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 2020

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 2020, as follows:

GROUP FINANCIAL HIGHLIGHTS

- New car sales volume for the year ended 31 December 2020 increased by 9.9% to 500,609 units as compared to the year ended 31 December 2019.
    - Luxury brand new car sales volume for the year ended 31 December 2020 increased by 20.8% to 275,417 units as compared to the year ended 31 December 2019.
- Trade pre-owned automobile volume for the year ended 31 December 2020 increased by 50.0% to 107,075 units as compared to the year ended 31 December 2019.
- Revenue for the year ended 31 December 2020 increased by 19.6% to RMB148,348.1 million as compared to the year ended 31 December 2019, among which:
    - revenue from new car sales increased by 18.2% to RMB125,526.7 million as compared to the year ended 31 December 2019;
    - revenue from after-sales and accessories business increased by 13.5% to RMB20,245.1 million as compared to the year ended 31 December 2019; and
    - revenue from pre-owned automobile sales reached RMB2,576.2 million (the year ended 31 December 2019: nil).

Excluding the revenue from pre-owned automobile sales, revenue for the year ended 31 December 2020 would increase by 17.5% to RMB145,771.8 million as compared to the year ended 31 December 2019.

- Income from value-added services for the year ended 31 December 2020 increased by 9.2% to RMB3,149.6 million as compared to the year ended 31 December 2019. Accounting in gross profit for pre-owned automobile sales under distribution model, income from value-added services for the year ended 31 December 2020 would increase by 15.9% as compared to the year ended 31 December 2019.
- Profit attributable to owners of the parent for the year ended 31 December 2020 was RMB5,539.8 million, representing an increase of 23.1% as compared to the year ended 31 December 2019.
- Basic earnings per Share was RMB2.44 for the year ended 31 December 2020 (the year ended 31 December 2019: RMB1.98).

MARKET REVIEW

In 2020, with the prevalence of the COVID-19 pandemic around the world and its adverse impacts, the International Monetary Fund forecasted that the global economy would shrink by 4.4% in 2020. However, the economy of the People's Republic of China (the "**PRC**") has recovered and grown after the pandemic became under control on a domestic level. According to the data published by the National Bureau of Statistics, the PRC's gross domestic product (GDP) in 2020 reached RMB101.6 trillion, representing a year-on-year increase of 2.3% at comparable price and surpassing the RMB100 trillion mark for the first time with continuous enhancement in its competitive advantages internationally. The per capita GDP had exceeded US$10,000 for two consecutive years and the gap between the per capital GDP in the PRC and that in other high-income countries continued to narrow. The per capita disposable income of PRC residents reached RMB32,189, representing a nominal year-on-year increase of 4.7%. The per capita income of urban and rural residents doubled that of 2010, and the pace of consumption upgrade accelerated gradually. The added value of the tertiary industry accounted for 54.5% of the GDP, representing a year-on-year increase of 0.2%. The economic structure continued to be optimised, and consumption remained the cornerstone of stable economic operation.

In 2020, even with the sudden onslaught of the COVID-19 pandemic and the downward economic pressure, the PRC's automobile market showed strong resilience and became a driving force of the recovery and growth of the global automobile market. According to the data published by the China Association of Automobile Manufacturers, in 2020, the PRC's automobile production and sales volume were 25.23 million units and 25.31 million units respectively, representing a year-on-year decrease of 2.0% and 1.9% respectively. The rates of decrease narrowed by 5.5% and 6.3% compared to that of the previous year, with its market size continuing to lead the world for the second consecutive year. According to the data from the China Passenger Car Association, in 2020, the retail sales volume of the passenger vehicles market in the PRC reached 19.29 million units in total, representing a year-on-year decrease of 6.8%. The retail sales volume of passenger vehicles in the PRC dropped by 41.0% in the first quarter of 2020 and by 3.6% in the second quarter. With the systematic prevention and control of the pandemic in the second half of the year, both the macro-economy and exports showed strong recovery, which enabled the retail sales of passenger vehicles to maintain a growth rate of about 8.0% for the six consecutive months. At the same time, in the PRC's overall automobile market, the luxury automobile market outperformed the mid-to-high-end automobile markets. The post-epidemic markets in economically developed regions picked up quickly with increasing demand. In view of the general trend of domestic consumption upgrade, the luxury automobile market in 2020 continued to show significant growth. According to the data from the China Passenger Car Association, the sales volume of the luxury automobile market in 2020 reached 2.53 million units, representing a year-on-year increase of 14.7%, and the penetration rate of luxury automobiles in the passenger car market continued to rise to 13.0%, as compared to that of 25% to 30% in developed countries, showing the enormous potential for growth in the PRC's luxury automobile market. In terms of brands, the growth rate of Japanese brands took the lead in the overall market, with its market share accelerating to catch up with that of the German brands, and therefore the advantages of Japanese and German brands as market leaders were further reinforced. In particular, the three first-tier luxury brands, namely Mercedes-Benz, BMW and Audi from Germany, all hit record highs in their 2020 sales volume. Official data shows that the sales volume of Mercedes-Benz in the PRC was 774,000 units in 2020, representing a year-on-year increase of 11.7%. The sales volume of the BMW Group in the PRC was 777,000 units (including MINI), representing a year-on-year increase of 7.4%. The sales volume of FAW-Volkswagen Audi in the PRC was 726,000 units, representing a year-on-year increase of 5.4%. The sales volume of Japanese luxury brand Lexus in the PRC was 224,000 units in 2020, representing a year-on-year increase of 12.0%. Toyota, a mid-to-high-end brand, also performed well. The sales volume of FAW Toyota and GAC Toyota in the PRC was 788,000 units and 760,000 units in 2020 respectively, representing a year-on-year increases of 8.7% and 14.2% respectively. Moreover, the market of new energy vehicles has grown significantly. In 2020, the production and sales volume of new energy vehicles reached 1.134 million units and 1.17 million units respectively, representing a year-on-year increases of 26.8% and 12.0% respectively, of which the proportion of purely electric vehicles continued to rise. After a round of competition among the new energy vehicle companies, an oligopolistic market is gradually taking shape. Meanwhile, traditional foreign automobile companies in the PRC have launched electric vehicles and engaged in the use of smart technologies, and the global automobile market is expected to usher in new development opportunities.

In 2020, in order to quickly restore the normal operations in the overall economy and stabilise the consumption in the domestic automobile market, the government implemented several measures simultaneously. Various stimulus measures on automobile consumption from a national level to a local level were introduced, including financial subsidies, financial support, tax relief, infrastructural development, automobile replacement and upgrading, increased quotas of vehicle purchase and reduced value-added tax on pre-owned automobiles, all of which have effectively catalysed the recovery of the PRC's automobile market.

According to the statistics published by the Ministry of Public Security of the PRC, the national motor vehicle ownership reached 372 million units in 2020, of which automobile ownership accounted for 281 million units, representing an increase of 8.1% over 2019. The number of newly registered motor vehicles nationwide reached 33.28 million units, representing a year-on-year increase of 1.14 million units or 3.6%. The number of motor vehicle drivers in the PRC continued to increase in 2020. In 2020, the number of motor vehicle drivers in the PRC reached 418 million, among which 22.31 million were newly licenced drivers.

As to the pre-owned automobile market, according to the data from the China Association of Automobile Manufacturers, the cumulative transaction volume of the national pre-owned automobile market in 2020 was 14.34 million units, representing a year-on-year decrease of 3.9%. The transaction volume was affected by the pandemic in the first half of the year, and began to recover gradually in the second half of the year. From August to December 2020, the monthly transaction volume maintained a double-digit year-on-year growth for five consecutive months, and the market conditions continued to improve. Benefiting from the value-added tax reduction policy for pre-owned automobile that was introduced in 2020 and the complete revocation of the restricted transfer policy for pre-owned automobiles in early 2021, the market sentiment continued to improve and the market efficiency continued to increase. As domestic motor vehicles ownership continues to increase, the market focus is expected to shift from the new automobile market to the pre-owned automobile market. Enormous development opportunities are expected to emerge in the pre-owned automobile market.

The PRC's economic growth is accelerating in 2021, with an expected growth rate of 7% to 9% for the year. With the economy returning to normal growth and the supply-side reforms continuing to advance, domestic demand and consumption are expected to accelerate and increase further. In early 2021, the Ministry of Commerce of the PRC issued a statement to further promote the consumption of automobiles and other complementary products. The consumption of consumer discretionary products such as automobiles is expected to experience further growth. The growth momentum of the luxury automobile market is expected to continue, given the upgrade of consumption patterns and the increase in demand for automobile replacement.

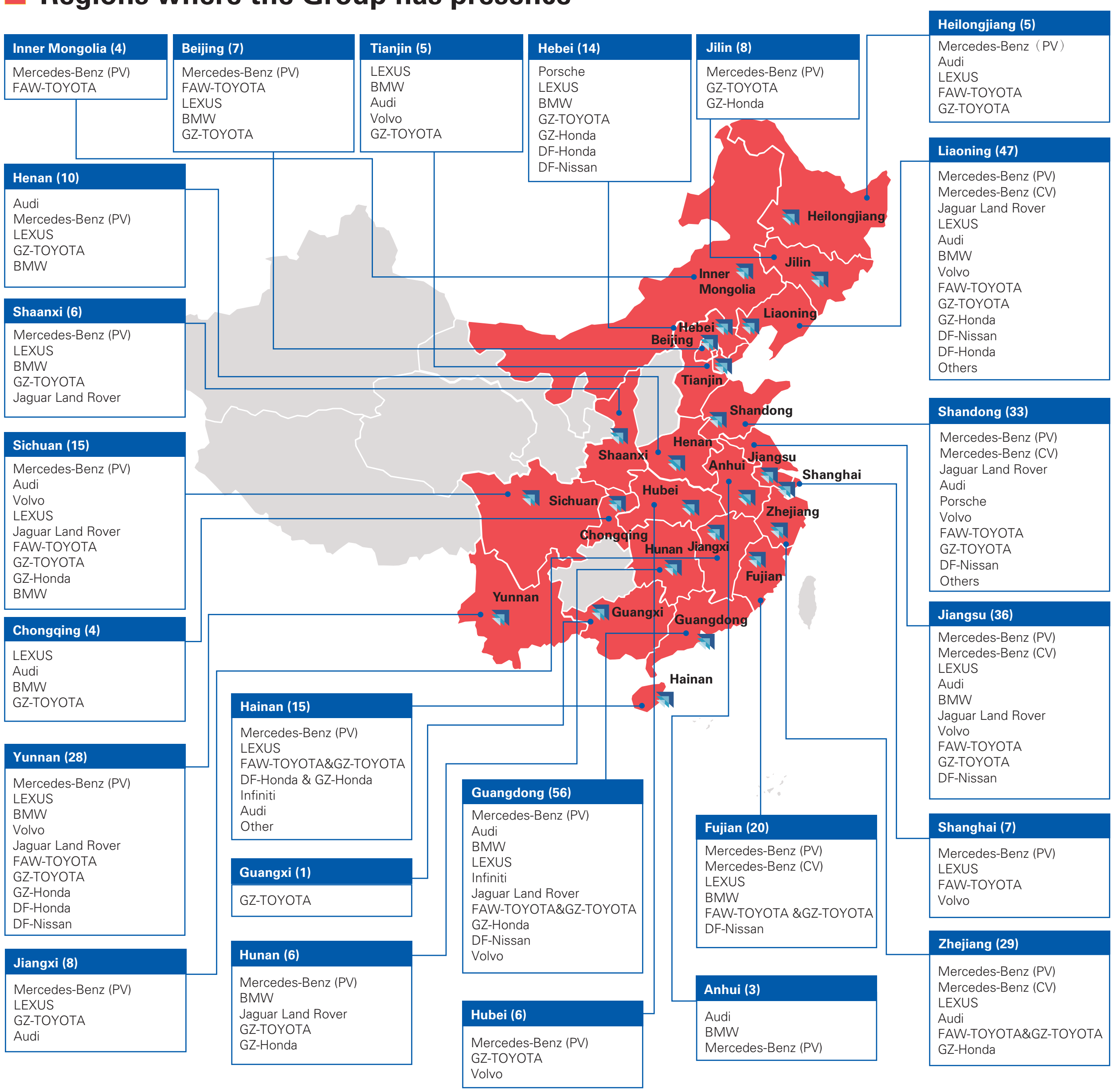
BUSINESS REVIEW

Maintaining the "Brand + Region" portfolio strategy to further strengthen the leading advantages of sales network in key regions

In terms of distribution of automobile ownership in the PRC, 70 cities have more than one million units, 31 cities have over two million units and 13 cities have exceeded three million units, among which Beijing, Chengdu and Chongqing have over five million units, Suzhou, Shanghai and Zhengzhou have over four million units and seven cities including Xi'an, Wuhan, Shenzhen, Dongguan, Tianjin, Qingdao and Shijiazhuang each has over three million units. Beijing tops the number of automobile ownership with 6.03 million units in total. After the pandemic, the demand for automobiles in economically developed regions increased at an accelerated pace. Coupled with the adjustment of traffic restriction policies, the relaxation of car purchase restrictions in urban areas and the shift of personal travelling habits towards self-driving cars, top-tier cities have shown stronger car purchase demand and purchasing power. The Group will further grow its network coverage in the key regions of top-tier cities to enhance its sales networks as its leading advantage in such key regions. In terms of the geographical distribution, Southern China has the highest proportion of cities with national automobile ownership of over two million units, with developed regions in Southeastern China slowly gaining traction, in which four cities in each of Guangdong Province, Shandong Province and Zhejiang Province as well as three cities in each of Hebei Province and Jiangsu Province reached national automobile ownership of over two million units.

The Group has always upheld the "Brand + Region" strategy to strengthen the optimisation of its existing brand portfolio. At the same time, the Group will continue to expand to new regions to strengthen and leverage its existing regional advantages. As at 31 December 2020, the total number of the Group's dealerships increased to 373, of which 218 were luxury brand dealerships and 155 were mid-to-high-end brand dealerships, covering 24 provinces, municipalities or autonomous regions and over 90 cities in the PRC. As at 31 December 2020, the geographical distribution of the Group's dealership was as follows:

Regions where the Group has presence



Currently, the Group's brand portfolio covers luxury brands such as Mercedes-Benz, Lexus, Audi, BMW, Volvo, Jaguar and Land Rover, as well as mid-to-high-end brands such as Toyota, Nissan and Honda.

Each business segment rebounding strongly, with operational efficiency and profitability improving steadily

Under the impact of the COVID-19 pandemic at the beginning of 2020, customer flow and new automobile sales in the Group's dealerships declined significantly in the first quarter, and the number of visits of after-sales service for vehicles involved in accidents was also greatly affected. With the resumption of production and work nationwide in the second quarter, there was a very strong momentum of recovery and growth. In the second half of the year, the domestic economy picked up rapidly with significantly increasing demand for consumption in the automobile market, and therefore each business segment achieved a strong recovery in growth. In 2020, the Group achieved a new car sales volume of 500,609 units, representing a year-on-year increase of 9.9%, new car sales volume reached 303,421 units in the 2H of 2020, representing a year-on-year increase of 25.4%. Among them, the sales volume of luxury brands reached 275,417 units, representing a year-on-year increase of 20.8%, the sales volume of luxury brands reached 163,764 units in 2H of 2020, representing a year-on-year increase of 33.8% and accounted for 55.0% of the Group's total sales volume and represented a significant increase over 2019, with further optimisation of its product mix. The revenue from new car sales amounted to RMB125,526.7 million, representing a year-on-year increase of 18.2%.

In 2020, with the continuous optimisation of the management system and diversified innovative services, the Group's after-sales and accessories business achieved rapid recovery and growth after the pandemic became under control in the PRC. Its revenue amounted to RMB20,245.1 million, which represented a year-on-year increase of 13.5% and accounted for 13.6% of the Group's total revenue. The post-pandemic Matthew effect of the industry has been strengthened and the brand advantages of the Group as one of the leading companies have become more obvious. In the future, the automobile after-sales market is expected to continue to be the main growth driver of the automobile service industry and the automobile industry is expected to usher in further integration towards an oligopolistic market and large-scale development.

As one of the Group's main growth drivers in the future, the value-added service business, which includes motor insurance, car finance and agency for pre-owned automobiles, achieved strong growth in 2020, with income of RMB3,149.6 million for the year, which represented a year-on-year increase of 9.2% (would be 15.9% if accounting in gross profit for pre-owned automobile sales under distribution model). The pre-owned automobile business segment is the Group's key business at this stage. In 2020, the trade volume for pre-owned automobile reached 107,075 units, representing a year-on-year increase of 50.0%, the trade volume for pre-owned automobile reached 66,399 units in 2H 2020, representing a year-on-year increase of 61.9%. After the PRC value-added tax rate for pre-owned automobile was reduced from 2% to 0.5% at the end of March 2020, the Group started its pre-owned automobile retail business under its brand with a distribution model in a step-by-step manner. The sales of pre-owned automobile business for luxury brands under the distribution model was recorded in the revenue from sales of motor vehicles on a gross basis. With the increase in the proportion of pre-owned car retail business, it is expected to further drive the rapid future growth in the value-added services and after-sales market business for the pre-owned automobile. In 2020, the Group's financial penetration rate of new car sales (i.e. sales of cars financed through various means such as loans) has further increased significantly to 60.8%. As the domestic personal credit system gradually improves in the future, the financial penetration rate is expected to increase further.

FUTURE STRATEGIES AND OUTLOOK

The automobile market in the PRC experienced its first downturn in 2018 after nearly three decades of rapid growth. It has shifted from a period of explosive growth to a period of steady growth, and has gradually transitioned to an after-sales automobile market. The value chain of the automobile industry has gradually shifted towards downstream, and the automobile after-sales market has demonstrated tremendous development potential. Driven by industry transformation and enhancement, with the increasing industry concentration, the acceleration of survival of the fittest among enterprises, and intensified differentiation, some brands are expected to gradually pull out from the market, whereas luxury and leading brands are expected to continue to enhance their positions. The scale advantages in the dealership industry and the strong advantages of refined management are expected to strengthen the Matthew effect of leading companies. At the same time, new development opportunities emerged in the global automobile market in 2020, including new energy vehicles, intelligent vehicles, etc.

Facing the challenges and opportunities arising from the transformation and enhancement of the automobile market as well as the development of new energy vehicles in the PRC, the Group will adhere to its people-oriented and customer-first principles, actively participate in the supply-side structural reform of the national automobile industry, and establish its presence in the new energy vehicle sector in a strategic and forward-looking manner. Leveraging on our over 20 years of industry experience, solid management foundation and the Group's existing customer base and network coverage, the Group will improve its operational management efficiency and per capita return, constantly facilitate product mix optimisation, continuously improve operational efficiency, service standard and customer satisfaction through refined management, consolidate the advantages of the Group's core brands, efficiently establish its presence and expand its coverage of the distribution network in the key regions of the PRC. In addition, the Group will adopt a market-oriented approach to explore the huge development potential of the automobile after-sales market, pre-owned automobile market and new energy vehicle sectors, and take full advantage of the Group's platform and economies of scale to sustain the long-term development potential and maintain the competitive advantages of the Group.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

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

	Notes	**2020** **RMB'000**	2019 *RMB'000*
REVENUE	*4*	**148,348,067**	124,042,520
Cost of sales and services provided	*5*	**(134,866,359)**	(112,554,874)
Gross profit		**13,481,708**	11,487,646
Other income and gains, net	*4*	**3,423,881**	3,109,521
Selling and distribution expenses		**(5,729,655)**	(4,938,772)
Administrative expenses		**(2,239,263)**	(1,940,062)
Profit from operations		**8,936,671**	7,718,333
Finance costs		**(1,259,872)**	(1,390,554)
Share of profits/(losses) of joint ventures		**3,523**	(1,208)
Share of loss of an associate		**(1,513)**	—
Profit before tax	*5*	**7,678,809**	6,326,571
Income tax expense	*6*	**(2,097,980)**	(1,807,055)
Profit for the year		**5,580,829**	4,519,516
Attributable to:			
Owners of the parent		**5,539,799**	4,501,673
Non-controlling interests		**41,030**	17,843
		5,580,829	4,519,516
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the year (RMB)	*7*	**2.44**	1.98
Diluted			
— For profit for the year (RMB)	*7*	**2.36**	1.92

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

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

	2020	2019
	RMB'000	*RMB'000*
Profit for the year	**5,580,829**	4,519,516
Other comprehensive income/(loss)		
Exchange differences on translation of foreign operations	**511,747**	(182,061)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**511,747**	(182,061)
Other comprehensive income/(loss) for the year, net of tax	**511,747**	(182,061)
Total comprehensive income for the year	**6,092,576**	4,337,455
Attributable to:		
Owners of the parent	**6,051,546**	4,319,612
Non-controlling interests	**41,030**	17,843
	6,092,576	4,337,455

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2020

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

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**14,373,357**	12,361,556
Right-of-use assets		**4,413,846**	4,195,225
Land use rights		**2,930,356**	2,931,884
Prepayments		**1,081,311**	731,332
Intangible assets		**6,620,175**	6,217,559
Goodwill		**4,972,459**	4,640,137
Investments in joint ventures		**47,785**	44,262
Investment in an associate		**1,487**	3,000
Deferred tax assets		**209,492**	257,580
Total non-current assets		**34,650,268**	31,382,535
CURRENT ASSETS			
Inventories	*8*	**9,090,091**	9,828,486
Trade receivables	*9*	**1,429,528**	1,462,767
Prepayments, other receivables and other assets		**13,363,026**	11,645,669
Amounts due from related parties		**1,168**	727
Financial assets at fair value through profit or loss		**150,415**	997,908
Pledged bank deposits		**1,425,880**	1,341,025
Cash in transit		**180,280**	263,989
Cash and cash equivalents		**8,210,363**	6,101,176
Total current assets		**33,850,751**	31,641,747

	Notes	2020 RMB'000	2019 RMB'000
CURRENT LIABILITIES			
Bank loans and other borrowings		**16,980,126**	17,089,711
Lease liabilities		**277,658**	236,636
Trade and bills payables	*10*	**4,980,288**	4,875,067
Other payables and accruals		**4,215,624**	3,223,610
Other liabilities		**245,000**	245,000
Amounts due to related parties		**1,345**	436
Income tax payable		**1,774,032**	1,476,360
Dividends payable		**9**	9
Total current liabilities		**28,474,082**	27,146,829
NET CURRENT ASSETS		**5,376,669**	4,494,918
TOTAL ASSETS LESS CURRENT LIABILITIES		**40,026,937**	35,877,453
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,119,632**	1,917,525
Bank loans and other borrowings		**2,351,234**	3,924,341
Lease liabilities		**3,847,101**	3,564,989
Convertible bonds		**4,827,223**	4,293,929
Total non-current liabilities		**13,145,190**	13,700,784
Net assets		**26,881,747**	22,176,669
EQUITY			
Equity attributable to owners of the parent			
Share capital		**198**	197
Reserves		**26,462,702**	21,758,356
		26,462,900	21,758,553
Non-controlling interests		**418,847**	418,116
Total equity		**26,881,747**	22,176,669

NOTES TO THE 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 Second 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.

2.1 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 Companies Ordinance (Cap. 622 of the Laws of Hong Kong). 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*COVID-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1, and HKAS 8	*Definition of Material*

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB18,986,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

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

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

Information about geographical area

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

Information about major customers

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

4. REVENUE, OTHER INCOME AND GAINS

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

(a) Revenue:

	2020 *RMB'000*	2019 *RMB'000*
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods or service		
Revenue from sales of motor vehicles	**128,102,934**	106,199,132
Revenue from after-sales service	**20,245,133**	17,843,388
Total revenue from contracts with customers	**148,348,067**	124,042,520
Timing of revenue recognition		
At a point in time	**148,348,067**	124,042,520

(b) Other income and gains, net:

	2020 *RMB'000*	2019 *RMB'000*
Commission income	**3,149,631**	2,885,199
Rental income	**26,009**	21,842
Interest income	**80,933**	59,975
Government grants	**46,465**	43,319
Net gains/(losses) on disposal of items of property, plant and equipment	**12,898**	(30,879)
Fair value gains/(losses), net:		
Financial assets at fair value through profit or loss		
— listed equity investments	**2,440**	12,809
— financial products	**(1,901)**	1,776
Investment income from financial assets at fair value through profit or loss	**28,330**	37,137
Dividend income from listed equity investments	**1,836**	1,816
Others	**77,240**	76,527
	3,423,881	3,109,521

5. PROFIT BEFORE TAX

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

		2020 *RMB'000*	2019 *RMB'000*
(a)	**Employee benefit expense (including directors' and chief executive officer's remuneration:**		
	Wages and salaries	**3,887,087**	3,366,356
	Pension scheme contributions	**398,713**	486,423
	Other welfare	**218,668**	240,075
	Equity-settled share option expense	**—**	16,024
		4,504,468	4,108,878
(b)	**Cost of sales and services provided:**		
	Cost of sales of motor vehicles	**124,196,476**	103,311,643
	Others	**10,669,883**	9,243,231
		134,866,359	112,554,874
(c)	**Other items:**		
	Depreciation and impairment of property, plant and equipment	**1,114,378**	1,002,150
	Depreciation of right-of-use assets	**455,392**	394,173
	Amortisation of land use rights	**94,106**	83,734
	Amortisation of intangible assets	**275,725**	258,297
	Auditor's remuneration	**5,600**	5,800
	Lease expenses	**2,566**	53,125
	Promotion and advertisement	**1,008,450**	943,388
	Office expenses	**328,619**	316,180
	Logistics expenses	**151,479**	127,237
	Impairment of trade receivables	**5,380**	6,401
	Write-down of inventories to net realisable value	**1,353**	2,352
	Net losses/(gains) on disposal of items of property, plant and equipment	**(12,898)**	30,879
	Fair value (gains)/losses, net:		
	Financial assets at fair value through profit or loss		
	— listed equity investments	**(2,440)**	(12,809)
	— financial products	**1,901**	(1,776)
	Investment income from financial assets at fair value through profit or loss	**(28,330)**	(37,137)
	Dividend income from listed equity investments	**(1,836)**	(1,816)
	Impairment of goodwill	**—**	4,742

6. INCOME TAX EXPENSE

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

	2020	2019
	RMB'000	*RMB'000*
Current Mainland China corporate income tax	**2,040,819**	1,812,577
Deferred tax	**57,161**	(5,522)
	2,097,980	1,807,055

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 (2019: 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 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 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:

	2020	2019
	RMB'000	*RMB'000*
Profit before tax	**7,678,809**	6,326,571
Tax at the statutory tax rate (25%)	**1,919,702**	1,581,643
Tax effect of non-deductible expenses	**162,105**	124,203
Income not subject to tax	**(7,575)**	(3,216)
Profits and losses attributable to jointly-controlled entities	**(503)**	302
Lower tax rates for specific provinces or enacted by local authority	**(110,724)**	27,569
Adjustments in respect of current tax of previous periods	**16,149**	15,811
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**21,053**	—
Tax losses not recognised	**97,773**	60,743
Tax charge	**2,097,980**	1,807,055

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 2,272,669,021 (2019: 2,271,697,955) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year 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 year, 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

	2020	2019
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**5,539,799**	4,501,673
Interest on convertible bonds	**188,195**	155,064
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**5,727,994**	4,656,737

Shares

	Number of shares	
	2020	2019
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,272,669,021**	2,271,697,955
Effect of dilution — weighted average number of ordinary shares:		
Share option	**5,113,843**	—
Convertible bonds	**150,187,858**	156,597,763
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,427,970,722**	2,428,295,718

Earnings per share

	2020	2019
	RMB	*RMB*
Basic	**2.44**	1.98
Diluted	**2.36**	1.92

8. INVENTORIES

Inventories in the consolidated statement of financial position represent:

	2020	2019
	RMB'000	*RMB'000*
Motor vehicles	**8,266,956**	9,035,201
Spare parts and others	**834,070**	802,867
	9,101,026	9,838,068
Less: Provision for inventories	**10,935**	9,582
	9,090,091	9,828,486

As at 31 December 2020, certain of the Group's inventories with a carrying amount of approximately RMB3,299,825,000 (2019: RMB3,291,010,000) were pledged as security for the Group's bank loans and other borrowings.

As at 31 December 2020, certain of the Group's inventories with a carrying amount of approximately RMB1,008,000,000 (2019: RMB939,814,000) were pledged as security for the Group's bills payable.

9. TRADE RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**1,445,113**	1,474,447
Impairment	**(15,585)**	(11,680)
	1,429,528	1,462,767

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 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:

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**1,348,423**	1,410,924
More than 3 months but less than 1 year	**75,013**	41,107
Over 1 year	**6,092**	10,736
	1,429,528	1,462,767

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

	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**11,680**	5,279
Amount written off as uncollectible	**(1,475)**	—
Impairment losses, net	**5,380**	6,401
At end of year	**15,585**	11,680

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

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**1,793,518**	1,659,356
Bills payable	**3,186,770**	3,215,711
Trade and bills payables	**4,980,288**	4,875,067

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:

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**4,378,013**	4,568,395
3 to 6 months	**517,792**	285,097
6 to 12 months	**18,723**	15,452
Over 12 months	**65,760**	6,123
	4,980,288	4,875,067

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

11. DIVIDENDS

	2020	2019
	RMB'000	*RMB'000*
Proposed final — HK$0.58 (approximately RMB0.49) (2019: HK$0.45) per ordinary share	**1,107,960**	900,335

The calculation of the proposed final dividend for the year ended 31 December 2020 is based on the proposed final dividend per ordinary share, and the total number of ordinary shares as at 19 March 2021.

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 2020, a final dividend of HK$0.45 per ordinary share in respect of the year ended 31 December 2019 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 2020 was HK$1,022,264,000 (equivalent to RMB932,601,000).

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2020 was RMB148,348.1 million, representing an increase of RMB24,305.6 million or 19.6% as compared to the year ended 31 December 2019. Revenue from new automobile sales amounted to RMB125,526.7 million, representing an increase of RMB19,327.6 million or 18.2% as compared to the year ended 31 December 2019. Revenue from after-sales and accessories business amounted to RMB20,245.1 million, representing an increase of RMB2,401.7 million or 13.5% as compared to the year ended 31 December 2019. Revenue from pre-owned automobile sales reached RMB2,576.2 million (the year ended 31 December 2019: nil).

New automobile sales business accounted for a substantial portion of the Group's revenue, representing 84.6% (the year ended 31 December 2019: 85.6%) of the total revenue for the year ended 31 December 2020. After-sales and accessories business accounted for 13.6% of the total revenue for the year 31 December 2020 (the year ended 31 December 2019: 14.4%). Pre-owned automobile sales accounted for 1.8%. For the year ended 31 December 2020, 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 29.4% of the Group's total revenue from new automobile sales (the year ended 31 December 2019: 29.3%).

Cost of Sales and Services

Cost of sales and services for the year ended 31 December 2020 amounted to RMB134,866.3 million, representing an increase of RMB22,311.5 million or 19.8% as compared to the year ended 31 December 2019. Costs for new automobile sales business amounted to RMB121,817.1 million for the year ended 31 December 2020, representing an increase of RMB18,505.5 million or 17.9% as compared to the year ended 31 December 2019. Costs for after-sales and accessories business amounted to RMB10,669.9 million for the year ended 31 December 2020, representing an increase of RMB1,426.7 million or 15.4% as compared to the year ended 31 December 2019. Costs for pre-owned automobile sales business amounted to RMB2,379.3 million.

Gross Profit

The Group's gross profit for the year ended 31 December 2020 amounted to RMB13,481.7 million, representing an increase of RMB1,994.1 million or 17.4% as compared to the year ended 31 December 2019. Gross profit from new automobile sales business amounted to RMB3,709.6 million, representing an increase of RMB822.1 million or 28.5% as compared to the year ended 31 December 2019. Gross profit from after-sales and accessories business amounted to RMB9,575.2 million, representing an increase of RMB975.1 million or 11.3% as compared to the year ended 31 December 2019. Gross profit from sales of pre-owned automobile amounted RMB196.9 million. For the year ended 31 December 2020, gross profit from after-sales and accessories business accounted for 71.0% of the total gross profit (the year ended 31 December 2019: 74.9%).

The Group's gross profit margin for the year ended 31 December 2020 was 9.1% (the year ended 31 December 2019: 9.3%).

Other Income and Gains, Net

The other income and gains, net, for the year ended 31 December 2020 amounted to RMB3,423.9 million, representing an increase of RMB314.4 million or 10.1% as compared to the year ended 31 December 2019. The other income and gains mainly consisted of service income from automobile insurance and automobile financing services, commission from pre-owned automobile trading business, rental income and interest income, etc.

Profit from Operations

The profit from operations for the year ended 31 December 2020 amounted to RMB8,936.7 million, representing an increase of RMB1,218.4 million or 15.8% as compared to the year ended 31 December 2019. The operating profit margin for the year ended 31 December 2020 was 6.0% (the year ended 31 December 2019: 6.2%).

Profit for the Year

The profit for the year ended 31 December 2020 amounted to RMB5,580.8 million, representing an increase of RMB1,061.3 million or 23.5% as compared to the year ended 31 December 2019. The profit margin for the year ended 31 December 2020 was 3.8% (the year ended 31 December 2019: 3.6%).

Profit Attributable to Owners of the Parent

The profit attributable to owners of the parent for the year ended 31 December 2020 amounted to RMB5,539.8 million, representing an increase of RMB1,038.1 million or 23.1% as compared to the year ended 31 December 2019.

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.

The Company believes that its future liquidity demand will continue to be satisfied by using a combination of bank loans and other borrowings, cash flow generated from its operating activities and other funds raised from the capital markets from time to time in the future.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year ended 31 December 2020.

Cash Flow Generated from Operating Activities

For the year ended 31 December 2020, the net cash generated from operating activities by the Group amounted to RMB9,324.4 million, consisting primarily of operating profit before working capital movement and tax payment.

Cash Flow Used in Investing Activities

For the year ended 31 December 2020, the net cash used in investing activities by the Group amounted to RMB3,234.1 million.

Cash Flow Used in Financing Activities

For the year ended 31 December 2020, the net cash used in financing activities by the Group amounted to RMB3,963.6 million.

Net Current Assets

As at 31 December 2020, the Group had net current assets of RMB5,376.7 million, representing an increase of RMB881.8 million from the net current assets of the Group as at 31 December 2019.

Capital Expenditures and Investment

The Group's capital expenditures comprised expenditures on property, plant and equipment, land use rights and business acquisition. For the year ended 31 December 2020, the Group's total capital expenditures amounted to RMB3,158.2 million. Save as disclosed above, the Group did not make any significant investments during the year ended 31 December 2020.

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 quotas and orders for new automobiles, after-sales and accessories products. 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 decreased from RMB9,828.5 million as at 31 December 2019 to RMB9,090.1 million as at 31 December 2020, primarily due to the further optimisation of inventory structure benefitted from its continuous improving stock management.

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

	For the year ended 31 December	
	2020	2019
Average inventory turnover days	**23.3**	30.4

The inventory turnover days of the Group showed a healthy decrease during the year ended 31 December 2020 as compared to the year ended 31 December 2019, which was mainly due to improved inventory management. During the year ended 31 December 2020, the Group's inventory mix gradually optimised and the inventory balance decreased significantly as compared to 31 December 2019, in the meanwhile network scale further expanded.

Order Book and Prospect for New Business

Due to its business nature, the Group did not maintain an order book as at 31 December 2020. 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 2020, the Group's bank loans and other borrowings amounted to RMB19,331.4 million (31 December 2019: RMB21,014.1 million), and its convertible bonds liability portion amounted to RMB4,827.2 million (31 December 2019: RMB4,293.9 million). The decrease in the Group's bank loans and other borrowings during the year ended 31 December 2020 was primarily due to the repayment of the loan and other borrowings, benefiting from the substantial cash generated from operating activities. The annual interest rates of the bank loans and other borrowings ranged from 1.0% to 5.9%.

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. 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

As at 31 December 2020, the Group had 31,460 employees (31 December 2019: 29,293). The Group strives to offer a good working environment, a diversified range of training programmes as well as an attractive remuneration package to its employees. The Group endeavours to motivate its staff with performance-based remuneration. On top of basic salary, the Group will reward 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 incentive 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 2020, the pledged assets of the Group amounted to RMB5.9 billion (31 December 2019: RMB6.0 billion).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the year ended 31 December 2020, 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 its business in the luxury and mid-to-high-end passenger vehicle market by capitalising on the opportunities arising from the market and exploring developing potential. The Company aims to expand its distribution network 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, and the Group currently has sufficient credit facilities granted by banks.

Gearing Ratio

As at 31 December 2020, the gearing ratio of the Group was 50.9% (31 December 2019: 57.3%), which was calculated from net debt divided by the sum of net debt and total equity.

CONVERTIBLE BONDS

2023 Convertible Bonds

On 4 May 2018, the Company and J.P. Morgan Securities plc (the "**2023 Convertible Bond Manager**") entered into a bond subscription agreement, according to which (i) the Company agreed to issue, and the 2023 Convertible Bond Manager agreed to subscribe and pay for (or procure subscribers to subscribe and pay for) zero coupon convertible bonds due 2023 of an aggregate principal amount of HK$3,925 million (the "**Original 2023 Convertible Bonds**"); and (ii) the Company agreed to grant the 2023 Convertible Bond Manager an option to subscribe for up to an additional HK$775 million in principal amount of the 2023 Convertible Bonds (the "**Option Bonds**", together with the Original 2023 Convertible Bonds, the "**2023 Convertible Bonds**"). On 14 May 2018, the 2023 Convertible Bond Manager exercised in full the option granted by the Company, pursuant to which the Company was required to issue the Option Bonds in the aggregate principal amount of HK$775 million.

The 2023 Convertible Bonds are convertible into shares of the Company (the "**Shares**") at the initial conversion price of HK$30.0132 per Share at the option of the holder thereof, at any time on or after the 41st day after the issue date up to the close of business on the tenth day prior to the maturity date, being a date falling on or about 23 May 2023.

The Company partially repurchased and cancelled the 2023 Convertible Bonds in the aggregate amount of HK$3,315 million on 22 May 2020. In addition, certain holders converted their 2023 Convertible Bonds into Shares. As a result of the foregoing, the aggregate outstanding principal amount of the 2023 Convertible Bonds was HK$1,030,000,000 (the "**Outstanding 2013 Convertible Bonds**") as at the date of this announcement.

The Company will redeem each Outstanding 2023 Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. Upon full conversion of the Outstanding 2023 Convertible Bonds, the Company may issue 34,318,233 Shares, increasing the total issued Shares to 2,317,183,812 Shares (calculated as at the date of this announcement and assuming no conversion of the 2025 Convertible Bonds (as defined below) at all).

Please refer to the announcements of the Company dated 4, 6, 15 and 23 May 2018 and 12, 13, 14, 22, 25 May and 20 and 27 November 2020, respectively, for further details on the 2023 Convertible Bonds.

2025 Convertible Bonds

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

The 2025 Convertible Bonds are convertible into Shares at the initial conversion price of HK$45.61 per Share at the option of the holder thereof, at any time on or after 1 July 2020 up to the close of business on the tenth day prior to the maturity date, being a date falling on or about 21 May 2025. The issue of the 2025 Convertible Bonds in the aggregate amount of HK$4,560 million was completed on 21 May 2020.

There has been no conversion of the 2025 Convertible Bonds as at the date of this announcement. The Company will redeem each 2025 Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. Upon full conversion of the outstanding 2025 Convertible Bonds, the Company may issue 99,978,074 Shares, increasing the total issued Shares to 2,382,843,653 Shares (calculated as at the date of this announcement and assuming no conversion of the Outstanding 2023 Convertible Bonds at all).

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

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 2020 are set out below:

			Number of Share Options				
Name of Grantees	**Date of grant**	**Exercise price per Share**	**Outstanding as at 31 December 2019**	**Granted during the period**	**Exercised during the period**	**Lapsed/ Cancelled during the period**	**Outstanding as at 31 December 2020**
Mr. Du Qingshan — Executive Director	26 April 2018	HK$22.60	5,500,000[(1)]	—	—	—	5,500,000
Mr. Zhang Zhicheng — Executive Director	26 April 2018	HK$22.60	5,500,000[(1)]	—	—	—	5,500,000
Total							11,000,000

Note:

(1) On 26 April 2018, the Company offered to grant share options (the "**Share Options**") to Mr. Du Qingshan and Mr. Zhang Zhicheng under the Share Option Scheme, which will entitle them to subscribe for an aggregate of 11,000,000 new Shares. The Share Options were fully vested from 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 is HK$22.35 per Share.

During the year ended 31 December 2020, no options had been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 31 December 2020, the total number of Shares that may be issued under the Share Option Scheme was 11,000,000 Shares, representing 0.48% of the issued share capital of the Company as at the date of this announcement.

CONNECTED TRANSACTIONS

There was no connected transaction entered into by the Group during the year ended 31 December 2020 that is required to be disclosed under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

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% 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.

Save as disclosed above, there have not been any significant events affecting the Group after 31 December 2020.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Throughout the year ended 31 December 2020 and up to the date of this announcement, the Company has been in compliance with the code provisions set out in the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2020 and up to the date of this announcement.

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

In January 2021, as the Board was of the view that share buy-backs and the subsequent cancellation of the bought Shares could enhance the value of the Shares thereby improving returns to the Shareholders, the Board determined to exercise its powers under the general mandate to buy back Shares granted by the Shareholders at the general meeting held on 10 June 2020 to buy back a total of 660,500 Shares at the highest and lowest prices of HK$49.50 and HK$47.65 per Share, respectively. The aggregate purchase price paid (excluding commissions and other expenses) for the bought Shares was approximately HK$32,200,000. The Board believes that the share buy-backs could reflect the Board's confidence in the Company's long-term business prospects. All of the bought Shares have been cancelled as at the date of this announcement.

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 2020 and up to the date of this announcement.

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 results of the Company for the year ended 31 December 2020. The Audit Committee considers that the financial results for the year ended 31 December 2020 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

SCOPE OF WORK OF THE AUDITOR

The figures above in respect of this annual results announcement for the year ended 31 December 2020 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 Hong Kong Institute of Certified Public Accountants 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 on 18 June 2021 (the "**AGM**") for the distribution of a final dividend of HK$0.58 per Share for the year ended 31 December 2020 payable to the Shareholders whose names are listed in the register of the Company on 28 June 2021, in an aggregate amount of HK$1,316 million (equivalent to approximately RMB1,108 million). It is expected that the final dividend will be paid on 12 July 2021. The proposal for the distribution of the final dividend above 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, 15 June 2021 to Friday, 18 June 2021 (both days inclusive), during which 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 Friday, 11 June 2021.

In addition, the Company's register of members will be closed from Thursday, 24 June 2021 to Monday, 28 June 2021 (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 Wednesday, 23 June 2021.

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 of Hong Kong Limited (www.hkexnews.hk) and the Company (www.zs-group.com.cn).

The annual report of the Company for the year ended 31 December 2020 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the above websites in due course.

APPRECIATION

The Group's continuous development and progress despite facing market competition and challenges rest on the dedication and contributions of its staff from all departments as well as the trust, support and encouragement from all Shareholders and business partners. The Board would like to express its sincere gratitude to everyone for their valuable contributions to the Group's development.

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

Hong Kong, 19 March 2021

As at the date of this announcement, the executive Directors are Mr. Huang Yi, Mr. Li Guoqiang, Mr. Du Qingshan, Mr. Zhang Zhicheng, Mr. Li Guohui and Mr. Tang Xianfeng; the non-executive Directors are Mr. David Alexander Newbigging and Mr. Hsu David; 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.