

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2019**

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 2019, as follows:

FINANCIAL HIGHLIGHTS

- New car sales volume for the six-month period ended 30 June 2019 increased by 17.3% to 213,762 units as compared to the same period of 2018
- Revenue for the six-month period ended 30 June 2019 increased by 16.4% to RMB57,412.6 million as compared to the same period of 2018, among which revenue from new car sales increased by 15.8% to RMB49,484.5 million while revenue from after-sales and accessories business increased by 20.5% to RMB7,928.1 million as compared to the same period of 2018
- Income from value-added services for the six-month period ended 30 June 2019 increased by 20.9% to RMB1,209.7 million as compared to the same period of 2018
- Profit attributable to owners of the parent for the six-month period ended 30 June 2019 was RMB2,082.3 million, representing an increase of 13.3% as compared to the same period of 2018
- Basic earnings per share was RMB0.92 for the six-month period ended 30 June 2019 (the same period of 2018: RMB0.81)

MARKET REVIEW

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

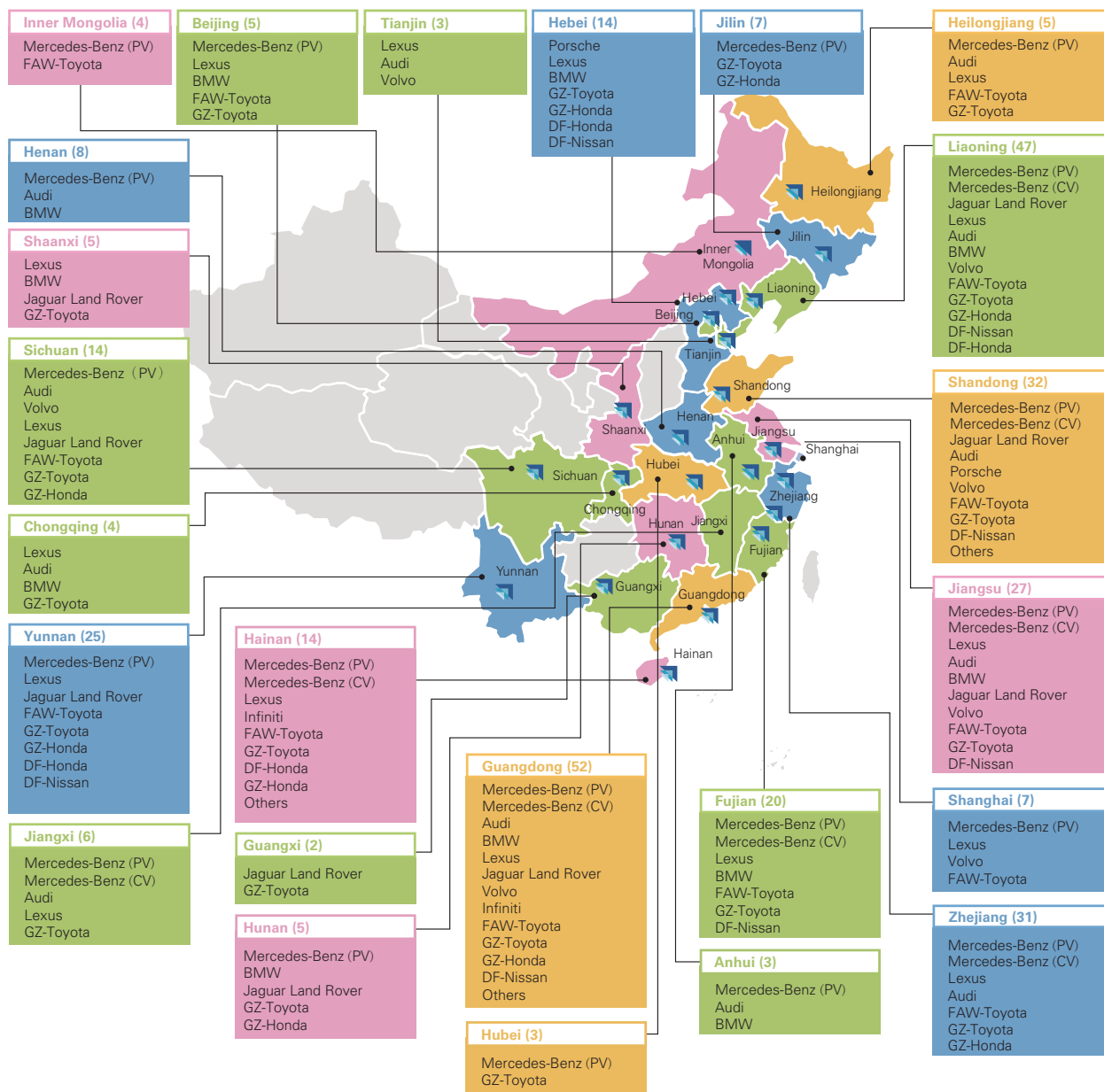
In the first half of 2019, at the backdrop of sales decline of the overall car market, luxury brands growth remained stable. In the first half of this year, the retail sales of 20 luxury car brands were approximately 1.542 million units in total, representing a year-on-year increase of 16.9%. Among which,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

BUSINESS REVIEW

Emerging Advantages in Brand Portfolio with Continuous Growth in Regional Distribution Potential

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

30 June 2019, the total number of dealerships of the Group increased to 343, of which approximately 75% of the dealerships are located in the first and second-tier and provincial capital cities. The coverage of Zhongsheng Group's dealerships as of 30 June 2019 was as follows:



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

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

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

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

FUTURE STRATEGIES AND OUTLOOK

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

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

Consolidated Interim Statement of Profit or Loss
For the six months ended 30 June 2019

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

Consolidated Interim Statement of Comprehensive Income
For the six months ended 30 June 2019

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

Consolidated Interim Statement of Financial Position
30 June 2019

		Unaudited	Audited
		30 June	31 December
		2019	2018
	<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		11,927,622	11,506,929
Right-of-use assets		3,215,682	—
Land use rights		2,970,743	2,977,418
Prepayments		702,927	1,013,004
Intangible assets		6,316,540	6,330,872
Goodwill		4,634,963	4,563,686
Investments in joint ventures		45,837	45,470
Deferred tax assets		265,773	269,297
		<hr/>	<hr/>
Total non-current assets		30,080,087	26,706,676
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories	<i>10</i>	9,248,730	10,980,498
Trade receivables	<i>11</i>	1,697,900	1,341,740
Prepayments, deposits and other receivables		10,138,993	10,110,948
Amounts due from related parties	<i>20(b)(i)</i>	1,480	850
Financial assets at fair value through profit or loss		932,685	141,190
Pledged bank deposits		1,152,221	1,312,577
Cash in transit		758,584	431,044
Cash and cash equivalents		6,208,459	6,142,664
		<hr/>	<hr/>
Total current assets		30,139,052	30,461,511
		<hr/>	<hr/>

Consolidated Interim Statement of Financial Position (Continued)
30 June 2019

		Unaudited 30 June 2019 <i>RMB'000</i>	Audited 31 December 2018 <i>RMB'000</i>
	<i>Notes</i>		
CURRENT LIABILITIES			
Bank loans and other borrowings	<i>12</i>	16,287,707	17,072,705
Trade and bills payables	<i>13</i>	4,658,250	4,814,761
Other payables and accruals		3,007,112	2,996,549
Lease liabilities		189,578	—
Other liabilities		245,000	245,000
Amounts due to related parties	<i>20(b)(ii)</i>	992	1,119
Income tax payable		1,440,695	1,470,353
Dividends payable		739,388	9
		<u>26,568,722</u>	<u>26,600,496</u>
Total current liabilities			
		<u>26,568,722</u>	<u>26,600,496</u>
Net current assets		<u>3,570,330</u>	<u>3,861,015</u>
Total assets less current liabilities		<u>33,650,417</u>	<u>30,567,691</u>
NON-CURRENT LIABILITIES			
Bank loans and other borrowings	<i>12</i>	4,470,702	5,575,464
Deferred tax liabilities		1,927,961	1,909,282
Convertible bonds	<i>14</i>	4,139,047	4,046,722
Lease liabilities		2,769,982	—
		<u>13,307,692</u>	<u>11,531,468</u>
Total non-current liabilities			
		<u>13,307,692</u>	<u>11,531,468</u>
Net assets		<u>20,342,725</u>	<u>19,036,223</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>15</i>	197	197
Reserves		19,564,696	18,239,418
		<u>19,564,893</u>	<u>18,239,615</u>
Non-controlling interests		<u>777,832</u>	<u>796,608</u>
Total equity		<u>20,342,725</u>	<u>19,036,223</u>

Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2019

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

Consolidated Interim Statement of Cash Flows
For the six months ended 30 June 2019

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

Consolidated Interim Statement of Cash Flows (Continued)
For the six months ended 30 June 2019

	Unaudited	
	For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Investing activities		
Purchase of items of property, plant and equipment	(1,269,909)	(1,037,281)
Proceeds from disposal of items of property, plant and equipment	413,855	225,483
Purchase of land use rights	(43,162)	(195,646)
Proceeds from disposal of land use rights	34,425	—
Purchase of intangible assets	(6,364)	(5,178)
Prepayments for the potential acquisitions of equity interests from third parties	(116,748)	(914,500)
Acquisitions of subsidiaries	38,561	(497,205)
Increase in prepayments, deposits and other receivables	(87,990)	(233,585)
Interest received	23,976	10,991
Purchase of financial assets at fair value through profit or loss, net	(785,800)	(11,410)
Disposal of subsidiaries	4,000	78,200
	<hr/>	<hr/>
Net cash used in investing activities	<u>(1,795,156)</u>	<u>(2,580,131)</u>

Consolidated Interim Statement of Cash Flows (Continued)
For the six months ended 30 June 2019

	Unaudited	
	For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
Financing activities		
Proceeds from issue of convertible bonds	—	3,778,812
Proceeds from bank loans and other borrowings	41,938,445	35,159,489
Repayments of bank loans and other borrowings	(43,882,331)	(31,994,261)
Decrease/(increase) in pledged bank deposits	161,132	(564,891)
Decrease in notes payable	(263,100)	—
Capital contribution from a non-controlling shareholder of a subsidiary	—	6,000
Acquisition of non-controlling interests	—	(5,000)
Principal portion of lease payments	(314,321)	—
Repayment of convertible bonds	—	(2,203,966)
Placement of deposits for borrowings	(24,181)	—
Interest paid for bank loan and other borrowings	(538,933)	(586,526)
Capital element of finance lease rental payments	(5,617)	36
Dividends paid to the non-controlling shareholders	(75,998)	(73,156)
	<u>(3,004,904)</u>	<u>3,516,537</u>
Net cash (used in)/generated from financing activities		
	63,809	1,160,162
Net increase in cash and cash equivalents		
Cash and cash equivalents at beginning of each period	6,142,664	5,027,202
Effect of foreign exchange rate changes, net	1,986	7,620
	<u>6,208,459</u>	<u>6,194,984</u>
Cash and cash equivalents at end of each period		

Notes to the condensed consolidated interim financial statements

30 June 2019

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures

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

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

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

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

New definition of a lease

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

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

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

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

Impacts on transition

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

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

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

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

Impacts on transition (Continued)

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

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

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

Summary of new accounting policies

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

Right-of-use assets

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

Lease liabilities

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

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

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(a) Adoption of HKFRS 16 (Continued)

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

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

3. OPERATING SEGMENT INFORMATION

The Group is engaged in the principal business of sale and service of motor vehicles. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the sale of motor vehicles and the provision of related services.

No operating segments have been aggregated to form the above reportable operating segment.

Information about geographical area

Since over 90% of the Group's revenue and operating profit were generated from the sale and service of motor vehicles in Mainland China and over 90% of the Group's non-current assets other than deferred tax assets were located in Mainland China, no geographical segment information is presented in accordance with HKFRS 8 *Operating Segments*.

Information about major customers

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

4. REVENUE, OTHER INCOME AND GAINS, NET

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

(a) Revenue

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

(b) Other income and gains, net

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

5. PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended 30 June 2019 RMB'000	For the six months ended 30 June 2018 RMB'000
(a) Employee benefit expense (including directors' and chief executive officer's remuneration)		
Wages and salaries	1,655,478	1,534,070
Pension scheme contributions	232,863	196,522
Other welfare	104,889	146,404
Equity-settled share option expense	16,024	9,699
	<u>2,009,254</u>	<u>1,886,695</u>
(b) Cost of sales and services provided:		
Cost of sales of motor vehicles	48,169,401	41,160,619
Others	4,044,808	3,384,043
	<u>52,214,209</u>	<u>44,544,662</u>
(c) Other items		
Depreciation and impairment of property, plant and equipment	478,049	399,980
Amortisation of land use rights	44,907	32,815
Amortisation of intangible assets	128,994	122,312
Promotion and advertisement	334,041	260,875
Office expenses	148,740	120,891
Depreciation of right-of-use assets	123,680	—
Lease expenses	10,880	174,287
Logistics expenses	58,793	49,822
Impairment of trade receivables	4,637	—
Write-down of inventories to net realizable value	1,918	(606)
Net loss on disposal of items of property, plant and equipment	2,283	3,191
Expenses on redemption of convertible bonds	—	6,206
Fair value gains, net		
Financial assets at fair value through profit or loss		
— listed equity investments	(2,548)	—
— financial products	(1,314)	—
	<u>(2,862)</u>	<u>—</u>

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

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

8. DIVIDENDS

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

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

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

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

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

10. INVENTORIES

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

11. TRADE RECEIVABLES

	Unaudited 30 June 2019 <i>RMB'000</i>	Audited 31 December 2018 <i>RMB'000</i>
Trade receivables	<u><u>1,697,900</u></u>	<u><u>1,341,740</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 ageing analysis of the trade receivables as at each end of reporting period (based on the invoice date) is as follows:

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

12. BANK LOANS AND OTHER BORROWINGS

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

13. TRADE AND BILLS PAYABLES

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

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

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

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

14. CONVERTIBLE BONDS

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

14. CONVERTIBLE BONDS (Continued)

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

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

15. SHARE CAPITAL

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

16. SHARE OPTION SCHEME

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

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

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

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

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

16. SHARE OPTION SCHEME (Continued)

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

	30 June 2019		Unaudited 30 June 2018	
	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	22.60	11,000	—	—
Granted during the period	—	—	22.60	11,000
At 30 June	<u>22.60</u>	<u>11,000</u>	<u>22.60</u>	<u>11,000</u>

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 2019 Exercise price <i>HK\$ per share</i>	Exercise period
11,000	22.60	26 April 2019 to 25 April 2028 (both dates inclusive)

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

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

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

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

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

17. BUSINESS COMBINATION

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

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

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

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

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

17. BUSINESS COMBINATION (Continued)

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

17. BUSINESS COMBINATION (Continued)

(b) (Continued)

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

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

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

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

17. BUSINESS COMBINATION (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 note 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 2019 in relation to the acquisition of these companies were on a provisional basis.

18. CONTINGENT LIABILITIES

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

19. COMMITMENTS

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

20. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

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

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

Notes to the condensed consolidated interim financial statements (Continued)
30 June 2019

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Balances with related parties

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

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

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

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

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

Notes to the condensed consolidated interim financial statements *(Continued)*
30 June 2019

21. EVENTS AFTER THE REPORTING PERIOD

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

FINANCIAL REVIEW

Revenue

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

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

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

Cost of Sales and Services

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

Gross Profit

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

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

Other Income and Gains, Net

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

Profit from Operations

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

Profit for the Period

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

Profit Attributable to Owners of the Parent

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

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flow

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

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

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

Cash Flow Generated from Operating Activities

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

Cash Flow Used in Investing Activities

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

Cash Used in Financing Activities

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

Net Current Assets

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

Capital Expenditures and Investment

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

Inventory Analysis

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

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

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

	For the six months ended	
	30 June	
	2019	2018
Average inventory turnover days	<u>32.0</u>	<u>30.8</u>

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

Order Book and Prospect for New Business

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

Bank Loans and Other Borrowings

As at 30 June 2019, our bank loans and other borrowings amounted to RMB20,758.4 million, and our convertible bonds liability portion amounted to RMB4,139.0 million. The decrease in our bank loans and other borrowings during the period was primarily due to the repayment of the loan and other borrowings, benefiting from the substantial cash generated from operating activities. The annual interest rates of the bank loans and other borrowings ranged from 1% to 5.5%.

Interest Rate Risk and Foreign Exchange Rate Risk

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

Employee and Remuneration Policy

As at 30 June 2019, the Group had 26,659 employees. The Group strives to offer a good working environment, a diversified range of training programs as well as an attractive remuneration package to its employees. The Group endeavours to motivate its staff with performance-based remuneration. On top of basic salary, the Group will reward staff who had outstanding performances with cash bonuses, share options, honorary awards or a combination of all the above to further align the interests of the employees and the Company, to attract talented individuals, and to create long-term incentive for its staff.

Pledge of the Group's Assets

The Group pledged its group assets as securities for bank and other loan and banking facilities which were used to finance daily business operation. As at 30 June 2019, the pledged group assets amounted to approximately RMB8.0 billion (31 December 2018: RMB7.5 billion).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save as disclosed above, during the six months ended 30 June 2019, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies.

Future Plans and Expected Funding

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

Gearing Ratio

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

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 “**Convertible Bonds**”). On 14 May 2018, the Manager exercised in full the option granted by the Company, pursuant to which the Company is required to issue the Option Bonds in the aggregate principal amount of HK\$775 million.

The Convertible Bonds are convertible into 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 Convertible Bonds in the aggregate amount of HK\$4,700 million was completed on 23 May 2018.

There was no conversion of the Convertible Bonds as at the date of this announcement. The Company will redeem each Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. Upon full conversion of the outstanding 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 of the Company on the terms set out in the Share Option Scheme. Further details of the Share Option Scheme is set out in the Company's prospectus dated 16 March 2010.

Details of the options to subscribe ordinary shares of the Company, granted under the Share Option Scheme and the movement for the six months ended 30 June 2019 are set out below:

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

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 2019, the total number of shares available for issue under the Share Option Scheme remained to be 11,000,000, representing approximately 0.48% of the issued share capital of the Company. As at the date of this announcement, the remaining life of the Share Option Scheme is approximately 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 2019 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 2019 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 2019 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 2019. The Audit Committee considers that the interim financial results for the six months ended 30 June 2019 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

Interim Dividend

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

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 2019 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, 9 August 2019

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.