



中升集團控股有限公司

ZHONGSHENG GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

2017

INTERIM REPORT

Zhongsheng Group Lifetime Partner

中升集團 • 終生夥伴

Stock Code: 881



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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. Yu Guangming
Mr. Si Wei
Mr. Zhang Zhicheng

Non-executive Directors

Mr. Pang Yiu Kai
Mr. Cheah Kim Teck (appointed on 12 June 2017)

Independent Non-executive Directors

Mr. Shen Jinjun
Mr. Lin Yong
Mr. Shoichi Ota
Mr. Ying Wei

CORPORATE HEADQUARTERS

No. 20 Hequ Street
Shahekou District
Dailian
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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35th Floor, Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISERS TO HONG KONG LAW

Freshfields Bruckhaus Deringer
11th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

JOINT COMPANY SECRETARIES

Ms. Kam Mei Ha Wendy
Ms. Mak Sze Man

AUTHORIZED REPRESENTATIVES

Mr. Huang Yi
Ms. Kam Mei Ha Wendy

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE COMMITTEE

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

RISK COMMITTEE

Mr. Yu Guangming (Chairman)
Mr. Si Wei

BRANCH SHARE REGISTRAR IN HONG KONG

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

STOCK CODE

881

AUDITORS

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

Chairman's Statement



Huang Yi *Chairman*

Dear honourable shareholders,

On behalf of the board of directors (the “**Board**”) of Zhongsheng Group Holdings Limited (“**Zhongsheng Group**” or the “**Company**”), I am very pleased to present the interim report of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2017 (the “**Reporting Period**”).

In the first half of 2017, the national economy continued to develop in the stable and positive trend since the second half of 2016. With improvements in a number of macro-economic indicators and an accelerating growth of nominal GDP for five consecutive quarters, the foundation of the economic operation on a micro level was further strengthened. The structural reform of the supply side was deepened and the economic structure continued to be optimized. The GDP for the first half of 2017 amounted to approximately RMB38,149.0 billion, representing an increase of 6.9% as compared to that of the corresponding period of last year. From the industry perspective, the GDP from the primary and secondary industries increased by 3.5% and 6.4% as compared to that of the corresponding period of last year, respectively, while the tertiary industry enjoyed the highest growth rate of 7.7% as compared to that of the corresponding period of last year, indicating that the economic structure was gradually optimized and shifted from being led by the secondary industry to the service-oriented tertiary industries.

Chairman's Statement

In the first half of 2017, the automobile market in China gradually returned to a rational track of demand-driven development. According to the statistical analysis of China Association of Automobile Manufacturers, the production volume and sales volume of automobiles in the first half of 2017 reached 13.5258 million units and 13.3539 million units, respectively, representing a growth of 4.64% and 3.81% as compared to that of the corresponding period of last year, respectively, with a decrease of 1.83 and 4.33 percentage points from the growth rates of the same period of last year, respectively. In particular, the production volume and sales volume of passenger vehicles amounted to 11.4827 million units and 11.2530 million units, respectively, representing an increase of 3.16% and 1.61% as compared to that of the corresponding period of last year, respectively. Despite that there was a slowdown in the growth of the production volume and sales volume of passenger vehicles in the first half of 2017 as compared to the corresponding period in 2016, the product structure has changed, in which the portion of new automobile sales under mid-to-high-end and luxury brands in the overall sales volumes increased. Such increase rate was higher than the average of the industry, indicating the emerging of consumers' demands for upgrade and replacement.

For the six months ended 30 June 2017, the Group recorded a revenue of RMB38,322.2 million, representing an increase of 20.7% as compared to RMB31,742.2 million for the corresponding period in 2016. In particular, revenue generated from new automobile sales business amounted to RMB33,098.2 million, which represented an increase of 20.1% as compared to RMB27,553.2 million for the corresponding period in 2016; revenue generated from after-sales and accessories business increased by RMB1,035.0 million to RMB5,224.0 million, representing a growth of 24.7% as compared to the corresponding period in 2016. During the Reporting Period, profit attributable to owners of the parent of the Group was RMB1,356.2 million, representing an increase of 121.2% as compared to RMB613.0 million in the corresponding period in 2016; and earnings per share was RMB0.631 (the corresponding period in 2016: RMB0.286).



Chairman's Statement



China's automobile market was faced with both challenges and opportunities in the first half of 2017. Market competition increasingly intensified under the New Normal, while adjustment, reform and cooperation became the key words for the first half of the year. Zhongsheng Group followed the market trend actively, adjusted its development strategies in a timely manner and actively deployed its industry layout to cover the whole industry chain, and thereby achieved steady improvement. The Group continued to expand its geographic coverage and improve the operational results by continually optimizing its brand and geographical portfolio and consolidating its business structure. The Group also strengthened its own management and expanded new services sectors to improve its core competitiveness comprehensively. As of 30 June 2017, the Group had 262 automobile dealerships, covering 22 provincial regions and more than 80 cities in China.

Chairman's Statement

In the first half of 2017, the Group was also well-recognized and appraised in the society for its operation and development. In May, Zhongsheng Group once again topped the list in terms of comprehensive ability of "2016 Top 100 Automobile Dealers in the Automobile Dealers Industry of China" issued by China Automobile Dealers Association, and ranked second of the total ranking with a revenue of RMB71.5 billion in 2016. All of those showed the recognition of Zhongsheng Group's development prospects and business model.

The formation of a new category of domestically designed and developed automobiles in China's automobile market and the continuous emergence of new models under various brands in the first half of 2017 indicated the well-establishment of a new market relationship as well as the formation of a new market layout. Given the publication of multiple policies and the closer connection within the global automobile market, mergers, acquisitions and reorganizations in the dealership industry became common, bringing both challenges and new opportunities for the development of market participants. In addition, with the ongoing improvement of the after-sales service market and the full industrial chain model, as well as the gradual standardization of second-hand automobile market, China's automobile industry has become the focus of attention.

Looking forward, we will adhere to our corporate motto of "Zhongsheng Group – Lifetime Partner" as always, cultivate Zhongsheng's corporate culture, improve our services quality, as well as optimize our management system and operational process. We regard the professional automobile brand services as the foundation of our corporate development strategies and strive to become a trust-worthy and long-term partner of our customers.

Thanks to the dedication and contributions of our staff from all departments as well as the trust, support and encouragement from all shareholders and business partners, the Group managed to achieve today's excellent performance in the face of competition and challenges. On behalf of the Board, I would like to express our sincere gratitude to all of you for your valuable contributions to our development.

Huang Yi

Chairman

Hong Kong, 21 August 2017

CEO's Statement



Li Guoqiang *President and Chief Executive Officer*

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 in China 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.

CEO's Statement



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

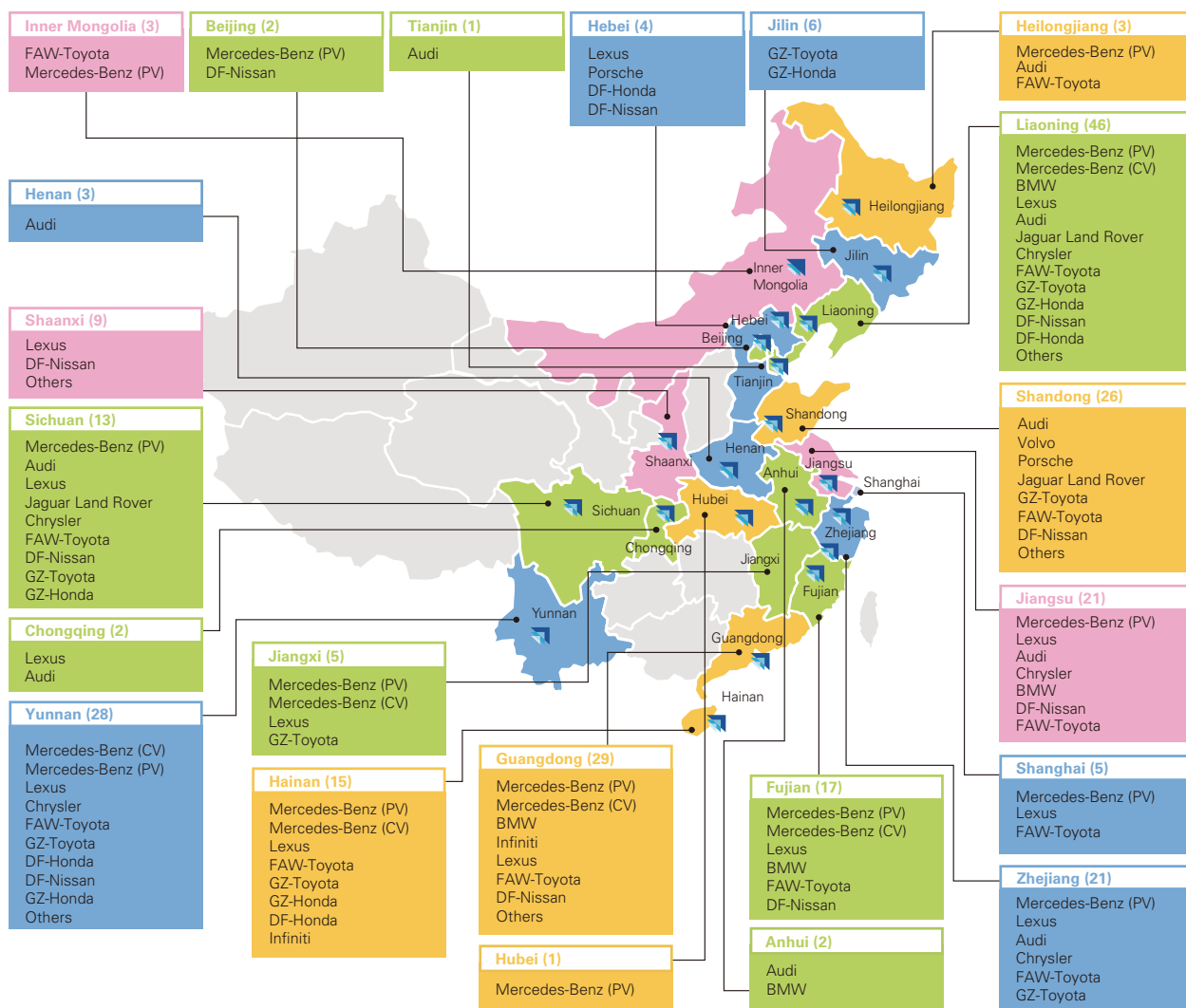
Continuously Emerging Advantages in Brand Portfolio and Optimizing Geographical Layout

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.

CEO's Statement

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
Total	130	132	262

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.

CEO's Statement

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 Automobiles (《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 nation-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.

CEO's Statement

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.

All the Group's staff, business partners, investors and shareholders who have been supporting us, are our motivators in moving forward. In the future, we will follow our original aspirations, continue to strive and rise to challenges, rewarding your support with excellent results.

Li Guoqiang

President and Chief Executive Officer

Hong Kong, 21 August 2017

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.



Management Discussion and Analysis

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:

	For the six months ended 30 June	
	2017	2016
Average inventory turnover days	34.0	36.3

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.

Management Discussion and Analysis

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).

Gearing Ratio

As at 30 June 2017, the gearing ratio of our Group was 54.3%, 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 2017

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

The notes on pages 25 to 46 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

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

The notes on pages 25 to 46 form an integral part of these condensed consolidated interim financial statements.

Consolidated Interim Statement of Financial Position

30 June 2017

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

The notes on pages 25 to 46 form an integral part of these condensed consolidated interim financial statements.

Consolidated Interim Statement of Financial Position (continued)

30 June 2017

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

The notes on pages 25 to 46 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											
	Equity component										Non-controlling interests	Total equity
	Share capital	Share premium	of convertible bonds	Discretionary reserve fund	Statutory reserve	Merger reserve	Other reserve	Exchange fluctuation reserve	Retained profits	Total		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2016	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)
Total comprehensive income for the period	-	-	-	-	-	-	-	(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)
At 30 June 2016	186	6,187,462	203,729	37,110	656,526	(1,386,176)	(642,798)	(302,782)	6,443,877	11,197,134	855,520	12,052,654
At 1 January 2017	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
Total comprehensive income for the period	-	-	-	-	-	-	-	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	-	-	-	-	-
At 30 June 2017	197	6,802,125	-	37,110	854,738	(1,386,176)	(466,323)	(359,842)	8,849,063	14,330,892	926,953	15,257,845

The notes on pages 25 to 46 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

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

The notes on pages 25 to 46 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

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

The notes on pages 25 to 46 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

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

The notes on pages 25 to 46 form an integral part of these condensed consolidated interim financial statements.

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 (“**HKFRS**”).

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.

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.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 Issued but not yet effective Hong Kong financial reporting standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts¹</i>
HKFRS 9	<i>Financial Instruments¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i>
HKFRS 16	<i>Leases²</i>
Amendments to HKFRS 40	<i>Transfers of Investment Property¹</i>
HK(IFRIC) Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>
Annual Improvements 2014-2016 Cycle	<i>Amendments to a number of HKFRSs¹</i>
HK(IFRIC) Interpretation 23	<i>Uncertainty over Income Tax Treatments²</i>

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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*.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

3. OPERATING SEGMENT INFORMATION (continued)

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*.

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

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

(b) Other income and gains, net

	Unaudited	
	For the six months ended 30 June 2017 RMB'000	For the six months ended 30 June 2016 RMB'000
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
	767,440	560,972

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):

	Unaudited	
	For the six months ended 30 June 2017 RMB'000	For the six months ended 30 June 2016 RMB'000
(a) Employee benefit expense (including directors' remuneration)		
Wages and salaries	1,287,214	824,583
Pension scheme contributions	146,312	145,443
Other welfare	79,809	74,892
	1,513,335	1,044,918
(b) Cost of sales and services		
Cost of sales of motor vehicles	31,841,485	26,730,977
Others	2,663,847	2,186,575
	34,505,332	28,917,552
(c) Other items		
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	6,302	(11)

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

6. FINANCE COSTS

	Unaudited	
	For the six months ended 30 June 2017 RMB'000	For the six months ended 30 June 2016 RMB'000
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)
	527,147	487,027

7. INCOME TAX EXPENSE

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

8. DIVIDENDS

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

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.

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

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

10. INVENTORIES

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

11. TRADE RECEIVABLES

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Trade receivables	859,331	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:

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

12. BANK LOANS AND OTHER BORROWINGS

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

13. TRADE AND BILLS PAYABLES

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

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:

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

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.

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

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

15. SHARE CAPITAL

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

Company Name	Acquired equity interest%
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:

	Recognised fair values on acquisition date RMB'000
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)
Total identifiable net assets	467,903
Goodwill on acquisition*	207,480
Total purchase consideration	675,383
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
Net cash outflow	(536,951)

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

16. BUSINESS COMBINATION – ACQUISITION OF SUBSIDIARIES (continued)

(a) (continued)

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.

- (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.

Company Name	Acquired equity interest%
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:

	Recognised fair values on acquisition date RMB'000
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)
Total identifiable net liabilities at fair value	(768)
Goodwill on acquisition*	6,851
Total purchase consideration	6,083
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
Net cash inflow	9,234

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:

	Recognised fair values on acquisition date RMB'000
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)
Total identifiable net assets at fair value	24,266
Goodwill on acquisition*	5,734
Total purchase consideration	30,000
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
Net cash outflow	(26,840)

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 report. 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

	Note	Unaudited 30 June 2017 RMB'000
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)
		6,501
Goodwill		2,601
Loss on disposal of a subsidiary	4(b)	(6,302)
Total consideration		2,800

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

17. DISPOSAL OF A SUBSIDIARY (continued)

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

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

18. CONTINGENT LIABILITIES

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

19. COMMITMENTS

(a) Capital commitments

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

30 June 2017

19. COMMITMENTS (continued)

(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:

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

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:

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

	Unaudited 30 June 2017 RMB'000	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 Automobile Services (Dalian) Co., Ltd.	–	70
	469	952
(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
	628	820

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:

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

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:

	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 assets				
Loans and receivables				
Trade receivables	859,331	859,331	1,149,141	1,149,141
Financial assets included in prepayments, deposits and other receivables	4,671,820	4,671,820	4,729,060	4,729,060
Amounts due from related parties	469	469	952	952
Pledged bank deposits	1,148,864	1,148,864	1,241,999	1,241,999
Cash in transit	233,848	233,848	320,223	320,223
Cash and cash equivalents	4,392,376	4,392,376	4,157,264	4,157,264
Available-for-sale investments				
Available-for-sale investments	27,600	27,600	25,850	25,850
Total current	11,334,308	11,334,308	11,624,489	11,624,489
Total	11,334,308	11,334,308	11,624,489	11,624,489

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	2,575,483	2,575,483	1,893,273	1,893,273
Total non-current	2,575,483	2,575,483	1,893,273	1,893,273
Financial liabilities at amortised cost				
Trade and bills payables	3,223,841	3,223,841	4,057,369	4,057,369
Financial liabilities included in other payables and accruals	562,332	562,332	631,160	631,160
Amounts due to related parties	628	628	820	820
Bank loans and other borrowings	16,054,070	16,054,070	13,382,299	13,382,299
Other liabilities	245,000	245,000	245,000	245,000
Convertible bonds	-	-	2,753,130	2,753,130
Total current	20,085,871	20,085,871	21,069,778	21,069,778
Total	22,661,354	22,661,354	22,963,051	22,963,051

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.

Corporate Governance and Other Information

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

As at 30 June 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), were as follows:

Long Positions in the Company's Shares

Name of Director	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding [%]
Mr. Huang Yi	Interest of controlled company	334,292,004 (Long position)	14.75
	Founder of a discretionary trust	486,657,686 (Long position)	21.47
	Agreement to acquire interests	486,657,686 (Long position)	21.47
Mr. Li Guoqiang	Interest of controlled company	181,613,500 (Long position)	8.01
	Founder of a discretionary trust	486,657,686 (Long position)	21.67
	Agreement to acquire interests	639,336,190 (Long position)	28.20

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Corporate Governance and Other Information

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

As at 30 June 2017, the following are the persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Long Positions in the Shares and Underlying Shares of the Company

Name of Shareholder	Capacity/Nature of Interest	Total Number of Ordinary Shares	Approximate Percentage of Shareholding (%)
Blue Natural Development Ltd. (Note 1)	Beneficial owner and agreement to acquire interests	1,307,607,376 (Long position)	57.68
Light Yield Ltd. (Note 2)	Beneficial owner, interest of controlled company and agreement to acquire interests	1,307,607,376 (Long position)	57.68
Vest Sun Ltd. (Note 3)	Interest of controlled company and agreement to acquire interests	1,307,607,376 (Long position)	57.68
Mountain Bright Limited (Note 4)	Beneficial owner and agreement to acquire interests	1,307,607,376 (Long position)	57.68
UBS TC (Jersey) Ltd.	Trustee and agreement to acquire interests	1,307,607,376 (Long position)	57.68
Vintage Star Limited (Note 5)	Beneficial owner and agreement to acquire interests	1,307,607,376 (Long position)	57.68
Jardine Matheson Holdings Limited	Interest of controlled company	453,412,844 (Long position)	20.00
Jardine Strategic Holdings Limited	Interest of controlled company	453,412,844 (Long position)	20.00
JSH Investment Holdings Limited	Beneficial owner	453,412,844 (Long position)	20.00

Corporate Governance and Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Notes:

1. Blue Natural Development Ltd. is owned by Light Yield Ltd. (62.3%) and Vest Sun Ltd. (37.7%). Mr. Huang Yi and Mr. Li Guoqiang are directors of Blue Natural Development Ltd..
2. Light Yield Ltd. is wholly-owned by Mr. Huang Yi, who is also the sole director of Light Yield Ltd..
3. Vest Sun Ltd. is wholly-owned by Mr. Li Guoqiang, who is also the sole director of Vest Sun Ltd..
4. Mountain Bright Limited is wholly owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Huang Yi (the settler of the trust) and his family.
5. Vintage Star Limited is wholly owned by UBS TC (Jersey) Ltd. as trustee of a trust settlement for Mr. Li Guoqiang (the settler of the trust) and his family.

Save as disclosed above, as at 30 June 2017, the Directors and chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

For the six months ended 30 June 2017, the Company did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

CONVERTIBLE BONDS

On 19 January 2014, the Company and Jardine Strategic Holdings Limited (the "Investor") entered into a subscription agreement, according to which the Company agreed to issue, and the Investor agreed to subscribe for (or procure its nominee to subscribe for) in principal amount of HK\$3,091,500,000 with interest rate of 2.85 per cent. convertible bonds (the "Convertible Bonds"). The Convertible Bonds matured on 25 April 2017 and none of the Convertible Bonds was converted into any shares of the Company.

Corporate Governance and Other Information

IMPORTANT EVENT – CHANGE IN CAPITAL STRUCTURE

On 13 April 2017, the Company entered into a subscription agreement with 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 was 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 the 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.

SHARE OPTION SCHEME

The Share Option Scheme (as defined in the Company’s prospectus dated 16 March 2010) was conditionally approved by a resolution of the shareholders on 9 February 2010 and adopted by a resolution of the Board on the same day. Unless it is terminated by the Board or the shareholders of the Company in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of ten years from the date which it becomes unconditional. After the period, no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to exercise any subsisting options granted prior to the expiry of this ten-year period or otherwise as handled in accordance with the provisions of the Share Option Scheme. The amount payable by a participant upon a grant of option is HK\$1.0. The last day for accepting and paying for the consideration of the option shall be determined by the Board and shall be set out on the offer letter granting such option. The period during which a granted option may be exercised in accordance with the terms of the Share Option Scheme shall be the period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the offer date.

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

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

Corporate Governance and Other Information

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

During the reporting period and up to the date of this interim report, no options have been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 30 June 2017, the total number of shares available for issue under the Share Option Scheme remained to be 155,999,280, representing approximately 6.88% of the issued share capital of the Company. As at the date of this interim report, the remaining life of the Share Option Scheme is approximately two years and five months.

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 2016 annual report of the Company are as follows:

1. Mr. Pang Yiu Kai, being a non-executive Director, has been appointed as the chairperson of HKSAR Government Advisory Committee on Gifted Education on 1 April 2017, has retired as a member of the Hospital Authority Board since 1 April 2017 and has ceased to act as the chairman of the Council of the Education University of Hong Kong since 25 April 2017.
2. Mr. Shen Jinjun, being an independent non-executive Director, has resigned as an independent non-executive director of Wuchan Zhongda Group Co., Ltd. (Stock code: 600704), a company listed on the Shanghai Stock Exchange, since 25 April 2017.

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 2017 and up to the date of this interim report, the Company has been in compliance with the code provisions set out in the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2017 and up to the date of this interim report.

Corporate Governance and Other Information

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 interim report.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") now 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.

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

Hong Kong
21 August 2017