



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

Interim Report **2020**

Zhongsheng Group
Lifetime Partner

中升集團 終生夥伴



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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Huang Yi (*Chairman*)
Mr. Li Guoqiang (*President and CEO*)
Mr. Du Qingshan
Mr. Zhang Zhicheng
Mr. Li Guohui
Mr. Tang Xianfeng

NON-EXECUTIVE DIRECTORS

Mr. David Alexander Newbigging
Mr. Hsu David

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shen Jinjun
Mr. Ying Wei
Mr. Chin Siu Wa Alfred
Mr. Li Yanwei

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

Second Floor
Century Yard
Cricket Square
P.O. Box 902
Grand Cayman
KY1-1103
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
Second Floor
Century Yard
Cricket Square
P.O. Box 902
Grand Cayman
KY1-1103
Cayman Islands

LEGAL ADVISERS AS TO HONG KONG LAW

Allen & Overy
9th Floor, Three Exchange Square
Central
Hong Kong

JOINT COMPANY SECRETARIES

Ms. Mak Sze Man
Ms. Yao Zhenchao

AUTHORISED REPRESENTATIVES

Mr. Huang Yi
Ms. Yao Zhenchao

AUDIT COMMITTEE

Mr. Ying Wei (*Chairman*)
Mr. Shen Jinjun
Mr. Chin Siu Wa Alfred

REMUNERATION COMMITTEE

Mr. Chin Siu Wa Alfred (*Chairman*)
Mr. Li Guoqiang
Mr. Shen Jinjun

NOMINATION COMMITTEE

Mr. Shen Jinjun (*Chairman*)
Mr. Huang Yi
Mr. Chin Siu Wa Alfred

COMPLIANCE COMMITTEE

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

RISK COMMITTEE

Mr. Li Guohui (*Chairman*)
Mr. Huang Yi

BRANCH SHARE REGISTRAR IN HONG KONG

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
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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 (the “**Company**”), I am very pleased to present the interim results report of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020.



During the six months ended 30 June 2020, the outbreak of the COVID-19 exerted tremendous impact on the economic operation of China and across the globe. Currently, the overseas pandemic situation as well as the world economic situation are relatively severe and complicated. Overall speaking, China's pandemic prevention and control measures have been proven to be effective, and the pandemic situation has seen improving. The fundamentals of long-term economic prosperity and its internal upward trend still remain unchanged. According to data from the National Bureau of Statistics of China, the gross domestic product (GDP) reached

RMB45,661.4 billion for the six months ended 30 June 2020, representing a decrease of 1.6% as compared to the corresponding period in 2019. For the quarterly perspective, it went down by 6.8% in the first quarter, as compared to the corresponding period of last year and increased by 3.2% in the second quarter. For the six months ended 30 June 2020, the added value of tertiary industry decreased by 1.6% over the corresponding period in 2019 and the decline had narrowed. Of which, in the second quarter, it went up by 1.9% as compared to the corresponding period in 2019. For the six months ended 30 June 2020, the number of new employees in urban areas nationwide was 5.64 million, achieving 62.7% of the annual target. The unemployment rate in urban areas nationwide had declined in June on monthly basis and the employment situation was generally stable.

During the six months ended 30 June 2020, as the COVID-19 gradually came under control and its impact began to ease in China, the automobile market began to enter into a growth recovery stage. According to the statistics published by the China Association of Automobile Manufacturers, during the six months ended 30 June 2020, the nationwide automobile production and sales volumes were approximately 10.10 million units and 10.28 million units, respectively, which decreased by approximately 16.8% and 16.9%, respectively, as compared to the corresponding period in 2019. However, the decrease was narrowed down to approximately 7.3% and 5.7%, respectively, when compared with January to May.

Despite the tremendous impact of the COVID-19 outbreak, each business segment maintained steady growth with our prospective strategic deployment, good brand portfolio and operation capability, particularly our quick response to the COVID-19 as well as our efficient execution. For the six months ended 30 June 2020, the Group achieved new automobile sales volume of 197,188 units, representing a decrease of 7.8% as compared to the corresponding period the last year, of which sales volume for luxury brands reached 111,653 units, accounting for 56.6% of the Group's total sales volume and representing a significant increase of 5.7% as compared to the corresponding period of last year, with the Group's product structure further optimised. For the six months ended 30 June 2020, the after-sales and accessories business recovered and grew quickly after the pandemic through diversified and innovative services and further refined management and operating measures, and the number of visits of after-sales services achieved a double-digit growth as compared to the corresponding period of last year. For the six months ended 30 June 2020, its revenue reached RMB8,415.4 million, representing an increase of 6.1% as compared to the corresponding period of last year, which accounted for 14.5% of our total revenue. As one of the Group's core growth power in the future, the value-added service business segment, which includes car insurance, car financing and second-hand automobiles, has still maintained steady growth despite heavy pressure during the six months ended 30 June 2020, and achieved a revenue of RMB1,306.5 million for the six months ended 30 June 2020, representing an increase of 8.0% as compared to the corresponding period in 2019. Taking into comprehensive consideration of all businesses, the profit attributable to owners of the parent for the six months ended 30 June 2020 amounted to RMB2,291.7 million, representing an increase of RMB209.4 million or 10.1% as compared to the corresponding period in 2019.

With gradual market recovery after the COVID-19, automobile manufacturers took the initiative to control expenditures, reduce costs, improve operational efficiency and develop new marketing approaches. With continuing branding differentiation, the Matthew effect in leading enterprises continued to be prominent, which led to stronger brand capabilities in leading enterprises, and strong supply chain management and comprehensive dealer network, where rapid recovery and growth were achieved. To seize the market opportunities after the COVID-19, the Group actively participates in market integration and continues to optimise its existing brand portfolio. At the same time, the Group strengthens its existing regional advantages, striving to maintain its leading position among the prominent brands. For the six months ended 30 June 2020, we continued to focus on major brands to further increase our market share. As at 30 June 2020, the total number of our dealerships increased to 365, of which 210 were luxury brand dealerships and 155 mid-to-high-end brand dealerships. The key regions are high-tier cities, especially the eastern and southern China regions. The consumption sustainability and future growth potential of the high-tier cities and their surrounding cities will be an important engine for our sustainable development.

The Group's development continued to receive wide recognition both domestically and abroad. We successfully issued five-year zero-coupon convertible bonds of an aggregate principal amount of HK\$4,560 million in May 2020. Through the operation of the capital market, the Company's capital structure has been further optimised, which also fully demonstrated the Directors' and the market's confidence in the Company's share price. In May, the Group was ranked second place in 2020's Top 100 Automobile Dealers in China. At the same time, it once again topped the list in respect of its comprehensive abilities for five consecutive years. In June, for the first time, the Group received investment grade ratings (Moody's Baa3 and Fitch bbb-) awarded by international credit rating agencies, Moody's and Fitch, and became the only automobile dealer in China that has received such investment grade ratings from international rating agencies. In July, the Group was once again selected as one of the "Fortune China 500 Companies", an internationally renowned ranking, and ranked 82nd. These honours and market recognitions are a major driving force for the Group to continue to strive and move forward.

For the six months ended 30 June 2020, in response to the impact of the pandemic on domestic economy, the government has taken various measures to facilitate the economy to resume normal state and stabilise domestic automobile consumption. From state level to local level, a number of supporting measures have been introduced for automobile consumption, which involve seven aspects: capital subsidies, financial support, tax concession, infrastructure construction, car upgrades, car purchase quota relaxing and second-hand car market. The Ministry of Industry and Information Technology of China issued an opinion on 24 February 2020 to encourage regions with car purchase restrictions to increase automobile plate quotas appropriately to drive the consumption of cars and related products. Thereafter, certain provinces and cities mentioned the relaxing of purchase restrictions and the introduction of new car purchase quota when releasing the relevant policies. Encouraging replacement of old car models with new ones is one of the methods to stimulate consumption under the pandemic. Many cities have also introduced the latest motor vehicle retirement standards and automobile replacement subsidy policies. For example, on 31 March 2020, Premier Li Keqiang, in chairing an executive meeting of the State Council, mentioned that the central government would adopt the "rewards replacing subsidies" (以獎代補) method to support Beijing-Tianjin-Hebei and other key regions in phasing out diesel trucks with emission standards below National III standards. Moreover, a total of 40 provinces or cities have promulgated funding subsidy policies, with Southern China enjoying the highest subsidies. In the second half of 2020, it is expected that the government will continue to introduce stimulating and supporting policies for the automobile market, and continuous recovery of the automobile market will become a major trend.

Looking into the future, the Group will proactively face the challenges and opportunities brought by the transformation and upgrading of automobiles market in China. The Group will continue to adhere to its people-oriented and customer-first principles, and actively participate in the supply-side structural reform of the national automobile industry with a view to enhancing in-depth cooperation with industry chain participants. The Group will adhere to its corporate motto and take “Zhongsheng Group — Lifetime Partner” as its object, continue to optimise service quality, improve operational management efficiency and per capita efficiency, and further promote precision management, improve distribution network, and enable the enterprise to maintain its sustainable and stable development.

For the Group to achieve its development and progress today, we would like to thank the staff from all departments for their loyalty, dedication and contributions as well as our business partners and shareholders for their trust, support and encouragement. On behalf of the Board, I would like to express our sincere gratitude to all of you for your valuable contributions to the Group's outstanding development.

Huang Yi

Chairman

Hong Kong, 10 August 2020



CEO'S STATEMENT



Li Guoqiang *President and Chief Executive Officer*

MARKET REVIEW

The year of 2020 marks a very extraordinary year. In the first half year, the COVID-19 pandemic ravaged the world and resulted a dramatic slowdown in economic growth both domestically and abroad. With the continuous improvement of the COVID-19 pandemic prevention and control domestically, China has gained progressive achievements in the overall planning of pandemic prevention and control as well as resumption of work and production. Marginal improvements were seen in various economic indicators, which implied that the economic situation was gradually shaping up towards a better direction. After experiencing over two decades of continuous high-speed growth, China's automobile industry has begun an adjustment period since the second half of 2018, and the incremental market has gradually transformed into an inventory market. In early 2020, under a tremendously unfavourable situation, the automobile industry was further suffered from the sudden COVID-19 outbreak. As the COVID-19 pandemic began to ease in China, automobile sales have experienced a significant V-shaped rebound and become stable since March 2020, and sales in May returned to a positive growth as compared to the corresponding period in 2019.

During the six months ended 30 June 2020, the luxury brands spearheaded the market and seized more market share. According to the statistics of the China Passenger Car Association (CPCA), luxury brands retail performance in June increased by 27% over the corresponding period of last year, representing a period-to-period growth of 9%, and the market share reached a record high of 14.9%. Among passenger car brands, three German brands had recovered strongly with Mercedes-Benz (including Smart) selling 346,067 units in China for the six months ended 30 June 2020, achieving a slight increase of 0.4% as compared to the corresponding period of last year and was one of the very few luxury brands that had achieved positive growth as compared to the corresponding period in 2019. The sales volume of BMW (including MINI) for the six months ended 30 June 2020 was 329,096 units, representing a decrease of 6% as

compared to the corresponding period in 2019, and sales volume increased by 17.1% in the second quarter as compared to the corresponding period in 2019, showing a relatively strong momentum. Audi also had a recovery growth, with sales volume of 301,817 units in the second quarter of 2020, which decreased by 3.2% as compared to the corresponding period of last year, and maintained over 15% MOM growth for three consecutive months in the second quarter. Lexus, the Japanese luxury brand, had maintained a positive growth for four consecutive months after the COVID-19, and for the six months ended 30 June 2020, its sales volume had surpassed that in the US market, marking China the largest market in the world. Sales volume in China reached 95,326 units for the six months ended 30 June 2020, with an increase of 1.6% as compared to the corresponding period of last year. According to the data from demand analysis, the consumers' demand for car purchases that was constrained by the pandemic has been gradually released since March 2020. The pandemic has changed consumer's travelling habits and car purchase plans with the demand for private cars being strong and active. As the impact of the pandemic weakens, consumers' demand for car purchases increases and the upgrade trend becomes apparent, sales of luxury cars became the first to turn into positive growth, with new opportunities for luxury cars and mid-to-high-end brands in the future.

According to the statistics published by the Ministry of Public Security of China, national motor vehicle ownership reached 360 million units as at June 2020, 270 million units of which were automobile ownership, representing 75% of the total motor vehicle volume. New energy vehicle ownership reached 4.17 million. For the six months ended 30 June 2020, the newly registered motor vehicles nationwide amounted to 14.14 million units, representing a decrease of 980,000 units as compared to the corresponding period of last year, 10.42 million units of which were first-time registrations, representing a decrease of approximately two million units as compared to the corresponding period of last year. There are 69 cities in China with automobile ownership exceeding one million units, among which 12 cities, including Beijing and Chengdu, have automobile ownership of over three million units.

As far as the second-hand automobile market is concerned, the transaction growth in the second-hand car market had slowed down during the six months ended 30 June 2020 due to the pandemic. According to the statistics published by the China Automobile Dealers Association, the total transaction volume of second-hand automobile nationwide reached approximately 5.50 million units for the six months ended 30 June 2020, representing a decrease of 19.61% as compared to the corresponding period of last year, and the decline had narrowed down from the previous quarter. On 9 April 2020, the Ministry of Finance and the State Taxation Administration of China promulgated a notice on value-added tax policy for the distribution of second-hand cars: from 1 May 2020 to 31 December 2023, for taxpayers who are engaged in second-hand car dealership which re-sell the second-hand cars that they purchased, they should pay value-added tax at reduced rate of 0.5% instead of the initial reduced rate of 2% (which was reduced from 3%). Moreover, at the press conference on 9 April 2020, the person-in-charge of the Ministry of Commerce of China also mentioned that it is necessary to further facilitate the abolition of second-hand car ownership transfer restriction policies and promote free trade of second-hand cars. By taking multiple measures simultaneously, it is believed that the second-hand car market will enjoy a high-quality development in the future.

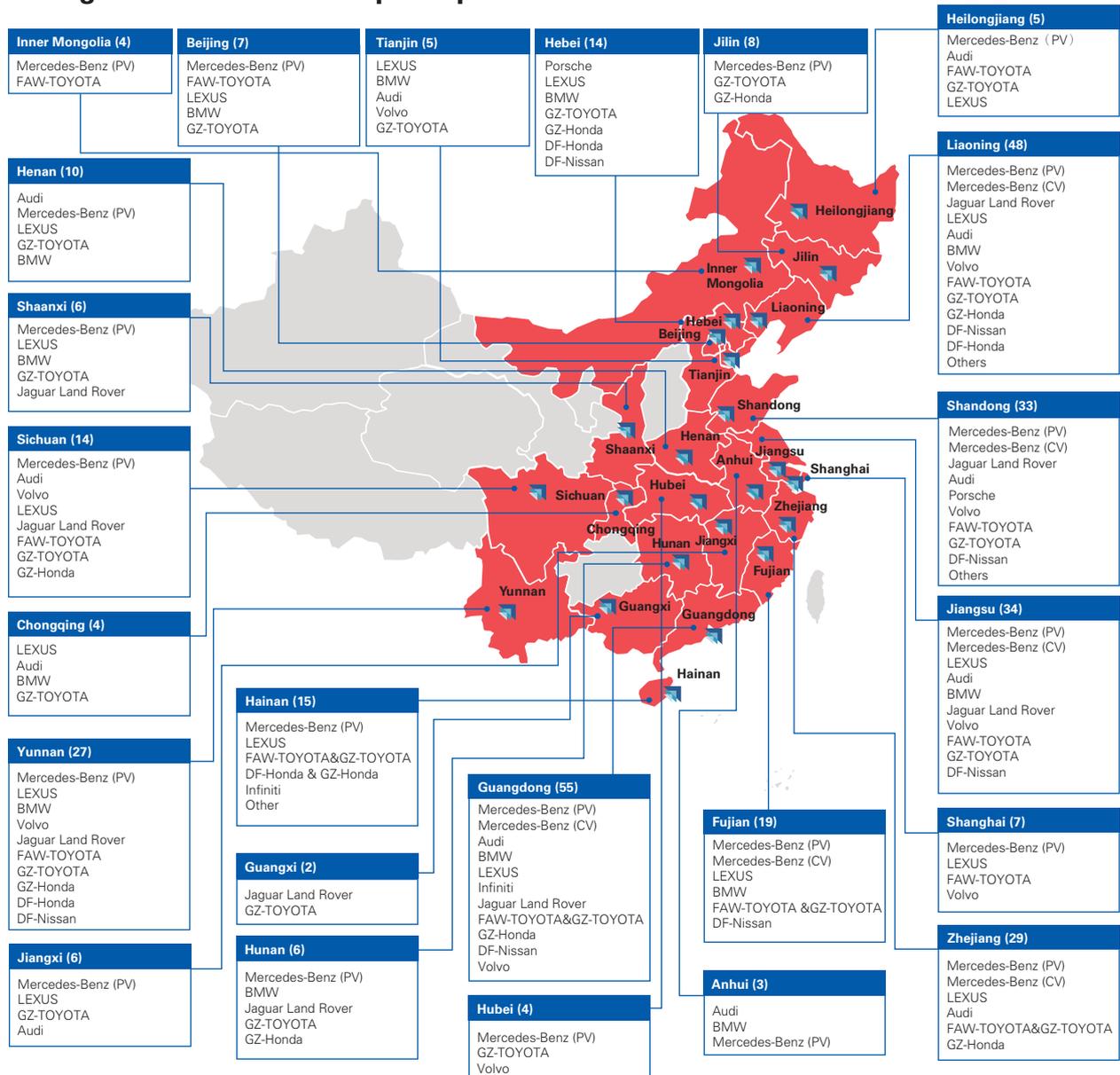
BUSINESS REVIEW

UPHOLDING THE "BRAND + REGION" PORTFOLIO STRATEGY AND STRENGTHENING SALES NETWORK IN KEY REGIONS

According to the statistics released by the Ministry of Public Security of China, there are 69 cities with over one million automobile ownership across China, representing an increase of three cities over the corresponding period of last year. Among these cities, 31 cities have over two million automobile ownership, and 12 cities have over three million automobile ownership, which in order of volume are Beijing, Chengdu, Chongqing, Suzhou, Shanghai, Zhengzhou, Xi'an, Wuhan, Shenzhen, Dongguan, Tianjin and Qingdao. The automobile ownership in Beijing has exceeded six million, while automobile ownership in Chengdu has surpassed the five million. At the same time, market survey data revealed that automobile consumption demand in new first-tier cities has emerged rapidly after the pandemic. The Group will further strengthen its network development in the high-tier cities in key regions.

The Group always upholds the “Brand + Region” strategy to deepen the optimisation of its existing brand portfolio. At the same time, the Group will continue to develop new regions in addition to expanding its existing regional network advantages. As at 30 June 2020, the total number of the Group’s dealerships increased to 365, of which 210 are luxury brand dealerships and 155 mid-to-high-end brand dealerships, covering 24 provinces, municipalities or autonomous regions and over 90 cities in China. As at 30 June 2020, the geographical distribution of the Group’s dealership is as follows:

Regions where the Group has presence





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

EACH BUSINESS SEGMENT GREW STEADILY UNDER PRESSURE; OPERATIONAL EFFICIENCY AND PROFITABILITY REMAINED SOUND

During the six months ended 30 June 2020, the lockdown measures were implemented one after another nationwide around the Chinese New Year due to the widespread pandemic. The Group witnessed a notable decrease in the customers visits in dealership as well as its new automobile sales volume in February 2020, and the number of visits of after-sales service were also affected tremendously. With the nationwide resumption in production and work advanced in March 2020, the Group responded to the government's call by promptly resuming production and work, with operating results demonstrating a strong recovery and growth momentum from March to June 2020.

For the six months ended 30 June 2020, the Group achieved new automobile sales volume of 197,188 units, representing a decrease of 7.8% as compared to the corresponding period of last year, of which sales volume for luxury brands reached 111,653 units, accounting for 56.6% of the Group's total sales volume and representing a significant increase of 5.7% as compared to the

corresponding period in 2019, with the Group's product structure further optimised. The revenue generated from new automobile sales for the year amounted to RMB49,787.7 million, representing an increase of 0.6% over the corresponding period in 2019.

For the six months ended 30 June 2020, the Group's after-sales and accessories business recovered and grew quickly after the pandemic through diversified and innovative services and further refined management and operating measures, and the number of visits of after-sales services achieved a double-digit growth as compared to the corresponding period of last year. For the six months ended 30 June 2020, its revenue reached RMB8,415.4 million, representing an increase of 6.1% as compared to the corresponding period of last year, which accounted for 14.5% of the Group's total revenue. The automobile after-sales market will continue to be the main growth driver in the automobile industry going forward in which it will be further consolidated to become a monopolistic and scalable industry.

As one of the Group's core growth power in the future, the value-added service business segment, which includes car insurance, car financing and second-hand automobiles, has maintained steady growth despite having under heavy pressure during the six months ended 30 June 2020. It achieved a revenue from value-added services of RMB13.065 million for the six months ended 30 June 2020, representing an increase of 8.0% as compared to the corresponding period of last year. The second-hand automobile segment was the focus of business in 2020, and the trade volume for second-hand automobiles reached 40,676 units for the six months ended 30 June 2020, representing a significant increase of approximately 33.9% as compared to the corresponding period of last year despite the adverse market conditions. For the six months ended 30 June 2020, the Group's car financing penetration of new automobile sales further increased significantly to approximately 58.6%, which is expected to be further improved in the future. Based on market data, the Company expects that the industry financial penetration rate will increase further in the future.

FUTURE STRATEGIES AND OUTLOOK

China's automobile industry has entered into a period of stable growth from a period of rapid growth, and has gradually stepped into a transition period from quantitative change to qualitative change. The automobile industry is entering into a period of transformation and enhancement. With the boost from the transformation and upgrading of the industry, the industry concentration will continue to increase. During the process, the survival of the fittest among enterprises is accelerating and differentiation is intensifying, some brands will gradually pull out from the competition, and certain dealers will eventually close down or sell their business operations. Industry integration, stronger leading players, scalable advantages and strong refined management advantages will continue to highlight the Matthew effect.

Leveraging its over 20 years of industry experience and solid management foundation and economy of scale, the Group will strengthen its operation and management efficiency, continue to promote product structural optimisation, service standards and customer satisfaction, strengthen the competitive advantages of its core brands, and accelerate the layout and deepening of the distribution networks in the key regions in China through refined management to sustain the long-term development potential and competitive edge of the Group.

Li Guoqiang

President and Chief Executive Officer

Hong Kong, 10 August 2020



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

REVENUE

Revenue for the six months ended 30 June 2020 was RMB58,203.1 million, representing an increase of RMB790.5 million or 1.4% as compared to the corresponding period in 2019. Revenue from new automobile sales amounted to RMB49,787.7 million, representing an increase of RMB303.2 million or 0.6% as compared to the corresponding period in 2019. Revenue from after-sales and accessories business amounted to RMB8,415.4 million, representing an increase of RMB487.3 million or 6.1% as compared to the corresponding period in 2019.

New automobile sales business accounted for a substantial portion of the Group's revenue, representing 85.5% (corresponding period in 2019: 86.2%) of the total revenue for the six months ended 30 June 2020. The remaining portion of the Group's revenue for the six months ended 30 June 2020 was generated by after-sales and accessories business which accounted for 14.5% of the total revenue for the six months ended 30 June 2020 (corresponding period in 2019: 13.8%). For the six months ended 30 June 2020, almost all of the Group's revenue was derived from business located in China.

In terms of revenue from new automobile sales, Mercedes-Benz is the Group's top selling brand, with revenue from the sales of which representing approximately 30.8% of the Group's total revenue from new automobile sales (corresponding period in 2019: 30.7%).

COST OF SALES AND SERVICES

Cost of sales and services for the six months ended 30 June 2020 amounted to RMB52,793.5 million, representing an increase of RMB579.3 million or 1.1% as compared to the corresponding period in 2019. Costs for new automobile sales business amounted to RMB48,294.3 million for the six months ended 30 June 2020, representing an increase of RMB124.9 million or 0.3% as compared to the corresponding period in 2019. Costs for after-sales and accessories business amounted to RMB4,499.2 million for the six months ended 30 June 2020, representing an increase of RMB454.4 million or 11.2% as compared to the corresponding period in 2019.

GROSS PROFIT

The Group's gross profit for the six months ended 30 June 2020 amounted to RMB5,409.6 million, representing an increase of RMB211.3 million or 4.1% as compared to the corresponding period in 2019. Gross profit from new automobile sales business amounted to RMB1,493.4 million, representing an increase of RMB178.3 million or 13.6% as compared to the corresponding period in 2019. Gross profit from after-sales and accessories business amounted to RMB3,916.2 million, representing an increase of RMB33.0 million or 0.8% as compared to the corresponding period in 2019. For the six months ended 30 June 2020, gross profit from after-sales and accessories business accounted for 72.4% of the total gross profit (corresponding period in 2019: 74.7%).

The gross profit margin for the six months ended 30 June 2020 was 9.3% (corresponding period in 2019: 9.1%).

OTHER INCOME AND GAINS, NET

The other income and gains, net, for the six months ended 30 June 2020 amounted to RMB1,474.2 million, representing an increase of RMB117.5 million or 8.7% as compared to the corresponding period in 2019. 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 2020 amounted to RMB3,802.2 million, representing an increase of RMB240.9 million or 6.8% as compared to the corresponding period in 2019. The operating profit margin for the six months ended 30 June 2020 was 6.5% (corresponding period in 2019: 6.2%).

PROFIT FOR THE PERIOD

The profit for the six months ended 30 June 2020 amounted to RMB2,309.1 million, representing an increase of RMB206.5 million or 9.8% as compared to the corresponding period in 2019. The profit margin for the six months ended 30 June 2020 was 4.0% (corresponding period in 2019: 3.7%).

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The profit attributable to owners of the parent for the six months ended 30 June 2020 amounted to RMB2,291.7 million, representing an increase of RMB209.4 million or 10.1% as compared to the corresponding period in 2019.



LIQUIDITY AND FINANCIAL RESOURCES

CASH FLOW

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

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

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review.

CASH FLOW GENERATED FROM OPERATING ACTIVITIES

For the six months ended 30 June 2020, the net cash generated from operating activities by the Group amounted to RMB4,743.8 million, consisting primarily of operating profit before working capital movement and tax payment.

CASH FLOW USED IN INVESTING ACTIVITIES

For the six months ended 30 June 2020, the net cash used in investing activities by the Group amounted to RMB1,093.5 million.

CASH USED IN FINANCING ACTIVITIES

For the six months ended 30 June 2020, the net cash used in financing activities by the Group amounted to RMB1,536.5 million.

NET CURRENT ASSETS

As at 30 June 2020, the Group had net current assets of RMB5,276.6 million, representing an increase of RMB781.7 million from the net current assets of the Group as at 31 December 2019.

CAPITAL EXPENDITURES AND INVESTMENT

The Group's capital expenditures comprised expenditures on property, plant and equipment, land use rights and business acquisition. For the six months ended 30 June 2020, the Group's total capital expenditures were RMB864.7 million. Save as disclosed above, the Group did not make any significant investments during the six months ended 30 June 2020.

INVENTORY ANALYSIS

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

The Group's inventories decreased from RMB9,828.5 million as at 31 December 2019 to RMB9,411.3 million as at 30 June 2020, primarily due to the further optimising of inventory structure benefitted from its continuous improving stock management, and the destocking of some brands as a result of better supply control from OEM.

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

	For the six months ended	
	30 June	
	2020	2019
Average inventory turnover days	29.7	32.0

The inventory turnover days of the Group showed a healthy decrease during the six months ended 30 June 2020 as compared to the corresponding period in 2019, which was mainly due to improved inventory management. During the six months ended 30 June 2020, the Group's inventory mix gradually optimised and the inventory balance decreased significantly as compared to the end of 2019, in the meanwhile network scale further expanded.

ORDER BOOK AND PROSPECT FOR NEW BUSINESS

Due to its business nature, the Group did not maintain an order book as at 30 June 2020. As at the date of this interim report, the Group has no new services to be introduced to the market.

BANK LOANS AND OTHER BORROWINGS

As at 30 June 2020, the Group's bank loans and other borrowings amounted to RMB20,390.6 million (31 December 2019: RMB21,014.1 million), and the convertible bonds liability portion amounted to RMB5,428.3 million (31 December 2019: RMB4,293.9 million). The decrease in the Group's 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 1.0% to 5.9%.

INTEREST RATE RISK AND FOREIGN EXCHANGE RATE RISK

The Group currently has not used any derivatives to hedge interest rate risk. The operations of the Group are mainly carried out in China 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 2020, the Group had 31,803 employees. The Group strives to offer a good working environment, a diversified range of training programmes as well as an attractive remuneration package to its employees. The Group endeavours to motivate its staff with performance-based remuneration. On top of basic salary, the Group will reward staff who had outstanding performances with cash bonuses, honorary awards or a combination of all the above to further align the interests of the employees and the Company, to attract talented individuals, and to create long-term incentive for its staff.

PLEDGE OF THE GROUP'S ASSETS

The Group pledged its group assets as securities for bank and other loan and banking facilities which were used to finance daily business operation. As at 30 June 2020, the pledged group assets amounted to approximately RMB5.9 billion (31 December 2019: RMB6.0 billion).

FUTURE PLANS AND EXPECTED FUNDING

Going forward, the Company will continue to expand its business in the luxury and mid-to-high end passenger vehicle market by capitalising on the opportunities arising from the market and exploring developing potential. The Company aims to expand its distribution network through new store establishment and appropriate mergers and acquisitions in the future. The Group plans to fund its future capital expenditure through cash flows generated from its operating activities and various resources including but not limited to internal funds and borrowings from financial institution, and the Group currently has sufficient credit facilities granted by banks.

GEARING RATIO

As at 30 June 2020, the gearing ratio of the Group was 55.1% (31 December 2019: 57.3%), which was calculated from net debt divided by the sum of net debt and total equity.

CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	Unaudited For the six months ended 30 June 2020 RMB'000	For the six months ended 30 June 2019 RMB'000
REVENUE	4(a)	58,203,121	57,412,556
Cost of sales and services provided	5(b)	(52,793,477)	(52,214,209)
Gross profit		5,409,644	5,198,347
Other income and gains, net	4(b)	1,474,194	1,356,684
Selling and distribution expenses		(2,313,624)	(2,227,166)
Administrative expenses		(768,023)	(766,527)
Profit from operations		3,802,191	3,561,338
Finance costs	6	(610,261)	(650,895)
Share of profits/(losses) of:			
Joint ventures		1,598	367
An associate		(1,083)	—
Profit before tax	5	3,192,445	2,910,810
Income tax expense	7	(883,313)	(808,167)
Profit for the period		2,309,132	2,102,643
Attributable to:			
Owners of the parent		2,291,698	2,082,293
Non-controlling interests		17,434	20,350
		2,309,132	2,102,643
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the period (RMB)	9	1.009	0.917
Diluted			
— For profit for the period (RMB)	9	0.978	0.889

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Unaudited For the six months ended 30 June 2020 RMB'000	For the six months ended 30 June 2019 RMB'000
Profit for the period	2,309,132	2,102,643
Other comprehensive loss <i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(192,060)	(34,341)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(192,060)	(34,341)
Other comprehensive loss for the period, net of tax	(192,060)	(34,341)
Total comprehensive income for the period	2,117,072	2,068,302
Attributable to:		
Owners of the parent	2,099,638	2,047,952
Non-controlling interests	17,434	20,350
	2,117,072	2,068,302



CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

30 June 2020

	Notes	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		12,795,823	12,361,556
Right-of-use assets		4,140,200	4,195,225
Land use rights		2,883,492	2,931,884
Prepayments		1,491,951	731,332
Intangible assets		6,220,861	6,217,559
Goodwill		4,728,821	4,640,137
Investments in joint ventures		45,860	44,262
Investment in an associate		1,917	3,000
Deferred tax assets		266,986	257,580
Total non-current assets		32,575,911	31,382,535
CURRENT ASSETS			
Inventories	10	9,411,318	9,828,486
Trade receivables	11	1,489,598	1,462,767
Prepayments, other receivables and other assets		11,285,778	11,645,669
Amounts due from related parties	20(b)(i)	1,712	727
Financial assets at fair value through profit or loss		149,640	997,908
Pledged bank deposits		1,315,617	1,341,025
Cash in transit		363,071	263,989
Cash and cash equivalents		8,225,908	6,101,176
Total current assets		32,242,642	31,641,747

	Notes	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
CURRENT LIABILITIES			
Bank loans and other borrowings	12	16,129,502	17,089,711
Trade and bills payables	13	4,872,937	4,875,067
Other payables and accruals		2,943,308	3,223,610
Other liabilities		245,000	245,000
Lease liabilities		251,374	236,636
Amounts due to related parties	20(b)(ii)	311	436
Income tax payable		1,589,893	1,476,360
Dividends payable		933,745	9
Total current liabilities		26,966,070	27,146,829
Net current assets		5,276,572	4,494,918
Total assets less current liabilities		37,852,483	35,877,453
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,940,617	1,917,525
Convertible bonds	14	5,428,342	4,293,929
Lease liabilities		3,571,831	3,564,989
Bank loans and other borrowings	12	4,261,055	3,924,341
Total non-current liabilities		15,201,845	13,700,784
Net assets		22,650,638	22,176,669
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	197	197
Reserves		22,226,681	21,758,356
		22,226,878	21,758,553
Non-controlling interests		423,760	418,116
Total equity		22,650,638	22,176,669

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 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
At 1 January 2020	197	5,474,118	49,391	113,139	37,110	2,374,646	(1,386,176)	(1,629,247)	(736,351)	17,461,726	21,758,553	418,116	22,176,669
Profit for the period	–	–	–	–	–	–	–	–	–	2,291,698	2,291,698	17,434	2,309,132
Other comprehensive loss for the period:													
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(192,060)	–	(192,060)	–	(192,060)
Total comprehensive income for the period	–	–	–	–	–	–	–	–	(192,060)	2,291,698	2,099,638	17,434	2,117,072
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(11,790)	(11,790)
Transfer of equity component of convertible bonds upon the redemption of convertible bonds	–	–	–	(79,799)	–	–	–	(649,397)	–	–	(729,196)	–	(729,196)
Issue of convertible bonds	–	–	–	30,484	–	–	–	–	–	–	30,484	–	30,484
Final 2019 dividend declared	–	(932,601)	–	–	–	–	–	–	–	–	(932,601)	–	(932,601)
At 30 June 2020	197	4,541,517	49,391	63,824	37,110	2,374,646	(1,386,176)	(2,278,644)	(928,411)	19,753,424	22,226,878	423,760	22,650,638

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Notes	Unaudited For the six months ended 30 June 2020 RMB'000	For the six months ended 30 June 2019 RMB'000
Operating activities			
Profit before tax		3,192,445	2,910,810
Adjustments for:			
Share of profits of joint ventures and an associate		(515)	(367)
Depreciation and impairment of property, plant and equipment	5(c)	519,589	478,049
Depreciation of right-of-use assets	5(c)	224,743	123,680
Amortisation of land use rights	5(c)	46,591	44,907
Amortisation of intangible assets	5(c)	132,013	128,994
Impairment of trade receivables	5(c)	1,863	4,637
Interest income	4(b)	(24,759)	(23,978)
Net (gains)/losses on disposal of items of property, plant and equipment	4(b)	(7,543)	2,283
Finance costs	6	610,261	650,895
Fair value losses/(gains), net:			
– Listed equity investments held for trading	4(b)	9,522	(2,548)
– Financial products	4(b)	767	(1,314)
Dividend income from listed equity investment	4(b)	(1,020)	(981)
Equity-settled share option expense	5(a)	–	16,024
Write-down of inventories to net realisable value	5(c)	1,610	1,918
Investment income from financial assets at fair value through profit or loss	4(b)	(28,330)	–
Expense on redemption of convertible bonds		8,039	–
		4,685,276	4,333,009
Increase in cash in transit		(98,543)	(327,390)
Increase in trade receivables		(19,074)	(357,706)
Decrease in prepayments, other receivables and other assets		426,602	104,970
Decrease in inventories		487,788	1,816,278
Increase in trade payables		239,494	72,464
(Decrease)/increase in other payables and accruals		(187,785)	58,653
Increase in amounts due from related parties – trade related		(985)	(630)
Decrease in amounts due to related parties – trade related		(124)	(127)
Cash generated from operations		5,532,649	5,699,521
Tax paid		(788,831)	(835,652)
Net cash generated from operating activities		4,743,818	4,863,869



CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2020

	Unaudited	
	For the	For the
	six months	six months
	ended	ended
	30 June 2020	30 June 2019
	RMB'000	RMB'000
Investing activities		
Purchase of items of property, plant and equipment	(1,173,391)	(1,269,909)
Proceeds from disposal of items of property, plant and equipment	329,058	413,855
Purchase of land use rights	(18,868)	(43,162)
Proceeds from disposal of land use rights	—	34,425
Purchase of intangible assets	(2,752)	(6,364)
Prepayments for the potential acquisitions of equity interests from third parties	(996,425)	(116,748)
Acquisitions of subsidiaries	1,831	38,561
Increase in prepayments, other receivables and other assets	(128,553)	(87,990)
Interest received	24,759	23,976
Proceeds/(purchase) of financial assets at fair value through profit or loss, net	842,550	(785,800)
Investment income from financial assets at fair value through profit or loss	28,330	—
Proceeds on disposal of subsidiaries, net of cash	—	4,000
Net cash used in investing activities	(1,093,461)	(1,795,156)
Financing activities		
Proceeds from issue of convertible bonds	4,132,148	—
Proceeds from bank loans and other borrowings	46,946,199	41,938,445
Repayments of bank loans and other borrowings	(47,700,605)	(43,882,331)
Decrease in pledged bank deposits	25,412	161,132
Decrease in notes payable	(286,407)	(263,100)
Lease payments	(271,955)	(314,321)
Redemption of convertible bonds	(3,882,709)	—
Decrease/(increase) in deposits to entities controlled by suppliers for borrowings	26,894	(24,181)
Interest paid for bank loans and other borrowings	(435,640)	(538,933)
Finance lease rental payments	—	(5,617)
Dividend paid to non-controlling shareholders	(11,790)	(75,998)
Acquisition of non-controlling interests	(78,000)	—
Net cash used in financing activities	(1,536,453)	(3,004,904)
Net increase in cash and cash equivalents	2,113,904	63,809
Cash and cash equivalents at beginning of period	6,101,176	6,142,664
Effect of foreign exchange rate changes, net	10,828	1,986
Cash and cash equivalents at end of period	8,225,908	6,208,459

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2020

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 address of the Company is Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The Company has established a principal place of business 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 2020 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 10 August 2020. 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 2020 has 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 Group’s annual consolidated financial statements for the year ended 31 December 2019, 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 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The revised standards have had no significant financial effect on these financial statements.

30 June 2020

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 Segment*.

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 2020, no major customers 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 2020 RMB'000	For the six months ended 30 June 2019 RMB'000
Revenue from contracts with customers		
Disaggregated revenue information		
Types of goods or service		
Revenue from the sales of motor vehicles	49,787,697	49,484,492
Revenue from after-sales service	8,415,424	7,928,064
Total revenue from contracts with customers	58,203,121	57,412,556
Timing of revenue recognition		
At a point in time	58,203,121	57,412,556

4. REVENUE, OTHER INCOME AND GAINS, NET (continued)**(b) OTHER INCOME AND GAINS, NET**

	Unaudited	
	For the	For the
	six months	six months
	ended	ended
	30 June 2020	30 June 2019
	RMB'000	RMB'000
Commission income	1,306,520	1,209,713
Rental income	13,937	11,117
Government grants	44,697	26,559
Interest income	24,759	23,978
Net gains/(losses) on disposal of items of property, plant and equipment	7,543	(2,283)
Fair value (losses)/gains, net:		
Financial assets at fair value through profit or loss		
— listed equity investments	(9,522)	2,548
— financial products	(767)	1,314
Dividend income from listed equity investments	1,020	981
Investment income from financial assets at fair value through profit or loss	28,330	—
Others	57,677	82,757
	1,474,194	1,356,684

30 June 2020

5. PROFIT BEFORE TAX

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

	Unaudited	
	For the	For the
	six months	six months
	ended	ended
	30 June 2020	30 June 2019
	RMB'000	RMB'000
(a) Employee benefit expense (including directors' and chief executive officer's remuneration):		
Wages and salaries	1,643,808	1,655,478
Pension scheme contributions	127,254	232,863
Other welfare	113,214	104,889
Equity-settled share option expense	—	16,024
	1,884,276	2,009,254
(b) Cost of sales and services provided:		
Cost of sales of motor vehicles	48,294,274	48,169,401
Others	4,499,203	4,044,808
	52,793,477	52,214,209
(c) Other items:		
Depreciation and impairment of property, plant and equipment	519,589	478,049
Amortisation of land use rights	46,591	44,907
Amortisation of intangible assets	132,013	128,994
Promotion and advertisement	367,230	334,041
Office expenses	116,314	148,740
Depreciation of right-of-use assets	224,743	123,680
Lease expenses	21,006	10,880
Logistics expenses	61,362	58,793
Impairment of trade receivables	1,863	4,637
Write-down of inventories to net realisable value	1,610	1,918
Net (gains)/losses on disposal of items of property, plant and equipment	(7,543)	2,283
Investment income from financial assets at fair value through profit or loss	(28,330)	—
Dividend income from listed equity investments	(1,020)	(981)
Fair value losses/(gains), net:		
Financial assets at fair value through profit or loss		
— listed equity investments	9,522	(2,548)
— financial products	767	(1,314)

6. FINANCE COSTS

	Unaudited For the six months ended 30 June 2020 RMB'000	For the six months ended 30 June 2019 RMB'000
Interest expense on bank borrowings	403,748	484,750
Interest expense on convertible bonds	84,074	76,196
Interest expense on other borrowings	36,799	51,135
Interest expense on lease liabilities	123,817	87,952
Interest capitalised	(38,177)	(49,138)
	610,261	650,895

7. INCOME TAX EXPENSE

	Unaudited For the six months ended 30 June 2020 RMB'000	For the six months ended 30 June 2019 RMB'000
Current Mainland China corporate income tax	902,352	808,182
Deferred tax	(19,039)	(15)
	883,313	808,167

8. DIVIDENDS

The Directors of the Company proposed not to declare any interim dividend for the six months ended 30 June 2020.

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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 shares of 2,271,697,955 (six months ended 30 June 2019: 2,271,697,955) in issue during the period.

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

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

	Unaudited For the six months ended 30 June 2020 RMB'000	For the six months ended 30 June 2019 RMB'000
Earnings		
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	2,291,698	2,082,293
Interest on convertible bonds	84,074	76,196
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	2,375,772	2,158,489
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,271,697,955	2,271,697,955
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	154,295,933	156,597,763
Share option	3,266,840	—
Weighted average number of ordinary shares used in diluted earnings per share calculation	2,429,260,728	2,428,295,718
Earnings per share (RMB)		
Basic	1.009	0.917
Diluted	0.978	0.889

10. INVENTORIES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Motor vehicles	8,660,741	9,035,201
Spare parts and others	761,769	802,867
	9,422,510	9,838,068
Less: provision for inventories	11,192	9,582
	9,411,318	9,828,486

11. TRADE RECEIVABLES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade receivables	1,489,598	1,462,767

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Within 3 months	1,409,758	1,410,924
More than 3 months but less than 1 year	41,058	41,107
Over 1 year	38,782	10,736
	1,489,598	1,462,767

30 June 2020

12. BANK LOANS AND OTHER BORROWINGS

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Bank loans and overdrafts repayable:		
– within one year or on demand	10,384,135	11,362,757
– in the second year	1,149,240	988,274
– in the third to fifth years	1,141,007	611,181
	12,674,382	12,962,212
Other borrowings repayable:		
– within one year	4,379,818	4,448,633
Syndicated term loan:		
– within one year	1,365,549	1,278,320
– in the second year	1,970,808	2,324,887
	3,336,357	3,603,207
Total bank loans and other borrowings	20,390,557	21,014,052
Less: portion classified as current liabilities	16,129,502	17,089,711
Long-term portion	4,261,055	3,924,341

13. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade payables	1,943,633	1,659,356
Bills payable	2,929,304	3,215,711
Trade and bills payables	4,872,937	4,875,067

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

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

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Within 3 months	4,605,733	4,568,395
3 to 6 months	239,927	285,097
6 to 12 months	18,925	15,452
Over 12 months	8,352	6,123
	4,872,937	4,875,067

30 June 2020

14. CONVERTIBLE BONDS

- (i) On 23 May 2018, the Company issued zero coupon convertible bonds due 2023 with a nominal value of HK\$4,700,000,000 (the “**2023 convertible bonds**”). The bonds were 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. During the period ended 30 June 2020, the Company has redeemed principal amounts of HK\$3,315,000,000 of the bonds. For the remaining principal amounts of HK\$1,385,000,000 of the bonds, there was no conversion 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 2020 RMB'000	Audited 31 December 2019 RMB'000
Nominal value of 2023 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	312,809	246,190
Redemption of the 2023 convertible bonds	(3,135,457)	—
Exchange realignment	470,693	382,066
Liability component at the end of the period	1,313,718	4,293,929
Less: portion classified as current liabilities	—	—
Long-term portion	1,313,718	4,293,929

14. CONVERTIBLE BONDS (continued)

- (ii) On 21 May 2020, the Company issued zero coupon convertible bonds due 2025 with a nominal value of HK\$4,560,000,000 (the “**2025 Convertible Bonds**”). There was no movement in the number of these convertible bonds during the period. The bonds were convertible at the option of the bondholders into ordinary shares at any time on or after 1 July 2020 until and including 11 May 2025 at a conversion price of HK\$45.61 per share. Any convertible bonds not converted will be redeemed on 21 May 2025 at 117.49% of their principal amount. There was no conversion of the 2025 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 the period have been split into the liability and equity components as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Nominal value of 2025 Convertible Bonds	4,169,664	—
Equity component	(30,760)	—
Direct transaction costs attributable to the liability component	(37,239)	—
Liability component at the issuance date	4,101,665	—
Interest expense	17,455	—
Exchange realignment	(4,496)	—
Liability component at the end of the period	4,114,624	—
Less: portion classified as current liabilities	—	—
Long-term portion	4,114,624	—

15. SHARE CAPITAL

	Unaudited 30 June 2020	Audited 31 December 2019
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 (2019: 2,271,697,955) ordinary shares (HK\$'000)	227	227
Equivalent to RMB'000	197	197

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16. SHARE OPTION SCHEME

The Company operated 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. The Scheme expired on 25 March 2020.

The share options granted under the Scheme 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:

	30 June 2020		Unaudited 30 June 2019	
	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	22.60	11,000
At 30 June	22.60	11,000	22.60	11,000

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

	30 June 2020	Exercise period
Number of options '000	Exercise price HK\$ per share	
11,000	22.60	26 April 2019 to 25 April 2028 (both dates inclusive)

The fair value of the share options granted during 2018 was HK\$58,135,000 (HK\$5.29 each). No equity-settled share option expense has been recognised by the Group in the statement of profit or loss during this period (six months ended 30 June 2019: HK\$18,476,000).

The fair value of these share options granted determined using the Binomial 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 recognized in the share option reserve will be transferred to retained profits.

17. BUSINESS COMBINATION

As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% 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 2020 at a total consideration of RMB149,309,000. The purchase consideration for the acquisition was in the form of cash, with RMB149,309,000 paid by the end of June 2020.

Company Name	Acquired equity interests %
Beijing Baojinhang Automobile Sales and Services Co., Ltd. (北京寶晉行汽車銷售服務有限公司)	100%
Shenzhen Baojin Automobile Sales and Services Co. Ltd. (深圳寶晉汽車銷售服務有限公司)	100%
Sanya Shengdi Automobile Sales and Services Co., Ltd. (三亞盛迪汽車銷售服務有限公司)	100%

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17. BUSINESS COMBINATION (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*	105,352
Intangible assets*	132,572
Right-of-use assets	98,286
Inventories	72,230
Trade receivables	9,620
Prepayments, other receivables and other assets	128,089
Cash in transit	539
Cash and cash equivalents	38,861
Trade and bills payables	(44,783)
Other payables and accruals	(299,052)
Bank loans and other borrowings	(50,077)
Deferred tax liabilities*	(32,725)
Lease liabilities	(98,286)
Total identifiable net assets at fair value	60,626
Goodwill on acquisition*	88,683
Total purchase consideration	149,309
An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:	
Cash consideration paid	
Cash and cash equivalents acquired	38,861
Net cash outflow	(110,448)

Since the acquisition, the acquired business contributed RMB440,247,000 to the Group's revenue and RMB16,787,000 to the consolidated profit for the six months ended 30 June 2020.

* 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. However, the valuation was not finalised and hence the initial accounting for the business combination of these companies was incomplete by the date of this interim report. Therefore, these amounts recognised in the Group's interim financial statements for the six months ended 30 June 2020 in relation to the acquisition of these companies were on a provisional basis.

18. CONTINGENT LIABILITIES

As at 30 June 2020, 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 2020 RMB'000	Audited 31 December 2019 RMB'000
Contracted, but not provided for buildings	167,042	167,283
Contracted, but not provided for potential acquisitions	176,574	298,500
	343,616	465,783

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 2020:

	Unaudited For the six months ended 30 June 2020 RMB'000	For the six months ended 30 June 2019 RMB'000
(i) Sales of goods to a joint venture: — Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd. (" Xiamen Zhongsheng ")	1,293	4,393
(ii) Purchase of goods or services from joint ventures: — Xiamen Zhongsheng — TAC Automobile Accessories Trading (Shanghai) Co., Ltd. (" TAC ")	5,223 —	832 2,705
	5,223	3,537

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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 2020:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
(i) Due from related party:		
Trade related		
Joint venture		
– Xiamen Zhongsheng	1,712	727
(ii) Due to related party:		
Trade related		
Joint venture		
– Xiamen Zhongsheng	311	436

Balances with related party 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 2020 RMB'000	For the six months ended 30 June 2019 RMB'000
Short term employee benefits	13,626	15,186
Post-employee benefits	95	237
Equity-settled share option	–	16,024
Total compensation paid to key management personnel	13,721	31,447

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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Financial assets				
Financial assets at fair value through profit or loss	149,640	997,908	149,640	997,908

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 2020*

		Fair value measurement using			Total RMB'000 (Unaudited)
		Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Financial assets at fair value through profit or loss:					
Listed equity investments, at fair value	(i)	68,953	—	—	68,953
Financial products	(i)	80,687	—	—	80,687
		149,640	—	—	149,640

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

FAIR VALUE HIERARCHY (continued)

Assets measured at fair value: (continued)

As at 31 December 2019

		Fair value measurement using			Total RMB'000 (Audited)
		Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Financial assets at fair value through profit or loss:					
Listed equity investments, at fair value	(i)	76,626	—	—	76,626
Financial products	(i)	81,282	—	—	81,282
Other investments	(ii)	—	—	840,000	840,000
		157,908	—	840,000	997,908

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 30 June 2020 and 31 December 2019, respectively.

During the six months ended 30 June 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Notes:

(i) The fair values of listed equity investments and the financial products issued by financial institutions are based on quoted market prices.

(ii) Valuation techniques and inputs used in Level 3 fair value measurements:

The fair value of other investments has been estimated using a discounted cash flow valuation model based on assumptions that are not 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 are reasonable, and that they were the most appropriate values at the end of reporting period.

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

FAIR VALUE HIERARCHY (continued)

Notes: (continued)

(ii) (continued)

Below is a summary of significant unobservable inputs to the valuation of the investment portfolio together with a quantitative sensitivity analysis at the end of reporting period:

31 December 2019

	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Financial products	Discounted cash flow method	Yield rate	6%–7.5%	0.5% increase in yield rate would result in decrease in fair value by RMB1,782,000 0.5% decrease in yield rate would result in increase in fair value by RMB1,794,000

The movements during the period in the balance of these Level 3 fair value measurements was as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
At 1 January	840,000	—
Purchase	—	840,000
Redemption	840,000	—
At 30 June/31 December	—	840,000

22. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 30 June 2020.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2020, 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 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 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 Stock Exchange (the "Listing Rules"), were as follows:

INTERESTS AND SHORT POSITIONS IN THE COMPANY'S SHARES

Name of Director	Capacity/Nature of Interest or Short Position	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Mr. Huang Yi	Interest of controlled corporation, founder of a discretionary trust and agreement to acquire interests	1,312,035,876 (Long position)	57.76
		113,600,000 (Short position)	5.00
Mr. Li Guoqiang	Interest of controlled corporation, founder of a discretionary trust and agreement to acquire interests	1,312,035,876 (Long position)	57.76
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 2020, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations, 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.

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

As at 30 June 2020, to the best knowledge of the Directors, 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:

INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of Shareholder	Capacity/Nature of Interest or Short Position	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
		113,600,000 (Short position)	5.00
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	1,312,035,876 (Long position)	57.76
UBS TC (Jersey) Ltd.	Trustee, interest of controlled corporation and agreement to acquire interests	1,312,035,876 (Long position)	57.76
Vintage Star Limited (Note 5)	Beneficial owner and agreement to acquire interests	1,312,035,876 (Long position)	57.76
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
JPMorgan Chase & Co.	Interest of controlled corporation, investment manager, person having a security interest in shares and approved lending agent	180,666,699 (Long position)	7.95
		137,470,935 (Short position)	6.05
		26,196,064 (Lending pool)	1.15
FIL Limited	Interest of controlled corporation	117,246,500 (Long position)	5.16
Pandanus Associates Inc.	Interest of controlled corporation	117,246,500 (Long position)	5.16
Pandanus Partners L.P.	Interest of controlled corporation	117,246,500 (Long position)	5.16

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 settlor 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 settlor of the trust) and his family.
6. JPMorgan Chase & Co. held 180,666,699 (long position), 137,470,935 (short position) and 26,196,064 (lending pool) shares of the Company through its controlled entities, and was deemed to have interests in the shares of the Company held by such entities.

Save as disclosed above, as at 30 June 2020, the Directors are not aware of any other person (other than the Directors or chief executives of the Company) 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 2020, the Company did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

CONVERTIBLE BONDS

2023 CONVERTIBLE BONDS

On 4 May 2018, the Company and J.P. Morgan Securities Plc (“**J.P. Morgan**”) entered into a bond subscription agreement, according to which (i) the Company agreed to issue, and J.P. Morgan 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; and (ii) the Company agreed to grant J.P. Morgan an option to subscribe for up to an additional HK\$775 million in principal amount of the 2023 Convertible Bonds (the “**Option Bonds**”, and collectively, the “**2023 Convertible Bonds**”). On 14 May 2018, J.P. Morgan 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 2023 Convertible Bonds are convertible into fully-paid ordinary shares of HK\$0.0001 each in the share capital in the Company (the “**Shares**”) at an initial conversion price of HK\$30.0132 per Share at the option of the holder thereof, at any time on or after the 41st day after the issue date up to the close of business on the tenth day prior to the maturity date, being a date falling on or about 23 May 2023. The 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 Share was approximately HK\$29.63. The issue of the 2023 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 2023 Convertible Bonds were offered and sold by J.P. Morgan to no less than six independent placees (who are independent individuals, corporate and/or institutional investors).

The Directors considered that the issue of the 2023 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 2023 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.

On 12 May 2020, the Company entered into a dealer manager agreement with Merrill Lynch (Asia Pacific) Limited and Morgan Stanley & Co. International plc (as dealer managers) (collectively, the **"Managers"**). The Company, through the Managers, agreed to repurchase HK\$3,315 million in aggregate principal amount of the 2023 Convertible Bonds at a repurchase price of approximately HK\$4,246 million, representing 128.09% of the principal amount of the 2023 Convertible Bonds. Upon completion of the repurchase on 22 May 2020, the 2023 Convertible Bonds in aggregate principal amount of HK\$3,315 million, representing approximately 70.53% of the aggregate principal amount of the 2023 Convertible Bonds originally issued, were cancelled, and the outstanding principal amount of the 2023 Convertible Bonds is HK\$1,385 million (the **"Outstanding 2023 Convertible Bonds"**).

As at the date of this interim report, there has been no conversion of the Outstanding 2023 Convertible Bonds. Upon full conversion of the Outstanding 2023 Convertible Bonds at the initial conversion price of HK\$30.0132 per Share, the Company would issue 46,146,362 Shares, with an aggregate nominal value of approximately HK\$4,614.64, increasing the total issued shares of the Company to 2,317,844,317 Shares (assuming no conversion of the 2025 Conversion Bonds (as defined below)), which represent approximately 2.03% of the then existing share capital of the Company (calculated as at 30 June 2020), and approximately 1.99% of the issued share capital of the Company as enlarged by the issue of the shares upon full conversion of all the Outstanding 2023 Convertible Bonds (assuming no conversion of the 2025 Conversion Bonds). Upon full exercise of the conversion rights attaching to the Outstanding 2023 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 56.61%, 56.61% and 56.61%, respectively, of the issued share capital of the Company as enlarged by the issue of the Shares upon the conversion of all the Outstanding 2023 Convertible Bonds (assuming no conversion of the 2025 Conversion Bonds). Based on the profit for the six months ended 30 June 2020 attributable to ordinary equity holders of the parent of approximately RMB2,291.7 million, the basic and diluted earnings per Share attributable to the owners of the Company were RMB1.009 and RMB0.978 respectively.

Details of the 2023 Convertible Bonds are set out in note 14 to the financial statements.

The net proceeds from the issue of the 2023 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.

2025 CONVERTIBLE BONDS

On 12 May 2020, the Company entered into a bond subscription agreement with the Managers (as managers), according to which the Company agreed to issue, and the Managers agreed to subscribe and pay for (or procure subscribers to subscribe and pay for) zero coupon convertible bonds due 2025 of an aggregate principal amount of HK\$4,560 million (the **"2025 Convertible Bonds"**).

The 2025 Convertible Bonds are convertible into Shares at an initial conversion price of HK\$45.61 per Share at the option of the holder thereof, at any time on or after 1 July 2020 up to the close of business on the tenth day prior to the maturity date, being a date falling on or about 21 May 2025. The closing price per Share was HK\$34.800 as quoted on the Stock Exchange on 12 May 2020 (being the date on which the terms of the subscription of the Convertible Bonds were fixed). The net price of each Share was approximately HK\$45.20. The issue of the 2025 Convertible Bonds in the aggregate amount of HK\$4,560 million was completed on 21 May 2020. To the best of the Directors' knowledge, the 2025 Convertible Bonds were offered and sold by the Managers to no less than six independent placees (who are independent individuals, corporate and/or institutional investors).

The Directors considered that the issue of the 2025 Convertible Bonds allowed the Company to refinance its existing debt and to extend its debt maturity profile.

The total net proceeds (after deduction of commission and expenses) from the issue of the 2025 Convertible Bonds amounted to approximately HK\$4,519 million.

As at the date of this interim report, there has been no conversion of the 2025 Convertible Bonds and the outstanding principal amount of all the 2025 Convertible Bonds was HK\$4,560 million. Upon full conversion of the 2025 Convertible Bonds at the initial conversion price of HK\$45.61 per Share, the Company would issue 99,978,074 Shares, with an aggregate nominal value of approximately HK\$9,997.81, increasing the total issued Shares to 2,371,676,029 Shares (assuming no conversion of the Outstanding 2023 Conversion Bonds), which represent approximately 4.40% of the then existing share capital of the Company (calculated as at 30 June 2020), and approximately 4.22% of the issued share capital of the Company as enlarged by the issue of the shares upon full conversion of all the 2025 Convertible Bonds (assuming no conversion of the Outstanding 2023 Conversion Bonds). Upon full exercise of the conversion rights attaching to the outstanding 2025 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 55.32%, 55.32% and 55.32%, respectively, of the issued share capital of the Company as enlarged by the issue of the Shares upon the conversion of all the 2025 Convertible Bonds (assuming no conversion of the Outstanding 2023 Conversion Bonds). Based on the profit for the six months ended 30 June 2020 attributable to ordinary equity holders of the parent of approximately RMB2,291.7 million, the basic and diluted earnings per Share attributable to the owners of the Company were RMB1.009 and RMB0.978, respectively.

Details of the 2025 Convertible Bonds are set out in note 14 to the financial statements.

The net proceeds from the issue of the 2025 Convertible Bonds had been applied in accordance with the intended use as disclosed in the announcements of the Company dated 13 May 2020 and 14 May 2020.

During the six months ended 30 June 2020, profit attributable to owners of the parent of the Group is approximately RMB2,291.7 million. As at 30 June 2020, the Group had consolidated reserves of RMB22,226.7 million and net current assets of RMB5,276.6 million. The Company will redeem each Outstanding 2023 Convertible Bond and 2025 Convertible Bond (collectively, the **"Convertible Bonds"**) 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 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 traded on the 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.

SHARE OPTION SCHEME

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

The purpose of the Share Option Scheme was to attract and retain skilled and experienced personnel, to incentivise them to remain with the Group and to give effect to the customer-focused corporate culture of the Group, and to motivate them to strive for the future development and expansion of the Group, by providing them with the opportunity to acquire equity interests in the Company.

Details of the options to subscribe for Shares pursuant to the Share Option Scheme and the movement during the six months ended 30 June 2020 are set out below:

Name of Grantees	Date granted	Exercise price per share	Number of Share Options				Outstanding as at 30 June 2020
			Outstanding as at 31 December 2019	Granted during the period	Exercised during the period	Lapsed/Cancelled during the period	
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 Shares. The Share Options were fully vested from 26 April 2019. The Share Options are exercisable from 26 April 2019 to 25 April 2028 (both dates inclusive) at a price of HK\$22.60 per Share. The closing price of the Shares immediately before 26 April 2018 is HK\$22.35 per Share.

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 six months ended 30 June 2020, no other options had been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 30 June 2020, the total number of Shares which may be issued under the Share Option Scheme was 11,000,000 Shares, representing approximately 0.48% of the issued share capital of the Company as at the date of this interim report.

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 operations 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 2019 annual report of the Company are as follows:

1. Mr. David Alexander Newbigging, being a non-executive Director, has resigned as the vice chairman of Refrigeration Electrical Engineering Corporation (a company listed on the Ho Chi Minh City Stock Exchange with stock code REE) and the commissioner of PT Astra International Tbk (a company listed on the Indonesia Stock Exchange with stock code ASII) in May 2020 and June 2020 respectively.
2. Mr. Hsu David, being a non-executive Director, has resigned as the non-executive director of Greatview Aseptic Packaging Company Limited (a company listed on the Hong Kong Stock Exchange with stock code: 00468) in March 2020.

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 2020 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 as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2020 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 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 six months ended 30 June 2020. Save for the Convertible Bonds and the Share Option Scheme, no equity-linked agreements existed during the six months ended 30 June 2020.

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 2020 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. Chin Siu Wa Alfred.

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 2020. The Audit Committee considers that the interim financial results for the six months ended 30 June 2020 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 2020, 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's 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 2020.

CORPORATE SOCIAL RESPONSIBILITY

ENVIRONMENTAL POLICY

With a view to ensuring continuous compliance with applicable environmental laws and other rules and regulatory requirements in the PRC, it is the policy of the Group to reduce waste and save energy in the operation process and promote an environmentally friendly culture through carrying out environmental communication, establishing a green supply chain and launching green offices, promoting environmental projects for public welfare, implementing sustainable development, and putting into practice the concept of environmental protection for corporate citizens.

During the six months ended 30 June 2020, the Group has adopted a number of measures to reduce emissions in daily operations, and has implemented energy efficiency initiatives. For instance, the Group has improved emission monitoring equipment and sewage treatment to reduce exhaust and pollutant emissions for environmental protection and energy conservation while safeguarding employees' health. The employees of the Group are also encouraged to use public transportation and replace business travel and long-distance face-to-face meetings with telephone or video conferences where practicable, in order to reduce carbon emissions from transportation.

COMMUNITY CONTRIBUTION

The Group is committed to fulfilling its corporate social responsibility and commitments, serving the community and creating a positive impact with practical and concrete actions. Across its national dealership network, the Group offers employment opportunities for local residents and persons with disability, makes donations to support families in difficulties and students in poor mountainous regions, and offer assistance to underprivileged families, contributing to the development of local communities. The Group has also arranged their employees to take their spare time to care for the elderlies and organised activities for the elderlies at nursing home and the disabled.

Hong Kong
10 August 2020

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