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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 2018**

The board (the “**Board**”) of directors (the “**Directors**”) 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 2018, as follows:

FINANCIAL HIGHLIGHTS

- New car sales volume for the six-month period ended 30 June 2018 increased by 23.8% to 182,268 units as compared to the same period of 2017
- Revenue for the six-month period ended 30 June 2018 increased by 28.7% to RMB49,305.5 million as compared to the same period of 2017, among which revenue from new car sales increased by 29.1% to RMB42,727.8 million while revenue from after-sales and accessories business increased by 25.9% to RMB6,577.7 million as compared to the same period of 2017
- Income from value-added services for the six-month period ended 30 June 2018 increased by 35.6% to RMB1,000.5 million as compared to the same period of 2017
- Profit attributable to owners of the parent for the six-month period ended 30 June 2018 was RMB1,838.0 million, an increase of 35.5% as compared to the same period of 2017
- Basic earnings per share was RMB0.811 for the six-month period ended 30 June 2018 (the same period of 2017: RMB0.631)

MARKET REVIEW

In the first half of 2018, as China further deepened and enhanced its momentum in market reform, the supply-side structural reform moved forward intensively, facilitating the constant improvement of industrial structure. Against the backdrop of various challenges and uncertainties both domestically and abroad, the transformation and upgrading of the national economy still maintained a healthy momentum, with stable improvements in both quality and efficiency. The sound improvement in the income standard of Chinese nationals propelled tremendous consumption capacity and potential, and is one of the powerful sources for the stable development of the nation.

Without any doubt, the automobile industry was one of the segments having the most attention among the numerous consumption segments in the first half of the year. According to the statistics released by the China Automobile Dealers Association, the production volume and sales volume of passenger vehicles in China for the first half of 2018 were 11.8537 million units and 11.7753 million units, respectively, representing an increase of 3.23% and 4.64% as compared to that of the previous year, with a growth rate in sales volume of 1.8% higher than that of the corresponding period of last year. In terms of the production volume and sales volume by types of passenger vehicles, sales volume of sedans increased by 5.46% while sales volume of SUVs went up by 9.68% as compared to that of the corresponding period in 2017. Consumption upgrading will continue to support the growth in passenger vehicles sales volume in the future.

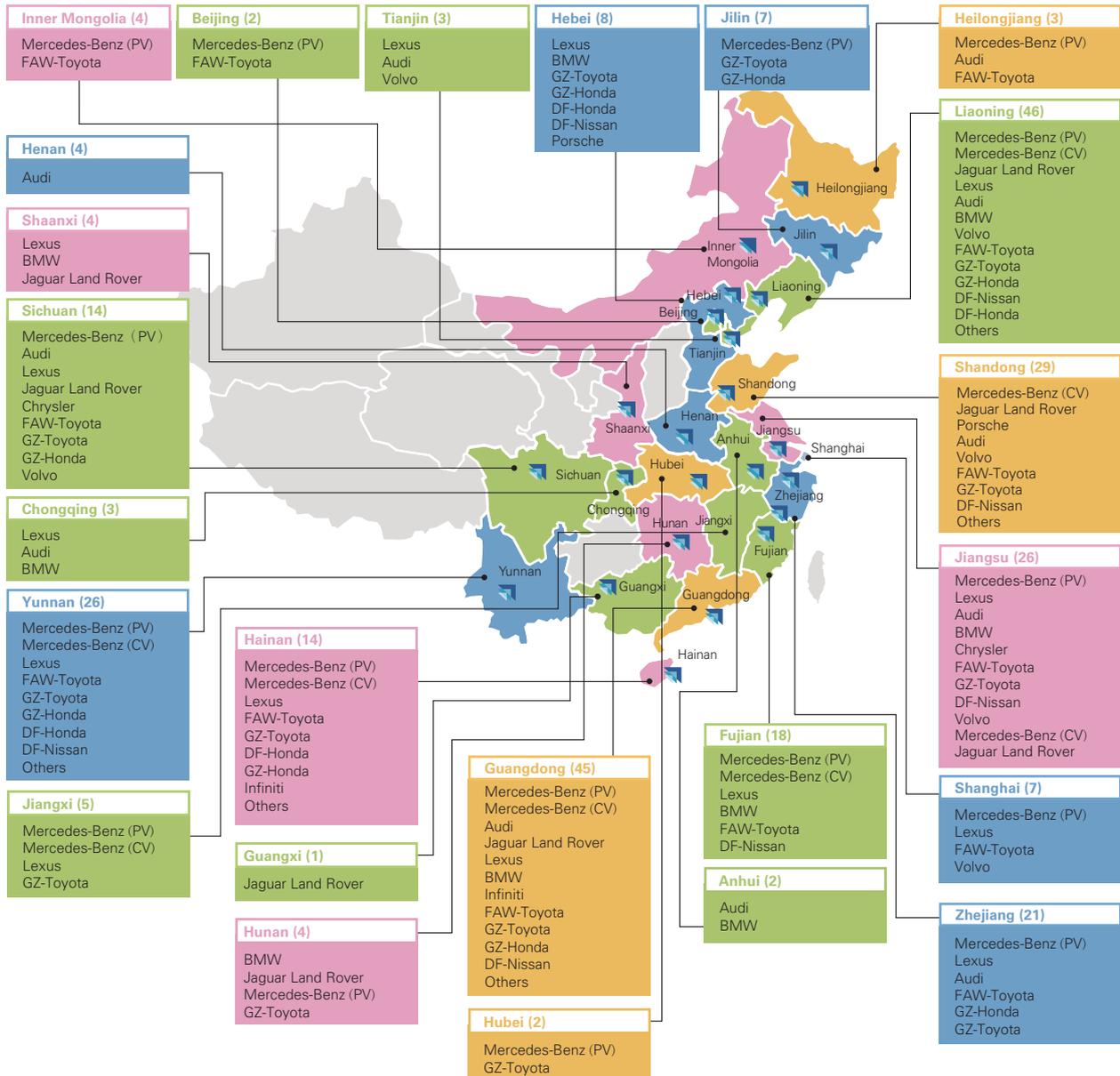
On 22 May 2018, the Tariff Policy Committee of the Chinese State Council announced that, with effect from 1 July 2018, the automobile import tariffs would be reduced to 3%-15% from the original rates. China took the initiative to lower automobile import tariffs in a bid to satisfy the needs of deepening the reform and opening up, increase imports, and push forward the high-quality development of automobile industry under more open conditions. Moreover, taking proactive moves to lower import tariffs on automobiles would satisfy the demand of consumption upgrading. People's consumption demand for automobiles has become more diversified, and we hope that the automobile product pricing will be lowered further with improved quality, thereby further strengthening the supply and demand in the automobile market. Through cutting down automobile import tariffs, China will further stimulate its domestic demand so as to bring more vitality and dynamics to its economic development.

BUSINESS REVIEW

Accelerating Industry Consumption Upgrading, and Continuing to Emphasize Advantages in the Brand Portfolio of the Group

In the first half of 2018, sales volumes of Mercedes Benz, Audi and Lexus reached 348,000 units, 306,000 units and 68,700 units, respectively, in China, representing a year-on-year increase of 14%, 20.3% and 14%, respectively. From the above, we can conclude that with the continuous emergence of consumption upgrading, sales volumes of luxury brands were able to maintain a sound growth rate, which was way above industry average. Under the new market environment, our portfolio strategy of “Brand plus Region” will fully demonstrate its advantages; we will also continue to optimise brand portfolio to further improve our network layout.

As of 30 June 2018, the total number of dealerships of the Group increased to 298, including 164 luxury brand dealerships and 134 mid-to-high-end brand dealerships, covering 24 provinces, municipalities and regions, and nearly 90 cities across China. The coverage of Zhongsheng Group’s dealerships as of 30 June 2018 was as follows:



	Luxury brands	Mid-to-high- end brands	Total
Northeastern and Northern China regions	26	44	70
Eastern and Central China regions	69	29	98
Southern China region	44	33	77
Southwestern and Northwestern mainland regions	<u>25</u>	<u>28</u>	<u>53</u>
Total	<u><u>164</u></u>	<u><u>134</u></u>	<u><u>298</u></u>

In the first half of 2018, Zhongsheng Group achieved new automobiles sales volume of 182,268 units, representing a year-on-year increase of 23.8%, of which luxury brand sales volume increased by 39.2% and mid-to-high-end brands sale volume increased by 12.0% year-on-year. Currently, the Group's brand portfolio covers luxury brands such as Mercedes-Benz, Lexus, Audi, BMW, Jaguar Land Rover, Porsche and Volvo, as well as mid-to-high-end brands such as Toyota, Nissan and Honda.

CONTINUOUS GROWTH OF AFTER-SALES AND ACCESSORIES BUSINESS AND RAPID DEVELOPMENT OF VALUE-ADDED SERVICE

With the sustained growth of the overall level of car ownership in the China automobile market, the increased age of automobiles generally, as well as the mega trend of household consumption upgrading, these propelled the gradual explosive increase of the automotive after-sales service market. In the first half of the year, the after-sales and accessories business of Zhongsheng Group maintained its robust growth and facilitated the continuous improvement the Group's profitability. In the first half of 2018, the total revenue from after-sales and accessories business of the Group reached RMB6,577.7 million, representing a year-on-year increase of 25.9% and accounting for 13.3% of the total revenue.

In respect of business innovation, the Group continued to maintain its rapid growth in the value-added service sector including car insurance, car finance and second-hand automobiles. It achieved an income from value-added service of RMB1,000.5 million for the six months ended 30 June 2018, representing an increase of 35.6% over the same period in 2017. The layout effect of the value-added service sector was getting more apparent.

FUTURE STRATEGIES AND OUTLOOK

Looking ahead, the entire automobile industry in China has tremendous development potential but both industry opportunities and challenges co-exist. With gradual implementation of various policies encouraging domestic demand as well as the sustained high growth momentum of the automotive after-sales service market, in the future, we will continue to actively seize favourable policies and market opportunities, continue to optimise product mix, improve operation efficiency to fortify our core competitive advantages and further enhance the economies of scale of the after-sales and accessories business and the value-added service business to maintain a stable business growth.

Consolidated Interim Statement of Profit or Loss
For the six months ended 30 June 2018

		Unaudited	
		For the six months ended 30 June 2018	For the six months ended 30 June 2017
	<i>Notes</i>	RMB'000	RMB'000
REVENUE	4(a)	49,305,471	38,322,193
Cost of sales and services provided	5(b)	(44,544,662)	(34,505,332)
Gross profit		4,760,809	3,816,861
Other income and gains, net	4(b)	1,112,000	767,440
Selling and distribution costs		(1,966,417)	(1,500,386)
Administrative expenses		(701,069)	(550,120)
Profit from operations		3,205,323	2,533,795
Finance costs	6	(593,186)	(527,147)
Share of profits of joint ventures		3,045	2,430
Profit before tax	5	2,615,182	2,009,078
Income tax expense	7	(747,879)	(562,396)
Profit for the period		<u>1,867,303</u>	<u>1,446,682</u>
Attributable to:			
Owners of the parent		1,837,958	1,356,151
Non-controlling interests		29,345	90,531
		<u>1,867,303</u>	<u>1,446,682</u>
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the period (RMB)	9	<u>0.811</u>	<u>0.631</u>
Diluted			
— For profit for the period (RMB)	9	<u>0.791</u>	<u>0.612</u>

The notes on pages 13 to 34 form an integral part of these condensed consolidated interim financial statements.

Consolidated Interim Statement of Comprehensive Income
For the six months ended 30 June 2018

	Unaudited	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000
Profit for the period	<u>1,867,303</u>	<u>1,446,682</u>
Other comprehensive (loss)/gain		
<i>Other comprehensive (loss)/gain to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	<u>(82,466)</u>	<u>141,739</u>
Net other comprehensive (loss)/gain to be reclassified to profit or loss in subsequent periods	<u>(82,466)</u>	<u>141,739</u>
Other comprehensive (loss)/gain for the period, net of tax	<u>(82,466)</u>	<u>141,739</u>
Total comprehensive income for the period	<u><u>1,784,837</u></u>	<u><u>1,588,421</u></u>
Attributable to:		
Owners of the parent	<u>1,755,492</u>	<u>1,497,890</u>
Non-controlling interests	<u>29,345</u>	<u>90,531</u>
	<u><u>1,784,837</u></u>	<u><u>1,588,421</u></u>

The notes on pages 13 to 34 form an integral part of these condensed consolidated interim financial statements.

Consolidated Interim Statement of Financial Position
30 June 2018

		Unaudited	Audited
		30 June	31 December
		2018	2017
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		10,515,203	10,055,748
Land use rights		2,689,075	2,495,923
Prepayments		1,648,378	984,591
Intangible assets		5,963,868	5,737,441
Goodwill		4,329,087	3,940,056
Investments in joint ventures		45,659	42,614
Deferred tax assets		263,628	278,923
		<hr/>	<hr/>
Total non-current assets		25,454,898	23,535,296
CURRENT ASSETS			
Inventories	<i>10</i>	9,147,896	7,509,806
Trade receivables	<i>11</i>	1,115,073	1,082,746
Prepayments, deposits and other receivables		9,705,222	8,644,378
Amounts due from related parties	<i>20(b)(i)</i>	1,748	555
Financial assets at fair value through profit or loss		30,510	—
Available-for-sale investments		—	19,100
Pledged bank deposits		2,029,095	1,405,646
Cash in transit		633,339	356,063
Cash and cash equivalents		6,194,984	5,027,202
		<hr/>	<hr/>
Total current assets		28,857,867	24,045,496
CURRENT LIABILITIES			
Bank loans and other borrowings	<i>12</i>	19,538,893	16,828,479
Trade and bills payables	<i>13</i>	3,813,242	3,470,593
Convertible bonds, current portion	<i>14</i>	—	1,883,958
Other payables and accruals		2,645,334	2,935,400
Other liabilities		245,000	245,000
Amounts due to related parties	<i>20(b)(ii)</i>	739	577
Income tax payable		1,266,496	1,373,395
Dividends payable		689,932	9
		<hr/>	<hr/>
Total current liabilities		28,199,636	26,737,411
Net current assets/(liabilities)		658,231	(2,691,915)
		<hr/>	<hr/>
Total assets less current liabilities		26,113,129	20,843,381

The notes on pages 13 to 34 form an integral part of these condensed consolidated interim financial statements.

Consolidated Interim Statement of Financial Position (Continued)
30 June 2018

		Unaudited	Audited
		30 June	31 December
		2018	2017
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	<i>12</i>	3,021,617	2,494,628
Deferred tax liabilities		1,776,642	1,679,590
Convertible Bonds	<i>14</i>	3,744,537	—
		<u>8,542,796</u>	<u>4,174,218</u>
Total non-current liabilities			
		<u>17,570,333</u>	<u>16,669,163</u>
Net assets			
		<u>17,570,333</u>	<u>16,669,163</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>15</i>	197	197
Reserves		16,859,226	15,912,794
		<u>16,859,423</u>	<u>15,912,991</u>
Non-controlling interests		<u>710,910</u>	<u>756,172</u>
Total equity		<u>17,570,333</u>	<u>16,669,163</u>

The notes on pages 13 to 34 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 2018

Unaudited
 Attributable to owners of the parent

	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Equity component of convertible bonds RMB'000	Discretionary reserve fund RMB'000	Statutory reserve RMB'000	Merger reserve RMB'000	Other reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 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 income 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
At 1 January 2018	197	6,802,125	—	56,779	37,110	1,370,926	(1,386,176)	(1,103,447)	(191,660)	10,327,137	15,912,991	756,172	16,669,163
Profit for the period	—	—	—	—	—	—	—	—	—	1,837,958	1,837,958	29,345	1,867,303
Other comprehensive loss for the period:													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(82,466)	—	(82,466)	—	(82,466)
Total comprehensive income for the period	—	—	—	—	—	—	—	—	(82,466)	1,837,958	1,755,492	29,345	1,784,837
Acquisition of non-controlling interests	—	—	—	—	—	—	—	(7,549)	—	—	(7,549)	(7,451)	(15,000)
Capital contribution from a non-controlling shareholder of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	6,000	6,000
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	(73,156)	(73,156)
Conversion of convertible bonds	—	77,898	—	(2,271)	—	—	—	—	—	—	75,627	—	75,627
Transfer of equity component of convertible bonds upon the redemption of convertible bonds	—	—	—	(54,508)	—	—	—	(351,996)	—	—	(406,504)	—	(406,504)
Issue of convertible bonds	—	—	—	186,874	—	—	—	—	—	—	186,874	—	186,874
Equity-settled share-based transactions	—	—	9,699	—	—	—	—	—	—	—	9,699	—	9,699
Final 2017 dividend declared	—	(667,207)	—	—	—	—	—	—	—	—	(667,207)	—	(667,207)
At 30 June 2018	197	6,212,816	9,699	186,874	37,110	1,370,926	(1,386,176)	(1,462,992)	(274,126)	12,165,095	16,859,423	710,910	17,570,333

The notes on pages 13 to 34 form an integral part of these condensed consolidated interim financial statements.

Consolidated Interim Statement of Cash Flows
For the six months ended 30 June 2018

	Unaudited	
	For the six months ended 30 June 2018	For the six months ended 30 June 2017
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating activities		
Profit before tax	2,615,182	2,009,078
Adjustments for:		
— Share of profits of joint ventures	(3,045)	(2,430)
— Depreciation and impairment of property, plant and equipment	<i>5(c)</i> 399,980	334,691
— Amortisation of land use rights	<i>5(c)</i> 32,815	24,519
— Amortisation of intangible assets	<i>5(c)</i> 122,312	84,944
— Expenses on redemption of convertible bonds	<i>5(c)</i> 6,206	—
— Reversal of inventory provision	<i>5(c)</i> (606)	(2,505)
— Interest income	<i>4(b)</i> (10,991)	(7,752)
— Net loss on disposal of items of property, plant and equipment	<i>4(b)</i> 3,191	56,760
— Equity settled share option expense	<i>5(a)</i> 9,699	—
— Finance costs	<i>6</i> 593,186	527,147
— Net loss on disposal of subsidiaries	<i>4(b)</i> —	6,302
	3,767,929	3,030,754
(Increase)/decrease in cash in transit	(273,211)	93,562
Decrease in trade receivables	107	312,560
(Increase)/decrease in prepayments, deposits and other receivables	(811,111)	135,022
Increase in inventories	(1,372,748)	(1,501,652)
Decrease in trade and bills payables	(68,915)	(87,371)
Decrease in other payables and accruals	(154,070)	(424,374)
(Increase)/decrease in amounts due from related parties — trade related	(1,193)	483
Increase/(decrease) in amounts due to related parties — trade related	162	(192)
Cash generated from operations	1,086,950	1,558,792
Tax paid	(863,194)	(488,732)
Net cash generated from operating activities	223,756	1,070,060

The notes on pages 13 to 34 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 2018

	Unaudited	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000
Investing activities		
Purchase of items of property, plant and equipment	(1,037,281)	(835,699)
Proceeds from disposal of items of property, plant and equipment	225,483	250,988
Purchase of land use rights	(195,646)	(48,587)
Purchase of intangible assets	(5,178)	(179)
(Purchase)/Redemption of financial assets at fair value through profit or loss, net (2017: available-for-sale financial assets)	(11,410)	9,250
Prepayments for the potential acquisitions of equity interests from third parties	(914,500)	(314,230)
Acquisitions of subsidiaries	(497,205)	(242,448)
Increase in prepayments, deposits and other receivables	(233,585)	(27,475)
Dividends received from a joint venture	—	10,000
Disposal of subsidiaries	78,200	2,549
Interest received	10,991	8,344
	<u>10,991</u>	<u>8,344</u>
Net cash used in investing activities	<u>(2,580,131)</u>	<u>(1,187,487)</u>

The notes on pages 13 to 34 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 2018

	Unaudited	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000
Financing activities		
Proceeds from issue of new shares	—	1,175,878
Proceeds from issue of convertible bonds	3,778,812	—
Proceeds from bank loans and other borrowings	35,159,489	26,851,398
Repayments of bank loans and other borrowings	(31,994,261)	(23,595,695)
(Increase)/decrease in pledged bank deposits	(564,891)	138,859
Decrease in notes payables	—	(867,499)
Capital contribution from a non-controlling shareholder of a subsidiary	6,000	—
Acquisition of non-controlling interests	(5,000)	—
Redemption of convertible bonds	(2,203,966)	(2,735,297)
Interest paid for bank loan and other borrowings	(586,526)	(513,060)
Interest paid for convertible bonds	—	(38,978)
Capital element of finance lease rental payments	36	(1,546)
Dividends paid to the non-controlling shareholders	(73,156)	(44,209)
	<u>3,516,537</u>	<u>369,851</u>
Net cash generated from financing activities		
	1,160,162	252,424
Net increase in cash and cash equivalents		
Cash and cash equivalents at beginning of each period	5,027,202	4,157,264
Effect of foreign exchange rate changes, net	7,620	(17,312)
	<u>6,194,984</u>	<u>4,392,376</u>
Cash and cash equivalents at end of each period		

The notes on pages 13 to 34 form an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

30 June 2018

1. GENERAL INFORMATION

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

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

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

In the opinion of the directors of the Company (the “Directors”), the ultimate Controlling Shareholders of the Company are Mr. Huang Yi and Mr. Li Guoqiang.

The condensed consolidated interim financial 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 10 August 2018. 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 2018 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

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 2017, except for the adoption of the new and revised standards and interpretation effective as of 1 January 2018, noted below.

The following new standard and amendment to standards are mandatory for the first time for the financial year beginning 1 January 2018:

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Annual Improvements 2014–2016 Cycle	<i>Amendments to HKFRS 1 and HKAS 28</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 over 90% of the Group's revenue and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's non-current assets were located in Mainland China, no geographical information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the six months ended 30 June 2018, 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 2018

4. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

	Unaudited	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000
Revenue from the sale of motor vehicles	42,727,791	33,098,191
Others	<u>6,577,680</u>	<u>5,224,002</u>
	<u>49,305,471</u>	<u>38,322,193</u>

(b) Other income and gains, net

	Unaudited	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000
Commission income	1,000,521	737,780
Rental income	14,955	12,951
Government grants	5,146	2,358
Interest income	10,991	7,752
Net loss on disposal of items of property, plant and equipment	(3,191)	(56,760)
Net loss on disposal of subsidiaries	—	(6,302)
Others	<u>83,578</u>	<u>69,661</u>
	<u>1,112,000</u>	<u>767,440</u>

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

5. PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000
(a) Employee benefit expense (including directors' remuneration)		
Wages and salaries	1,534,070	1,287,214
Pension scheme contributions	196,522	146,312
Other welfare	146,404	79,809
Equity-settled share option expense	9,699	—
	<u>1,886,695</u>	<u>1,513,335</u>
(b) Cost of sales and services		
Cost of sales of motor vehicles	41,160,619	31,841,485
Others	3,384,043	2,663,847
	<u>44,544,662</u>	<u>34,505,332</u>
(c) Other items		
Depreciation and impairment of property, plant and equipment	399,980	334,691
Amortisation of land use rights	32,815	24,519
Amortisation of intangible assets	122,312	84,944
Business promotion and advertisement expenses	260,875	245,545
Office expenses	120,891	99,599
Lease expenses	174,287	137,667
Logistics expenses	49,822	53,058
Reversal of inventory provision	(606)	(2,505)
Net loss on disposal of items of property, plant and equipment	3,191	56,760
Expenses on redemption of convertible bonds	6,206	—
Net loss on disposal of subsidiaries	—	6,302
	<u>—</u>	<u>6,302</u>

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

6. FINANCE COSTS

	Unaudited	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000
Interest expense on bank borrowings	534,170	458,258
Interest expense on convertible bonds	55,169	50,744
Interest expense on other borrowings	46,830	61,321
Interest expense on finance leases	256	423
Less: Interest capitalised	<u>(43,239)</u>	<u>(43,599)</u>
	<u>593,186</u>	<u>527,147</u>

7. INCOME TAX EXPENSE

	Unaudited	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000
Current Mainland China corporate income tax	733,161	555,569
Deferred tax	<u>14,718</u>	<u>6,827</u>
	<u>747,879</u>	<u>562,396</u>

8. DIVIDENDS

The Directors of the Company proposed not to declare any interim dividend for the six months ended 30 June 2018.

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 2,267,470,019 (six months ended 30 June 2017: 2,149,171,206) 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 2018

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:

	Unaudited	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000
Earnings		
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	1,837,958	1,356,151
Interest on convertible bonds	55,169	50,744
	<hr/>	<hr/>
Profit attributable to equity holders of the parent before interest on convertible bonds	1,893,127	1,406,895
	<hr/> <hr/>	<hr/> <hr/>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,267,470,019	2,149,171,206
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	124,966,622	150,253,422
Share option	—	—
	<hr/>	<hr/>
Weighted average number of ordinary shares used in diluted earnings per share calculation	2,392,436,641	2,299,424,628
	<hr/> <hr/>	<hr/> <hr/>
Earnings per share (RMB)		
Basic	0.811	0.631
Diluted	0.791	0.612

Notes to the condensed consolidated interim financial statements (*Continued*)
30 June 2018

10. INVENTORIES

	Unaudited 30 June 2018 <i>RMB'000</i>	Audited 31 December 2017 <i>RMB'000</i>
Motor vehicles	8,512,740	6,846,563
Spare parts and others	<u>639,681</u>	<u>668,374</u>
	9,152,421	7,514,937
Less: provision for inventories	<u>4,525</u>	<u>5,131</u>
	<u><u>9,147,896</u></u>	<u><u>7,509,806</u></u>

11. TRADE RECEIVABLES

	Unaudited 30 June 2018 <i>RMB'000</i>	Audited 31 December 2017 <i>RMB'000</i>
Trade receivables	<u><u>1,115,073</u></u>	<u><u>1,082,746</u></u>

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 2018 <i>RMB'000</i>	Audited 31 December 2017 <i>RMB'000</i>
Within 3 months	1,076,080	1,051,824
More than 3 months but less than 1 year	23,933	15,553
Over 1 year	<u>15,060</u>	<u>15,369</u>
	<u><u>1,115,073</u></u>	<u><u>1,082,746</u></u>

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

12. BANK LOANS AND OTHER BORROWINGS

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Bank loans and overdrafts repayable:		
— within one year or on demand	15,346,096	13,137,095
— in the second year	1,184,861	559,330
— in the third to fifth years	755,957	1,078,925
	<u>17,286,914</u>	<u>14,775,350</u>
Other borrowings repayable		
— within one year	3,274,831	2,659,338
Syndicated term loan		
— within one year	913,624	1,028,570
— in the second year	240,000	90,000
— in the third year	840,000	765,000
	<u>1,993,624</u>	<u>1,883,570</u>
Finance lease payables		
— within one year	4,342	3,476
— in the second year	799	1,373
	<u>5,141</u>	<u>4,849</u>
Total bank loans and other borrowings	22,560,510	19,323,107
Less: Portion classified as current liabilities	19,538,893	16,828,479
Long-term portion	<u>3,021,617</u>	<u>2,494,628</u>

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

13. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Trade payables	1,053,841	1,205,263
Bills payable	2,759,401	2,265,330
	<hr/>	<hr/>
Trade and bills payables	3,813,242	3,470,593
	<hr/> <hr/>	<hr/> <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:

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Within 3 months	3,591,533	3,176,626
3 to 6 months	179,980	282,975
6 to 12 months	33,548	4,386
Over 12 months	8,181	6,606
	<hr/>	<hr/>
	3,813,242	3,470,593
	<hr/> <hr/>	<hr/> <hr/>

14. CONVERTIBLE BONDS

- (i) On 30 October 2017, the Company issued zero coupon convertible bonds due 2018 with a nominal value of HK\$2,350,000,000 (the “2018 convertible bonds”). The bonds are convertible at the option of the bondholders into ordinary shares at any time on or after 10 December 2017 until and including 15 October 2018 at a conversion price of HK\$20.2860 per share. Any convertible bonds not converted will be redeemed on 25 October 2018 at 100% of their principal amount. During the six months ended 30 June 2018, the Company has redeemed principle amounts of HK\$2,256,000,000 of the bonds. The remaining bonds with principle amounts of HK\$94,000,000 are converted by the bondholders into 4,633,735 shares of the Company of HK\$0.0001 each at a conversion price of HK\$20.286 per ordinary share during the period.

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

14. CONVERTIBLE BONDS (Continued)

(i) (Continued)

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

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Nominal value of 2018 convertible bonds	2,002,177	2,002,177
Equity component	(58,003)	(58,003)
Direct transaction costs attributable to the liability component	(41,031)	(41,031)
Liability component at the issuance date	1,903,143	1,903,143
Interest expense	55,608	17,321
Redemption of 2018 convertible bonds	(1,793,787)	—
Converted to shares of the Company	(75,627)	—
Exchange realignment	(89,337)	(36,506)
Liability component at the end of the period/year	—	1,883,958
Less: Portion classified as current liabilities	—	1,883,958
Long-term portion	—	—

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

14. CONVERTIBLE BONDS (Continued)

(ii) (Continued)

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

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Nominal value of New convertible bonds	3,818,374	—
Equity component	(188,831)	—
Direct transaction costs attributable to the liability component	<u>(37,605)</u>	<u>—</u>
Liability component at the issuance date	3,591,938	—
Interest expense	16,882	—
Exchange realignment	<u>135,717</u>	<u>—</u>
Liability component at the end of the period/year	3,744,537	—
Less: portion classified as current liabilities	<u>—</u>	<u>—</u>
Long-term portion	<u><u>3,744,537</u></u>	<u><u>—</u></u>

15. SHARE CAPITAL

	Unaudited 30 June 2018	Audited 31 December 2017
Authorised:		
1,000,000,000,000 shares of HK\$0.0001 each (HK\$'000)	100,000	100,000
Issued and fully paid:		
2,271,697,955 (2017: 2,267,064,220) ordinary shares (HK\$'000)	227	227
Equivalent to RMB'000	197	197

During the six months ended 30 June 2018, certain bondholders of the 2018 convertible bonds have converted their bonds with principle amount of HK\$94,000,000 into 4,633,735 ordinary shares of the Company.

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

16. SHARE OPTION SCHEME

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

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

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

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

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

16. SHARE OPTION SCHEME (Continued)

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

	Unaudited			
	30 June 2018		30 June 2017	
	Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>	Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>
At 1 January	—	—	—	—
Granted during the period	22.6	11,000	—	—
At 30 June	22.6	11,000	—	—

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

Number of options <i>'000</i>	30 June 2018 Exercise price <i>HK\$ per share</i>	Exercise period
11,000	22.6	26 April 2019 to 25 April 2028 (both dates inclusive)

The fair value of the share options granted during the six months ended 30 June 2018 was HK\$66,036,000 (HK\$6.00 each) (for the six months ended 30 June 2017: Nil). For the six months ended 30 June 2018, the Group has recognised HK\$11,760,000 of equity-settled share option expense in the statement of profit or loss (for the six months ended 30 June 2017: Nil).

The fair value of these share options granted determined using the Binominal Option Pricing Model. The significant inputs into the model were the exercise price of HK\$22.60 at the grant date, volatility of 23.02%, dividend yield of 1.65% and an annual risk-free interest rate of 2.22%.

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

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

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

The Group engaged an independent appraiser to assist with the fair value measurement of the share options granted during the six months ended 30 June 2018. However, the valuation was not finalized and therefore, the equity-settled share option expense recognized in the Group's interim financial statements for the six months ended 30 June 2018 was on a provisional basis.

17. BUSINESS COMBINATION — ACQUISITION OF SUBSIDIARIES

- (a) As part of the Group's plan to expand its motor vehicle sales and service business in Jiangsu and Zhejiang 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 certain third parties on 1 January 2018 at a total consideration of RMB262,450,000. The purchase consideration for the acquisition was in the form of cash, with RMB262,450,000 paid by the end of June 2018.

Company Name	Acquired equity interest %
蘇州凌通雷克薩斯汽車銷售服務有限公司 (Suzhou Lingtong Lexus Automobile Sales & Service Co., Ltd.)	100%
溫州凌通雷克薩斯汽車銷售服務有限公司 (Wenzhou Lingtong Lexus Automobile Sales & Service Co., Ltd.)	100%
溫州萊曼汽車快修有限公司 (Wenzhou Laiman Automobile Service Co., Ltd.)	100%

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

17. 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*	33,193
Land use rights*	39,440
Intangible assets*	118,077
Inventories	32,734
Trade receivables	3,240
Prepayments, deposits and other receivables	27,159
Pledged bank deposits	1,014
Cash in transit	1,499
Cash and cash equivalents	12,195
Trade and bills payables	(5,501)
Other payables and accruals	(30,575)
Bank loans and other borrowings	(26,677)
Income tax payable	(5,499)
Deferred tax liabilities*	<u>(36,106)</u>
Total identifiable net assets	<u><u>164,193</u></u>
Goodwill on acquisition*	<u>98,257</u>
Total purchase consideration	<u><u>262,450</u></u>

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

Cash consideration paid	(262,450)
Cash acquired	<u>12,195</u>
Net cash outflow	<u><u>(250,255)</u></u>

Since the acquisition, the acquired business contributed RMB357,387,000 to the Group's revenue and RMB30,860,000 to the consolidated profit for the six months ended 30 June 2018.

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

17. BUSINESS COMBINATION — ACQUISITION OF SUBSIDIARIES (Continued)

- (b) As part of the Group's plan to expand its motor vehicle sales and service business in Jiangsu, Sichuan, Zhejiang provinces, Tianjin and Shanghai, the Group acquired 100% of the equity interests of the following companies, which are engaged in the motor vehicle sales and service business in Mainland China, from certain third parties on 1 January 2018 at a total consideration of RMB728,724,000. The purchase consideration for the acquisition was in the form of cash, with RMB657,764,000 paid by the end of June 2018.

Company Name	Acquired equity interest %
天津通孚祥汽車銷售服務有限公司 (Tianjin Tongfuxiang Automobile Sales & Service Co., Ltd.)	100%
上海通孚祥汽車銷售服務有限公司 (Shanghai Tongfuxiang Automobile Sales & Service Co., Ltd.)	100%
上海通孚祥貿易有限公司 (Shanghai Tongfuxiang Trading Co., Ltd.)	100%
通孚祥(蘇州)汽車銷售服務有限公司 (Suzhou Tongfuxiang Automobile Sales & Service Co., Ltd.)	100%
四川通孚祥汽車貿易有限公司 (Sichuan Tongfuxiang Automobile Trading Co., Ltd.)	100%
寧波廣達汽車銷售服務有限公司 (Ningbo Guangda Automobile Sales & Service Co., Ltd.)	100%
無錫通孚祥汽車銷售服務有限公司 (Wuxi Tongfuxiang Automobile Sales & Service Co., Ltd.)	100%

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

17. 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*	71,116
Land use rights*	32,990
Intangible assets*	225,438
Inventories	232,002
Trade receivables	29,194
Prepayments, deposits and other receivables	231,764
Pledged bank deposits	57,540
Cash in transit	2,566
Cash and cash equivalents	288,702
Trade and bills payables	(406,063)
Other payables and accruals	(204,221)
Bank loans and other borrowings	(43,920)
Income tax payable	(17,634)
Deferred tax liabilities*	<u>(61,524)</u>
Total identifiable net assets at fair value	<u><u>437,950</u></u>
Goodwill on acquisition*	<u>290,774</u>
Total purchase consideration	<u><u>728,724</u></u>

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

Cash consideration paid	(657,764)
Cash and cash equivalents acquired	<u>288,702</u>
Net cash outflow	<u><u>(369,062)</u></u>

Since the acquisition, the acquired business contributed RMB1,149,765,000 to the Group's revenue and RMB16,750,000 to the consolidated profit for the six months ended 30 June 2018.

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

17. BUSINESS COMBINATION — ACQUISITION OF SUBSIDIARIES (Continued)

* 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 17 (a) and (b). However, the valuation was not finalized and hence the initial accounting for the business combination of these companies was incomplete by the date of this announcement. Therefore, these amounts recognized in the Group's interim financial statements for the six months ended 30 June 2018 in relation to the acquisition of these companies were on a provisional basis.

18. CONTINGENT LIABILITIES

As at 30 June 2018, neither the Group nor the Company had any significant contingent liabilities.

19. COMMITMENTS

(a) Capital commitments

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Contracted, but not provided for land use rights and buildings	383,025	192,935
Contracted, but not provided for potential acquisitions	200,466	487,250
	583,491	680,185

(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 2018		Audited 31 December 2017	
	Properties RMB'000	Land RMB'000	Properties RMB'000	Land RMB'000
Within one year	127,050	177,303	120,676	168,763
After 1 year but within 5 years	386,839	650,661	386,127	656,438
After 5 years	555,936	1,108,066	577,231	1,151,530
	1,069,825	1,936,030	1,084,034	1,976,731

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 2018

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 2018:

	Unaudited	
	For the six	For the six
	months ended	months ended
	30 June 2018	30 June 2017
	RMB'000	RMB'000
(i) Sales of goods to a joint venture:		
— Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd. (“Xiamen Zhongsheng”)	<u>5,968</u>	<u>689</u>
(ii) Purchase of goods or services from a joint venture:		
— Xiamen Zhongsheng	13,846	873
— TAC Automobile Accessories Trading (Shanghai) Co., Ltd.	<u>1,897</u>	<u>—</u>
	<u>15,743</u>	<u>873</u>

(b) Balances with related parties

The Group had the following significant balances with its related parties as at 30 June 2018:

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
(i) Due from related parties:		
Trade related		
Joint ventures		
— Xiamen Zhongsheng	<u>1,748</u>	<u>555</u>
(ii) Due to related parties:		
Trade related		
Joint ventures		
— TAC Automobile Accessories Trading (Shanghai) Co., Ltd.	<u>739</u>	<u>577</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 2018

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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

	Unaudited	
	For the six months ended 30 June 2018 RMB'000	For the six months ended 30 June 2017 RMB'000
Short term employee benefits	8,182	9,156
Post-employee benefits	237	264
Equity-settled share option	9,699	—
	<u>18,118</u>	<u>9,420</u>
Total compensation paid to key management personnel	<u>18,118</u>	<u>9,420</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:

	Unaudited		Audited	
	30 June 2018		31 December 2017	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial assets				
Financial assets at amortised cost				
Trade receivables	1,115,073	1,115,073	1,082,746	1,082,746
Financial assets included in prepayments, deposits and other receivables	5,374,350	5,374,350	5,083,216	5,083,216
Amounts due from related parties	1,748	1,748	555	555
Pledged bank deposits	2,029,095	2,029,095	1,405,646	1,405,646
Cash in transit	633,339	633,339	356,063	356,063
Cash and cash equivalents	6,194,984	6,194,984	5,027,202	5,027,202
	<u>30,510</u>	<u>30,510</u>	<u>—</u>	<u>—</u>
Financial assets at fair value through profit or loss				
Available-for-sale investments	—	—	19,100	19,100
	<u>15,379,099</u>	<u>15,379,099</u>	<u>12,974,528</u>	<u>12,974,528</u>
Total current	<u>15,379,099</u>	<u>15,379,099</u>	<u>12,974,528</u>	<u>12,974,528</u>
Total	<u>15,379,099</u>	<u>15,379,099</u>	<u>12,974,528</u>	<u>12,974,528</u>

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

21. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Unaudited 30 June 2018		Audited 31 December 2017	
	Carrying amount <i>RMB'000</i>	Fair value <i>RMB'000</i>	Carrying amount <i>RMB'000</i>	Fair value <i>RMB'000</i>
Financial liabilities				
Financial liabilities at amortised cost				
Bank loans and other borrowings	3,021,617	3,021,617	2,494,628	2,494,628
Convertible bonds	3,744,537	3,744,537	—	—
Total non-current	6,766,154	6,766,154	2,494,628	2,494,628
Financial liabilities at amortised cost				
Trade and bills payables	3,813,242	3,813,242	3,470,593	3,470,593
Financial liabilities included in other payables and accruals	851,190	851,190	1,161,202	1,161,202
Amounts due to related parties	739	739	577	577
Bank loans and other borrowings	19,538,893	19,538,893	16,828,479	16,828,479
Other liabilities	245,000	245,000	245,000	245,000
Convertible Bonds	—	—	1,883,958	1,883,958
Total current	24,449,064	24,449,064	23,589,809	23,589,809
Total	31,215,218	31,215,218	26,084,437	26,084,437

Fair value hierarchy

The following table illustrate the fair value measurement hierarchy of the Group's financial instruments.

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2018

21. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Assets measured at fair value:

As at 30 June 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	—	30,510	—	30,510

The Group did not have any financial assets measured at fair value as at 31 December 2017.

Financial liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 30 June 2018 and 31 December 2017, respectively.

22. EVENTS AFTER THE REPORTING PERIOD

On 9 August 2018, 中升(大連)集團有限公司 (Zhongsheng (Dalian) Holdings Co., Ltd), an indirect wholly-owned subsidiary of our Company, entered into a preliminary framework agreement (the “**Framework Agreement**”) to acquire (i) the entire equity interest in; and (ii) the non-current assets of, certain subsidiaries of 龐大汽貿集團股份有限公司 (Pangda Automobile Trade Co., Ltd.) (a company listed on the Shanghai Stock Exchange with stock code 601258), which principally relate to the business of sale and service of motor vehicles in the PRC (the “**Pangda Acquisition**”). The consideration for the Pangda Acquisition pursuant to the Framework Agreement is approximately RMB1,093,157,600. The transactions contemplated under the Framework Agreement are subject to the entry into of definitive sale and purchase agreement(s) between the parties. The Directors considers the Pangda Acquisition is in line with the Group’s business expansion plan. The Pangda Acquisition does not constitute any notifiable transaction of the Company under Chapter 14 of the Listing Rules, nor any connected transaction of the Company under Chapter 14A of the Listing Rules.

Save as disclosed otherwise, there is no material subsequent event undertaken by the Company or by the Group after 30 June 2018.

FINANCIAL REVIEW

Revenue

Revenue for the six months ended 30 June 2018 was RMB49,305.5 million, representing an increase of RMB10,983.3 million or 28.7% as compared to the corresponding period in 2017. Revenue from new automobile sales amounted to RMB42,727.8 million, representing an increase of RMB9,629.6 million or 29.1% as compared to the corresponding period in 2017. Revenue from after-sales and accessories business amounted to RMB6,577.7 million, representing an increase of RMB1,353.7 million or 25.9% as compared to the corresponding period in 2017.

Our new automobile sales business accounted for a substantial portion of our revenue, representing 86.7% (corresponding period in 2017: 86.4%) of our revenue for the six months ended 30 June 2018. The remaining portion of our revenue during the period was generated by our after-sales and accessories business which accounted for 13.3% of our total revenue for the six months ended 30 June 2018 (corresponding period in 2017: 13.6%). 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 31.6% of our total revenue from new automobile sales (corresponding period in 2017: 31.9%).

Cost of Sales and Services

Cost of sales and services for the six months ended 30 June 2018 amounted to RMB44,544.7 million, representing an increase of RMB10,039.4 million or 29.1% as compared to the corresponding period in 2017. Costs attributable to our new automobile sales business amounted to RMB41,160.6 million for the six months ended 30 June 2018, representing an increase of RMB9,319.1 million or 29.3% as compared to the corresponding period in 2017. Costs attributable to our after-sales and accessories business amounted to RMB3,384.1 million for the six months ended 30 June 2018, representing an increase of RMB720.3 million or 27.0% as compared to the corresponding period in 2017.

Gross Profit

Our gross profit for the six months ended 30 June 2018 amounted to RMB4,760.8 million, representing an increase of RMB943.9 million or 24.7% as compared to the corresponding period in 2017. Gross profit from new automobile sales business amounted to RMB1,567.2 million, representing an increase of RMB310.5 million or 24.7% as compared to the corresponding period in 2017. Gross profit from after-sales and accessories business amounted to RMB3,193.6 million, representing an increase of RMB633.4 million or 24.7% as compared to the corresponding period in 2017. For the six months ended 30 June 2018, gross profit from our after-sales and accessories business accounted for 67.1% of the total gross profit (corresponding period in 2017: 67.1%).

Our gross profit margin for the six months ended 30 June 2018 was 9.7% (corresponding period in 2017: 10.0%).

Other Income and Gains, Net

The other income and gains, net, for the six months ended 30 June 2018 amounted to RMB1,112.0 million, representing an increase of RMB344.6 million or 44.9% as compared to the corresponding period in 2017. The other income and gains mainly consisted of service income from automobile insurance and automobile financing services, gains from second-hand automobile trading business, rental income and interest income, etc.

Profit from Operations

Our profit from operations for the six months ended 30 June 2018 amounted to RMB3,205.3 million, representing an increase of RMB671.5 million or 26.5% as compared to the corresponding period in 2017. Our operating profit margin for the six months ended 30 June 2018 was 6.5% (corresponding period in 2017: 6.6%).

Profit for the Period

Our profit for the six months ended 30 June 2018 amounted to RMB1,867.3 million, representing an increase of RMB420.6 million or 29.1% as compared to the corresponding period in 2017. Our profit margin for the six months ended 30 June 2018 was 3.8% (corresponding period in 2017: 3.8%).

Profit Attributable to Owners of the Parent

Our profit attributable to owners of the parent for the six months ended 30 June 2018 amounted to RMB1,838.0 million, representing an increase of RMB481.8 million or 35.5% as compared to the corresponding period in 2017.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flow

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

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

Cash Flow Generated from Operating Activities

For the six months ended 30 June 2018, our net cash generated from operating activities was RMB223.8 million. We generated RMB3,767.9 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 2018, our net cash used in investing activities was RMB2,580.1 million.

Cash Flow Generated from Financing Activities

For the six months ended 30 June 2018, our net cash generated from financing activities was RMB3,516.5 million.

Net Current Assets

As at 30 June 2018, we had net current assets of RMB658.2 million, representing an increase of RMB3,350.1 million from our net current liabilities as at 31 December 2017.

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 2018, our total capital expenditures were RMB1,655.0 million. Save as disclosed above, the Group did not make any significant investments during the six months ended 30 June 2018.

Inventory Analysis

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

Our inventories increased from RMB7,509.8 million as at 31 December 2017 to RMB9,147.9 million as at 30 June 2018, 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	
	2018	2017
Average inventory turnover days	<u>30.8</u>	<u>34.0</u>

Our average inventory turnover days kept stable during the first half of 2018 with a slight decrease as compared to the same period in 2017, which was due to further optimisation of our inventory monitoring system as well as the good control of supply and demand based on the market situation.

Order Book and Prospect for New Business

Due to its business nature, the Group does not maintain an order book as at 30 June 2018. The Group has no new services to be introduced to the market.

Bank Loans and Other Borrowings

As at 30 June 2018, our bank loans and other borrowings amounted to RMB22,560.5 million, and our convertible bonds liability portion amounted to RMB3,744.5 million. The increase in our bank loans and other borrowings and convertible bonds liability during the period was primarily due to the funding for further expansion in the business scale which enabling the Company to develop sustainably in the long-term perspective. The annual interest rates of the bank loans ranged from 4% to 7%.

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 2018, the Group had 27,586 employees. The Group strives to offer a good working environment, a diversified range of training programs as well as an attractive remuneration package to its employees. The Group endeavours to motivate its staff with performance-based remuneration. On top of basic salary, the Group will reward staff who had outstanding performances with cash bonuses, share options, honorary awards or a combination of all the above to further align the interests of the employees and the Company, to attract talented individuals, and to create long-term incentive for its staff.

Pledge of the Group's Assets

The Group pledged its group assets as securities for bank and other loan and banking facilities which were used to finance daily business operation. As at 30 June 2018, the pledged group assets amounted to approximately RMB7.5 billion (31 December 2017: RMB7.2 billion).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save as disclosed above, during the six months ended 30 June 2018, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies.

Future Plans and Expected Funding

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

Gearing Ratio

As at 30 June 2018, the gearing ratio of our Group was 57.9%, which was calculated from net debt divided by the sum of net debt and total equity.

CONVERTIBLE BONDS

2018 CONVERTIBLE BONDS

On 11 October 2017, the Company and J.P. Morgan Securities Plc (the “**Manager**”) entered into a subscription agreement, according to which the Company agreed to issue, and the Manager agreed to subscribe for (or procure its nominee to subscribe for) zero coupon rate convertible bonds due 2018 of an aggregate principal amount of HK\$2,350 million (the “**2018 Convertible Bonds**”).

The 2018 Convertible Bonds were convertible into ordinary shares of HK\$0.0001 each in the share capital of the Company at the initial conversion price of HK\$20.2860 per conversion share at the option of the holder thereof, at any time on or after the 41st day after the issue date up to the close of business on the date falling ten days prior to the maturity date, being a date falling on or about 25 October 2018. The issue of 2018 Convertible Bonds was completed on 30 October 2017.

On 3 May 2018, the Company entered into a dealer manager agreement with the Manager, pursuant to which the Manager was appointed as the Company’s dealer manager (the “**Sole Dealer Manager**”) in connection with the repurchase of the 2018 Convertible Bonds. The Company, through the Sole Dealer Manager, repurchased approximately HK\$2,256 million in aggregate principal amount of the 2018 Convertible Bonds at a total repurchase price of approximately HK\$2,713 million (the “**Repurchase**”). Upon completion of the Repurchase, approximately HK\$2,256 million in aggregate principal amount of the 2018 Convertible Bonds were cancelled.

On 25 May 2018, 31 May 2018, 6 June 2018 and 19 June 2018, the Company received conversion notices from holders of the 2018 Convertible Bonds (the “**Bondholders**”) in relation to the exercise of the conversion rights attached to the 2018 Convertible Bonds, to convert the 2018 Convertible Bonds in the principal amount of HK\$6 million, HK\$2 million, HK\$49 million and HK\$37 million, respectively, at the conversion price of HK\$20.2860 per share (the “**Conversion**”). Accordingly, 295,770 shares, 98,590 shares, 2,415,458 shares and 1,823,917 shares of the Company (the “**Conversion Shares**”) were allotted to the respective Bondholders on 30 May 2018, 4 June 2018, 12 June 2018 and 20 June 2018, respectively, pursuant to the terms and conditions of the 2018 Convertible Bonds. The Conversion Shares rank pari passu in all respects among themselves and with all other existing shares of the Company in issue. After the Conversion on 20 June 2018, the total number of issued shares of the Company increased to 2,271,697,955 shares and all the outstanding 2018 Convertible Bonds have been fully converted in accordance with the terms and conditions of the 2018 Convertible Bonds.

NEW CONVERTIBLE BONDS

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

The New Convertible Bonds are convertible into shares of the Company at the initial conversion price of HK\$30.0132 per conversion share at the option of the holder thereof, at any time on or after the 41st day after the issue date up to the close of business on the tenth day prior to the maturity date, being a date falling on or about 23 May 2023. The issue of New Convertible Bonds in the aggregate amount of HK\$4,700 million was completed on 23 May 2018.

There was no conversion of the New Convertible Bonds as at the date of this announcement. The Company will redeem each New Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. Upon full conversion of the outstanding New Convertible Bonds, the Company may issue 156,597,763 shares, increasing the total issued shares of the Company to 2,428,295,718 shares (calculated as at the date of this announcement).

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. 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. Further details of the Share Option Scheme have been set out in the Company’s 2017 Annual Report.

Details of the options to subscribe ordinary shares of the Company pursuant to the Share Option Scheme and the movement during the six months ended 30 June 2018 are set out below:

Name of Grantees	Date granted	Exercise price per share	Number of Share Options				Outstanding as at 30 June 2018
			Outstanding as at 31 December 2017	Granted during the Period	Exercised during the period	Lapsed/ Cancelled during the period	
Mr. Du Qingshan — Executive Director of the Board	26 April 2018	HK\$22.60	—	5,500,000 ⁽¹⁾	—	—	5,500,000
Mr. Zhang Zhicheng — Executive Director of the Board	26 April 2018	HK\$22.60	—	5,500,000 ⁽¹⁾	—	—	5,500,000
Total							<u>11,000,000</u>

Note:

- (1) On 26 April 2018, the Company offered to grant share options (the “Share Options”) to Mr. Du Qingshan and Mr. Zhang Zhicheng under the Share Option Scheme, which will entitle them to subscribe for an aggregate of 11,000,000 new ordinary shares of HK\$0.0001 each in the capital of the Company. The Share Options will be fully vested from 26 April 2019. The Share Options are exercisable from 26 April 2019 to 25 April 2028 (both dates inclusive) at a price of HK\$22.60 per share. The closing price of the shares in the Company immediately before 26 April 2018 is HK\$22.35 per share.

Further details of the Share Options are set out in note 16 to the financial statements.

Save as disclosed above, during the reporting period and up to the date of this announcement, no other options have been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 30 June 2018, the total number of shares available for issue under the Share Option Scheme remained to be 11,000,000, representing approximately 0.48% of the issued share capital of the Company. As at the date of this announcement, the remaining life of the Share Option Scheme is approximately one year and five months.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). Throughout the six months ended 30 June 2018 and up to the date of this announcement, the Company has been in compliance with the code provisions set out in the CG Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2018 and up to the date of this announcement.

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

Save as disclosed above, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company’s listed securities throughout the six months ended 30 June 2018 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 2018. The Audit Committee considers that the interim financial results for the six months ended 30 June 2018 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 2018.

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) and the Company (www.zs-group.com.cn).

The interim report of the Company for the six months ended 30 June 2018 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 staff 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, 10 August 2018

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. Ying Wei and Mr. Chin Siu Wa Alfred.