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

ZHONGSHENG GROUP 中升集團・終生夥伴

LIFETIME PARTNER

INTERIM REPORT 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Huang Yi *(Chairman)*
Mr. Li Guoqiang *(President and CEO)*
Mr. Du Qingshan
Mr. Yu Guangming
Mr. Si Wei
Mr. Zhang Zhicheng

NON-EXECUTIVE DIRECTORS

Mr. Pang Yiu Kai
Mr. Cheah Kim Teck

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shen Jinjun
Mr. Lin Yong
Mr. Ying Wei
Mr. Chin Siu Wa Alfred

CORPORATE HEADQUARTERS

No. 20 Hequ Street
Shahekou District
Dalian
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1803–09
18th Floor, Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

LEGAL ADVISERS AS TO HONG KONG LAW

White & Case
9th Floor, Central Tower
28 Queen's Road Central
Central
Hong Kong

JOINT COMPANY SECRETARIES

Ms. Kam Mei Ha Wendy (resigned on 1 April 2019)
Ms. Mak Sze Man
Ms. Yao Zhenchao (appointed on 1 April 2019)

AUTHORIZED REPRESENTATIVES

Mr. Huang Yi
Ms. Kam Mei Ha Wendy (resigned on 1 April 2019)
Ms. Yao Zhenchao (appointed on 1 April 2019)

AUDIT COMMITTEE

Mr. Ying Wei *(Chairman)*
Mr. Shen Jinjun
Mr. Lin Yong

REMUNERATION COMMITTEE

Mr. Lin Yong *(Chairman)*
Mr. Li Guoqiang
Mr. Shen Jinjun

NOMINATION COMMITTEE

Mr. Shen Jinjun *(Chairman)*
Mr. Huang Yi
Mr. Lin Yong

COMPLIANCE COMMITTEE

Mr. Du Qingshan *(Chairman)*
Mr. Huang Yi
Mr. Li Guoqiang

RISK COMMITTEE

Mr. Yu Guangming *(Chairman)*
Mr. Si Wei

BRANCH SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

881

AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

CHAIRMAN'S STATEMENT

Huang Yi
Chairman

Dear Honourable Shareholders,

On behalf of the board of directors (the "**Board**") of Zhongsheng Group Holdings Limited ("**Zhongsheng Group**" or the "**Company**"), I am very pleased to present the interim report of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2019 (the "**Reporting Period**").

In the first half of 2019, facing the pressure of China and USA trade disputes and global economic downturn, the China's economy adhered to its general tone of steady progress, vigorously propelled its supply-side structural reform, intensified its efforts in adverse cycle adjustments, and maintained a stable development in national economy. In terms of comparable pricing, China's GDP in the first half of 2019 reached RMB45,093.3 billion, representing a year-on-year increase of 6.3%. In the first half of the year, the added value of tertiary industry represented a year-on-year increase of 0.5%, accounted for 54.9% of the GDP and contributed 60.3% to economic growth.

In the first half year, as a result of macroeconomic adjustments and the earlier implementation of phase six motor vehicle air pollutant emission standards (referred to as "**National Six Standards**") in some regions, the production volume and sales volume of automobiles were still at low level. According to the statistics issued by China Association of Automobile Manufacturers, the production volume and sales volume of automobiles in the first half of 2019 reached 12.132 million units and 12.323 million units, respectively, representing a decrease of 13.7% and 12.4% as compared to that of the corresponding period of last year, among which the production volume and sales volume of passenger vehicles amounted to 9.978 million units and 10.127 million units, respectively, representing a decrease of 15.8% and 14.0% as compared to that of the corresponding period of last year.

In the context of the downturn in production and sales of the automobile market, the Group achieved great progress with its good brand portfolio and prospective strategic deployment. For the six months ended 30 June 2019, the Group achieved new automobiles sales volume of 213,762 units, representing a year-on-year increase of 17.3%. During the Reporting Period, the Group recorded a revenue of RMB57,412.6 million, representing an increase of 16.4% as compared to RMB49,305.5 million for the corresponding period in 2018. In particular, revenue generated from new automobile sales business amounted to RMB49,484.5 million, representing an increase of 15.8% as compared to RMB42,727.8 million for the corresponding period in 2018. Revenue generated from after-sales services and accessories business increased to RMB7,928.1 million, representing a growth of 20.5% as compared to RMB6,577.7 million for the corresponding period in 2018. During the Reporting Period, profit attributable to owners of the parent of the Group was RMB2,082.3 million, representing an increase of 13.3% as compared to RMB1,838.0 million for the corresponding period in 2018; and basic and diluted earnings per share amounted to RMB0.917 and RMB0.889, respectively (the corresponding period in 2018: RMB0.811 and RMB0.791).

After over two decades of rapid growth, China's automobile market enters into an adjustment period. In this period, automobile brands, under different core technology, product competitiveness, service vision and market strategy, will present different development direction and trend, and the pace of automobile industry reorganization will be further accelerated. With industry elimination and assets reorganization, domestic demand for high-end products is further increased and industrial development enters into a new stage. Under the new market environment, Zhongsheng Group actively participates in market integration, continues to upgrade its development strategy, optimises its brand portfolio and management, and improves its service quality, with all businesses achieving a stable growth. As of 30 June 2019, the Group had 343 4S dealerships, with its network covering 24 provincial regions and over 90 cities in China, of which 196 are luxury brand dealerships.

In June 2019, the Group, with its operating income performance of RMB107.736 billion in 2018, was ranked second among the top 100 dealers group in China's automobile circulation industry in 2019, and ranked first among the top 100 comprehensive capability assessment system for four consecutive years. In July 2019, the Group was again selected as one of the Fortune China 500, an international authoritative ranking, and ranked 82nd (2018: 90th). The Group continued to gain wide recognition both domestically and abroad for its operation and development, which is also the driving force for us to work relentlessly and progress vigorously.

In the first half of this year, although affected by various factors both domestically and abroad, total volume of car sales in China was still very considerable. The growth of middle-income groups has led to the increase in potential of mainstream car consumption group, and coupled with the structural adjustment of consumption brought by new models, they had provided many favorable factors for new car sales of high-end and luxury brands in 2019. At the same time, since last year, the government has adjusted the macro-economic conditions of automobile industry, including infrastructure facilitation, financial policies relaxation, and policy measures in taxation and administrative fees reduction. In particular, in early June of this year, the National Development and Reform Commission, Ministry of Ecology and Environment and Ministry of Commerce jointly issued the Implementation Plan for Promoting the Upgrading of Key Consumer Goods and the Recycling Utilization of Resources (2019–2020), which has specifically indicated the removal of consumption escalation barriers of passenger vehicles, and requires existing car-restriction cities to increase the supply of licences gradually to meet consumption demand. With Guangdong Province being the first region to initiate the policy of increasing licence supply, it is believed that these cities and regions will further boost the high-end and luxury brand car sales market.

Looking forward, we will grasp the opportunities of automotive transformation, upgrading and development, deepen innovation, and continue to consolidate our competitive advantages. We will continue to adhere to our corporate motto by taking "Zhongsheng Group — Lifetime Partner" as our mission, and continue to optimize service quality, improve operation and management efficiency as well as individual performance. We will further promote refined management, comprehensive distribution network to enable the Company to maintain its steady and robust development.

Our heartfelt thanks to the loyalty, dedication and contributions of our staff from all departments as well as the trust, support and encouragement from all shareholders and business partners, the Group still managed to achieve constant development and progress in the face of competition and challenges. On behalf of the Board, I would like to express our sincere gratitude to all of you for your valuable contributions to our development!

Huang Yi
Chairman
Hong Kong, 9 August 2019

CEO'S STATEMENT

Li Guoqiang
President and Chief Executive Officer

MARKET REVIEW

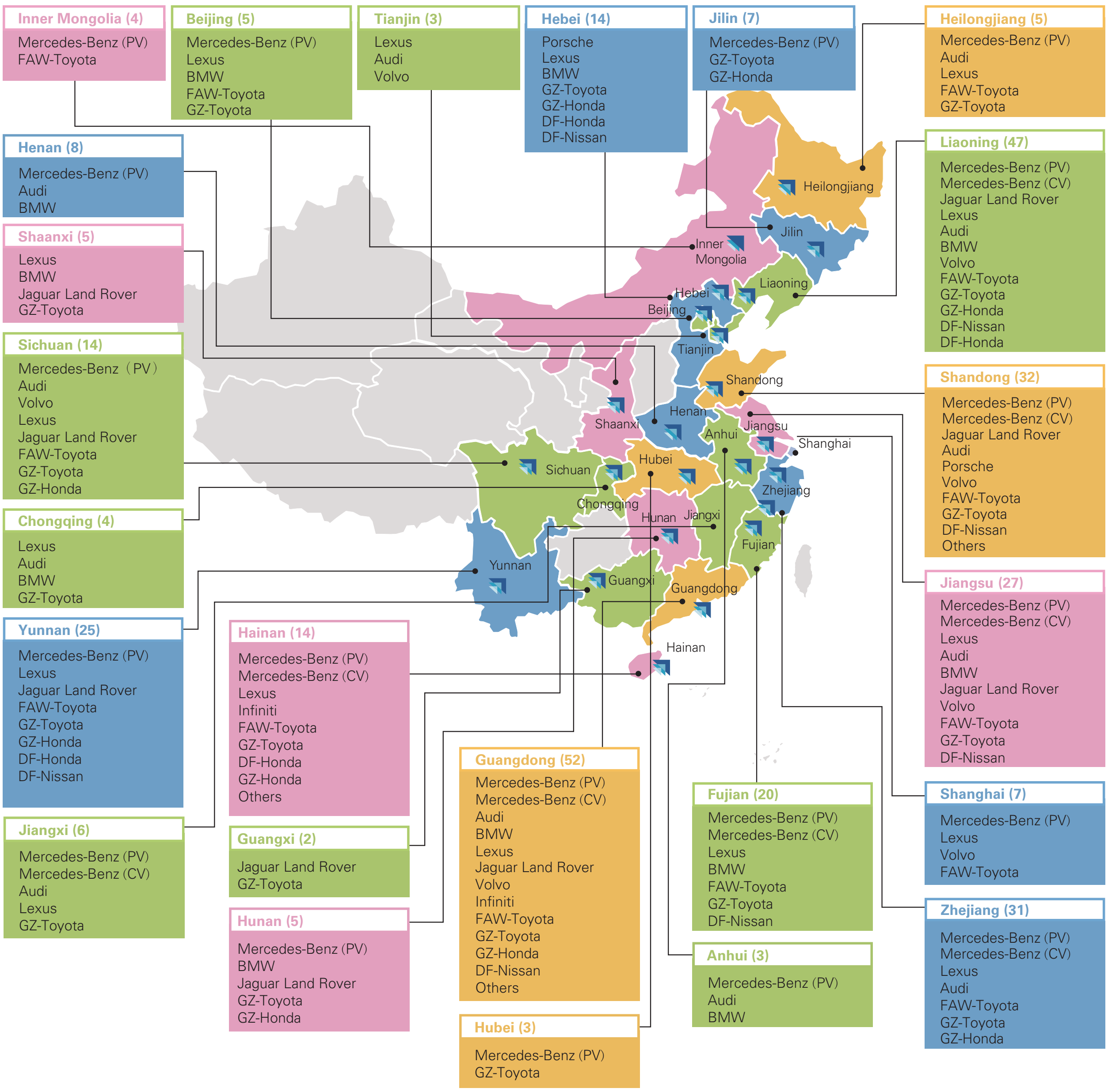
As a result of multiple factors such as macroeconomic environment and policies, China's automobile production and sales volume went down by 4.16% and 2.76% year-on-year in 2018, while the sales volume of automobiles in the first half of 2019 remained under pressure. According to the statistics released by the China Automobile Dealers Association, the production volume and sales volume of passenger vehicles in China in the first half of this year were 9.978 million units and 10.127 million units, respectively, representing a decrease of 15.8% and 14% as compared to that of the previous year. In terms of the production volume and sales volume by types of passenger vehicles, sales volume of sedans and SUVs decreased by 12.9% and 13.4% respectively as compared to that of the corresponding period of last year. The decline in total automobile sales volume was affected by multiple factors, including the restructuring of automobile industry. As one of the world's major automobile production and selling countries, although the sales volume has reached a relatively high base and the market is maturing gradually, China's overall car ownership still has tremendous potential for development.

In the first half of 2019, at the backdrop of sales decline of the overall car market, luxury brands growth remained stable. In the first half of this year, the retail sales of 20 luxury car brands were approximately 1.542 million units in total, representing a year-on-year increase of 16.9%. Among which, Lexus took the lead in growth, with cumulative sales of 93,823 units in the first six months in China, up by 36.5% year-on-year. Toyota, the mid-end brand, also delivered robust performance. After a double-digit growth in 2018, Toyota maintained a sound growth in the first half of this year. Differentiation in the development of various automobile brands will become more and more significant in the future.

BUSINESS REVIEW

EMERGING ADVANTAGES IN BRAND PORTFOLIO WITH CONTINUOUS GROWTH IN REGIONAL DISTRIBUTION POTENTIAL

After rapid developments, China's automobile industry temporarily enters into its structural adjustment stage with a low-speed development, but the overall trend continues to rise. At the same time, two development characteristics have gradually emerged during the adjustment period. Firstly, the differentiation of brand development which was mainly reflected in the continuous increase in high-end and luxury brand sales volume with continuous increasing demand. In addition, regional disparities are becoming more and more apparent. We envisage the growing potential for consumption sustainability and upgrades in the first and second-tier and provincial capital cities with increasing population inflows. Under the new market environment, Zhongsheng Group has always been adhering to its "Brand plus Region" strategy, strongly optimising its current brand portfolio, and continuing to expand to new regions that we see great potential in. As of 30 June 2019, the total number of dealerships of the Group increased to 343, of which approximately 75% of the dealerships are located in the first and second-tier and provincial capital cities. The coverage of Zhongsheng Group's dealerships as of 30 June 2019 was as follows:



In the first half of 2019, Zhongsheng Group achieved new car sales volume of 213,762 units, representing a year-on-year increase of 17.3%. Among which, luxury brand sales volume achieved 105,614 units, representing a year-on-year increase of 19.1%, and accounting for 49.4% of the Group's total sales volume.

SOLID FOUNDATION OF VALUE-ADDED SERVICES AND AFTER-SALES BUSINESS WHICH WILL CONTINUE TO STRENGTHEN

According to the statistics of Traffic Management Bureau of Ministry of Public Security of China, by the end of June 2019, the national motor vehicle ownership reached 340 million units, among which the automobile ownership was 250 million units, with 422 million motor vehicle drivers. With the rapid growth of motor vehicle ownership, the number of motor vehicle drivers shows a synchronous increasing trend. In the first half of 2019, the number of new licenced drivers reached 14.08 million. The rapid increase of motor vehicle ownership and motor vehicle drivers, and the continuous improvement of residents' consumption levels provide tremendous market potential for the automobile after-sales business in China. The future business model is necessarily customer-oriented, and service providers who are able to offer continuous optimized service will enjoy the greatest potential. With the objective of being the "Lifetime Partner", Zhongsheng Group has expanded its customers base through innovative after-sales services and products, efficient and advanced maintenance service technology, comfortable shop design display and customer-first service management concept. As of June 2019, the Group has over 2 million active customers, providing a powerful growth driver for strategically focusing on after-sales service and other after-market services.

In the first half of 2019, total revenue from after-sales and accessories business of Zhongsheng Group reached RMB7,928.1 million, representing a year-on-year increase of 20.5% and accounting for 13.8% of the total revenue with gross margin remained at a sound level. In terms of value-added service segment, the layout of car insurance and financial services has enabled the Group to achieve precise positioning, which business model has been recognised and affirmed. In the first half of 2019, the Group continued to maintain its rapid growth in the value-added service sector including car insurance, car finance and second-hand automobiles. It achieved an income from value-added services of RMB1,209.7 million, representing a year-on-year increase of 20.9%.

FUTURE STRATEGIES AND OUTLOOK

At present, China's automobile industry enters into a period of stable growth from rapid growth, and has gradually stepped into a transition period from quantitative change to qualitative change. The automobile industry is entering into an adjustment stage of transformation and upgrading. With the help of transformation and upgrading, industry concentration will continue to accelerate. During the process, the survival of the fittest among enterprises is accelerating, many brands will gradually withdraw from competition, and certain dealers will have to face closing down and ownership transfer. The industry consolidation will enable leading players to become stronger, not only in terms of scale, but also in the refined management efficiency, and the efficient management for expansion.

Facing the challenges and opportunities brought by the transformation and upgrading of China's automobile market, we will leverage on the over 20 years of industry experience and solid management foundation, and continue to optimise product mix, improve operational efficiency, strengthen the competitive advantages of our core brands, further enhance the scale effect of after-sales and accessories business, value-added service business, so as to maintain a stable business growth.

Li Guoqiang
President and Chief Executive Officer
Hong Kong, 9 August 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

REVENUE

Revenue for the six months ended 30 June 2019 was RMB57,412.6 million, representing an increase of RMB8,107.1 million or 16.4% as compared to the corresponding period in 2018. Revenue from new automobile sales amounted to RMB49,484.5 million, representing an increase of RMB6,756.7 million or 15.8% as compared to the corresponding period in 2018. Revenue from after-sales and accessories business amounted to RMB7,928.1 million, representing an increase of RMB1,350.4 million or 20.5% as compared to the corresponding period in 2018.

Our new automobile sales business accounted for a substantial portion of our revenue, representing 86.2% (corresponding period in 2018: 86.7%) of the total revenue for the six months ended 30 June 2019. The remaining portion of our revenue during the period was generated by after-sales and accessories business which accounted for 13.8% of the total revenue for the six months ended 30 June 2019 (corresponding period in 2018: 13.3%). Almost all of our revenue is derived from business located in the PRC.

In terms of revenue from new automobile sales, Mercedes-Benz is our top selling brand, revenue from the sales of which representing approximately 30.7% of our total revenue from new automobile sales (corresponding period in 2018: 31.6%).

COST OF SALES AND SERVICES

Cost of sales and services for the six months ended 30 June 2019 amounted to RMB52,214.2 million, representing an increase of RMB7,669.5 million or 17.2% as compared to the corresponding period in 2018. Costs for new automobile sales business amounted to RMB48,169.4 million for the six months ended 30 June 2019, representing an increase of RMB7,008.8 million or 17.0% as compared to the corresponding period in 2018. Costs for after-sales and accessories business amounted to RMB4,044.8 million for the six months ended 30 June 2019, representing an increase of RMB660.8 million or 19.5% as compared to the corresponding period in 2018.

GROSS PROFIT

Our gross profit for the six months ended 30 June 2019 amounted to RMB5,198.3 million, representing an increase of RMB437.5 million or 9.2% as compared to the corresponding period in 2018. Gross profit from new automobile sales business amounted to RMB1,315.1 million, representing a decrease of RMB252.1 million or 16.1% as compared to the corresponding period in 2018. Gross profit from after-sales and accessories business amounted to RMB3,883.3 million, representing an increase of RMB689.6 million or 21.6% as compared to the corresponding period in 2018. For the six months ended 30 June 2019, gross profit from after-sales and accessories business accounted for 74.7% of the total gross profit (corresponding period in 2018: 67.1%).

The gross profit margin for the six months ended 30 June 2019 was 9.1% (corresponding period in 2018: 9.7%).

OTHER INCOME AND GAINS, NET

The other income and gains, net, for the six months ended 30 June 2019 amounted to RMB1,356.7 million, representing an increase of RMB244.7 million or 22.0% as compared to the corresponding period in 2018. The other income and gains mainly consisted of service income from automobile insurance and automobile financing services, gains from second-hand automobile trading business, rental income and interest income, etc.

PROFIT FROM OPERATIONS

The profit from operations for the six months ended 30 June 2019 amounted to RMB3,561.3 million, representing an increase of RMB356.0 million or 11.1% as compared to the corresponding period in 2018. The operating profit margin for the six months ended 30 June 2019 was 6.2% (corresponding period in 2018: 6.5%).

PROFIT FOR THE PERIOD

The profit for the six months ended 30 June 2019 amounted to RMB2,102.6 million, representing an increase of RMB235.3 million or 12.6% as compared to the corresponding period in 2018. The profit margin for the six months ended 30 June 2019 was 3.7% (corresponding period in 2018: 3.8%).

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The profit attributable to owners of the parent for the six months ended 30 June 2019 amounted to RMB2,082.3 million, representing an increase of RMB244.3 million or 13.3% as compared to the corresponding period in 2018.

LIQUIDITY AND FINANCIAL RESOURCES

CASH FLOW

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

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

We have adopted a prudent financial management approach towards our treasury policies and thus maintained a healthy liquidity position throughout the period under review.

CASH FLOW GENERATED FROM OPERATING ACTIVITIES

For the six months ended 30 June 2019, our net cash generated from operating activities was RMB4,863.9 million. We generated RMB4,333.0 million net cash from operating profit before working capital movement and tax payment.

CASH FLOW USED IN INVESTING ACTIVITIES

For the six months ended 30 June 2019, our net cash used in investing activities was RMB1,795.2 million.

CASH USED IN FINANCING ACTIVITIES

For the six months ended 30 June 2019, our net cash used in financing activities was RMB3,004.9 million.

NET CURRENT ASSETS

As at 30 June 2019, we had net current assets of RMB3,570.3 million, representing a decrease of RMB290.7 million from our net current assets as at 31 December 2018.

CAPITAL EXPENDITURES AND INVESTMENT

Our capital expenditures comprised expenditures on property, plant and equipment, land use rights and business acquisition. For the six months ended 30 June 2019, our total capital expenditures were RMB923.6 million. Save as disclosed above, the Group did not make any significant investments during the six months ended 30 June 2019.

INVENTORY ANALYSIS

Our inventories primarily consisted of new automobiles, spare parts and automobile accessories. Generally, each of our dealerships individually manages the quotas and orders for new automobiles, after-sales and accessories products. We also coordinate and aggregate orders for automobile accessories and other automobile-related products across our dealership network. We manage our quotas and inventory levels through our information technology systems, including our Enterprise Resource Planning (ERP) system.

Our inventories decreased from RMB10,980.5 million as at 31 December 2018 to RMB9,248.7 million as at 30 June 2019, primarily due to the further optimizing of inventory structure benefited from our continuous improving stock management, and the destocking of some brands as a result of better supply control.

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

	For the six months ended 30 June	
	2019	2018
Average inventory turnover days	**32.0**	30.8

Our inventory turnover days showed a slight increase during the first half of 2019 as compared to the same period in 2018, which was mainly due to the temporary high balance of inventory as at the end of 2018. During the first half of 2019, our inventory mix gradually optimized and the inventory balance decreased significantly as compared to the end of 2018, in the meanwhile network scale further expanded.

ORDER BOOK AND PROSPECT FOR NEW BUSINESS

Due to its business nature, the Group does not maintain an order book as at 30 June 2019. The Group has no new services to be introduced to the market.

BANK LOANS AND OTHER BORROWINGS

As at 30 June 2019, our bank loans and other borrowings amounted to RMB20,758.4 million, and our convertible bonds liability portion amounted to RMB4,139.0 million. The decrease in our bank loans and other borrowings during the period 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% to 5.5%.

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. Certain 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 30 June 2019, the Group had 26,659 employees. The Group strives to offer a good working environment, a diversified range of training programs 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, share options, 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 group assets as securities for bank and other loan and banking facilities which were used to finance daily business operation. As at 30 June 2019, the pledged group assets amounted to approximately RMB8.0 billion (31 December 2018: RMB7.5 billion).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed above, during the six months ended 30 June 2019, 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 capitalizing on the opportunities arising from the market and exploring developing potential. We aim to expand our distribution network through new store establishment and appropriate mergers and acquisitions in the future. We plan to fund our future capital expenditure through cash flows generated from our operating activities and various resources including but not limited to internal funds and borrowings from financial institution, and we currently have sufficient credit facilities granted by banks.

GEARING RATIO

As at 30 June 2019, the gearing ratio of our Group was 57.6%, which was calculated from net debt divided by the sum of net debt and total equity.

CONTINGENT LIABILITIES

As at 30 June 2019, neither the Company nor the Group had any significant contingent liabilities.

CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
REVENUE	4(a)	**57,412,556**	49,305,471
Cost of sales and services provided	5(b)	**(52,214,209)**	(44,544,662)
Gross profit		**5,198,347**	4,760,809
Other income and gains, net	4(b)	**1,356,684**	1,112,000
Selling and distribution costs		**(2,227,166)**	(1,966,417)
Administrative expenses		**(766,527)**	(701,069)
Profit from operations		**3,561,338**	3,205,323
Finance costs	6	**(650,895)**	(593,186)
Share of profits of joint ventures		**367**	3,045
Profit before tax	5	**2,910,810**	2,615,182
Income tax expense	7	**(808,167)**	(747,879)
Profit for the period		**2,102,643**	1,867,303
Attributable to:			
Owners of the parent		**2,082,293**	1,837,958
Non-controlling interests		**20,350**	29,345
		2,102,643	1,867,303
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the period (RMB)	9	**0.917**	0.811
Diluted			
— For profit for the period (RMB)	9	**0.889**	0.791

The notes on pages 22 to 44 form an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Profit for the period	**2,102,643**	1,867,303
Other comprehensive loss		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(34,341)**	(82,466)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(34,341)**	(82,466)
Other comprehensive loss for the period, net of tax	**(34,341)**	(82,466)
Total comprehensive income for the period	**2,068,302**	1,784,837
Attributable to:		
Owners of the parent	**2,047,952**	1,755,492
Non-controlling interests	**20,350**	29,345
	2,068,302	1,784,837

The notes on pages 22 to 44 form an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	**Unaudited 30 June 2019 RMB'000**	Audited 31 December 2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**11,927,622**	11,506,929
Right-of-use assets		**3,215,682**	—
Land use rights		**2,970,743**	2,977,418
Prepayments		**702,927**	1,013,004
Intangible assets		**6,316,540**	6,330,872
Goodwill		**4,634,963**	4,563,686
Investments in joint ventures		**45,837**	45,470
Deferred tax assets		**265,773**	269,297
Total non-current assets		**30,080,087**	26,706,676
CURRENT ASSETS			
Inventories	10	**9,248,730**	10,980,498
Trade receivables	11	**1,697,900**	1,341,740
Prepayments, deposits and other receivables		**10,138,993**	10,110,948
Amounts due from related parties	20(b)(i)	**1,480**	850
Financial assets at fair value through profit or loss		**932,685**	141,190
Pledged bank deposits		**1,152,221**	1,312,577
Cash in transit		**758,584**	431,044
Cash and cash equivalents		**6,208,459**	6,142,664
Total current assets		**30,139,052**	30,461,511
CURRENT LIABILITIES			
Bank loans and other borrowings	12	**16,287,707**	17,072,705
Trade and bills payables	13	**4,658,250**	4,814,761
Other payables and accruals		**3,007,112**	2,996,549
Lease liabilities		**189,578**	—
Other liabilities		**245,000**	245,000
Amounts due to related parties	20(b)(ii)	**992**	1,119
Income tax payable		**1,440,695**	1,470,353
Dividends payable		**739,388**	9
Total current liabilities		**26,568,722**	26,600,496
Net current assets		**3,570,330**	3,861,015
Total assets less current liabilities		**33,650,417**	30,567,691

The notes on pages 22 to 44 form an integral part of these condensed consolidated interim financial statements.

	Notes	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	12	4,470,702	5,575,464
Deferred tax liabilities		1,927,961	1,909,282
Convertible bonds	14	4,139,047	4,046,722
Lease liabilities		2,769,982	—
Total non-current liabilities		13,307,692	11,531,468
Net assets		20,342,725	19,036,223
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	197	197
Reserves		19,564,696	18,239,418
		19,564,893	18,239,615
Non-controlling interests		777,832	796,608
Total equity		20,342,725	19,036,223

The notes on pages 22 to 44 form an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Unaudited												
	Attributable to owners of the parent												
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Equity component of convertible bonds RMB'000	Discretionary reserve fund RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Other reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	197	6,802,125	–	56,779	37,110	1,370,926	(1,386,176)	(1,103,447)	(191,660)	10,327,137	15,912,991	756,172	16,669,163
Profit for the period	–	–	–	–	–	–	–	–	–	1,837,958	1,837,958	29,345	1,867,303
Other comprehensive loss for the period:													
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(82,466)	–	(82,466)	–	(82,466)
Total comprehensive income for the period	–	–	–	–	–	–	–	–	(82,466)	1,837,958	1,755,492	29,345	1,784,837
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(7,549)	–	–	(7,549)	(7,451)	(15,000)
Capital contribution from a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	6,000	6,000
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(73,156)	(73,156)
Conversion of convertible bonds	–	77,898	–	(2,271)	–	–	–	–	–	–	75,627	–	75,627
Transfer of equity component of convertible bonds upon the redemption of convertible bonds	–	–	–	(54,508)	–	–	–	(351,996)	–	–	(406,504)	–	(406,504)
Issue of convertible bonds	–	–	–	186,874	–	–	–	–	–	–	186,874	–	186,874
Equity-settled share-based transactions	–	–	9,699	–	–	–	–	–	–	–	9,699	–	9,699
Final 2017 dividend declared	–	(667,207)	–	–	–	–	–	–	–	–	(667,207)	–	(667,207)
At 30 June 2018	197	6,212,816	9,699	186,874	37,110	1,370,926	(1,386,176)	(1,462,992)	(274,126)	12,165,095	16,859,423	710,910	17,570,333
At 1 January 2019	197	6,212,816	33,367	113,139	37,110	1,911,052	(1,386,176)	(1,551,247)	(554,290)	13,423,647	18,239,615	796,608	19,036,223
Profit for the period	–	–	–	–	–	–	–	–	–	2,082,293	2,082,293	20,350	2,102,643
Other comprehensive loss for the period:													
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(34,341)	–	(34,341)	–	(34,341)
Total comprehensive income for the period	–	–	–	–	–	–	–	–	(34,341)	2,082,293	2,047,952	20,350	2,068,302
Non-controlling interests arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	36,872	36,872
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(75,998)	(75,998)
Equity-settled share-based transactions	–	–	16,024	–	–	–	–	–	–	–	16,024	–	16,024
Final 2018 dividend declared	–	(738,698)	–	–	–	–	–	–	–	–	(738,698)	–	(738,698)
At 30 June 2019	197	5,474,118	49,391	113,139	37,110	1,911,052	(1,386,176)	(1,551,247)	(588,631)	15,505,940	19,564,893	777,832	20,342,725

The notes on pages 22 to 44 form an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Notes	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Operating activities			
Profit before tax		2,910,810	2,615,182
Adjustments for:			
Share of profits of joint ventures		(367)	(3,045)
Depreciation and impairment of property, plant and equipment	5(c)	478,049	399,980
Depreciation of right-of-use assets		123,680	—
Amortisation of land use rights	5(c)	44,907	32,815
Amortisation of intangible assets	5(c)	128,994	122,312
Impairment of trade receivables		4,637	—
Interest income	4(b)	(23,978)	(10,991)
Net loss on disposal of items of property, plant and equipment	4(b)	2,283	3,191
Finance costs	6	650,895	593,186
Fair value gains from financial assets at fair value through profit or loss		(3,862)	—
Expenses on redemption of convertible bonds	5(c)	—	6,206
Dividends income from listed equity investment		(981)	—
Equity settled share option expense	5(a)	16,024	9,699
Write-down of inventories to net realisable value	5(c)	1,918	(606)
		4,333,009	3,767,929
Increase in cash in transit		(327,390)	(273,211)
(Increase)/decrease in trade receivables		(357,706)	107
Decrease/(increase) in prepayments, deposits and other receivables		104,970	(811,111)
Decrease/(increase) in inventories		1,816,278	(1,372,748)
Increase/(decrease) in trade and bills payables		72,464	(68,915)
Increase/(decrease) in other payables and accruals		58,653	(154,070)
Increase in amounts due from related parties — trade related		(630)	(1,193)
(Decrease)/increase in amounts due to related parties — trade related		(127)	162
Cash generated from operations		5,699,521	1,086,950
Tax paid		(835,652)	(863,194)
Net cash generated from operating activities		4,863,869	223,756

The notes on pages 22 to 44 form an integral part of these condensed consolidated interim financial statements.

	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Investing activities		
Purchase of items of property, plant and equipment	**(1,269,909)**	(1,037,281)
Proceeds from disposal of items of property, plant and equipment	**413,855**	225,483
Purchase of land use rights	**(43,162)**	(195,646)
Proceeds from disposal of land use rights	**34,425**	—
Purchase of intangible assets	**(6,364)**	(5,178)
Prepayments for the potential acquisitions of equity interests from third parties	**(116,748)**	(914,500)
Acquisitions of subsidiaries	**38,561**	(497,205)
Increase in prepayments, deposits and other receivables	**(87,990)**	(233,585)
Interest received	**23,976**	10,991
Purchase of financial assets at fair value through profit or loss, net	**(785,800)**	(11,410)
Disposal of subsidiaries	**4,000**	78,200
Net cash used in investing activities	**(1,795,156)**	(2,580,131)
Financing activities		
Proceeds from issue of convertible bonds	**–**	3,778,812
Proceeds from bank loans and other borrowings	**41,938,445**	35,159,489
Repayments of bank loans and other borrowings	**(43,882,331)**	(31,994,261)
Decrease/(increase) in pledged bank deposits	**161,132**	(564,891)
Decrease in notes payable	**(263,100)**	—
Capital contribution from a non-controlling shareholder of a subsidiary	**–**	6,000
Acquisition of non-controlling interests	**–**	(5,000)
Principal portion of lease payments	**(314,321)**	—
Repayment of convertible bonds	**–**	(2,203,966)
Placement of deposits for borrowings	**(24,181)**	—
Interest paid for bank loan and other borrowings	**(538,933)**	(586,526)
Capital element of finance lease rental payments	**(5,617)**	36
Dividends paid to the non-controlling shareholders	**(75,998)**	(73,156)
Net cash (used in)/generated from financing activities	**(3,004,904)**	3,516,537
Net increase in cash and cash equivalents	**63,809**	1,160,162
Cash and cash equivalents at beginning of each period	**6,142,664**	5,027,202
Effect of foreign exchange rate changes, net	**1,986**	7,620
Cash and cash equivalents at end of each period	**6,208,459**	6,194,984

The notes on pages 22 to 44 form an integral part of these condensed consolidated interim financial statements.

1. GENERAL INFORMATION

Zhongsheng Group Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") are principally engaged in the sale and service of motor vehicles in Mainland China.

The Company was incorporated on 23 June 2008 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands. The Company has established a principal place of business which is located at Rooms 1803–09, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

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.

The condensed consolidated interim financial statement for the six months ended 30 June 2019 have been presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated. These condensed consolidated interim financial statements were approved for issue on 9 August 2019. These condensed consolidated interim financial statements have not been audited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("**HKFRS**") effective as of 1 January 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Other than as explained below regarding the impact of HKFRS 16 Leases, the new and revised standards has had no significant financial effect on these financial statements. The nature and impact of HKFRS 16 are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land and buildings. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and presented separately in the condensed consolidated interim financial statements as at 30 June 2019.

The right-of-use assets were measured at the amount of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	3,187,209
Decrease in prepaid land lease payments	(151,355)
Increase in total assets	3,035,854
Liabilities	
Increase in lease liabilities	3,035,854
Increase in total liabilities	3,035,854

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	4,314,004
Weighted average incremental borrowing rate as at 1 January 2019	5.3%
Discounted operating lease commitments as at 1 January 2019	3,061,668
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(25,814)
Lease liabilities as at 1 January 2019	3,035,854

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of HKFRS 16 (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

(a) Adoption of HKFRS 16 (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets		
	Building and land RMB'000	Land use rights RMB'000	Lease Liabilities RMB'000
As at 1 January 2019	3,187,209	2,977,418	3,035,854
Additions	152,153	38,232	92,500
Depreciation charge	(123,680)	(44,907)	—
Interest expense	—	—	85,874
Payments	—	—	(254,668)
As at 30 June 2019	**3,215,682**	**2,970,743**	**2,959,560**

The Group recognised rental expenses from short-term leases of RMB10,880,000 for the period.

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of 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 segment information is presented in accordance with HKFRS 8 *Operating Segments*.

INFORMATION ABOUT MAJOR CUSTOMERS

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the six months ended 30 June 2019, no major customer segment information is presented in accordance with HKFRS 8 *Operating Segments*.

4. REVENUE, OTHER INCOME AND GAINS, NET

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

(a) REVENUE

	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods or service		
Revenue from the sale of motor vehicles	49,484,492	42,727,791
Others	7,928,064	6,577,680
Total revenue from contracts with customers	57,412,556	49,305,471
Timing of revenue recognition		
At a point in time	57,412,556	49,305,471

(b) OTHER INCOME AND GAINS, NET

	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Commission income	1,209,713	1,000,521
Rental income	11,117	14,955
Government grants	26,559	5,146
Interest income	23,978	10,991
Net loss on disposal of items of property, plant and equipment	(2,283)	(3,191)
Fair value gains, net:		
Financial assets at fair value through profit or loss		
— listed equity investments	2,548	—
— other unlisted investments	1,314	—
Dividend income from listed equity investment	981	—
Others	82,757	83,578
	1,356,684	1,112,000

5. PROFIT BEFORE TAX

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

	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
(a) Employee benefit expense (including directors' and chief executive officer's remuneration)		
Wages and salaries	**1,655,478**	1,534,070
Pension scheme contributions	**232,863**	196,522
Other welfare	**104,889**	146,404
Equity-settled share option expense	**16,024**	9,699
	2,009,254	1,886,695
(b) Cost of sales and services provided:		
Cost of sales of motor vehicles	**48,169,401**	41,160,619
Others	**4,044,808**	3,384,043
	52,214,209	44,544,662
(c) Other items		
Depreciation and impairment of property, plant and equipment	**478,049**	399,980
Amortisation of land use rights	**44,907**	32,815
Amortisation of intangible assets	**128,994**	122,312
Promotion and advertisement	**334,041**	260,875
Office expenses	**148,740**	120,891
Depreciation of right-of-use assets	**123,680**	—
Lease expenses	**10,880**	174,287
Logistics expenses	**58,793**	49,822
Impairment of trade receivables	**4,637**	—
Write-down of inventories to net realizable value	**1,918**	(606)
Net loss on disposal of items of property, plant and equipment	**2,283**	3,191
Expenses on redemption of convertible bonds	**—**	6,206
Fair value gains, net		
Financial assets at fair value through profit or loss		
— listed equity investments	**(2,548)**	—
— financial products	**(1,314)**	—

6. FINANCE COSTS

	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Interest expense on bank borrowings	**484,750**	534,170
Interest expense on convertible bonds	**76,196**	55,169
Interest expense on other borrowings	**51,135**	46,830
Interest expense on finance leases	**2,078**	256
Interest expense on lease liabilities	**85,874**	—
Less: Interest capitalised	**(49,138)**	(43,239)
	650,895	593,186

7. INCOME TAX EXPENSE

	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Current Mainland China corporate income tax	**808,182**	733,161
Deferred tax	**(15)**	14,718
	808,167	747,879

8. DIVIDENDS

The Directors of the Company proposed not to declare any interim dividend for the six months ended 30 June 2019.

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

The calculation of basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary share of 2,271,697,955 (six months ended 30 June 2018: 2,267,470,019) in issue during the period.

The calculation of 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:

	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Earnings		
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	2,082,293	1,837,958
Interest on convertible bonds	76,196	55,169
Profit attributable to equity holders of the parent before interest on convertible bonds	2,158,489	1,893,127
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,271,697,955	2,267,470,019
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	156,597,763	124,966,622
Weighted average number of ordinary shares used in diluted earnings per share calculation	2,428,295,718	2,392,436,641
Earnings per share (RMB)		
Basic	0.917	0.811
Diluted	0.889	0.791

10. INVENTORIES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Motor vehicles	8,462,887	10,223,680
Spare parts and others	794,991	764,048
	9,257,878	10,987,728
Less: provision for inventories	9,148	7,230
	9,248,730	10,980,498

11. TRADE RECEIVABLES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade receivables	1,697,900	1,341,740

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize 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 each end of reporting period (based on the invoice date) is as follows:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Within 3 months	1,647,372	1,290,645
More than 3 months but less than 1 year	39,058	38,490
Over 1 year	11,470	12,605
	1,697,900	1,341,740

12. BANK LOANS AND OTHER BORROWINGS

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Bank loans and overdrafts repayable:		
— within one year or on demand	11,721,862	12,577,259
— in the second year	898,680	1,493,945
— in the third to fifth years	317,450	527,060
	12,937,992	14,598,264
Other borrowings repayable:		
— within one year	4,195,228	4,369,695
Syndicated term loan:		
— within one year	367,058	120,000
— in the second year	1,348,234	1,273,382
— in the third year	1,905,877	2,280,437
	3,621,169	3,673,819
Finance lease payables:		
— within one year	3,559	5,751
— in the second year	461	640
	4,020	6,391
Total bank loans and other borrowings	20,758,409	22,648,169
Less: Portion classified as current liabilities	16,287,707	17,072,705
Long-term portion	4,470,702	5,575,464

13. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Trade payables	1,714,564	1,607,975
Bills payable	2,943,686	3,206,786
Trade and bills payables	4,658,250	4,814,761

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

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Within 3 months	4,121,686	4,100,991
3 to 6 months	505,110	694,485
6 to 12 months	17,736	12,350
Over 12 months	13,718	6,935
	4,658,250	4,814,761

14. CONVERTIBLE BONDS

On 23 May 2018, the Company issued zero coupon convertible bonds with a nominal value of HK$4,700,000,000 (the "New convertible bonds"). There was no movement in the number of these convertible bonds during the period. The bonds are convertible at the option of the bondholders into ordinary shares at any time on or after 3 July 2018 until and including 12 May 2023 at a conversion price of HK$30.0132 per share. Any convertible bonds not converted will be redeemed on 23 May 2023 at 114.63% of their principal amount. There was no conversion of the new convertible bonds during the period.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during 2018 have been split into the liability and equity components as follows:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Nominal value of New convertible bonds	**3,818,374**	3,818,374
Equity component	**(114,324)**	(114,324)
Direct transaction costs attributable to the liability component	**(38,377)**	(38,377)
Liability component at the issuance date	**3,665,673**	3,665,673
Interest expense	**167,322**	91,126
Exchange realignment	**306,052**	289,923
Liability component at the end of the period	**4,139,047**	4,046,722
Less: portion classified as current liabilities	**—**	—
Long-term portion	**4,139,047**	4,046,722

15. SHARE CAPITAL

	Unaudited 30 June 2019	Audited 31 December 2018
Authorised:		
1,000,000,000,000 shares of HK$0.0001 each (HK$'000)	**100,000**	100,000
Issued and fully paid:		
2,271,697,955 (2018: 2,271,697,955) ordinary shares (HK$'000)	**227**	227
Equivalent to RMB'000	**197**	197

16. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the employee, management member or director of the Company, or any of the Company's subsidiaries and third party service providers. The Scheme was conditionally approved by a resolution of the shareholders on 9 February 2010 and adopted by a resolution of the Board on the same day. Unless otherwise terminated, the Scheme will remain in force for 10 years from the date on which it becomes unconditional.

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

Share options granted to a connected person are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, if the shares issued and to be issued upon exercise of all options granted and proposed to be granted to him is in excess of 0.1% of the shares of the Company then in issue or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within the twelve month period up to and including the proposed date of such grant, are subject to shareholders' approval in advance in a general meeting.

The last day for accepting an option and the Company to receive the nominal consideration of HK$1 for the option shall be determined by the Board and shall be set out on the offer letter for granting such option. The period during which a granted option may be exercised in accordance with the terms of the Scheme shall be the period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the offer date.

The amount payable for each share to be subscribed for under an option upon exercise shall be determined by the Board and notified to a proposed beneficiary at the time of offer of the option and shall be not less than the higher of: (a) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares.

The share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the period:

	Unaudited			
	30 June 2019		30 June 2018	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**22.60**	**11,000**	—	—
Granted during the period	**—**	**—**	22.60	11,000
At 30 June	**22.60**	**11,000**	22.60	11,000

16. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

	30 June 2019	
Number of options '000	Exercise price HK$ per share	Exercise period
11,000	22.60	26 April 2019 to 25 April 2028 (both dates inclusive)

The fair value of the share options granted during the six months ended 30 June 2018 was HK$58,135,000 (HK$5.29 each). For the six months ended 30 June 2019, the Group has recognised HK$18,476,000 of equity-settled share option expense in the statement of profit or loss (six months ended 30 June 2018: HK$11,760,000).

The fair value of these share options granted determined using the Binominal Option Pricing Model. The significant inputs into the model were the exercise price of HK$22.60 at the grant date, volatility of 33.94%, dividend yield of 3.00% and an annual risk-free interest rate of 2.22%.

The validity period of the options is 10 years. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 11,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company results in the issue of 11,000,000 additional ordinary shares of the Company and additional share capital of HK$1,100 (before issue expenses).

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

17. BUSINESS COMBINATION

(a) As part of the Group's plan to expand its motor vehicle sales and service business in Jiangsu province, the Group acquired 100% of the equity interests in Nantong Baotielong Automobile Sales and Services Co., Ltd. (南通寶鐵龍汽車銷售服務有限公司), which is engaged in the motor vehicle sales and service business in Mainland China, from certain third parties on 1 January 2019 at a total consideration of RMB27,590,000. The purchase consideration for the acquisition was in the form of cash, with RMB23,800,000 paid by the end of June 2019.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Recognised fair values on acquisition date RMB'000
Property, plant and equipment*	13,047
Intangible assets*	20,377
Deferred tax assets	2,926
Right-of-use assets	21,017
Inventories	8,365
Trade receivables	70
Prepayments, deposits and other receivables	4,735
Pledged bank deposits	12
Cash in transit	118
Cash and cash equivalents	3,442
Trade and bills payables	(4,259)
Other payables and accruals	(26,319)
Deferred tax liabilities*	(5,687)
Lease liabilities	(21,017)
Total identifiable net assets	16,827
Goodwill on acquisition*	10,763
Total purchase consideration	27,590

An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:

Cash consideration paid	(23,800)
Cash acquired	3,442
Net cash outflow	(20,358)

Since the acquisition, the acquired business contributed RMB30,163,000 to the Group's revenue and RMB1,409,000 of loss to the consolidated profit for the six months ended 30 June 2019.

17. BUSINESS COMBINATION (continued)

(b) As part of the Group's plan to expand its motor vehicle sales and service business in Zhejiang provinces, the Group acquired 80% of the equity interests of the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from certain third parties on 1 January 2019 at a total consideration of RMB208,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB208,000,000 paid by the end of June 2019.

Company Name	Acquired equity interest %
浙江九華汽車有限公司 (Zhejiang Jiuhua Automobile Co., Ltd.)	80%
杭州九華汽車有限公司 (Hangzhou Jiuhua Automobile Co., Ltd.)	80%
寧波九華汽車有限公司 (Ningbo Jiuhua Automobile Co., Ltd.)	80%
嘉興九華汽車有限公司 (Jiaxing Jiuhua Automobile Co., Ltd.)	80%
金華九華汽車有限公司 (Jinhua Jiuhua Automobile Co., Ltd.)	80%
湖州九和汽車有限公司 (Huzhou Jiuhe Automobile Co., Ltd.)	80%
紹興九華汽車有限公司 (Shaoxing Jiuhua Automobile Co., Ltd.)	80%

17. BUSINESS COMBINATION (continued)

(b) (continued)

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Recognised fair values on acquisition date RMB'000
Property, plant and equipment*	14,073
Intangible assets*	87,900
Deferred tax assets	936
Right-of-use assets	60,294
Inventories	78,063
Trade receivables	3,021
Prepayments, deposits and other receivables	80,984
Pledged bank deposits	760
Cash in transit	32
Cash and cash equivalents	68,937
Trade and bills payables	(29,866)
Other payables and accruals	(58,781)
Bank loans and other borrowings	(43,496)
Income tax payable	(1,673)
Deferred tax liabilities*	(16,532)
Lease liabilities	(60,294)
Total identifiable net assets at fair value	184,358
Non-controlling interests arising from the business combination	36,872
Goodwill on acquisition*	60,514
Total purchase consideration	208,000

An analysis of the cash flows in respect of the acquisition of these subsidiaries is as follows:

Cash consideration paid	(208,000)
Cash and cash equivalents acquired	68,937
Net cash outflow	(139,063)

Since the acquisition, the acquired business contributed RMB373,970,000 to the Group's revenue and RMB1,776,000 of loss to the consolidated profit for the six months ended 30 June 2019.

* The Group engaged an independent appraiser to assist with the identification and determination of fair values to be assigned to the assets and liabilities of these acquired companies as disclosed in note 17(a), (b). However, the valuation was not finalized and hence the initial accounting for the business combination of these companies was incomplete by the date of this announcement. Therefore, these amounts recognized in the Group's interim financial statements for the six months ended 30 June 2019 in relation to the acquisition of these companies were on a provisional basis.

18. CONTINGENT LIABILITIES

As at 30 June 2019, neither the Group nor the Company had any significant contingent liabilities.

19. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Contracted, but not provided for land use rights and buildings	287,119	239,960
Contracted, but not provided for potential acquisitions	135,541	153,246
	422,660	393,206

20. RELATED PARTY TRANSACTIONS AND BALANCES

(a) TRANSACTIONS WITH RELATED PARTIES

The following transactions were carried out with related parties during the six months ended 30 June 2019:

	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
(i) Sales of goods to a joint venture:		
— Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd. ("**Xiamen Zhongsheng**")	4,393	5,968
(ii) Purchase of goods or services from joint ventures:		
— Xiamen Zhongsheng	832	13,846
— TAC Automobile Accessories Trading (Shanghai) Co., Ltd. ("**TAC**")	2,705	1,897
	3,537	15,743

20. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) BALANCES WITH RELATED PARTIES

The Group had the following significant balances with its related parties as at 30 June 2019:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
(i) Due from related parties:		
Trade related		
Joint ventures		
— Xiamen Zhongsheng	1,480	850
(ii) Due to related parties:		
Trade related		
Joint ventures		
— TAC	992	1,119
	992	1,119

Balances with related parties were unsecured and non-interest-bearing and had no fixed repayment terms.

(c) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP:

	Unaudited For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Short term employee benefits	15,186	8,182
Post-employee benefits	237	237
Equity-settled share option	16,024	9,699
Total compensation paid to key management personnel	31,447	18,118

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)	**30 June 2019 RMB'000 (Unaudited)**	31 December 2018 RMB'000 (Audited)
Financial assets				
Financial assets at fair value through profit or loss	**932,685**	141,190	**932,685**	141,190
	932,685	141,190	**932,685**	141,190

The fair values of listed equity investments are based on quoted market prices.

The Group invests in unlisted investments, which represent the financial products issued by financial institutions in Mainland China. The fair values of the financial assets at fair value through profit or loss have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market prices or rates. The valuation requires the Directors to make estimates about the expected future cash flows from future proceeds when the investments mature. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the period.

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019

	Fair value measurement using Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Financial assets at fair value through profit or loss	**141,885**	**790,800**	**932,685**
	141,885	**790,800**	**932,685**

As at 31 December 2018

	Fair value measurement using Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Total RMB'000 (Audited)
Financial assets at fair value through profit or loss	141,190	—	141,190
	141,190	—	141,190

LIABILITIES MEASURED AT FAIR VALUE:

The Group did not have any financial liabilities measured at fair value as at 30 June 2019 and 31 December 2018, respectively.

During the six months ended 30 June 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

22. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 30 June 2019.

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

As at 30 June 2019, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")), which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**"), were as follows:

LONG POSITIONS IN THE COMPANY'S SHARES

Name of Director	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Mr. Huang Yi	Interest of controlled corporation	338,720,504 (Long position)	14.91
	Founder of a discretionary trust	486,657,686 (Long position)	21.42
	Agreement to acquire interests	486,657,686 (Long position)	21.42
Mr. Li Guoqiang	Interest of controlled corporation	186,042,000 (Long position)	8.19
	Founder of a discretionary trust	486,657,686 (Long position)	21.42
	Agreement to acquire interests	639,336,190 (Long position)	28.14
Mr. Du Qingshan	Beneficial owner	5,500,000 (Long position) (Note 1)	0.24
Mr. Zhang Zhicheng	Beneficial owner	5,500,000 (Long position) (Note 1)	0.24

Note:

1. These interests represent options granted to the Director as beneficial owner under the Share Option Scheme.

Save as disclosed above, as at 30 June 2019, none of the Directors, chief executives or senior management of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

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

As at 30 June 2019, the following are the persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

LONG POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of Shareholder	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Blue Natural Development Ltd. (Note 1)	Beneficial owner and agreement to acquire interests	1,312,035,876 (Long position)	57.76
Light Yield Ltd. (Note 2)	Beneficial owner, interest of controlled corporation and agreement to acquire interests	1,312,035,876 (Long position)	57.76
Vest Sun Ltd. (Note 3)	Interest of controlled corporation and agreement to acquire interests	1,312,035,876 (Long position)	57.76
Mountain Bright Limited (Note 4)	Beneficial owner and agreement to acquire interests	1,308,019,876 (Long position)	57.58
UBS TC (Jersey) Ltd.	Trustee, interest of controlled corporation and agreement to acquire interests	1,308,019,876 (Long position)	57.58
Vintage Star Limited (Note 5)	Beneficial owner and agreement to acquire interests	1,308,019,876 (Long position)	57.58
Jardine Matheson Holdings Limited	Interest of controlled corporation	453,412,844 (Long position)	19.96
Jardine Strategic Holdings Limited	Interest of controlled corporation	453,412,844 (Long position)	19.96
JSH Investment Holdings Limited	Beneficial owner	453,412,844 (Long position)	19.96

Notes:

1. Blue Natural Development Ltd. is owned by Light Yield Ltd. (62.3%) and Vest Sun Ltd. (37.7%). Mr. Huang Yi and Mr. Li Guoqiang are directors of Blue Natural Development Ltd.

2. Light Yield Ltd. is wholly owned by Mr. Huang Yi, who is also the sole director of Light Yield Ltd.

3. Vest Sun Ltd. is wholly owned by Mr. Li Guoqiang, who is also the sole director of Vest Sun Ltd.

4. Mountain Bright Limited is wholly owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Huang Yi (the settler of the trust) and his family.

5. Vintage Star Limited is wholly owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Li Guoqiang (the settler of the trust) and his family.

Save as disclosed above, as at 30 June 2019, the Directors and chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

For the six months ended 30 June 2019, the Company did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

CONVERTIBLE BONDS

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

The Convertible Bonds are convertible into fully-paid ordinary shares of HK$0.0001 each in the share capital in the Company at an initial conversion price of HK$30.0132 per conversion 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 closing price per share of the Company was HK$23.5398 as quoted on the Hong Kong Stock Exchange on 4 May 2018 (being the date on which the terms of the subscription of the Convertible Bonds were fixed). The net price of each conversion share was approximately HK$29.63. The issue of Convertible Bonds in the aggregate amount of HK$4,700 million was completed on 23 May 2018. To the best of the Directors' knowledge, the Convertible Bonds were offered and sold by the Manager to no less than six independent placees (who are independent individuals, corporate and/or institutional investors).

As at the date of this interim report, there was no conversion of the Convertible Bonds and the outstanding principal amount of all the Convertible Bonds was HK$4,700 million. Upon full conversion of the outstanding Convertible Bonds at the initial conversion price, the Company would issue 156,597,763 shares, with an aggregate nominal value of HK$15,659.78, increasing the total issued shares of the Company to 2,428,295,718 shares, which represent approximately 6.89% of the then existing share capital of the Company (calculated as at 30 June 2019), and approximately 6.45% of the issued share capital of the Company as enlarged by the issue of the shares upon full conversion of all the outstanding Convertible Bonds. Upon full exercise of the conversion rights attaching to the outstanding Convertible Bonds, the shareholdings of Mr. Huang Yi, Mr. Li Guoqiang and UBS TC (Jersey) Ltd., the substantial shareholders of the Company, will be diluted from 57.76%, 57.76% and 57.76% respectively to 54.03%, 54.03% and 54.03% respectively of the issued share capital of the Company as enlarged by the issue of the Shares upon the conversion of all the outstanding Convertible Bonds. Based on the profit for the period attributable to ordinary equity holders of the parent amounted to approximately RMB2,082.3 million, the basic and diluted earnings per share attributable to the owners of the Company were RMB0.917 and RMB0.889 respectively.

During the reporting period, the Group has a net profit of approximately RMB2,102.6 million. As at 30 June 2019, the Group had a consolidated reserve of RMB19,564.7 million and net current assets of RMB3,570.3 million. The Company will redeem each New Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. Based on the financial position of the Group, to the best knowledge of the Company, the Company expects that it will be able to meet its redemption obligations under the outstanding Convertible Bonds issued by the Company. As the Convertible Bonds bear no interest on the principal amount, it would be equally financially advantageous for the bondholders to convert or redeem the Convertible Bonds (and therefore the bondholders would be indifferent as to whether the Convertible Bonds are converted or redeemed) in the event that the price of each share of the Company traded on the Hong Kong Stock Exchange equals the then adjusted conversion price of the Convertible Bonds. Conversion price of all the Convertible Bonds will be subject to adjustment for consolidation or subdivision, capitalisation of profits or reserves, capital distribution, right issues, debt equity swap and other dilutive events, as the case may be, which may have impacts on the rights of the holders of the Convertible Bonds.

The Directors considered that the issue of the Convertible Bonds represented an opportunity to raise capital for the Company while broadening the shareholder base and capital base of the Company and to obtain immediate funding for further business expansion.

The total net proceeds (after deduction of commission and expenses) from the issue of the Convertible Bonds amounted to approximately HK$4,640 million, of which, approximately HK$3,880 million was derived from the issue of the 2023 Convertible Bonds and approximately HK$760 million was derived from the issue of the Option Bonds.

Details of the Convertible Bonds are set out in note 14 to the financial statements.

The net proceeds from the issue of the Convertible Bonds had been applied in accordance with the intended use as disclosed in the announcements of the Company dated 6 May 2018 and 15 May 2018.

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 on 9 February 2010 and adopted by a resolution of the Board on the same day. Unless it is terminated by the Board or the shareholders of the Company in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of ten years from the date which it becomes unconditional. After the period, no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to exercise any subsisting options granted prior to the expiry of this ten-year period or otherwise as handled in accordance with the provisions of the Share Option Scheme. The amount payable by a participant upon a grant of option is HK$1.0. The last day for accepting and paying for the consideration of the option shall be determined by the Board and shall be set out on the offer letter granting such option. The period during which a granted option may be exercised in accordance with the terms of the Share Option Scheme shall be the period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the offer date.

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

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10.0% of the share in issue as at the date of approval of the Share Options Scheme. No option may be granted to any person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to that person in any 12 month period up to the date of the latest grant exceeds 1.0% of our issued share capital from time to time, unless the approval of the shareholders of the Company is obtained.

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

Details of the options to subscribe ordinary shares of the Company, pursuant to the Share Option Scheme and the movement during the reporting period are set out below:

			Number of Share Options				
Name of Grantees	Date granted	Exercise price per share	Outstanding as at 31 December 2018	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period	Outstanding as at 30 June 2019
Mr. Du Qingshan – Executive Director of the Board	26 April 2018	HK$22.60	5,500,000 (Note 1)	–	–	–	5,500,000
Mr. Zhang Zhicheng – Executive Director of the Board	26 April 2018	HK$22.60	5,500,000 (Note 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 ordinary shares of HK$0.0001 each in the capital of the Company. 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 in the Company immediately before 26 April 2018 is HK$22.35 per share.

Further details of the Share Options are set out in note 16 to the financial statements. The Binomial Option Pricing Model is one of the commonly used models to estimate the fair value of an option which can be exercised before the expiry of the option period. The value of an option varies with different variables of certain subjective assumptions.

Any change in variables so adopted may materially affect the estimation of the fair value of an option.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

Save as disclosed above, during the reporting period and up to the date of this interim report, no other options have been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 30 June 2019, the total number of shares available for issue under the Share Option Scheme remained to be 11,000,000, representing approximately 0.48% of the issued share capital of the Company. As at the date of this interim report, the remaining life of the Share Option Scheme is approximately five months.

DIVISION OF RESPONSIBILITY BETWEEN THE BOARD AND THE MANAGEMENT

RESPONSIBILITIES OF THE BOARD

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Directors make decisions objectively in the interests of the Company.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

DELEGATION OF MANAGEMENT FUNCTION

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to entering into any significant transactions by the abovementioned officers.

CHANGES IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the Directors' information subsequent to the date of 2018 annual report of the Company are as follows:

1. Mr. Pang Yiu Kai, being a non-executive Director, has ceased as the chairman of the general committee and execution committee of the Employers' Federation of Hong Kong in May 2019 and has been elected as a member of the general committee and council of the Employers' Federation of Hong Kong since May 2019 and the chairman of the Hong Kong Tourism Board and a member of the council of the Hong Kong Trade Development Council on 1 April 2019.

2. Mr. Chin Siu Wa Alfred, being an independent non-executive Director, has resigned as group vice president of Shangri-La Asia Limited (a company listed on the Hong Kong Stock Exchange with stock code 69) and the non-executive director of Kerry Logistics Network Limited (a company listed on the Hong Kong Stock Exchange with stock code 636) on 31 December 2018 and 31 May 2019 respectively.

Save as disclosed above, no other information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 Listing Rules. Throughout the six months ended 30 June 2019 and up to the date of this interim report, 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 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 six months ended 30 June 2019 and up to the date of this interim report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the amount of public float as approved by the Hong Kong Stock Exchange and as permitted under the Listing Rules as at the date of this interim report.

EQUITY-LINKED AGREEMENT

The Company did not enter into any equity-linked agreement during the reporting period. Save for Convertible Bonds and the Share Option Scheme, no equity-linked agreements existed during the reporting period.

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

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 six months ended 30 June 2019 and up to the date of this interim report.

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. Lin Yong.

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control and risk management systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

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 unaudited condensed consolidated interim financial results of the Company for the six months ended 30 June 2019. The Audit Committee considers that the interim financial results for the six months ended 30 June 2019 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

During the six months ended 30 June 2019, the Audit Committee held one meeting to review the annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of internal control and risk management systems and internal audit function, appointment of external auditors and relevant scope of works and arrangements for employees to raise concerns about possible improprieties. The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, considered that the risk management and internal control systems are effective and adequate.

INTERIM DIVIDEND

The Board proposed not to declare any interim dividend for the six months ended 30 June 2019.

CORPORATE SOCIAL RESPONSIBILITY

ENVIRONMENTAL POLICY

It is the policy of the Group to reduce waste, promote an environmentally friendly culture through establishing a green supply chain and launching green offices, promote environmental projects for public welfare, implement sustainable development, and put into practice the concept of environmental protection for corporate citizens.

During the six months ended 30 June 2019, the Group has adopted a number of measures to reduce emissions in daily operations, and has implemented energy efficiency initiatives.

COMMUNITY CONTRIBUTION

The Group is committed to serving the community and creating a positive impact. Across its national dealership network, the Group offers employment opportunities for local residents and persons with disability, makes donations to support students in the mountainous regions, and offer assistance to underprivileged families, contributing to the development of local communities.

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

Hong Kong
9 August 2019