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 2023

The board (the "**Board**") of directors (the "**Directors**") of Zhongsheng Group Holdings Limited (the "**Company**" or "**we**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2023, as follows:

KEY HIGHLIGHTS

	Unaudited Six months ended		
	30 June 2023	30 June 2022	**Year-on-year change**
	(RMB in millions, unless specified)		
Financial Summary			
Revenue			
The sale of motor vehicles	**69,669.8**	73,209.0	−4.8%
After-sales services	**12,231.9**	12,820.3	−4.6%
thereof Maintenance, warranty and collision	***9,636.6***	*8,670.9*	*11.1%*
Revenue	**81,901.7**	86,029.3	−4.8%

	Unaudited Six months ended		
	30 June 2023	30 June 2022	**Year-on-year change**
	(RMB in millions, unless specified)		
Gross profit			
The sale of motor vehicles	**1,198.7**	2,423.6	−50.5%
After-sales services	**5,771.1**	6,043.3	−4.5%
thereof Maintenance, warranty and collision	***4,466.1***	*3,547.4*	*25.9%*
Gross profit	**6,969.8**	8,466.9	−17.7%
Commission income	**1,991.6**	1,502.8	32.5%
Profit for the period	**3,015.3**	3,459.0	−12.8%
Basic earnings per Share attributable to ordinary equity holders of the parent *(RMB)*	**1.253**	1.428	−12.3%

	Unaudited Six months ended		
	30 June 2023	30 June 2022	**Year-on-year change**
Operating Metrics			
New car sales volume (Units)	**223,901**	242,280	−7.6%
thereof Luxury brands (Units)	**140,238**	143,857	−2.5%
Pre-owned automobiles trade volume (Units)	**65,977**	65,606	0.6%

STRATEGY UPDATES

The overall Chinese economy grew 5.5% in the first half of 2023, while quarter on quarter growth was 2.2% and 0.8% respectively in the first quarter and the second quarter. Total retail sales were up 8.2% in the first half of 2023 compared with the same period last year. While we are encouraged by the gradual recovery of economic development post Covid-19, the widely high-hoped "pent-up demand" did not really take place. We'd rather see consumers slowly picking up spendings with restaurants and tourist spots becoming a lot more bustling when we got into summer holidays this year. At our group level, we witnessed similar patterns in both aftermarket and used car segments that continued their solid growth while new car sales showed lackluster demand.

We have noted at various occasions that the Chinese passenger vehicle industry has entered into a new phase exhibiting secular changes throughout the entire value chain. One of the most remarkable changes has been the plateaued new car sales numbers, while the overall registered passenger vehicles in China is still projected to be growing at a moderate level in the decade. This is also against the backdrop of accelerated auto electrification in the China market, leading the global auto value chain transformation in terms of overall penetration, product and technology iterations, and price competition. The situation for new car market that is more exposed to overall consumer economy obviously got even more complicated when China fully got out of the Covid-19 pandemic in the first half of this year. Consumers were switching their gears looking for pre-Covid-19 economic signs only to realise there is a new economic paradigm in the country with local economies trying to have less contribution by property markets. Besides, export businesses normalised post Covid-19 and amid a global tendency of supply chain "deglobalisation". Internet incumbents and "new economy" startups started trimming headcounts and emphasising profitability over unsustainable growth previously fueled by abundant capital at inflated valuations.

We hosted our investor day on 5 June 2023 at our headquarters in Dalian, during which we announced our strategic vision that is "to become the most trusted auto service brand for premium consumers in China". Such vision is an affirmation of our relentless devotion to our belief in customer centricity and satisfaction, and the culmination of our determination to continue building Zhongsheng as a household name for auto services in China. That is to say we will be more OEM brand-agnostic in all aspects of our operations so that all our outlets and facilities will only have one single target in mind — to provide best-of-the-class auto services to our Zhongsheng customers. This is much easier said than done. OEM brands have historically instilled a strong sense of operational obedience among customers and authorised dealerships. To realise our strategic vision, we will further educate our customers on the different roles we play between us and the OEMs. In addition, we have to dismantle the invisible mental walls across various parts of our operations so that they become more integrated and efficient. The platform strategy that we started executing last year has established the infrastructure that enables our operational integration — the CRM centres, the collision centres, the used-car command centres (UCCs), the procurement centre, just to name a few, are all operating in an OEM brand-agnostic manner.

To translate our strategic vision into actionables, we also announced our "Triple One" strategic targets at our investor day — to build 100 Zhongsheng-branded collision centres; to double our accident car repair business; and to reach 1.0 used-to-new car sales ratio. We believe these targets well reflect our strategic vision to build Zhongsheng into a formidable full-fledged auto service group where aftermarket and used car segments will propel the future profit growth. Besides, our pivot to these two segments is a natural progression from new car segment, given our strengths in network coverage and operational management, as the three segments complement and reinforce each other even better when at scale. For instance, a more robust used car segment, which fully leverages our UCCs for internal profit-seeking inventory circulation, would create more flexibility in consummating new car sales transactions because of the additional profit that could be exploited from the trade-in vehicles. This is essentially a very simple idea of exploiting information asymmetry in theory, though without a nationwide presence and more importantly excellence in operational execution, smaller operators are never able to realise such synergies across these two business segments in practice like we do now — two potential transactions (a new car and a trade-in) are missed.

As we embrace the rapid shift away from the internal combustion engine in the China market, we believe the volatility in the new car market has become a positive catalyst to achieving our strategic vision. It keeps us staying away from self-complacency that industry leaders usually fall foul to and makes us more laser focused on our strategies to evolve ourselves. As for the major global auto incumbents we closely work with, namely Mercedes, Toyota/Lexus, BMW, and VW/Audi, we have noticed quite a number of positive developments recently that they are also proactively strategising themselves in the increasingly competitive local auto market due to the rise of local brands. These actions, including setting up dedicated EV research and development ("**R&D**") centres, joint development of new EV models with local brands, etc., reaffirm our view that the electrification race in China's auto market has just started and it would more likely be a marathon than a sprint. As we noted at our investor day, together with the roll-out of their next generation EV platforms in the next two to three years, the new car market in China might continue to be very competitive and volatile. Yet, we believe our strategy to build our own brand equity in auto services, especially in aftermarket and used car businesses, will empower us to better weather through such uncertainties.

MARKET REVIEW

In the first half of 2023, overall passenger vehicles sales volume in China reached 9.6 million units, representing a year-on-year increase of 4.5%, according to auto insurance registration data. The total sales volume of luxury brand vehicles reached 2.0 million, representing a year-on-year increase of 15.8%. The stronger than industry increase in luxury brand segment was mainly driven by new energy vehicles (NEV) including Tesla and local NEV startups. Having said that, traditional luxury brands achieved a year-on-year sales volume increase of 6.1%, ahead of the industry average in the first half of the year, showing strong demand in auto consumption upgrade.

For the key brands we operate, according to auto insurance registration data, Mercedes-Benz, BMW and Audi delivered 390,422, 385,011, and 321,779 units of new automobiles in China in the first half of 2023, respectively, representing year-on-year increases of 6.4%, 5.9%, and 6.0%. Lexus and Toyota delivered 70,592 and 766,772 units in China, representing a year-on-year decrease of 18.4% and 5.7%.

In the past six months, we continued to hold a stable market share among these key brands attributed by our strong brand and network mix at scale. As the largest dealer for Lexus in China, Zhongsheng achieved 29.9% market share in terms of its sales volume in the first half of 2023. In the same period, Zhongsheng also recorded 17.5% market share of Mercedes-Benz sales volume in China as its second largest dealer. Zhongsheng's market share in terms of sales volume is 5.8%, 5.1% and 8.6% for BMW, Audi and Toyota, respectively, in China.

The NEV segment (PHEV, EREV and BEV) continued to exhibit strong growth momentum in sales volume. According to the China Passenger Cars Association (CPCA), retail volume of NEVs reached 3.1 million units in the first half of 2023, representing a year-on-year increase of 37.3%, and its penetration rate increased to 32.4%. With regard to segmentation by vehicle types, mini and sub-compact car segments saw higher NEV penetration, while compact and above car segments showed relatively lower penetration rates. Meanwhile, the penetration of NEV was also moving upward the car segments. In other words, consumption upgrade has become a prevailing trend as consumers pursue vehicle quality and, as cost-effective new energy models are constantly introduced, this ultimately brings market opportunities for luxury and mid-to-high-end brands to continuously expand their market shares in the NEV market.

With the strong growth of NEV sales in China, global major OEMs are also increasing their commitments and R&D investments in electrification, autonomous driving and smart features. In the first half of 2023, the sales volume of Mercedes-Benz, BMW, Audi and Toyota's new energy vehicles recorded 100–300% increase on a year-on-year basis, with their NEV market share nearly doubling.

With the favourable government policies promulgated in recent years, the used car market has entered into a new phase of development. According to the China Automobile Dealers Association (CADA), the sales volume of pre-owned passenger vehicles was 6.9 million units in the first half of 2023 in China, representing a year-on-year increase of 16.1%. In terms of retail price, vehicles transacted at lower price contributed to a majority of the sales volume and growth, with nearly 90% of vehicles transacted below RMB150k, representing a year-on-year increase of 16.9%. As one of the leading institutionalised used car dealers in China, our used car sales volume reached 65,977 units in the first half of 2023, among which 14,783 units were sold to retail customers (as opposed to other agents) with an average retail price of RMB287,000. Our unit aggregate profit (including both gross profit and value-added income) contribution has also gone above RMB8,000 as a result of stronger retail transactions and more efficient internal inventory circulation.

With respect to aftermarket segment, according to third-party data, the total number of vehicles serviced in China recorded a year-on-year increase of 9.0%, and corresponding after-sales services revenue pool recorded a year-on-year increase of 13.0% in the first half of 2023. The amount of auto insurance claims for accident vehicles increased by 5.8% year-on-year during the same time period. Bolstered by our omni-channel customer relationship management and continuously improving after-sales services for the entire auto lifecycle, we achieved a 11.7% year-on-year increase in the number of vehicles serviced in aftermarket segment in the first half of 2023. Additionally, our revenue from maintenance, warranty and collision as a whole increased by 11.1% year-on-year, and collision repair business revenue increased by 15.9% year-on-year. Zhongsheng is well positioned to further capitalise on the growth of the entire aftermarket, especially when electrification brings about more business opportunities to us.

Last but not least, there have also been favourable policies coming from the government to further support auto consumption this year. On 8 June 2023, the Ministry of Commerce announced the "100 Connected Cities" automobile festival and "Thousands of Counties and Towns" new energy vehicle promotion, two marketing campaigns under the "2023 Year of Consumption Promotion" work plan to stimulate auto consumption. The "Several Measures to Promote Automobile Consumption" jointly issued by the National Development and Reform Commission (the "**NDRC**") and other departments on 21 July 2023 and the "Measures to Promote the Recovery and Expansion of Consumption" issued by the NDRC on 31 July 2023 emphasised optimising automobile purchase management policies, i.e., exerting no restrictions to new automobile purchase in all regions, accelerating the cultivation of the pre-owned automobile industry and promoting the implementation of the introduced pre-owned automobile related policies, encouraging automobile upgrades and trade-ins, as well as strengthening financial support for automobile consumption. All these supportive government policies have made us very confident about the potential of the entire auto services sector, especially in aftermarket and used car segments where we are playing an ever more important role in the industry.

BUSINESS REVIEW AND OUTLOOK

As we continue executing our platform strategy, we have made quite some progresses in terms of organisational upgrades, procedural optimisation and efficiency improvements. We have highlighted some of the key areas below.

Integrated customer relations

In April this year, we launched Zhongsheng GO (a WeChat mini program), a key milestone in the operational integration of our client relationship management across our OEM brands. Together with our effort in connecting our customers with our CRM centres representatives through WeCom enterprise accounts, we are directly managing the customer interactions at the group level through the 30 CRM centres across the country covering over 73% of our stores and almost 5.5 million customers on WeCom. Zhongsheng GO has accumulated almost 1.8 million members, among which 54% are paid subscribers. A usual Zhongsheng GO member is able to convert their membership points, accumulated through various spendings with us, into auto services and consumer products that are available on the platform. A paid subscriber will be eligible for accumulating Zhongsheng GO membership points on all purchases and spendings at Zhongsheng and have the privilege of participating in various special offers that aim to generate real values for our subscribers.

With the centralised CRM operations, we have made remarkable progress in auto insurance renewal operations, in which our headcount for auto insurance renewal came down by 18% and corresponding number of policy renewal per employee increased by 25%. Because of our local market density and better coordination under CRM centres, a lot of the marketing spendings for auto insurance renewal were proven to be unnecessary and could be easily avoided now. Our CRM centres have also become an important centralised channel for new/used car sales leads and aftermarket business and value-added services cross-selling.

Used car business

Our used car business achieved significant growth in the first half of 2023, and our monthly transaction run rate almost doubled during the period reaching approximately 15,000 in June and is expected to grow further. Unit profit contribution per used car increased from RMB6,000 to RMB8,000. Unit profit contribution is a more relevant performance metric of used car business because we operate the business from a portfolio perspective. Most of the industry participants now are either local dealerships and individual agents lacking nationwide scale and coverage, or online transaction platforms lacking quality offline presence for various services (inspection, reconditioning, exhibition, registration, etc.) critical to both sourcing and transacting used cars. These are exactly the areas Zhongsheng is able to take advantage of our brandname credibility, nationwide scale and network coverage, and in-depth knowhow in the entire auto value chain so as to capture more value from the used car market that is set to become more institutionalised in the long run. Hence, our portfolio mindset in operating the business is a very unique tactic in the market and yet something inaccessible to most of the other players.

To continuously drive unit profit contribution further, we leverage our 11 used car command centres (UCCs) and revamped business procedures built around them to improve efficiencies from vehicle sourcing, to inspection and pricing, to inventory circulation, and to customer experiences. As an interim step for used car business ramp-up, we have been funneling vehicles sourced to local flagship stores to achieve breakthroughs that may subsequently generate amplified synergies across all our outlets and business segments. As at July 2023, we have had 17 outlets achieving monthly used car sales over 100 units. Our flagship store in Nanjing has achieved a new-used-car ratio of 0.9 with over 55% of the volume being retail transactions. Our team is more encouraged by the fact that such results in profitability expansion were achieved in a volatile China auto market at the same time.

To highlight some of the key procedural improvements, our UCCs have been extremely instrumental to our vehicle sourcing and inventory circulation. Vehicle sourcing has no longer been limited to passive trade-ins. Because of the positive cycle created by the used car business at local flagship stores, inventory circulation among all stores has become a lot more robust. All stores are getting more active in trade-in vehicle sourcing because of the potential profit to be exploited through internal circulation which in turn helps stores consummate more new/used car transaction — more marketing tactics and pricing strategies could be applied when dealing with a potential customer. In addition to trade-ins, auctions and direct purchases have both been strong supplements to vehicle sourcing, thanks to our efficient market intelligence directed by our UCCs and overall scale in running test-drive and courtesy car fleets.

Collision centres

We have had 9 collision centres up and running in the country so far with another 5 under construction and 21 being planned. These collision centres altogether, when fully operational, would cover more than half of our stores and more than two thirds of our annual customers serviced. While we set out at full speed in rolling out our collision centres across the country, we are also working intently on what is even more imperative to our collision centres strategy — new operational procedures that are required for coordination between our stores and collision centres, and new protocols necessary for brand-agnostic operations within our collision centres.

At the current stage, the majority of our jobs at the collision centres are still being taken in by our stores. This means logistics arrangements between stores and collision centres are critical, considering the additional transportation time required and parts and supplies ordering lead time across all jobs so that the collision centres do not run out of space, and cause congestion and low throughput due to too many idle cars waiting for parts and supplies before being repaired. We also noticed abnormal surges in the return ratio for repair jobs at collision centres. When looking into the situations, we realised the issue was not related to quality control but rather lack of efficient and effective communication at delivery to customers. Repair technicians, who are now based at the collision centres as opposed to individual stores, were no longer able to talk to the customers directly as before. To iron out the wrinkles in communication, we worked on our inspection and delivery procedures to make sure direct contact between customers and repair technicians can be provided and details of repairs are most transparent and available to our customers. While we are going through some of the learning curves, we are also excited to share some of the key efficiency improvements achieved at our collision centres so far. Our utilisation for paint ovens at collision centres has been 3.4x on a like-for-like basis for the same stores covered. Even among the collision centres, on average our daily job delivery has gone up by 76% in the first half of this year compared with the six months prior to that.

Interim Condensed Consolidated Statement of Profit or Loss
For the six months ended 30 June 2023

	Notes	Unaudited For the six months ended 30 June 2023 RMB'000	For the six months ended 30 June 2022 (Restated) RMB'000
REVENUE	*4(a)*	**81,901,699**	86,029,290
Cost of sales and services provided		**(74,931,889)**	(77,562,355)
Gross profit		**6,969,810**	8,466,935
Other income and gains, net	*4(b)*	**2,400,320**	1,696,270
Selling and distribution costs		**(3,498,028)**	(3,720,825)
Administrative expenses		**(1,104,471)**	(1,194,311)
Profit from operations		**4,767,631**	5,248,069
Finance costs	*6*	**(717,969)**	(560,242)
Share of (losses)/profits of:			
Joint ventures		**(3,173)**	139
An associate		**1,194**	(26)
Profit before tax	*5*	**4,047,683**	4,687,940
Income tax expense	*7*	**(1,032,400)**	(1,228,930)
Profit for the period		**3,015,283**	3,459,010
Attributable to:			
Owners of the parent		**3,008,707**	3,448,643
Non-controlling interests		**6,576**	10,367
		3,015,283	3,459,010
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the period (RMB)	*9*	**1.253**	1.428
Diluted			
— For profit for the period (RMB)	*9*	**1.245**	1.397

Interim Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2023

	Unaudited	
	For the six months ended 30 June 2023	For the six months ended 30 June 2022 (Restated)
	RMB'000	*RMB'000*
Profit for the period	**3,015,283**	3,459,010
Other comprehensive loss		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(154,362)**	(247,466)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(154,362)**	(247,466)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(248,888)**	(169,095)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(248,888)**	(169,095)
Other comprehensive loss for the period, net of tax	**(403,250)**	(416,561)
Total comprehensive income for the period	**2,612,033**	3,042,449
Attributable to:		
Owners of the parent	**2,605,457**	3,032,082
Non-controlling interests	**6,576**	10,367
	2,612,033	3,042,449

Interim Condensed Consolidated Statement of Financial Position
30 June 2023

	Notes	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 (Restated) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**18,197,729**	17,796,425
Right-of-use assets		**4,159,218**	4,470,997
Land use rights		**3,537,077**	3,593,814
Prepayments		**444,843**	415,375
Intangible assets		**9,765,142**	9,957,190
Goodwill		**8,332,744**	8,326,151
Investments in joint ventures		**52,761**	55,934
Investment in an associate		**6,562**	5,368
Debt investments at amortised cost		**73,483**	—
Deferred tax assets		**453,810**	375,337
Total non-current assets		**45,023,369**	44,996,591
CURRENT ASSETS			
Inventories	*10*	**15,440,805**	15,237,427
Trade receivables	*11*	**2,543,253**	1,796,318
Prepayments, other receivables and other assets		**17,107,518**	16,054,929
Amounts due from related parties	*20(b)(i)*	**5,484**	7,179
Financial assets at fair value through profit or loss		**116,527**	99,031
Term deposits and pledged bank deposits		**2,208,553**	1,809,195
Cash in transit		**188,111**	149,720
Cash and cash equivalents		**16,352,611**	11,679,029
Total current assets		**53,962,862**	46,832,828
CURRENT LIABILITIES			
Bank loans and other borrowings	*12*	**17,773,680**	14,678,659
Trade and bills payables	*13*	**9,256,057**	8,205,899
Other payables and accruals		**3,641,486**	3,373,286
Lease liabilities		**517,942**	484,076
Amounts due to related parties	*20(b)(ii)*	**1,535**	2,209
Income tax payable		**2,093,318**	2,145,565
Dividends payable		**2,407,620**	2,000
Total current liabilities		**35,691,638**	28,891,694
Net current assets		**18,271,224**	17,941,134
Total assets less current liabilities		**63,294,593**	62,937,725

Interim Condensed Consolidated Statement of Financial Position *(Continued)*
30 June 2023

	Notes	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 (Restated) RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**3,532,806**	3,397,854
Convertible Bonds	*14*	**3,175,615**	4,413,796
Lease liabilities		**3,655,833**	3,876,489
Bank loans and other borrowings	*12*	**8,973,176**	7,185,161
Total non-current liabilities		**19,337,430**	18,873,300
Net assets		**43,957,163**	44,064,425
EQUITY			
Equity attributable to owners of the parent			
Share capital	*15*	**207**	208
Treasury shares		**(8,115)**	(51,742)
Reserves		**43,655,922**	43,812,939
		43,648,014	43,761,405
Non-controlling interests		**309,149**	303,020
Total equity		**43,957,163**	44,064,425

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2023

	Unaudited													
	Attributable to owners of the parent													
	Share capital	Share premium	Share Option Reserve	Treasury shares	Equity component of convertible bonds	Discretionary reserve fund	Statutory reserve	Merger reserve	Other reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2021 (audited)	209	9,785,687	49,391	—	30,484	37,110	3,856,037	(1,386,176)	(2,034,468)	57,821	29,847,696	40,243,791	462,700	40,706,491
Effect of adoption of amendments to HKAS 12	—	—	—	—	—	—	—	—	—	—	(72,883)	(72,883)	(1,038)	(73,921)
At 1 January 2022 (restated)	209	9,785,687	49,391	—	30,484	37,110	3,856,037	(1,386,176)	(2,034,468)	57,821	29,774,813	40,170,908	461,662	40,632,570
Profit for the period (restated)	—	—	—	—	—	—	—	—	—	—	3,448,643	3,448,643	10,367	3,459,010
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	—	(416,561)	—	(416,561)	—	(416,561)
Total comprehensive income for the period (restated)	—	—	—	—	—	—	—	—	—	(416,561)	3,448,643	3,032,082	10,367	3,042,449
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	3,247	3,247
Shares repurchased	—	(63,193)	—	—	—	—	—	—	—	—	—	(63,193)	—	(63,193)
Disposal of subsidiaries	—	—	—	—	—	—	(1)	—	—	—	—	(1)	(1,591)	(1,592)
Final 2021 dividend declared	—	(1,728,450)	—	—	—	—	—	—	—	—	—	(1,728,450)	—	(1,728,450)
At 30 June 2022 (unaudited and restated)	209	7,994,044	49,391	—	30,484	37,110	3,856,036	(1,386,176)	(2,034,468)	(358,740)	33,223,456	41,411,346	470,049	41,881,395
At 31 December 2022 (audited)	**208**	**7,703,606**	**49,391**	**(51,742)**	**30,484**	**37,110**	**4,098,420**	**(1,386,176)**	**(2,094,572)**	**(845,373)**	**36,272,368**	**43,813,724**	**303,836**	**44,117,560**
Effect of adoption of amendments to HKAS 12	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(52,319)**	**(52,319)**	**(816)**	**(53,135)**
At 1 January 2023 (restated)	**208**	**7,703,606**	**49,391**	**(51,742)**	**30,484**	**37,110**	**4,098,420**	**(1,386,176)**	**(2,094,572)**	**(845,373)**	**36,220,049**	**43,761,405**	**303,020**	**44,064,425**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,008,707**	**3,008,707**	**6,576**	**3,015,283**
Exchange differences on translation of foreign operations	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(403,250)**	**—**	**(403,250)**	**—**	**(403,250)**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(403,250)**	**3,008,707**	**2,605,457**	**6,576**	**2,612,033**
Shares repurchased	**(1)**	**(325,287)**	**—**	**43,627**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(281,661)**	**—**	**(281,661)**
Capital contribution from a non-controlling shareholder of subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**778**	**778**
Dividends paid to non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,225)**	**(1,225)**
Early redemption of 2020 convertible bonds	**—**	**—**	**—**	**—**	**(9,600)**	**—**	**—**	**—**	**(52,704)**	**—**	**—**	**(62,304)**	**—**	**(62,304)**
Final 2022 dividend declared	**—**	**(2,374,883)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,374,883)**	**—**	**(2,374,883)**
At 30 June 2023 (unaudited)	**207**	**5,003,436**	**49,391**	**(8,115)**	**20,884**	**37,110**	**4,098,420**	**(1,386,176)**	**(2,147,276)**	**(1,248,623)**	**39,228,756**	**43,648,014**	**309,149**	**43,957,163**

Interim Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2023

	Notes	Unaudited **For the six months ended 30 June 2023** ***RMB'000***	For the six months ended 30 June 2022 *RMB'000*
Operating activities			
Profit before tax		**4,047,683**	4,687,940
Adjustments for:			
Share of losses/(profits) of joint ventures and an associate		**1,979**	(113)
Depreciation and impairment of property, plant and equipment	*5*	**441,543**	881,223
Depreciation of right-of-use assets		**329,983**	294,442
Amortisation of land use rights	*5*	**56,754**	56,516
Amortisation of intangible assets	*5*	**200,714**	206,395
Impairment of trade receivables		**21,678**	3,296
Interest income	*4(b)*	**(230,930)**	(117,822)
Net loss on disposal of items of property, plant and equipment	*4(b)*	**5,489**	46,627
Finance costs	*6*	**717,969**	560,242
Fair value (gains)/losses, net:			
— Listed equity investments held for trading		**(18,508)**	209
— Funds		**(480)**	298
Investment income from debt investments at amortised cost		**(1,547)**	—
Dividends income from listed equity investment		**(1,240)**	(1,042)
Write-down of inventories to net realisable value	*5*	**7,173**	3,000
Gain on disposal of subsidiaries		**—**	533
Covid-19-related rent concessions from lessors		**—**	(9,241)
Gain on the extinguishment of convertible bond	*4(b)*	**(58,084)**	—
		5,520,176	6,612,503
Increase in cash in transit		**(38,384)**	(90,820)
(Increase)/decrease in trade receivables		**(765,735)**	69,217
(Increase)/decrease in prepayments, other receivables and other assets		**(1,350,318)**	1,700,047
Increase in inventories		**(190,385)**	(3,194,925)
Increase in trade and bills payables		**1,048,410**	546,935
Increase/(decrease) in other payables and accruals		**271,475**	(550,064)
Decrease in amounts due from related parties — trade related		**1,695**	22,925
Decrease in amounts due to related parties — trade related		**(674)**	(25)
Cash generated from operations		**4,496,260**	5,115,793
Tax paid		**(1,029,293)**	(1,462,799)
Net cash generated from operating activities		**3,466,967**	3,652,994

Interim Condensed Consolidated Statement of Cash Flows *(Continued)*
For the six months ended 30 June 2023

	Unaudited	
	For the six months ended 30 June 2023	For the six months ended 30 June 2022
	RMB'000	*RMB'000*
Investing activities		
Purchase of items of property, plant and equipment	**(1,620,616)**	(1,435,103)
Proceeds from disposal of items of property, plant and equipment	**825,795**	717,668
Purchase of land use rights	**(40,323)**	(194,675)
Purchase of intangible assets	**(4,203)**	(5,399)
Purchase of debt investments at amortised cost	**(72,258)**	—
Prepayments for the potential acquisitions of equity interests from third parties	**(31,500)**	(36,000)
Acquisitions of subsidiaries, net of cash acquired	**(7,974)**	43,933
Decrease/(increase) in prepayments, other receivables and other assets	**213,922**	(47,232)
Interest received	**230,930**	117,822
Acquisition of non-controlling interests	**(8,349)**	—
Disposal of subsidiaries, net of cash	**—**	2,716
Dividends received from listed equity investments	**1,240**	1,042
Net cash used in investing activities	**(513,336)**	(835,228)

Interim Condensed Consolidated Statement of Cash Flows *(Continued)*
For the six months ended 30 June 2023

	Unaudited	
	For the six months ended 30 June 2023	For the six months ended 30 June 2022
	RMB'000	*RMB'000*
Financing activities		
Proceeds from bank loans and other borrowings	**52,770,810**	51,040,565
Repayments of bank loans and other borrowings	**(48,107,631)**	(53,442,915)
Increase in pledged bank deposits	**(399,358)**	(387,998)
Capital contribution from non-controlling shareholders of a subsidiary	**778**	—
Increase in trade and bills payable	**—**	1,056,084
Lease payments	**(354,016)**	(329,851)
Repurchase of shares	**(273,385)**	(63,193)
Redemption of convertible bonds	**(1,422,962)**	—
Decrease in deposits to entities controlled by suppliers for borrowings	**24,123**	96,975
Interest paid for bank loan and other borrowings	**(547,838)**	(384,356)
Dividends paid to the non-controlling shareholders	**(1,225)**	(3,636)
Net cash generated from/(used in) financing activities	**1,689,296**	(2,418,325)
Net increase in cash and cash equivalents	**4,642,927**	399,441
Cash and cash equivalents at beginning of each period	**11,679,029**	10,950,038
Effect of foreign exchange rate changes, net	**30,655**	73,029
Cash and cash equivalents at end of each period	**16,352,611**	11,422,508

Notes to Interim Condensed Consolidated Financial Information

30 June 2023

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 Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The Company has established a principal place of business which is located at Rooms 1803–09, 18th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong.

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

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

The interim condensed consolidated financial information for the six months ended 30 June 2023 have been presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated. These interim condensed consolidated financial information was approved for issue on 23 August 2023. These interim condensed consolidated financial information has not been audited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

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 financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

HKFRS 17	*Insurance Contracts*
Amendments to HKFRS 17	*Insurance Contracts*
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform — Pillar Two Model Rules*

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

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

2.2 Changes in accounting policies and disclosures *(Continued)*

(c) Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases that occurred on or after 1 January 2022, if any.

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets as at 1 January 2022. The quantitative impact on the financial information is summarised below.

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

2.2 Changes in accounting policies and disclosures *(Continued)*

(c) *(Continued)*

Impact on the interim condensed consolidated statement of financial position:

		Increase/(decrease)		
		As at 30 June 2023	As at 31 December 2022	As at 1 January 2022
	Note	***RMB'000***	*RMB'000*	*RMB'000*
Assets				
Deferred tax assets	*(i)*	**180,806**	168,691	100,517
Total non-current assets		**180,806**	168,691	100,517
Total assets		**180,806**	168,691	100,517
Liabilities				
Deferred tax liabilities	*(i)*	**228,076**	221,826	174,438
Total non-current liabilities		**228,076**	221,826	174,438
Total liabilities		**228,076**	221,826	174,438
Net assets		**(47,270)**	(53,135)	(73,921)
Equity				
Retained profits (included in reserves)		**(44,421)**	(52,319)	(72,883)
Equity attributable to owners of the parent		**(44,421)**	(52,319)	(72,883)
Non-controlling interests		**(2,849)**	(816)	(1,038)

Note (i): The deferred tax asset and the deferred tax liability arising from lease contracts of the same subsidiary have been offset in the statement of financial position for presentation purposes.

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

2.2 Changes in accounting policies and disclosures *(Continued)*

(c) *(Continued)*

Impact on the interim condensed consolidated statement of profit or loss:

	Increase/(decrease) For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Income tax expense	**(5,865)**	(23,037)
Profit for the period	**5,865**	23,037
Attributable to:		
Owners of the parent	**7,898**	23,191
Non-controlling interests	**(2,033)**	(154)
	5,865	23,037

The adoption of amendments to HKAS 12 did not have any impact on other comprehensive income and the interim condensed consolidated statements of cash flows for the six months ended 30 June 2023 and 2022.

Impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent:

	Increase For the six months ended 30 June	
	2023	2022
	RMB	*RMB*
Basic	**0.003**	0.010
Diluted	**0.003**	0.009

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

2.2 Changes in accounting policies and disclosures *(Continued)*

(d) Amendments to HKAS 12 International Tax Reform — Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT INFORMATION

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

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

Information about geographical area

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

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the six months ended 30 June 2023, no major customers segment information is presented in accordance with HKFRS 8 *Operating Segments*.

4. REVENUE, OTHER INCOME AND GAINS, NET

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

(a) Revenue

	Unaudited	
	For the six months ended 30 June 2023	For the six months ended 30 June 2022
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Disaggregated revenue information		
Type of goods or service		
Revenue from the sale of motor vehicles	**69,669,778**	73,208,948
Revenue from after-sales services	**12,231,921**	12,820,342
Total revenue from contracts with customers	**81,901,699**	86,029,290
Geographical markets		
Mainland China	**81,901,699**	86,029,290
Timing of revenue recognition		
At a point in time	**81,901,699**	86,029,290

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

(b) Other income and gains, net

	Unaudited	
	For the six months ended 30 June 2023	For the six months ended 30 June 2022
	RMB'000	*RMB'000*
Commission income	**1,991,595**	1,502,831
Rental income	**18,248**	22,952
Government grants	**13,331**	30,532
Interest income	**230,930**	117,822
Net losses on disposal of items of property, plant and equipment	**(5,489)**	(46,627)
Investment income from debt investments at amortised cost through profit or loss	**1,547**	—
Fair value gains/(losses), net:		
Financial assets at fair value through profit or loss		
— listed equity investments	**18,508**	(209)
— funds	**480**	(298)
Dividend income from listed equity investments	**1,240**	1,042
Gain on the extinguishment of convertible bond	**58,084**	—
Others	**71,846**	68,225
	2,400,320	1,696,270

5. PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended 30 June 2023	For the six months ended 30 June 2022
	RMB'000	*RMB'000*
Employee benefit expense (including directors' and chief executive officer's remuneration)		
Wages and salaries	**1,733,101**	2,402,623
Pension scheme contributions (defined contribution scheme)	**390,235**	439,870
Other welfare	**187,454**	197,725
	2,310,790	3,040,218
Cost of inventories sold	**73,719,179**	76,409,581
Depreciation and impairment of property, plant and equipment	**441,543**	881,223
Depreciation of right-of-use assets	**329,983**	294,442
Amortisation of land use rights	**56,754**	56,516
Amortisation of intangible assets	**200,714**	206,395
Promotion and advertisement	**427,152**	398,562
Office expenses	**232,534**	244,598
Lease payments not included in the measurement of lease liabilities	**121,008**	31,016
Logistics expenses	**163,832**	108,539
Impairment of trade receivables	**21,678**	3,296
Write-down of inventories to net realisable value	**7,173**	3,000
Net losses on disposal of items of property, plant and equipment	**5,489**	46,627
Dividend income from listed equity investments	**(1,240)**	(1,042)
Investment income from debt investments at amortised cost through profit or loss	**(1,547)**	—
Gain on the extinguishment of convertible bond	**(58,084)**	—
Fair value (gains)/losses, net:		
Financial assets at fair value through profit or loss		
— listed equity investments	**(18,508)**	209
— funds	**(480)**	298

6. FINANCE COSTS

	Unaudited	
	For the six months ended 30 June 2023	For the six months ended 30 June 2022
	RMB'000	*RMB'000*
Interest expense on bank borrowings	**503,014**	287,817
Interest expense on convertible bonds	**72,984**	72,287
Interest expense on other borrowings	**29,251**	96,292
Interest expense on lease liabilities	**149,022**	149,746
Interest capitalised	**(36,302)**	(45,900)
	717,969	560,242

7. INCOME TAX

	Unaudited	
	For the six months ended 30 June 2023	For the six months ended 30 June 2022
	RMB'000	*RMB'000* (Restated)
Current Mainland China corporate income tax	**977,045**	1,291,933
Deferred tax	**55,355**	(63,003)
	1,032,400	1,228,930

8. DIVIDENDS

The Directors proposed not to declare any interim dividend for the six months ended 30 June 2023.

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

The calculation of basic earnings per share amounts 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 2,402,085,625 (six months ended 30 June 2022: 2,414,633,134) in issue during the period.

The calculation of diluted earnings per share amounts 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 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 2023 ***RMB'000***	For the six months ended 30 June 2022 *RMB'000* (Restated)
Earnings		
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	**3,008,707**	3,448,643
Interest on convertible bonds	**72,984**	72,287
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	**3,081,691**	3,520,930
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**2,402,085,625**	2,414,633,134
Effect of dilution — weighted average number of ordinary shares:		
Convertible bonds	**69,391,381**	99,978,074
Share option	**4,284,106**	6,266,979
Weighted average number of ordinary shares used in diluted earnings per share calculation	**2,475,761,112**	2,520,878,187
Earnings per share		
Basic	**1.253**	1.428
Diluted	**1.245**	1.397

10. INVENTORIES

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Motor vehicles	**13,974,747**	14,044,783
Spare parts and others	**1,501,300**	1,220,713
	15,476,047	15,265,496
Less: provision for inventories	**35,242**	28,069
	15,440,805	15,237,427

11. TRADE RECEIVABLES

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Trade receivables	**2,591,629**	1,823,016
Impairment	**(48,376)**	(26,698)
	2,543,253	1,796,318

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. 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 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Within 3 months	**2,486,031**	1,728,833
More than 3 months but less than 1 year	**37,749**	60,265
Over 1 year	**19,473**	7,220
	2,543,253	1,796,318

12. BANK LOANS AND OTHER BORROWINGS

	Unaudited 30 June 2023	Audited 31 December 2022
	RMB'000	*RMB'000*
Bank loans and overdrafts repayable:		
— within one year or on demand	**16,282,037**	12,190,563
— in the second year	**1,081,369**	723,461
— in the third to fifth years	**2,125,030**	839,046
	19,488,436	13,753,070
Other borrowings repayable:		
— within one year	**1,491,643**	2,488,096
— in the third to fifth years	**3,237,747**	3,185,044
	4,729,390	5,673,140
Syndicated term loans		
— in the third to fifth years	**2,529,030**	2,437,610
Total bank loans and other borrowings	**26,746,856**	21,863,820
Less: Portion classified as current liabilities	**17,773,680**	14,678,659
Long-term portion	**8,973,176**	7,185,161

13. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2023	Audited 31 December 2022
	RMB'000	*RMB'000*
Trade payables	**2,969,268**	2,554,588
Bills payable	**6,286,789**	5,651,311
Trade and bills payables	**9,256,057**	8,205,899

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

13. TRADE AND BILLS PAYABLES *(Continued)*

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 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
Within 3 months	**8,838,959**	7,152,996
3 to 6 months	**342,420**	1,020,977
6 to 12 months	**52,449**	1,778
Over 12 months	**22,229**	30,148
	9,256,057	8,205,899

14. CONVERTIBLE BONDS

On 21 May 2020, the Company issued zero coupon convertible bonds due 2025 with a nominal value of HK$4,560,000,000 (the "**2025 convertible bonds**"). The bonds were convertible at the option of the bondholders into ordinary shares at any time on or after 1 July 2020 until and including 11 May 2025 at a conversion price of HK$45.61 per share. By the end of 30 June 2023, the Company has redeemed principal amounts of HK$1,436,000,000 of the bonds. In light of the payment of a final dividend of HK$1.09 per share for the year ended 31 December 2022, the conversion price of the remaining bonds with principal amounts of HK$3,124,000,000 was adjusted to HK$45.02 per share with effect from 29 June 2023. Any convertible bonds not converted will be redeemed on 21 May 2025 at 117.49% of their principal amount. There was no conversion of the 2025 convertible bonds during the period.

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

14. CONVERTIBLE BONDS *(Continued)*

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

	Unaudited 30 June 2023 ***RMB'000***	Audited 31 December 2022 *RMB'000*
Nominal value of 2025 Convertible Bonds	**4,169,664**	4,169,664
Equity component	**(30,760)**	(30,760)
Direct transaction costs attributable to the liability component	**(37,239)**	(37,239)
Liability component at the issuance date	**4,101,665**	4,101,665
Interest expense	**460,579**	387,595
Redemption of convertible bonds	**(1,418,897)**	—
Exchange realignment	**32,268**	(75,464)
Liability component at the end of the period	**3,175,615**	4,413,796
Long-term portion	**3,175,615**	4,413,796

15. SHARE CAPITAL

	Unaudited 30 June 2023	Audited 31 December 2022
Authorised:		
1,000,000,000,000 shares of HK$0.0001 each (HK$'000)	**100,000**	100,000
Issued and fully paid:		
2,393,750,863 (2022: 2,403,296,863) ordinary shares (HK$'000)	**239**	240
Equivalent to RMB'000	**207**	208

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. The Scheme expired on 25 March 2020. No further options can be granted or offered but the provisions of the Scheme shall remain in full force and effective to exercise any subsisting options granted prior to the expiry of the Scheme or otherwise as handled in accordance with the provisions of the Scheme.

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

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

	Unaudited			
	30 June 2023		30 June 2022	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**22.60**	**11,000**	22.60	11,000
At 30 June	**22.60**	**11,000**	22.60	11,000

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

	30 June 2023	
Number of options	**Exercise price**	**Exercise period**
'000	*HK$ per share*	
11,000	22.60	26 April 2019 to 25 April 2028 (both dates inclusive)

The fair value of the share options granted during 2018 was HK$58,135,000 (HK$5.29 each). No equity-settled share option expense has been recognised by the Group in the statement of profit or loss during this period (six months ended 30 June 2022: 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 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.

16. SHARE OPTION SCHEME *(Continued)*

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).

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.

17. BUSINESS COMBINATION

As part of the Group's plan to expand its motor vehicle sales and service business in Mainland China, the Group acquired 100% of the equity interests of Beijing Antong Lianfeng Automobile Sales and Services Co., Ltd., which is engaged in the motor vehicle sales and service business in Mainland China, from a third party on 1 May 2023 at a total consideration of RMB28,370,000. The purchase consideration for the acquisition was in the form of cash, and has not been paid by the end of June 2023.

Company Name	**Acquired equity interests**
	%
Beijing Antong Lianfeng Automobile Sales and Services Co., Ltd. (北京安通聯豐汽車銷售服務有限公司)	100%

17. BUSINESS COMBINATION *(Continued)*

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

	Recognised fair values on acquisition date *RMB'000*
Property, plant and equipment	4,122
Intangible assets*	4,500
Inventories	20,166
Trade receivable	2,878
Prepayments, other receivables and other assets	19,297
Cash in transit	7
Cash and cash equivalents	8,873
Trade and bills payables	(1,748)
Other payables and accruals	(1,976)
Bank borrowings	(33,217)
Deferred tax liabilities*	(1,125)
Total identifiable net assets at fair value	21,777
Goodwill on acquisition*	6,593
Total purchase consideration	28,370

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

Cash consideration paid	—
Cash and cash equivalents acquired	8,873
Net cash Inflow	8,873

Since the acquisition, the acquired business contributed RMB63,322,000 to the Group's revenue and RMB3,842,396 of profit to the consolidated profit for the six months ended 30 June 2023.

* 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 the acquired company as disclosed in note 17. However, the valuation was not finalised and hence the initial accounting for the business combination of the company was incomplete as at the date of this announcement. Therefore, these amounts recognised in the Group's interim financial statements for the six months ended 30 June 2023 in relation to the acquisition of the company was on a provisional basis.

18. CONTINGENT LIABILITIES

As at 30 June 2023, neither the Group nor the Company had any significant contingent liabilities.

19. COMMITMENTS

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

	Unaudited 30 June 2023 RMB'000	Audited 31 December 2022 RMB'000
Contracted, but not provided for buildings	**43,535**	108,897
Contracted, but not provided for potential acquisitions	**2,500**	4,000
	46,035	112,897

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 2023:

	Unaudited For the six months ended 30 June 2023 RMB'000	For the six months ended 30 June 2022 RMB'000
(i) Sales of goods to a joint venture:		
— Xiamen Zhongsheng Toyota Automobile Sales & Services Co., Ltd. ("**Xiamen Zhongsheng**")	**24,693**	7,280
(ii) Purchase of goods or services from joint ventures:		
— Xiamen Zhongsheng	**11,414**	1,375
— TAC Automobile Accessories Trading (Shanghai) Co., Ltd. ("**TAC**")	**2,819**	2,499
	14,233	3,874
(iii) Other borrowing to an associate:		
— Shanghai Xusheng Insurance Agency Co., Ltd.	**5,000**	1,000
(iv) Repayment of borrowing from an associate:		
— Shanghai Xusheng Insurance Agency Co., Ltd.	**6,607**	—

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 2023:

	Unaudited 30 June 2023 *RMB'000*	Audited 31 December 2022 *RMB'000*
(i) Due from related parties:		
Trade related		
Joint venture		
— Xiamen Zhongsheng	**5,484**	5,572
Associate		
— Shanghai Xusheng Insurance Agency Co., Ltd.	**—**	1,607
(ii) Due to related parties:		
Trade related		
Joint ventures		
— Xiamen Zhongsheng	**1**	—
— Zhongsheng Tacti	**80**	80
— TAC	**1,454**	2,129
	1,535	2,209

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

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

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

	Unaudited	
	For the six months ended 30 June 2023	For the six months ended 30 June 2022
	RMB'000	*RMB'000*
Short term employee benefits	**17,790**	19,582
Post-employee benefits	**94**	114
Total compensation paid to key management personnel	**17,884**	19,696

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows

	Carrying amounts		Fair values	
	30 June 2023	31 December 2022	**30 June 2023**	31 December 2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Financial assets				
Financial assets at fair value through profit or loss	**116,527**	99,031	**116,527**	99,031

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2023

		Fair value measurement using			
		Quoted prices in active markets (Level 1) *RMB'000* (Unaudited)	Significant observable inputs (Level 2) *RMB'000* (Unaudited)	Significant unobservable inputs (Level 3) *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Financial assets at fair value through profit or loss:					
Listed equity investments, at fair value	(i)	**89,623**	**—**	**—**	**89,623**
Funds	(i)	**26,904**	**—**	**—**	**26,904**
		116,527	**—**	**—**	**116,527**

As at 31 December 2022

		Fair value measurement using			
		Quoted prices in active markets (Level 1) *RMB'000* (Audited)	Significant observable inputs (Level 2) *RMB'000* (Audited)	Significant unobservable inputs (Level 3) *RMB'000* (Audited)	Total *RMB'000* (Audited)
Financial assets at fair value through profit or loss:					
Listed equity investments, at fair value	(i)	73,547	—	—	73,547
Funds	(i)	25,484	—	—	25,484
		99,031	—	—	99,031

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 30 June 2023 and 31 December 2022, respectively.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (six months ended 30 June 2022: Nil).

Notes:

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

22. EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 30 June 2023 and up to the date of approval of these financial statements.

FINANCIAL REVIEW

Revenue

Revenue for the six months ended 30 June 2023 was RMB81,901.7 million, representing a decrease of RMB4,127.6 million or 4.8% as compared to the six months ended 30 June 2022. Revenue from new automobile sales amounted to RMB64,569.0 million, representing a decrease of RMB4,244.1 million or 6.2% as compared to the six months ended 30 June 2022. Revenue from after-sales services business amounted to RMB12,231.9 million, representing a decrease of RMB588.4 million or 4.6% as compared to the six months ended 30 June 2022. Revenue from pre-owned automobile sales was RMB5,100.8 million, representing an increase of RMB704.9 million or 16.0% as compared to the six months ended 30 June 2022.

New automobile sales business accounted for a substantial portion of the Group's revenue, representing 78.8% (for the six months ended 30 June 2022: 80.0%) of the total revenue for the six months ended 30 June 2023. After-sales services business accounted for 14.9% of the total revenue for the six months ended 30 June 2023 (for the six months ended 30 June 2022: 14.9%), while pre-owned automobile sales accounted for 6.3% (for the six months ended 30 June 2022: 5.1%). For the six months ended 30 June 2023, all of the Group's revenue was derived from business located in the PRC.

In terms of revenue from new automobile sales, Mercedes-Benz is the Group's top selling brand, with revenue from the sales of which representing approximately 43.1% of the Group's total revenue from new automobile sales (for the six months ended 30 June 2022: 41.3%).

Cost of Sales and Services

Cost of sales and services for the six months ended 30 June 2023 amounted to RMB74,931.9 million, representing a decrease of RMB2,630.5 million or 3.4% as compared to the six months ended 30 June 2022. Costs for new automobile sales business amounted to RMB63,703.4 million for the six months ended 30 June 2023, representing a decrease of RMB2,908.6 million or 4.4% as compared to the six months ended 30 June 2022. Costs for after-sales services business amounted to RMB6,460.8 million for the six months ended 30 June 2023, representing a decrease of RMB316.2 million or 4.7% as compared to the six months ended 30 June 2022. Costs for pre-owned automobile sales business amounted to RMB4,767.7 million for the six months ended 30 June 2023, representing an increase of RMB594.3 million or 14.2% as compared to the six months ended 30 June 2022.

Gross Profit

The Group's gross profit for the six months ended 30 June 2023 amounted to RMB6,969.8 million, representing a decrease of RMB1,497.1 million or 17.7% as compared to the six months ended 30 June 2022. Gross profit from new automobile sales business amounted to RMB865.6 million, representing a decrease of RMB1,335.6 million or 60.7% as compared to the six months ended 30 June 2022. Gross profit from after-sales services business amounted to RMB5,771.1 million, representing a decrease of RMB272.2 million or 4.5% as compared to the six months ended 30 June 2022. For the six months ended 30 June 2023, gross profit from after-sales services business for 82.8% of the total gross profit (for the six months ended 30 June 2022: 71.4%). Gross profit from pre-owned automobile sales business amounted to RMB333.1 million, representing an increase of RMB110.6 million or 49.7% as compared to the six months ended 30 June 2022.

The gross profit margin for the six months ended 30 June 2023 was 8.5% (for the six months ended 30 June 2022: 9.8%).

Other Income and Gains, Net

The other income and gains, net, for the six months ended 30 June 2023 amounted to RMB2,400.3 million, representing an increase of RMB704.1 million or 41.5% as compared to the six months ended 30 June 2022. The other income and gains mainly consisted of service income from automobile insurance and automobile financing services, commission from pre-owned automobile trading business, rental income and interest income, etc.

Profit from Operations

The profit from operations for the six months ended 30 June 2023 amounted to RMB4,767.6 million, representing a decrease of RMB480.4 million or 9.2% as compared to the six months ended 30 June 2022. The operating profit margin for the six months ended 30 June 2023 was 5.8% (for the six months ended 30 June 2022: 6.1%).

Profit for the Period

The profit for the six months ended 30 June 2023 amounted to RMB3,015.3 million, representing a decrease of RMB443.7 million or 12.8% as compared to the six months ended 30 June 2022. The net profit margin for the six months ended 30 June 2023 was 3.7% (for the six months ended 30 June 2022: 4.0%).

Profit Attributable to Owners of the Parent

The profit attributable to owners of the parent for the six months ended 30 June 2023 amounted to RMB3,008.7 million, representing a decrease of RMB439.9 million or 12.8% as compared to the six months ended 30 June 2022.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flow

The Group primarily uses cash to pay for new automobiles, spare parts and automobile accessories, to repay its indebtedness, to fund its working capital and normal operating expenses and to establish new dealerships and acquire additional dealerships. The Group finances its liquidity requirements mainly through a combination of cash flows generated from its operating activities, bank loans and other borrowings and other funds raised from the capital markets and currently expects that future liquidity will continue to be satisfied mainly by the foregoing.

The Group has adopted a prudent financial management approach towards its treasury policies and will revisit such policies from time to time, taking into account, among other thing, the cash flows requirement and expansion of the Group. The Group maintained a healthy liquidity position throughout the six months ended 30 June 2023.

Cash Flow Generated from Operating Activities

For the six months ended 30 June 2023, the net cash generated from operating activities by the Group amounted to RMB3,467.0 million, consisting primarily of operating profit before working capital movement and tax payment.

Cash Flow Used in Investing Activities

For the six months ended 30 June 2023, the net cash used in investing activities by the Group amounted to RMB513.3 million.

Cash Flow Generated from Financing Activities

For the six months ended 30 June 2023, the net cash generated from financing activities by the Group amounted to RMB1,689.3 million.

Net Current Assets

As at 30 June 2023, the Group had net current assets of RMB18,271.2 million, representing an increase of RMB330.1 million from the net current assets of the Group as at 31 December 2022.

Capital Expenditures and Investment

The Group's capital expenditures comprised expenditures on property, plant and equipment, land use rights and business acquisition. For the six months ended 30 June 2023, the Group's total capital expenditures amounted to RMB449.3 million (for the six months ended 30 June 2022: RMB897.9 million). Save as disclosed above, the Group had not made any significant investments during the six months ended 30 June 2023.

Inventory Analysis

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

The Group's inventories slightly increased from RMB15,237.4 million as at 31 December 2022 to RMB15,440.8 million as at 30 June 2023. The change reflected normal fluctuation of the Group's inventory level.

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

	For the six months ended 30 June	
	2023	2022
Average inventory turnover days	**33.6**	27.7

The inventory turnover days of the Group showed an increase during the six months ended 30 June 2023 as compared to the six months ended 30 June 2022, which was mainly due to the volatilities in the new car market in the first half of the year. Nevertheless, the inventory turnover days of the Group remained in a healthy range and the Group's inventory mix was gradually being optimised.

Order Book and Prospect for New Business

Due to its business nature, the Group did not maintain an order book as at 30 June 2023. As at the date of this announcement, save as already disclosed, the Group has no new services to be introduced to the market.

Bank Loans and Other Borrowings

As at 30 June 2023, the Group's bank loans and other borrowings amounted to RMB26,746.9 million (31 December 2022: RMB21,863.8 million), and the convertible bonds liability portion amounted to RMB3,175.6 million (31 December 2022: RMB4,413.8 million). The increase in the Group's bank loans and other borrowings during the six months ended 30 June 2023 was primarily to meet the needs of the Group's operations and capital structure. The annual interest rates of the bank loans and other borrowings ranged from 0.5% to 6.37%. The decrease in the liability portion of the Group's convertible bonds during the six months ended 30 June 2023 was primarily because the Company redeemed an outstanding principal amount of HK$1,436,000,000 of its zero coupon convertible bonds due 2025 on 21 May 2023, as disclosed in the announcement dated 26 April 2023 of the Company.

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. Most cash and bank deposits of the Group are denominated in RMB. In general, the Group's bank loans and other borrowings were denominated in RMB, United States dollars and Hong Kong dollars, and the liability component of convertible bonds were denominated in Hong Kong dollars. 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

The Group adheres to a strong belief that one of the most valuable assets of a corporation is its employees. The Group values its human resources and recognises the importance of attracting and retaining qualified staff for its continuing success.

As at 30 June 2023, the Group had 31,295 employees (31 December 2022: 32,943). The Group strives to offer a harmonious, efficient and productive working environment, a diversified range of training programmes as well as an attractive remuneration package to its employees. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. The Group endeavours to motivate its staff with performance-based remuneration and reward its staff who had outstanding performances with cash bonuses, honorary awards or a combination of all the above to further align the interests of the employees and the Company, to attract talented individuals and to create long-term incentive for its staff.

Pledge of the Group's Assets

The Group pledged its group assets as securities for bank and other loan and banking facilities which were used to finance daily business operations. As at 30 June 2023, the pledged group assets amounted to approximately RMB9.7 billion (31 December 2022: RMB8.6 billion).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the six months ended 30 June 2023, 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 increase the Group's density in core areas and core brands as appropriate on the foundation of the Group's existing regional and brand layout through new store establishment and mergers and acquisitions, continue to expand its pre-owned automobile and after-sales services businesses, and capitalise on the market opportunities that align with the Group's business and growth objectives. The Group plans to fund its future capital expenditure through cash flows generated from its operating activities and various resources including internal funds and borrowings from financial institution. The Group currently has sufficient credit facilities granted by banks.

Gearing Ratio

As at 30 June 2023, the gearing ratio of the Group was 39.1% (31 December 2022: 39.3%), which was calculated from net debt divided by the sum of net debt and total equity.

CONVERTIBLE BONDS

2025 Convertible Bonds

On 12 May 2020, the Company, Merrill Lynch (Asia Pacific) Limited and Morgan Stanley & Co. International plc (the "**2025 Convertible Bond Managers**") entered into a bond subscription agreement, according to which the Company agreed to issue, and the 2025 Convertible Bond Managers agreed to subscribe and pay for (or procure subscribers to subscribe and pay for) zero coupon convertible bonds due 2025 of an aggregate principal amount of HK$4,560 million (the "**2025 Convertible Bonds**").

The 2025 Convertible Bonds are convertible into Shares at an initial conversion price of HK$45.61 per Share at the option of the holder thereof, at any time on or after 1 July 2020 up to the close of business on the tenth day prior to the maturity date, being a date falling on or about 21 May 2025. The issue of the 2025 Convertible Bonds in the aggregate amount of HK$4,560 million was completed on 21 May 2020. Pursuant to the terms and conditions of the 2025 Convertible Bonds, certain holders of the 2025 Convertible Bonds served notices of redemption on the Company, requiring the Company to redeem an outstanding principle amount of HK$1,436,000,000 of the 2025 Convertible Bonds at 110.15% of their principal amount on 21 May 2023, representing approximately 31.49% of the principal amount of the 2025 Convertible Bonds. Immediately after the early redemption, such redeemed 2025 Convertible Bonds were cancelled and the principal amount of the outstanding 2025 Convertible Bonds is HK$3,124,000,000 (the "**Outstanding 2025 Convertible Bonds**").

Pursuant to the terms and conditions of the 2025 Convertible Bonds, in light of the payment of a final dividend of HK$1.09 per Share for the year ended 31 December 2022, the conversion price of the 2025 Convertible Bonds was adjusted from HK$45.61 to HK$45.02 per Share with effect from 29 June 2023.

There has been no conversion of the Outstanding 2025 Convertible Bonds as at the date of this announcement. The Company will redeem each Outstanding 2025 Convertible Bond on the maturity date at its principal amount together with accrued and unpaid interest thereon. Upon full conversion of the Outstanding 2025 Convertible Bonds, the Company may issue 69,391,381 Shares, increasing the total issued Shares to 2,463,142,244 Shares (calculated as at the date of this announcement).

Please refer to the announcements of the Company dated 12, 13, 14, 21, 22 and 25 May 2020 and 26 April and 19 June 2023, respectively, for further details on the 2025 Convertible Bonds.

BONDS

2026 Bonds

On 6 January 2021, the Company and Merrill Lynch (Asia Pacific) Limited, Mizuho Securities Asia Limited, CCB International Capital Limited, MUFG Securities Asia Limited and Morgan Stanley & Co. International plc (the "**2026 Bond Managers**") entered into a bond subscription agreement, according to which the 2026 Bond Managers have conditionally agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the 3.00% coupon rate. bonds to be issued by the Company in an aggregate principal amount of US$450 million (the "**2026 Bonds**"). The maturity date of the 2026 Bonds is 13 January 2026, on which the Company is scheduled to redeem each 2026 Bond at its principal amount.

Please refer to the announcements of the Company dated 4, 7, 13 and 14 January 2021, respectively, for further details on the 2026 Bonds.

SHARE OPTION SCHEME

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

Details of the options to subscribe Shares pursuant to the Share Option Scheme and the movement during the six months ended 30 June 2023 are set out below:

			Number of Share Options				
Name of Grantees	**Date granted**	**Exercise price per share**	**Outstanding as at 31 December 2022**	**Granted during the Period**	**Exercised during the period**	**Lapsed/ Cancelled during the period**	**Outstanding as at 30 June 2023**
Mr. Zhang Zhicheng — Executive Director	26 April 2018	HK$22.60	5,500,000[(1)]	—	—	—	5,500,000
Mr. Du Qingshan — Former Executive Director	26 April 2018	HK$22.60	5,500,000[(1)]	—	—	—	5,500,000
Total							11,000,000

Note:

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

During the six months ended 30 June 2023, no options had been granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. As at 30 June 2023, the total number of Shares which may be issued under the Share Option Scheme was 11,000,000 Shares, representing 0.46% of the issued share capital of the Company as at the date of this announcement.

CONNECTED TRANSACTIONS

There was no connected transaction entered into by the Group during the six months ended 30 June 2023 that is required to be disclosed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

EVENTS AFTER THE REPORTING PERIOD

There have not been any significant events affecting the Group after 30 June 2023.

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 Listing Rules. Throughout the six months ended 30 June 2023 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 of the Company (the "**Directors**") and the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2023 and up to the date of this announcement.

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

During the Reporting Period, the Company bought back a total of 8,372,500 shares at prices ranging from HK$28.25 to HK$38.30 per Share on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), with an aggregate consideration of approximately HK$290.1 million (excluding commissions and other expenses). Details of the share buy-backs by the Company on the Stock Exchange during the Reporting Period are as follows:

Month of repurchase	No. of Shares repurchased	Price per Share Highest *HK$*	Lowest *HK$*	Total paid *HK$*
March	1,357,500	37.60	36.40	50,489,350
April	4,495,000	38.30	32.75	164,933,200
May	2,220,000	31.75	28.25	65,733,506
June	300,000	31.35	29.35	8,941,175
	8,372,500			290,097,231

The Board believes that the share buy-backs could reflect the Board's confidence in the Company's long-term business prospects. 1,473,500 Shares and 8,072,500 Shares of the bought Shares were cancelled on 28 March 2023 and 20 June 2023 respectively. As at the date of this announcement, 2,682,500 Shares of the bought Shares are yet to be cancelled.

Save as disclosed in this announcement, 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 2023 and up to the date of this announcement.

Review of Interim Results

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, being Mr. Ying Wei, Mr. Shen Jinjun and Mr. Chin Siu Wa Alfred.

The 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 interim condensed consolidated financial statements of the Group for the six months ended 30 June 2023. The Audit Committee considers that the interim financial results for the six months ended 30 June 2023 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been made.

INTERIM DIVIDEND

The Board proposed not to declare any interim dividend for the six months ended 30 June 2023.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zs-group.com.cn).

The interim report of the Company for the six months ended 30 June 2023 will be despatched to the Shareholders and published on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 23 August 2023

As at the date of this announcement, the executive Directors are Mr. Huang Yi, Mr. Li Guoqiang, Mr. Zhang Zhicheng and Mr. Tang Xianfeng; the non-executive Directors are Mr. Chan Ho Yin and Mr. Sun Yanjun; and the independent non-executive Directors are Mr. Shen Jinjun, Mr. Ying Wei, Mr. Chin Siu Wa Alfred and Mr. Li Yanwei.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and development strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond control of the Group. These forward-looking statements may prove to be incorrect and may not be realised in the future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Furthermore, this announcement also contains statements based on the Group's management accounts, which have not been audited by the Group's auditor. Shareholders and potential investors of the Company should therefore not place undue reliance on such statements.