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中升集團控股有限公司  
**Zhongsheng Group Holdings Limited**  
*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 881)

**ANNOUNCEMENT OF INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

The board of directors (the “**Board**”) of Zhongsheng Group Holdings Limited (the “**Company**” or “**Zhongsheng Group**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2017, as follows:

**FINANCIAL HIGHLIGHTS**

- New car sales volume for the six-month period ended 30 June 2017 increased by 10.6% to 147,240 units as compared to the same period of 2016
- Revenue for the six-month period ended 30 June 2017 increased by 20.7% to RMB38,322.2 million as compared to the same period of 2016. Among which revenue from new car sales increased by 20.1% to RMB33,098.2 million, while revenue from after-sales and accessories business increased by 24.7% to RMB5,224.0 million as compared to the same period of 2016
- Gross profit for the six-month period ended 30 June 2017 increased by 35.1% to RMB3,816.9 million as compared to the same period of 2016. Gross profit margin increased to 10.0% for the six-month period ended 30 June 2017 (the same period of 2016: 8.9%)
- Gross profit from other value-added services for the six-month period ended 30 June 2017 increased by 39.0% to RMB737.8 million as compared to the same period of 2016
- Profit attributable to owners of the parent for the six-month period ended 30 June 2017 increased by 121.2% to RMB1,356.2 million as compared to the same period of 2016
- Basic earnings per share was RMB0.631 for the six-month period ended 30 June 2017 (the same period of 2016: RMB0.286)

## **MARKET REVIEW**

During the first half of 2017, the benefits of the reform policies were being unleashed continuously, stimulating the vitality and creativity of the market. An easily accessible, orderly, healthy and stable business environment was gradually formed. During the first half of this year, the operation of the national economy maintained within a reasonable range, operating steadily with a leveling-off of growth and rising trend, showing a promising development landscape.

In the first half of this year, the production volume and sales volume of passenger vehicles increased by 3.16% and 1.61% as compared to that of the corresponding period of last year to 11.4827 million units and 11.2530 million units, respectively, both with a declined growth rate as compared to that of the corresponding period of last year. In terms of the production volume and sales volume by types of passenger vehicles, the production volume and sales volume of SUVs maintained a rapid growth, while decreases showed in the production and sales volumes of sedans, MPVs, and cross-type passenger vehicles. In general, China's automobile industry has started to enter into a "new normal" growth period. However, in light of factors such as an enormous population, the enhancement of the consumption ability of residents and the relatively low penetration rate of automobiles, China remained as the world's largest market for new automobiles with huge room for future development.

Furthermore, according to the statistics from the Traffic Management Bureau of the Ministry of Public Security of the People's Republic of China (the "PRC"), as at the end of June 2017, national motor vehicle ownership reached 304 million units, among which, the number of owned automobiles reached 205 million units while the number of motor vehicle drivers reached 371 million, including 328 million automobile drivers. The ownership of motor vehicles continued to grow, and the number of new registrations was higher as compared to that of the corresponding period of last year. As the national economy and society continued to develop rapidly, the motor vehicle ownership maintained a rapid growth, which also filled us with confidence in the prospects of the new and second-hand automobile markets, as well as after-sales market services.

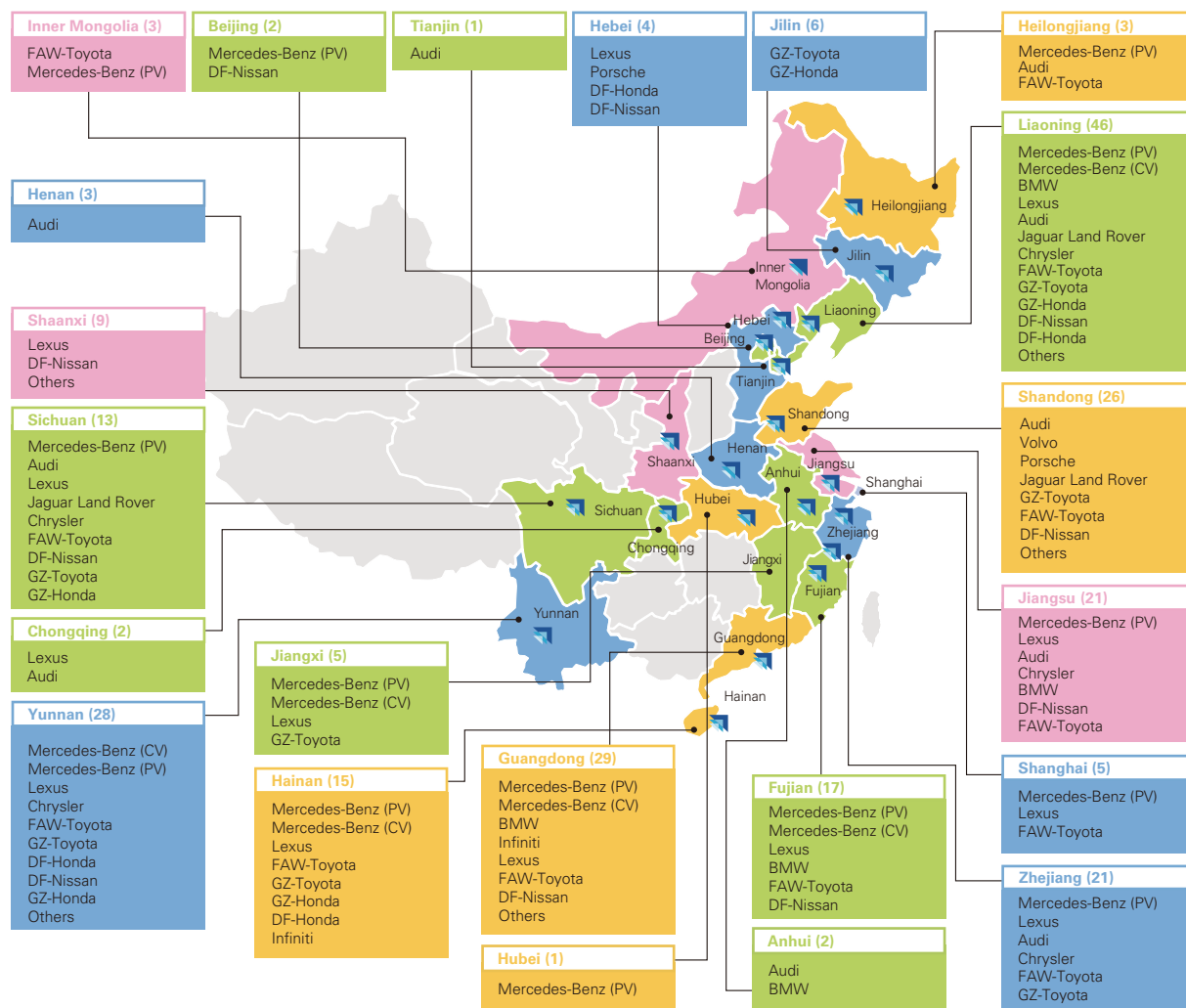
## **BUSINESS REVIEW**

### **Continuous Emerging Advantages in Brand Portfolio and Optimizing Geographical Layout**

In the first half of 2017, competition in the automobile market was intensifying with a gradual shift from price-oriented to product- and service-oriented. With the continuing concentration of automobile dealers, the transformation and upgrade of the industry also entered into a critical period. Along with the changes in China's automobile industry, automobile consumers in China also became more mature. With respect to its network layout and development, the Group always commits to the brand plus geographical strategy by further developing the existing brand portfolio and expanding into new regions while broadening existing regional advantages.

As of 30 June 2017, the total number of dealerships of the Group increased to 262, including 130 luxury brand dealerships and 132 mid-to-high-end brand dealerships, which were mainly located in regions with large populations, high consumption power, and high automobile ownership, covering 22 provinces, municipalities and regions, and more than 80 cities across China.

The coverage of Zhongsheng Group's dealerships as of 30 June 2017 is as follows:



	Luxury brand	Mid-to-high-end brand	Total
Northeastern and Northern China regions	21	41	62
Eastern and Central China regions	54	27	81
Southern China region	33	28	61
Southwestern and Northwestern inland regions	22	36	58
<b>Total</b>	<b>130</b>	<b>132</b>	<b>262</b>

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

## **Comprehensive Development of Business with Support from Multiple Policies**

In the first half of this year, multiple policies have been issued successively, providing a better direction for the development of the industry. The Administrative Measures regarding the Sales of Automobile (《汽車銷售管理辦法》) published by the Ministry of Commerce of the PRC on 14 April 2017 and implemented on 1 July 2017 provided a strong legal protection for the orderly and healthy development of the dealership industry. Additionally, the Notice in Relation to Enhancing the Regulation on the Fulfilment of Environmental Standards of Second-hand Automobiles (《關於加強二手車環保達標監管工作的通知》) unified the standards regarding cancelling the restriction on second-hand automobile relocation, meaning that the obstacle to cross-city distribution of second-hand automobiles would be removed, hugely benefiting the development of the second-hand automobile industry. A national-wide market of second-hand automobiles in the true sense is expected to be formed accordingly.

“Growth” was the theme of China’s luxury automobile market for the first half of 2017. According to statistics, in the first half of this year, the top 12 luxury automobile brands in terms of domestic sales volume achieved an accumulated sales volume of 1,205,524 units, representing an increase of 18.4% as compared to the corresponding period of last year. Such growth rate far surpassed the average of the industry and also exceeded industry expectations. However, it fully matched our conception of China’s automobile consumption market trend, which indicated the emergence of demands for upgrade and replacement, as well as changes in the young consumers’ consumption habits.

Benefited from the favorable policies of China’s automobile industry, as well as the positive momentum in the luxury automobile market, Zhongsheng Group achieved remarkable results. The Group seized opportunities at the right time, continuously improved operational and management efficiency and formulated precise strategic positioning by steadily implementing its business plan for dealerships, which stimulating the overall development in several businesses such as new automobile sales, after-sales services, second-hand automobiles, car insurance and car finance. For the first half of 2017, Zhongsheng Group’s new automobiles sales volume reached 147,240 units, representing an increase of 10.6% as compared to the corresponding period of last year, among which, the sales volume of new automobiles of luxury brands reached 63,675 units, representing an increase of 20.8% as compared to the corresponding period of last year. Revenue from new automobiles increased by 20.1% as compared to the corresponding period of last year, reaching RMB33,098.2 million. Revenue from after-sales and accessories business reached RMB5,224.0 million, representing an increase of 24.7% as compared to the corresponding period of last year. Gross profit of other value-added services, mainly including insurance, finance, and second-hand automobiles reached RMB737.8 million, representing a substantial increase of 39.0% as compared to the corresponding period of last year.

## **FUTURE STRATEGIES AND OUTLOOK**

Leveraging on the solid business foundation, increasingly optimized distribution network and highly efficient operational management of the Group, we have made certain achievements in the challenging market. However, we would not be complacent. On the contrary, we are still working hard, continually enhancing and strengthening our advantages. Looking forward, the Group will seize the industry’s cyclical changes, further boost the sales of new and second-hand automobiles and expand the after-sales services business, actively broadening the development space, continuing to optimize the earnings portfolio, raising our profit margin, so as to consolidate our leading position in the automobile dealership industry.

**Consolidated Interim Statement of Profit or Loss**  
*For the six months ended 30 June 2017*

		<b>Unaudited</b>	
		<b>For the six months ended 30 June 2017</b>	<b>For the six months ended 30 June 2016</b>
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>REVENUE</b>	4(a)	<b>38,322,193</b>	31,742,203
Cost of sales and services provided	5(b)	<b>(34,505,332)</b>	(28,917,552)
<b>Gross profit</b>		<b>3,816,861</b>	2,824,651
Other income and gains, net	4(b)	<b>767,440</b>	560,972
Selling and distribution costs		<b>(1,500,386)</b>	(1,366,017)
Administrative expenses		<b>(550,120)</b>	(572,466)
<b>Profit from operations</b>		<b>2,533,795</b>	1,447,140
Finance costs	6	<b>(527,147)</b>	(487,027)
Share of profits of joint ventures		<b>2,430</b>	1,197
<b>Profit before tax</b>	5	<b>2,009,078</b>	961,310
Income tax expense	7	<b>(562,396)</b>	(281,905)
<b>Profit for the period</b>		<b>1,446,682</b>	679,405
<b>Attributable to:</b>			
Owners of the parent		<b>1,356,151</b>	612,981
Non-controlling interests		<b>90,531</b>	66,424
		<b>1,446,682</b>	679,405
<b>Earnings per share attributable to ordinary equity holders of the parent</b>			
Basic			
– For profit for the period (RMB)	9	<b>0.631</b>	0.286
Diluted			
– For profit for the period (RMB)	9	<b>0.612</b>	0.286

The notes on pages 13 to 33 form an integral part of these condensed consolidated interim financial statements.

**Consolidated Interim Statement of Comprehensive Income**  
*For the six months ended 30 June 2017*

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	For the six months ended 30 June 2016 RMB'000
<b>Profit for the period</b>	<b>1,446,682</b>	679,405
<b>Other comprehensive gain/(loss)</b> <i>Other comprehensive gain/(loss) to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	<b>141,739</b>	(81,139)
<b>Net other comprehensive gain/(loss) to be reclassified to profit or loss in subsequent periods</b>	<b>141,739</b>	(81,139)
<b>Other comprehensive gain/(loss) for the period, net of tax</b>	<b>141,739</b>	(81,139)
<b>Total comprehensive income for the period</b>	<b>1,588,421</b>	598,266
<b>Attributable to:</b>		
Owners of the parent	<b>1,497,890</b>	531,842
Non-controlling interests	<b>90,531</b>	66,424
	<b>1,588,421</b>	598,266

The notes on pages 13 to 33 form an integral part of these condensed consolidated interim financial statements.

**Consolidated Interim Statement of Financial Position**  
30 June 2017

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2017</b>	2016
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>9,026,214</b>	8,810,138
Land use rights		<b>1,954,815</b>	1,953,734
Prepayments		<b>969,848</b>	999,506
Intangible assets		<b>3,793,324</b>	3,306,307
Goodwill		<b>2,950,011</b>	2,732,547
Investments in joint ventures		<b>40,449</b>	48,019
Deferred tax assets		<b>299,159</b>	307,243
		<hr/>	<hr/>
Total non-current assets		<b>19,033,820</b>	18,157,494
<b>CURRENT ASSETS</b>			
Inventories	<i>10</i>	<b>8,198,653</b>	6,529,742
Trade receivables	<i>11</i>	<b>859,331</b>	1,149,141
Prepayments, deposits and other receivables		<b>8,217,724</b>	8,062,394
Amounts due from related parties	<i>20(b)(i)</i>	<b>469</b>	952
Available-for-sale investments		<b>27,600</b>	25,850
Pledged bank deposits		<b>1,148,864</b>	1,241,999
Cash in transit		<b>233,848</b>	320,223
Cash and cash equivalents		<b>4,392,376</b>	4,157,264
		<hr/>	<hr/>
Total current assets		<b>23,078,865</b>	21,487,565
<b>CURRENT LIABILITIES</b>			
Bank loans and other borrowings	<i>12</i>	<b>16,054,070</b>	13,382,299
Trade and bills payables	<i>13</i>	<b>3,223,841</b>	4,057,369
Convertible bonds, current portion	<i>14</i>	<b>–</b>	2,753,130
Other payables and accruals		<b>1,786,678</b>	2,011,732
Other liabilities		<b>245,000</b>	245,000
Amounts due to related parties	<i>20(b)(ii)</i>	<b>628</b>	820
Income tax payable		<b>1,204,220</b>	1,133,583
Dividends payable		<b>558,908</b>	9
		<hr/>	<hr/>
Total current liabilities		<b>23,073,345</b>	23,583,942
		<hr/>	<hr/>
Net current assets/(liabilities)		<b>5,520</b>	(2,096,377)
		<hr/>	<hr/>
Total assets less current liabilities		<b>19,039,340</b>	16,061,117

The notes on pages 13 to 33 form an integral part of these condensed consolidated interim financial statements.



**Consolidated Interim Statement of Financial Position (Continued)**  
30 June 2017

	<i>Notes</i>	<b>Unaudited 30 June 2017 RMB'000</b>	Audited 31 December 2016 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Bank loans and other borrowings	12	2,575,483	1,893,273
Deferred tax liabilities		<u>1,206,012</u>	<u>1,068,885</u>
Total non-current liabilities		<u>3,781,495</u>	<u>2,962,158</u>
Net assets		<u>15,257,845</u>	<u>13,098,959</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	15	197	186
Reserves		<u>14,330,695</u>	<u>12,218,142</u>
		<u>14,330,892</u>	<u>12,218,328</u>
<b>Non-controlling interests</b>		<u>926,953</u>	<u>880,631</u>
<b>Total equity</b>		<u>15,257,845</u>	<u>13,098,959</u>

The notes on pages 13 to 33 form an integral part of these condensed consolidated interim financial statements.



## Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2017

Unaudited  
Attributable to owners of the parent

	Share capital	Share premium	Equity component of convertible bonds	Discretionary reserve fund	Statutory reserve	Merger reserve	Other reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2016</b>	186	6,277,615	203,729	37,110	714,398	(1,386,176)	(129,732)	(221,643)	5,773,024	11,268,511	1,347,484	12,615,995
Profit for the period	-	-	-	-	-	-	-	-	612,981	612,981	66,424	679,405
Other comprehensive loss for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(81,139)	-	(81,139)	-	(81,139)
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	-	(81,139)	612,981	531,842	66,424	598,266
Disposal of subsidiaries	-	-	-	-	(57,872)	-	-	-	57,872	-	(633,058)	(633,058)
Acquisition of non-controlling interests	-	-	-	-	-	-	(339,117)	-	-	(339,117)	(266,589)	(605,706)
Non-controlling interests arising from business combination	-	-	-	-	-	-	-	-	-	-	345,056	345,056
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(3,797)	(3,797)
Put option over non-controlling interests	-	-	-	-	-	-	(173,949)	-	-	(173,949)	-	(173,949)
Final 2015 dividend declared	-	(90,153)	-	-	-	-	-	-	-	(90,153)	-	(90,153)
<b>At 30 June 2016</b>	<u>186</u>	<u>6,187,462</u>	<u>203,729</u>	<u>37,110</u>	<u>656,526</u>	<u>(1,386,176)</u>	<u>(642,798)</u>	<u>(302,782)</u>	<u>6,443,877</u>	<u>11,197,134</u>	<u>855,520</u>	<u>12,052,654</u>
<b>At 1 January 2017</b>	186	6,187,462	203,729	37,110	854,738	(1,386,176)	(670,052)	(501,581)	7,492,912	12,218,328	880,631	13,098,959
Profit for the period	-	-	-	-	-	-	-	-	1,356,151	1,356,151	90,531	1,446,682
Other comprehensive gain for the period:												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	141,739	-	141,739	-	141,739
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	-	141,739	1,356,151	1,497,890	90,531	1,588,421
Issue of shares	11	1,175,867	-	-	-	-	-	-	-	1,175,878	-	1,175,878
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(44,209)	(44,209)
Final 2016 dividend declared	-	(561,204)	-	-	-	-	-	-	-	(561,204)	-	(561,204)
Transfer of equity component of convertible bonds upon the redemption of convertible bonds	-	-	(203,729)	-	-	-	203,729	-	-	-	-	-
<b>At 30 June 2017</b>	<u>197</u>	<u>6,802,125</u>	<u>-</u>	<u>37,110</u>	<u>854,738</u>	<u>(1,386,176)</u>	<u>(466,323)</u>	<u>(359,842)</u>	<u>8,849,063</u>	<u>14,330,892</u>	<u>926,953</u>	<u>15,257,845</u>

The notes on pages 13 to 33 form an integral part of these condensed consolidated interim financial statements.

**Consolidated Interim Statement of Cash Flows**  
*For the six months ended 30 June 2017*

		<b>Unaudited</b>	
		<b>For the six</b>	For the six
		<b>months ended</b>	months ended
		<b>30 June 2017</b>	30 June 2016
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Operating activities</b>			
Profit before tax		<b>2,009,078</b>	961,310
Adjustments for:			
– Share of profits of joint ventures		<b>(2,430)</b>	(1,197)
– Depreciation and impairment of property, plant and equipment	5(c)	<b>334,691</b>	336,797
– Amortisation of land use rights	5(c)	<b>24,519</b>	21,833
– Amortisation of intangible assets	5(c)	<b>84,944</b>	74,769
– Impairment of intangible assets	5(c)	–	10,802
– Reversal of inventory provision	5(c)	<b>(2,505)</b>	(1,787)
– Interest income	4(b)	<b>(7,752)</b>	(16,822)
– Net loss on disposal of items of property, plant and equipment	4(b)	<b>56,760</b>	51,935
– Finance costs	6	<b>527,147</b>	487,027
– Net loss/(gain) on disposal of subsidiaries	4(b)	<b>6,302</b>	(11)
– Impairment of goodwill	5(c)	–	25,835
		<b>3,030,754</b>	1,950,491
Decrease in cash in transit		<b>93,562</b>	12,912
Decrease in trade receivables		<b>312,560</b>	306,947
Decrease/(increase) in prepayments, deposits and other receivables		<b>135,022</b>	(19,916)
Increase in inventories		<b>(1,501,652)</b>	(309,821)
Decrease in trade payables		<b>(87,371)</b>	(97,784)
Decrease in other payables and accruals		<b>(424,374)</b>	(148,405)
Decrease in amounts due from related parties – trade related		<b>483</b>	298
(Decrease)/increase in amounts due to related parties – trade related		<b>(192)</b>	117
<b>Cash generated from operations</b>		<b>1,558,792</b>	1,694,839
Tax paid		<b>(488,732)</b>	(165,535)
<b>Net cash generated from operating activities</b>		<b>1,070,060</b>	1,529,304

The notes on pages 13 to 33 form an integral part of these condensed consolidated interim financial statements.

**Consolidated Interim Statement of Cash Flows (Continued)**  
*For the six months ended 30 June 2017*

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	<b>For the six months ended 30 June 2016 RMB'000</b>
<b>Investing activities</b>		
Purchase of items of property, plant and equipment	<b>(835,699)</b>	(612,515)
Proceeds from disposal of items of property, plant and equipment	<b>250,988</b>	217,704
Purchase of land use rights	<b>(48,587)</b>	(15,076)
Purchase of intangible assets	<b>(179)</b>	(4,508)
Redemption of available-for-sale investments, net	<b>9,250</b>	16,695
Prepayments for the potential acquisitions of equity interests from third parties	<b>(314,230)</b>	(15,000)
Acquisitions of subsidiaries	<b>(242,448)</b>	(137,030)
Increase in prepayments, deposits and other receivables	<b>(27,475)</b>	(22,000)
Dividends received from a joint venture	<b>10,000</b>	–
Disposal of subsidiaries	<b>2,549</b>	(516,873)
Interest received	<b>8,344</b>	17,981
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(1,187,487)</b>	<b>(1,070,622)</b>
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The notes on pages 13 to 33 form an integral part of these condensed consolidated interim financial statements.

**Consolidated Interim Statement of Cash Flows (Continued)**  
*For the six months ended 30 June 2017*

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	<b>For the six months ended 30 June 2016 RMB'000</b>
<b>Financing activities</b>		
Proceeds from issue of new shares	<b>1,175,878</b>	–
Proceeds from bank loans and other borrowings	<b>26,851,398</b>	17,564,709
Repayments of bank loans and other borrowings	<b>(23,595,695)</b>	(17,623,331)
Decrease in pledged bank deposits	<b>138,859</b>	208,809
Decrease in notes payables	<b>(867,499)</b>	(556,849)
Redemption of convertible bonds	<b>(2,735,297)</b>	–
Repayment of short-term bonds	–	(400,000)
Repayment of bonds payable	–	(600,000)
Interest paid for bank loan and other borrowings	<b>(513,060)</b>	(432,291)
Interest paid for convertible bonds	<b>(38,978)</b>	(36,984)
Interest paid for short term bonds	–	(23,680)
Interest paid for bonds payable	–	(42,000)
Capital element of finance lease rental payments	<b>(1,546)</b>	(8,467)
Dividends paid to the non-controlling shareholders	<b>(44,209)</b>	(3,797)
	<hr/>	<hr/>
<b>Net cash generated from/(used in) financing activities</b>	<b>369,851</b>	(1,953,881)
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>252,424</b>	(1,495,199)
	<hr/>	<hr/>
Cash and cash equivalents at beginning of each period	<b>4,157,264</b>	4,464,517
Effect of foreign exchange rate changes, net	<b>(17,312)</b>	1,780
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of each period</b>	<b>4,392,376</b>	2,971,098
	<hr/>	<hr/>

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## Notes to the Condensed Consolidated Interim Financial Statements

30 June 2017

### 1. GENERAL INFORMATION

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

The Company was incorporated on 23 June 2008 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands. The Company has established a principal place of business which is located at Rooms 3504–12, 35/F, 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 statements were 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 21 August 2017. 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 2017 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

#### 2.2 Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the new and revised standards and interpretation effective as of 1 January 2017, noted below.

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
*30 June 2017*

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)**

**2.2 Significant accounting policies (Continued)**

The following new standard and amendment to standards are mandatory for the first time for the financial year beginning 1 January 2017:

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>

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

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

**Information about major customers**

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the six months ended 30 June 2017, no major customers segment information is presented in accordance with HKFRS 8 *Operating Segments*.

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**4. REVENUE, OTHER INCOME AND GAINS, NET**

**(a) Revenue**

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	<b>For the six months ended 30 June 2016 RMB'000</b>
Revenue from the sale of motor vehicles	33,098,191	27,553,189
Others	5,224,002	4,189,014
	<u>38,322,193</u>	<u>31,742,203</u>

**(b) Other income and gains, net**

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	<b>For the six months ended 30 June 2016 RMB'000</b>
Commission income	737,780	530,818
Rental income	12,951	10,064
Government grants	2,358	2,135
Interest income	7,752	16,822
Net loss on disposal of items of property, plant and equipment	(56,760)	(51,935)
Net (loss)/gain on disposal of subsidiaries	(6,302)	11
Others	69,661	53,057
	<u>767,440</u>	<u>560,972</u>



**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**5. PROFIT BEFORE TAX**

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

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	<b>For the six months ended 30 June 2016 RMB'000</b>
<b>(a) Employee benefit expense (including directors' remuneration)</b>		
Wages and salaries	1,287,214	824,583
Pension scheme contributions	146,312	145,443
Other welfare	79,809	74,892
	<u>1,513,335</u>	<u>1,044,918</u>
<b>(b) Cost of sales and services</b>		
Cost of sales of motor vehicles	31,841,485	26,730,977
Others	2,663,847	2,186,575
	<u>34,505,332</u>	<u>28,917,552</u>
<b>(c) Other items</b>		
Depreciation and impairment of property, plant and equipment	334,691	336,797
Amortisation of land use rights	24,519	21,833
Amortisation of intangible assets	84,944	74,769
Business promotion and advertisement expenses	245,545	274,321
Office expenses	99,599	88,354
Lease expenses	137,667	118,651
Logistics expenses	53,058	64,865
Reversal of inventory provision	(2,505)	(1,787)
Net loss on disposal of items of property, plant and equipment	56,760	51,935
Impairment of goodwill	–	25,835
Impairment of intangible assets	–	10,802
Net loss/(gain) on disposal of subsidiaries	<u>6,302</u>	<u>(11)</u>

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**6. FINANCE COSTS**

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	<b>For the six months ended 30 June 2016 RMB'000</b>
Interest expense on bank borrowings	458,258	400,050
Interest expense on short-term bonds	–	8,703
Interest expense on bonds payable	–	19,354
Interest expense on convertible bonds	50,744	74,834
Interest expense on other borrowings	61,321	34,240
Interest expense on finance leases	423	46
Less: Interest capitalised	(43,599)	(50,200)
	<u>527,147</u>	<u>487,027</u>

**7. INCOME TAX EXPENSE**

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	<b>For the six months ended 30 June 2016 RMB'000</b>
Current Mainland China corporate income tax	555,569	293,389
Deferred tax	6,827	(11,484)
	<u>562,396</u>	<u>281,905</u>

**8. DIVIDENDS**

The Directors of the Company proposed not to declare any interim dividend for the six months ended 30 June 2017.

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

The calculation of basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary share of 2,149,171,206 (six months ended 30 June 2016: 2,146,506,957) in issue during the period.

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

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)**

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

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	<b>For the six months ended 30 June 2016 RMB'000</b>
<b><u>Earnings</u></b>		
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	<b>1,356,151</b>	612,981
Interest on convertible bonds	<b>50,744</b>	74,834
	<hr/>	<hr/>
Profit attributable to equity holders of the parent before interest on convertible bonds	<b>1,406,895</b>	687,815
	<hr/>	<hr/>
<b><u>Shares</u></b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<b>2,149,171,206</b>	2,146,506,957
Effect of dilution – weighted average number of ordinary shares: Convertible bonds	<b>150,253,422</b>	238,560,258
	<hr/>	<hr/>
Weighted average number of ordinary shares used in diluted earnings per share calculation	<b>2,299,424,628</b>	2,385,067,215
	<hr/>	<hr/>
<b><u>Earnings per share (RMB)</u></b>		
Basic	<b>0.631</b>	0.286
Diluted	<b>0.612</b>	0.286

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**10. INVENTORIES**

	<b>Unaudited</b> <b>30 June</b> <b>2017</b> <b>RMB'000</b>	Audited 31 December 2016 <i>RMB'000</i>
Motor vehicles	<b>7,517,111</b>	5,839,065
Spare parts and others	<b>682,595</b>	694,235
	<b>8,199,706</b>	6,533,300
Less: provision for inventories	<b>1,053</b>	3,558
	<b>8,198,653</b>	6,529,742

**11. TRADE RECEIVABLES**

	<b>Unaudited</b> <b>30 June</b> <b>2017</b> <b>RMB'000</b>	Audited 31 December 2016 <i>RMB'000</i>
Trade receivables	<b>859,331</b>	1,149,141

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

An aged analysis of the trade receivables as at each end of reporting period (based on the invoice date) is as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2017</b> <b>RMB'000</b>	Audited 31 December 2016 <i>RMB'000</i>
Within 3 months	<b>800,344</b>	1,089,745
More than 3 months but less than 1 year	<b>14,384</b>	14,490
Over 1 year	<b>44,603</b>	44,906
	<b>859,331</b>	1,149,141

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**12. BANK LOANS AND OTHER BORROWINGS**

	<b>Unaudited</b> <b>30 June</b> <b>2017</b> <b>RMB'000</b>	Audited 31 December 2016 <i>RMB'000</i>
Bank loans and overdrafts repayable:		
– within one year or on demand	<b>13,419,790</b>	11,169,201
– in the second year	<b>829,320</b>	208,720
– in the third to fifth years	<b>939,814</b>	645,000
	<b>15,188,924</b>	12,022,921
Other borrowings repayable		
– within one year	<b>2,229,534</b>	1,865,029
Syndicated term loan		
– within one year or on demand	<b>402,806</b>	345,955
– In the second year	<b>805,611</b>	1,037,866
	<b>1,208,417</b>	1,383,821
Finance lease payables		
– within one year	<b>1,940</b>	2,114
– in the second year	<b>738</b>	1,687
	<b>2,678</b>	3,801
Total bank loans and other borrowings	<b>18,629,553</b>	15,275,572
Less: Portion classified as current liabilities	<b>16,054,070</b>	13,382,299
Long-term portion	<b>2,575,483</b>	1,893,273

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**13. TRADE AND BILLS PAYABLES**

	<b>Unaudited</b> <b>30 June</b> <b>2017</b> <b>RMB'000</b>	Audited 31 December 2016 <i>RMB'000</i>
Trade payables	<b>970,932</b>	1,007,924
Bills payable	<b>2,252,909</b>	3,049,445
	<hr/> <b>3,223,841</b> <hr/>	<hr/> 4,057,369 <hr/>

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

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

	<b>Unaudited</b> <b>30 June</b> <b>2017</b> <b>RMB'000</b>	Audited 31 December 2016 <i>RMB'000</i>
Within 3 months	<b>2,951,168</b>	3,808,531
3 to 6 months	<b>263,946</b>	242,724
6 to 12 months	<b>4,808</b>	4,101
Over 12 months	<b>3,919</b>	2,013
	<hr/> <b>3,223,841</b> <hr/>	<hr/> 4,057,369 <hr/>

**14. CONVERTIBLE BONDS**

On 25 April 2014, the Company issued convertible bonds with a nominal value of HK\$3,091,500,000 2.85%. The bonds are convertible at the option of the bondholders into ordinary shares on or after the date falling 180 days after the issue date up to the close of business on the date falling ten days prior to the maturity at a conversion price of HK\$12.95899 per share. The bonds are redeemable at the option of the bondholders at 100% of its principal amount together with interest accrued and unpaid to such date on 25 April 2017. The bonds carry interest at a rate of 2.85% per annum, which is payable semi-annually in arrears on 25 October and 25 April.

There was no conversion of the convertible bonds during the period. On 25 April 2017, all convertible bonds were fully redeemed.

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.

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**14. CONVERTIBLE BONDS (Continued)**

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

	<b>Unaudited 30 June 2017 RMB'000</b>	Audited 31 December 2016 RMB'000
Nominal value of convertible bonds issued during year 2014	<b>2,455,238</b>	2,455,238
Equity component	<b>(204,139)</b>	(204,139)
Direct transaction costs attributable to the liability component	<b>(4,520)</b>	(4,520)
	<hr/>	<hr/>
Liability component at the issuance date	<b>2,246,579</b>	2,246,579
Interest expense	<b>439,054</b>	388,310
Interest paid	<b>(220,305)</b>	(181,327)
Repayment of convertible bonds	<b>(2,735,297)</b>	–
Exchange realignment	<b>269,969</b>	299,568
	<hr/>	<hr/>
Liability component at the end of the period/year	–	2,753,130
Less: portion classified as current liabilities	–	2,753,130
	<hr/>	<hr/>
Long-term portion	<hr/> <b>–</b> <hr/>	<hr/> <b>–</b> <hr/>

**15. SHARE CAPITAL**

	<b>Unaudited 30 June 2017</b>	Audited 31 December 2016
Authorised:		
1,000,000,000,000 shares of HK\$0.0001 each (HK\$'000)	<b>100,000</b>	100,000
Issued and fully paid:		
2,267,064,220 (2016: 2,146,506,957) ordinary shares (HK\$'000)	<b>227</b>	215
Equivalent to RMB'000	<b>197</b>	186

On 13 April 2017, the Company entered into a subscription agreement with Jardine Strategic Holdings Limited (the “Investor”), according to which the Company agreed to issue, and the Investor agreed to subscribe for, 120,557,263 shares of the Company (the “Subscription Shares”) at an aggregate subscription price of HK\$1,344,290,639 (the “Placing”). The Placing was completed on 26 June 2017 and the Subscription Shares were successfully placed and issued to JSH Investment Holdings Limited, a wholly-owned subsidiary of the Investor and an existing shareholder of the Company. Upon completion of the Placing, the total number of issued shares of the Company has increased to 2,267,064,220.



**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**16. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES**

- (a) As part of the Group's plan to expand its motor vehicle sales and service business in Jiangsu province, the Group acquired 100% of the equity interests of the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from a third party on 1 January 2017 at a total consideration of RMB675,383,000. The purchase consideration for the acquisition was in the form of cash, with RMB675,383,000 paid by the end of June 2017.

<b>Company Name</b>	<b>Acquired equity interest %</b>
藍永投資有限公司 (Lanyong Investments Limited)	100%
藍永有限公司 (Lanyong Limited)	100%
常熟中川汽車銷售服務有限公司 (Changshu Zhongchuan Automobile Sales & Service Co., Ltd.)	100%
蘇州海星汽車銷售服務有限公司 (Suzhou Haixing Automobile Sales & Service Co., Ltd.)	100%
蘇州海星高新汽車銷售服務有限公司 (Suzhou Haixing Gaoxin Automobile Sales & Service Co., Ltd.)	100%
張家港海星汽車銷售服務有限公司 (Zhangjiagang Haixing Automobile Sales & Service Co., Ltd.)	100%
張家港海昌汽車銷售服務有限公司 (Zhangjiagang Haichang Automobile Sales & Service Co., Ltd.)	100%
常熟海邦汽車銷售服務有限公司 (Changshu Haibang Automobile Sales & Service Co., Ltd.)	100%

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**16. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES (Continued)**

(a) (Continued)

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

	<b>Recognised fair values on acquisition date RMB'000</b>
Property, plant and equipment*	92,961
Land use rights*	25,170
Intangible assets*	521,700
Available-for-sale investments	11,000
Deferred tax assets	8,906
Inventories	145,533
Trade receivables	20,122
Prepayments, deposits and other receivables	40,878
Pledged bank deposits	45,715
Cash in transit	6,641
Cash and cash equivalents	138,432
Trade and bills payables	(113,187)
Other payables and accruals	(204,959)
Bank loans and other borrowings	(132,225)
Income tax payable	(3,469)
Deferred tax liabilities*	(135,315)
	<hr/>
Total identifiable net assets	467,903
	<hr/>
Goodwill on acquisition*	207,480
	<hr/>
Total purchase consideration	675,383
	<hr/>

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

Cash consideration paid	(675,383)
Cash and cash equivalents acquired	138,432
	<hr/>
Net cash outflow	(536,951)
	<hr/>

Since the acquisition, the acquired business contributed RMB1,097,099,000 to the Group's revenue and RMB103,054,000 to the consolidated profit for the six months ended 30 June 2017.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the period would have been RMB38,322,193,000 and RMB1,446,682,000, respectively.

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**16. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES (Continued)**

- (b) As part of the Group's plan to expand its motor vehicle sales and service business in Jiangxi, Hainan and Guangdong provinces, 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 three third parties on 1 January 2017 at a total consideration of RMB6,083,000. The purchase consideration for the acquisition was in the form of cash, with RMB5,339,000 paid by the end of June 2017.

<b>Company Name</b>	<b>Acquired equity interest%</b>
安泰控股(香港)有限公司 (Foremostar Holdings (HK) Limited)	100%
安泰汽車有限公司 (Foremostar Motors Limited)	100%
佛山泰雄星汽車維修有限公司 (Foshan Taixiongxing Automobile Sales & Service Co., Ltd.)	100%
安泰控股(東莞)有限公司 (Foremostar Holdings (Dongguan) Limited)	100%
東莞泰雄星汽車銷售服務有限公司 (Dongguan Taixiongxing Automobile Sales & Service Co., Ltd.)	100%
星諾(海南)有限公司 (Vstar (Hainan) Co., Limited)	100%
海南南星汽車銷售服務有限公司 (Hainan Nanxing Automobile Sales & Service Co., Ltd.)	100%
安泰控股(南昌)有限公司 (Foremostar Holdings (Nanchang) Limited)	100%
泰雄星(南昌)汽車銷售服務有限公司 (Taixiongxing (Nanchang) Automobile Sales & Service Co., Ltd.)	100%

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**16. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES (Continued)**

(b) (Continued)

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

	<b>Recognised fair values on acquisition date RMB'000</b>
Property, plant and equipment*	55,848
Intangible assets*	29,745
Inventories	14,472
Trade receivables	1,961
Prepayments, deposits and other receivables	33,236
Cash and cash equivalents	14,574
Trade and bills payables	(1,396)
Other payables and accruals	(85,910)
Bank loans and other borrowings	(56,081)
Income tax payable	(329)
Deferred tax liabilities*	(6,888)
	<hr/>
Total identifiable net liabilities at fair value	(768)
Goodwill on acquisition*	6,851
	<hr/>
Total purchase consideration	<b>6,083</b>

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

Cash consideration paid	(5,340)
Cash and cash equivalents acquired	14,574
	<hr/>
Net cash inflow	<b>9,234</b>

Since the acquisition, the acquired business contributed RMB151,270,000 to the Group's revenue and RMB5,041,000 to the consolidated profit for the six months ended 30 June 2017.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the period would have been RMB38,322,193,000 and RMB1,446,682,000, respectively.

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**16. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES (Continued)**

- (c) As part of the Group's plan to expand its motor vehicle sales and service business in Sichuan province, the Group acquired 100% of the equity interests of Mianyang Jiacheng Jiaxin Automobile Sales & Service Co., Ltd. (綿陽嘉程佳信汽車銷售服務有限公司) which is engaged in the motor vehicle sales and service business in China, from a third party on 31 January 2017 at a total consideration of RMB30,000,000. The purchase consideration for the acquisition was in the form of cash, with RMB28,000,000 paid by the end of June 2017.

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

	<b>Recognised fair values on acquisition date RMB'000</b>
Property, plant and equipment*	4,425
Intangible assets*	25,700
Inventories	5,594
Trade receivables	672
Prepayments, deposits and other receivables	1,352
Cash in transit	559
Cash and cash equivalents	1,160
Trade and bills payables	(6,762)
Other payables and accruals	(1,999)
Deferred tax liabilities*	(6,435)
	<hr/>
Total identifiable net assets at fair value	24,266
	<hr/>
Goodwill on acquisition*	5,734
	<hr/>
Total purchase consideration	30,000
	<hr/>

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

Cash consideration paid	(28,000)
Cash and cash equivalents acquired	1,160
	<hr/>
Net cash outflow	(26,840)
	<hr/>

Since the acquisition, the acquired business contributed RMB32,224,000 to the Group's revenue and a loss of RMB462,000 to the consolidated profit for the six months ended 30 June 2017.

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**16. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES (Continued)**

(c) (Continued)

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the period would have been RMB38,332,492,000 and RMB1,446,371,000, respectively.

\* 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 notes 16(a), (b), (c). However, the valuation was not finalized and hence the initial accounting for the business combination of these companies was incomplete by the date of this announcement. Therefore, these amounts recognized in the Group's interim financial statements for the six months ended 30 June 2017 in relation to the acquisition of these companies were on a provisional basis.

**17. DISPOSAL OF A SUBSIDIARY**

	<i>Note</i>	<b>Unaudited 30 June 2017 RMB'000</b>
Net assets disposed of:		
Property, plant and equipment		1,189
Intangible assets		5,363
Inventories		845
Prepayments, deposits and other receivables		356
Trade receivables		5
Cash and cash equivalents		251
Cash in transit		13
Trade and bills payables		(3)
Other payables and accruals		(172)
Deferred tax liabilities		(1,346)
		<hr/> 6,501
Goodwill		2,601
Loss on disposal of a subsidiary	4(b)	<hr/> (6,302)
Total consideration		<hr/> <b>2,800</b> <hr/>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	<b>Unaudited 30 June 2017 RMB'000</b>
Cash consideration received	2,800
Cash and bank balances disposed of	<hr/> (251)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<hr/> <b>2,549</b> <hr/>

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**18. CONTINGENT LIABILITIES**

As at 30 June 2017, neither the Group nor the Company had any significant contingent liabilities.

**19. COMMITMENTS**

**(a) Capital commitments**

	<b>Unaudited 30 June 2017 RMB'000</b>	Audited 31 December 2016 RMB'000
Contracted, but not provided for land use rights and buildings	<b>99,929</b>	278,064
Contracted, but not provided for potential acquisitions	<b>251,593</b>	359,617
	<b>351,522</b>	637,681

**(b) Operating lease commitments**

At the end of the reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	<b>Unaudited 30 June 2017</b>		Audited 31 December 2016	
	<b>Properties RMB'000</b>	<b>Land RMB'000</b>	Properties RMB'000	Land RMB'000
Within one year	<b>119,080</b>	<b>131,573</b>	106,807	124,341
After 1 year but within 5 years	<b>371,009</b>	<b>510,271</b>	304,158	501,991
After 5 years	<b>525,254</b>	<b>919,490</b>	286,184	964,036
	<b>1,015,343</b>	<b>1,561,334</b>	697,149	1,590,368

The Group is the lessee in respect of a number of properties and land held under operating leases. The leases typically run for an initial period of two to twenty years, with an option to renew the leases when all the terms are renegotiated.



**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**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 2017:

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	<b>For the six months ended 30 June 2016 RMB'000</b>
(i) Sales of goods to a joint venture:		
– Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd.	<b>689</b>	5,464
(ii) Purchase of goods or services from joint ventures:		
– Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd.	<b>873</b>	853
– TAC Automobile Accessories Trading (Shanghai) Co., Ltd.	–	885
	<b>873</b>	1,738

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**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 2017:

	<b>Unaudited 30 June 2017 RMB'000</b>	Audited 31 December 2016 RMB'000
(i) Due from related parties:		
Trade related		
Joint ventures		
– Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd.	469	882
– Zhongsheng Tacti	–	70
	<u>469</u>	<u>952</u>
(ii) Due to related parties:		
Trade related		
Joint ventures		
– Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd.	2	–
– Zhongsheng Tacti Automobile Services (Dalian) Co., Ltd.	172	172
– TAC Automobile Accessories Trading (Shanghai) Co., Ltd.	454	648
	<u>628</u>	<u>820</u>

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

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)**

**(c) Compensation of key management personnel of the Group:**

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2017 RMB'000</b>	<b>For the six months ended 30 June 2016 RMB'000</b>
Short term employee benefits	<b>9,156</b>	10,836
Post-employee benefits	<b>264</b>	281
Total compensation paid to key management personnel	<b><u>9,420</u></b>	<u>11,117</u>

**21. FINANCIAL INSTRUMENTS BY CATEGORY**

The fair value of financial assets and financial liabilities, together with the carrying amounts in the consolidated statement of financial position, are as follows:

	<b>Unaudited 30 June 2017</b>		<b>Audited 31 December 2016</b>	
	<b>Carrying amount RMB'000</b>	<b>Fair value RMB'000</b>	<b>Carrying amount RMB'000</b>	<b>Fair value RMB'000</b>
<b>Financial assets</b>				
Loans and receivables				
Trade receivables	<b>859,331</b>	<b>859,331</b>	1,149,141	1,149,141
Financial assets included in prepayments, deposits and other receivables	<b>4,671,820</b>	<b>4,671,820</b>	4,729,060	4,729,060
Amounts due from related parties	<b>469</b>	<b>469</b>	952	952
Pledged bank deposits	<b>1,148,864</b>	<b>1,148,864</b>	1,241,999	1,241,999
Cash in transit	<b>233,848</b>	<b>233,848</b>	320,223	320,223
Cash and cash equivalents	<b><u>4,392,376</u></b>	<b><u>4,392,376</u></b>	<u>4,157,264</u>	<u>4,157,264</u>
Available-for-sale investments				
Available-for-sale investments	<b><u>27,600</u></b>	<b><u>27,600</u></b>	<u>25,850</u>	<u>25,850</u>
<b>Total current</b>	<b><u>11,334,308</u></b>	<b><u>11,334,308</u></b>	<u>11,624,489</u>	<u>11,624,489</u>
<b>Total</b>	<b><u>11,334,308</u></b>	<b><u>11,334,308</u></b>	<u>11,624,489</u>	<u>11,624,489</u>

**Notes to the Condensed Consolidated Interim Financial Statements (Continued)**  
**30 June 2017**

**21. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)**

	Unaudited 30 June 2017		Audited 31 December 2016	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial liabilities				
Financial liabilities at amortised cost				
Bank loans and other borrowings	<u>2,575,483</u>	<u>2,575,483</u>	<u>1,893,273</u>	<u>1,893,273</u>
Total non-current	<b>2,575,483</b>	<b>2,575,483</b>	1,893,273	1,893,273
Financial liabilities at amortised cost				
Trade and bills payables	<b>3,223,841</b>	<b>3,223,841</b>	4,057,369	4,057,369
Financial liabilities included in other payables and accruals	<b>562,332</b>	<b>562,332</b>	631,160	631,160
Amounts due to related parties	<b>628</b>	<b>628</b>	820	820
Bank loans and other borrowings	<b>16,054,070</b>	<b>16,054,070</b>	13,382,299	13,382,299
Other liabilities	<b>245,000</b>	<b>245,000</b>	245,000	245,000
Convertible bonds	<u>–</u>	<u>–</u>	<u>2,753,130</u>	<u>2,753,130</u>
<b>Total current</b>	<b>20,085,871</b>	<b>20,085,871</b>	21,069,778	21,069,778
<b>Total</b>	<b><u>22,661,354</u></b>	<b><u>22,661,354</u></b>	<b><u>22,963,051</u></b>	<b><u>22,963,051</u></b>

**Fair value hierarchy**

**Financial assets measured at fair value:**

The Group did not have any financial assets measured at fair value as at 30 June 2017 and 31 December 2016, respectively.

**Financial liabilities measured at fair value:**

The Group did not have any financial liabilities measured at fair value as at 30 June 2017 and 31 December 2016, respectively.

**22. EVENTS AFTER THE REPORTING PERIOD**

There is no material subsequent event undertaken by the Company or by the Group after 30 June 2017.

## **FINANCIAL REVIEW**

### **Revenue**

Revenue for the six months ended 30 June 2017 was RMB38,322.2 million, representing an increase of RMB6,580.0 million or 20.7% as compared to the corresponding period in 2016. Revenue from new automobile sales amounted to RMB33,098.2 million, representing an increase of RMB5,545.0 million or 20.1% as compared to the corresponding period in 2016. Revenue from after-sales and accessories business amounted to RMB5,224.0 million, representing an increase of RMB1,035.0 million or 24.7% as compared to the corresponding period in 2016.

Our new automobile sales business accounted for a substantial portion of our revenue, representing 86.4% (corresponding period in 2016: 86.8%) of our revenue for the six months ended 30 June 2017. The remaining portion of our revenue during the period was generated by our after-sales and accessories business which accounted for 13.6% of our total revenue for the six months ended 30 June 2017 (corresponding period in 2016: 13.2%). Almost all of our revenue is derived from our business located in the PRC.

In terms of revenue from new automobile sales, Mercedes-Benz is our top selling brand, revenue from the sales of which representing approximately 31.9% of our total revenue from new automobile sales (corresponding period in 2016: 28.1%).

### **Cost of Sales and Services**

Cost of sales and services for the six months ended 30 June 2017 amounted to RMB34,505.3 million, representing an increase of RMB5,587.8 million or 19.3% as compared to the corresponding period in 2016. Costs attributable to our new automobile sales business amounted to RMB31,841.5 million for the six months ended 30 June 2017, representing an increase of RMB5,110.5 million or 19.1% as compared to the corresponding period in 2016. Costs attributable to our after-sales and accessories business amounted to RMB2,663.8 million for the six months ended 30 June 2017, representing an increase of RMB477.3 million or 21.8% as compared to the corresponding period of 2016.

### **Gross Profit**

Our gross profit for the six months ended 30 June 2017 amounted to RMB3,816.9 million, representing an increase of RMB992.2 million or 35.1% as compared to the corresponding period in 2016. Among which, gross profit from new automobile sales business amounted to RMB1,256.7 million, representing an increase of RMB434.5 million or 52.8% as compared to the corresponding period in 2016. Gross profit from after-sales and accessories business amounted to RMB2,560.2 million, representing an increase of RMB557.7 million or 27.9% as compared to the corresponding period in 2016. For the six months ended 30 June 2017, gross profit from our after-sales and accessories business accounted for 67.1% of the total gross profit (corresponding period in 2016: 70.9%).

Our gross profit margin for the six months ended 30 June 2017 was 10.0% (corresponding period in 2016: 8.9%).

## **Other Income and Gains, Net**

Our other income and gains, net, for the six months ended 30 June 2017 amounted to RMB767.4 million, representing an increase of RMB206.5 million or 36.8% as compared to the corresponding period in 2016. Our other income and gains mainly consisted of service income from automobile insurance agency and automobile financing agency services, gains from second-hand automobile trading business, rental income and interest income, etc.

## **Profit from Operations**

Our profit from operations for the six months ended 30 June 2017 amounted to RMB2,533.8 million, representing an increase of RMB1,086.7 million or 75.1% as compared to the corresponding period in 2016. Our operating profit margin for the six months ended 30 June 2017 was 6.6% (corresponding period in 2016: 4.6%).

## **Profit for the Period**

Our profit for the six months ended 30 June 2017 amounted to RMB1,446.7 million, representing an increase of RMB767.3 million or 112.9% as compared to the corresponding period in 2016. Our profit margin for the six months ended 30 June 2017 was 3.8% (corresponding period in 2016: 2.1%).

## **Profit Attributable to Owners of the Parent**

Our profit attributable to owners of the parent for the six months ended 30 June 2017 amounted to RMB1,356.2 million, representing an increase of RMB743.2 million or 121.2% as compared to the corresponding period in 2016.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Cash Flow**

We primarily use cash to pay for new automobiles, spare parts and automobile accessories, to repay our indebtedness, to fund our working capital and normal operating expenses and to establish new 4S dealerships and acquire additional 4S dealerships. We finance our liquidity requirements mainly through a combination of cash flows generated from our operating activities and bank loans and other borrowings.

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

### **Cash Flow Generated from Operating Activities**

For the six months ended 30 June 2017, our net cash generated from operating activities was RMB1,070.1 million. We generated RMB3,030.8 million net cash from operating profit before working capital movement and tax payment.

## Cash Flow Used in Investing Activities

For the six months ended 30 June 2017, our net cash used in investing activities was RMB1,187.5 million.

## Cash Generated from Financing Activities

For the six months ended 30 June 2017, our net cash generated from financing activities was RMB369.9 million.

## Net Current Assets

As at 30 June 2017, we had net current assets of RMB5.5 million, representing an increase of RMB2,101.9 million from our net current liabilities as at 31 December 2016.

## Capital Expenditures and Investment

Our capital expenditures comprised expenditures on property, plant and equipment, land use rights and business acquisition. For the six months ended 30 June 2017, our total capital expenditures were RMB953.5 million.

## Inventory Analysis

Our inventories primarily consisted of new automobiles, spare parts and automobile accessories. Generally, each of our 4S dealerships individually manages the quotas and orders for new automobiles, after-sales and accessories products. We also coordinate and aggregate orders for automobile accessories and other automobile-related products across our 4S dealership network. We manage our quotas and inventory levels through our information technology systems, including our Enterprise Resource Planning (ERP) system.

Our inventories increased from RMB6,529.7 million as at 31 December 2016 to RMB8,198.7 million as at 30 June 2017, primarily due to the stock preparation for the coming sales peak season in the second half of this year as well as the business scale expansion with more stores under operation.

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

	<b>For the six months ended 30 June</b>	
	<b>2017</b>	2016
Average inventory turnover days	<b>34.0</b>	<b>36.3</b>

Our average inventory turnover days kept stable during the first half of 2017 with a slight decrease as compared to the same period of 2016, which was benefited from the effectiveness of our inventory monitoring system as well as the better maintenance of supply-and-demand relationship.



## **Bank Loans and Other Borrowings**

As at 30 June 2017, our bank loans and other borrowings amounted to RMB18,630.0 million. Our bank loans and other borrowings slightly increased during the period under review, while the bills payables, which is also one of the working capital resources, decreased significantly.

## **Interest Rate Risk and Foreign Exchange Rate Risk**

The Group currently has not used any derivatives to hedge interest rate risk. The operations of the Group are mainly carried out in the PRC with most transactions settled in RMB. Certain cash and bank deposits of the Group are denominated in RMB. The Group has not used any long-term contracts, currency borrowings or other means to hedge its foreign currency exposure.

## **Employee and Remuneration Policy**

As at 30 June 2017, the Group had 21,259 employees. The Group strives to offer a good working environment, a diversified range of training programs as well as an attractive remuneration package to its employees. The Group endeavours to motivate its staff with performance-based remuneration. On top of basic salary, the Group will reward staff with outstanding performance by way of cash bonuses, share options, honorary awards or a combination of all the above to further align the interests of the employees and the Company, to attract talented individuals, and to create long-term incentive for its staff.

## **Pledge of the Group's Assets**

The Group pledged its group assets as securities for bank and other loan and banking facilities which were used to finance daily business operation. As at 30 June 2017, the pledged group assets amounted to approximately RMB6.7 billion (31 December 2016: RMB6.2 billion).

## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **Important Event – Change in Capital Structure**

On 13 April 2017, the Company entered into a subscription agreement with Jardine Strategic Holdings Limited (the “**Investor**”), according to which the Company agreed to issue, and the Investor agreed to subscribe for, 120,557,263 shares of the Company (the “**Subscription Shares**”) at an aggregate subscription price of HK\$1,344,290,639 (the “**Placing**”). The Placing was completed on 26 June 2017 and the Subscription Shares were successfully placed and issued to JSH Investment Holdings Limited, a wholly-owned subsidiary of the Investor and an existing shareholder of the Company. Upon completion of the Placing, the total number of issued shares of the Company has increased to 2,267,064,220. Please refer to the announcements of the Company dated 13 April 2017, 1 June 2017 and 26 June 2017 and the circular of the Company dated 9 May 2017 for detailed information.

## **Compliance with the Corporate Governance Code**

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). Throughout the six months ended 30 June 2017 and up to the date of this announcement, the Company has been in compliance with the code provisions set out in the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) 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 2017 and up to the date of this announcement.

## **Purchase, Sale or Redemption of the Company’s Listed Securities**

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 2017 and up to the date of this announcement.

## **Audit Committee**

The audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors, being Mr. Ying Wei, Mr. Shen Jinjun and Mr. Lin Yong.

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 2017. The Audit Committee considers that the interim financial results for the six months ended 30 June 2017 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

## **Interim Dividend**

The Board proposed not to declare any interim dividend for the six months ended 30 June 2017.

## **PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.zs-group.com.cn](http://www.zs-group.com.cn)).

The interim report of the Company for the six months ended 30 June 2017 will be dispatched to the shareholders of the Company and published on the above websites in due course.

## **APPRECIATION**

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

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

Hong Kong, 21 August 2017

*As at the date of this announcement, the executive directors of the Company are Mr. Huang Yi, Mr. Li Guoqiang, Mr. Du Qingshan, Mr. Yu Guangming, Mr. Si Wei and Mr. Zhang Zhicheng; the non-executive directors of the Company are Mr. Pang Yiu Kai and Mr. Cheah Kim Teck; and the independent non-executive directors of the Company are Mr. Shen Jinjun, Mr. Lin Yong, Mr. Shoichi Ota and Mr. Ying Wei.*