2024 (both days inclusive) for the purpose of determining the Shareholder's entitlement to the proposed final dividend of the Company. In order to qualify for the proposed final dividend (subject to the approval by Shareholders at the AGM), unregistered holders of Shares shall lodge share transfer documents, together with relevant share certificates, with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at the above-mentioned address for registration before 4:30 p.m. on Thursday, 27 June 2024.

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

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

The annual report of the Company for the year ended 31 December 2023 containing all the information required by Appendix D2 to the Listing Rules will be despatched to the Shareholders and published on the above websites in due course.

APPRECIATION

On behalf of the board, we would like to express our gratitude to all our staff and management team for their extraordinary tenacity, solidarity and dedication to Zhongsheng and our gratitude to all our shareholders and stakeholders for their trust and support. We are confident that Zhongsheng will continuously lead the transformation of auto service industry in China and realise our strategic vision of in the near future.

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

Hong Kong, 27 March 2024

As at the date of this announcement, the executive Directors are Mr. Huang Yi, Mr. Li Guoqiang, Mr. Zhang Zhicheng, Mr. Tang Xianfeng, Ms. Yu Ning and Ms. Zhou Xin; the non-executive Directors are Mr. Chan Ho Yin and Mr. Sun Yanjun; and the independent non-executive Directors are Mr. Shen Jinjun, Mr. Ying Wei, Mr. Chin Siu Wa Alfred and Mr. Li Yanwei.

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