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China ZhengTong Auto Services Holdings Limited

中 國 正 通 汽 車 服 務 控 股 有 限 公 司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 1728)

PRELIMINARY ANNOUNCEMENT OF THE UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS OF RESULTS

For the year ended 31 December 2019:

- Revenue decreased by approximately 6.2% to approximately RMB35,138 million
- Overall gross profit decreased by approximately 14.9% to approximately RMB3,818 million
- Interest and service income from the financial services business amounted to approximately RMB910 million for the year, representing an increase of approximately RMB66 million as compared to the previous year. This segment delivered reportable profit of approximately RMB530 million in 2019, representing a year-on-year decrease of 14.7%
- Profit attributable to equity shareholders of the Company decreased by approximately 45.8% to approximately RMB664 million

The board of directors (the "**Board**") of China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (the "**Company**" or "**ZhengTong**", together with its subsidiaries, the "**Group**") is pleased to announce the Group's unaudited annual consolidated results for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2019
(Expressed in RMB'000)

	Note	**For the year ended 31 December 2019 (Unaudited)**	2018 *(Note)*
Revenue	*3*	**35,137,794**	37,455,510
Cost of sales		**(31,319,411)**	(32,968,683)
Gross profit		**3,818,383**	4,486,827
Other income	*4*	**851,145**	962,747
Selling and distribution expenses		**(1,099,725)**	(1,036,585)
Administrative expenses		**(1,392,232)**	(1,650,024)
Profit from operations		**2,177,571**	2,762,965
Finance costs	*5(a)*	**(1,076,260)**	(910,072)
Share of profit of a joint venture and an associate		**61,753**	36,595
Profit before taxation	*5*	**1,163,064**	1,889,488
Income tax	*6(a)*	**(396,359)**	(634,706)
Profit for the year		**766,705**	1,254,782
Attributable to:			
Equity shareholders of the Company		**663,862**	1,224,065
Non-controlling interests		**102,843**	30,717
Profit for the year		**766,705**	1,254,782
Earnings per share	*7*		
Basic (RMB cents)		**27.1**	49.9
Diluted (RMB cents)		**27.1**	49.9

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in RMB'000)

	For the year ended 31 December	
	2019	2018
	(Unaudited)	*(Note)*
Profit for the year	**766,705**	1,254,782
Other comprehensive income for the year (after tax):		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of:		
— financial statements of entities outside the Mainland China	**(5,342)**	(10,983)
Other comprehensive income for the year	**(5,342)**	(10,983)
Total comprehensive income for the year	**761,363**	1,243,799
Attributable to:		
Equity shareholders of the Company	**658,520**	1,213,082
Non-controlling interests	**102,843**	30,717
Total comprehensive income for the year	**761,363**	1,243,799

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019
(Expressed in RMB'000)

	Note	**At 31 December 2019 (Unaudited)**	2018 *(Note)*
Non-current assets			
Property, plant and equipment		**6,609,129**	6,324,514
Right-of-use assets		**3,431,989**	—
Lease prepayments		**—**	1,555,846
Intangible assets		**4,193,072**	4,366,363
Goodwill	*8*	**1,935,113**	2,006,335
Interest in a joint venture		**355,002**	293,906
Interest in an associate		**15,466**	14,809
Receivables from financial services	*11*	**3,631,142**	3,880,977
Deferred tax assets		**321,474**	214,688
Long-term receivables		**212,946**	191,879
Other financial assets		**17,028**	410,045
		20,722,361	19,259,362
Current assets			
Inventories	*9*	**3,483,098**	3,845,727
Trade and bills receivables	*10*	**1,434,828**	1,071,509
Prepayments, deposits and other receivables		**10,216,300**	9,864,964
Receivables from financial services	*11*	**5,138,900**	4,318,729
Other financial assets		**285,000**	—
Pledged bank deposits and balances with central bank		**1,399,158**	2,139,017
Time deposits		**680,929**	788,515
Cash and cash equivalents		**1,497,400**	2,911,395
		24,135,613	24,939,856
Current liabilities			
Loans and borrowings for financial services		**5,966,821**	5,779,533
Loans and borrowings for non-financial services		**11,061,164**	9,390,938
Obligations under finance leases		**—**	91,273
Lease liabilities		**428,019**	—
Trade and other payables	*12*	**6,296,033**	6,726,648
Income tax payables		**2,064,217**	1,813,425
Other financial liabilities		**2,761**	—
		25,819,015	23,801,817
Net current (liabilities)/assets		**(1,683,402)**	1,138,039
Total assets less current liabilities		**19,038,959**	20,397,401

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

At 31 December 2019

(Expressed in RMB'000)

		At 31 December	
		2019	2018
		(Unaudited)	*(Note)*
Non-current liabilities			
Loans and borrowings for financial services		**15,316**	378,591
Loans and borrowings for non-financial services		**2,225,939**	5,405,811
Bonds payable		**298,535**	903,062
Lease liabilities		**1,454,183**	—
Deferred tax liabilities		**1,027,790**	1,052,551
Trade and other payables	*12*	**277,057**	299,302
Other financial liabilities		**99,842**	32,638
		5,398,662	8,071,955
NET ASSETS		**13,640,297**	12,325,446
CAPITAL AND RESERVES			
Share capital		**209,150**	209,320
Reserves		**12,209,118**	11,933,956
Total equity attributable to equity shareholders of the Company		**12,418,268**	12,143,276
Non-controlling interests		**1,222,029**	182,170
TOTAL EQUITY		**13,640,297**	12,325,446

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China ZhengTong Auto Services Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 9 July 2010 as an exempted Company with limited liability under the Companies Law of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in 4S dealership business, supply chain business, financial services and comprehensive properties business in the People's Republic of China (the "**PRC**").

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "**Group**") and the Group's interest in a joint venture and an associate.

These consolidated financial statements are presented in Renminbi ("**RMB**") which is the Group's presentation currency, rounded to the nearest thousand, except for earnings per share information.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that other financial assets are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

As at 31 December 2019, the Group's current liabilities exceeded its current assets by RMB1,683,402,000. In view of these circumstances, the directors of the Company have given consideration to the future liquidity of the Group and its available sources of finance including banking facilities in assessing whether the Group will have sufficient financial resources to continue as a going concern. As at 31 December 2019, taking into account the Group's cash flow projection, including the Group's unutilised banking facilities, ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, the directors of the Company consider that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the financial statements have been prepared on a going concern basis.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

At the date of transition of HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6.27%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *RMB'000*	**Capitalisation of operating lease contracts** *RMB'000*	**Carrying amount at 1 January 2019** *RMB'000* (Unaudited)
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	6,324,514	(111,748)	6,212,766
Right-of-use assets	—	3,080,659	3,080,659
Lease prepayments	1,555,846	(1,555,846)	—
Deferred tax assets	214,688	49,669	264,357
Total non-current assets	19,259,362	1,462,734	20,722,096
Prepayments, deposits and other receivables	9,864,964	(17,530)	9,847,434
Total current assets	24,939,856	(17,530)	24,922,326
Trade and other payables	6,726,648	(17,530)	6,709,118
Obligations under finance leases	91,273	(91,273)	—
Lease liabilities (current)	—	368,723	368,723
Current liabilities	23,801,817	259,920	24,061,737
Net current assets	1,138,039	(277,450)	860,589
Total assets less current liabilities	20,397,401	1,185,284	21,582,685
Lease liabilities (non-current)	—	1,362,231	1,362,231
Total non-current liabilities	8,071,955	1,362,231	9,434,186
Net assets	12,325,446	(176,947)	12,148,499
Reserves	11,933,956	(176,901)	11,757,055
Total equity attributable to equity shareholders of the Company	12,143,276	(176,901)	11,966,375
Non-controlling interests	182,170	(46)	182,124
Total equity	12,325,446	(176,947)	12,148,499

c. Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit for the year in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

d. Lessor accounting

The Group leases out a number of machinery and vehicles as the lessor of finance leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

3 REVENUE

The Group is mainly engaged in sales of passenger motor vehicles, provision of after-sales services, provision of logistics services, sales of lubricant oil and financial services. Revenue represents the sales of goods, services income rendered to customers and interest income.

Disaggregation of revenue from contracts with customers by major products or services lines is as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of passenger motor vehicles	**28,564,086**	31,529,209
Provision of after-sales services	**4,771,068**	4,330,536
Provision of logistics services	**563,764**	479,580
Sales of lubricant oil	**328,755**	272,364
Service income from financial services	**173,828**	329,936
	34,401,501	36,941,625
Revenue from other sources		
Interest income from financial services	**736,293**	513,885
	35,137,794	37,455,510

4 OTHER INCOME

		For the year ended 31 December	
	Note	**2019**	2018
		RMB'000	*RMB'000*
		(Unaudited)	
Service income		**734,355**	654,911
Interest income from bank deposits		**45,593**	75,991
Net gain on disposal of property, plant and equipment		**23,556**	48,024
Realised and unrealised net (loss)/gain on derivative financial instruments		**(18,850)**	118,922
Government grants	*(i)*	**50,817**	48,405
Others		**15,674**	16,494
		851,145	962,747

(i) The government grants were received unconditionally from the local government where they reside.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Note	For the year ended 31 December **2019** ***RMB'000*** **(Unaudited)**	2018 *(Note)* *RMB'000*
(a) Finance costs:			
Interest on loans and borrowings for non-financial services and bonds payable		**955,852**	883,188
Interest on lease liabilities		**140,699**	—
Finance cost for consideration of business combination	*(i)*	**27,689**	32,538
Other finance costs	*(ii)*	**39,998**	42,198
Less: Interest capitalised*		**(87,978)**	(47,852)
		1,076,260	910,072

* The borrowing costs have been capitalised at a rate of 4.13% — 7.50% per annum (2018: 4.35% — 7.50%).

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(c).

	Note	For the year ended 31 December **2019** ***RMB'000*** **(Unaudited)**	2018 *RMB'000*
(b) Staff costs:			
Salaries, wages and other benefits		**910,463**	810,663
Contributions to defined contribution retirement plans	*(iii)*	**81,220**	73,668
		991,683	884,331

(i) It represents the unwinding of interest element of business combination consideration.

(ii) It mainly represents the interest expenses arising from discounting of bills payable.

(iii) Employees of the Group's PRC subsidiaries are required to participate in defined contribution retirement schemes administered and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal government to the schemes to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

	For the year ended 31 December	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
	(Unaudited)	
(c) Other items:		
Cost of inventories *(note 9(b))*	**30,110,252**	31,965,954
Cost of interests*	**373,603**	330,875
Depreciation		
— Owned property, plant and equipment	**375,073**	332,137
— Right-of-use assets *(Note)*	**386,033**	—
Amortisation		
— Lease prepayments	**—**	28,554
— Intangible assets	**195,152**	193,883
Operating lease charges	**53,813**	429,706
Realised and unrealised net loss/(gain) on derivative financial instruments	**18,850**	(118,922)
Net foreign exchange loss	**54,485**	456,471
Impairment losses		
— Receivables from financial services	**110,154**	86,017
— Goodwill	**71,222**	—
Listing expenses of a subsidiary	**9,207**	2,268

* The cost of interests is the borrowing costs for financial services, and is recognised in the cost of sales.

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2(c).

6 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Current tax:		
Provision for income tax for the year	**478,237**	706,031
Deferred tax:		
Origination of temporary differences	**(81,878)**	(71,325)
	396,359	634,706

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Profit before taxation	**1,163,064**	1,889,488
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**290,766**	472,372
Non-deductible expenses	**89,465**	154,614
Unused tax losses not recognised	**19,406**	16,869
Non-taxable income on:		
— Share of profits recognised under the equity method	**(15,438)**	(9,149)
Effect of PRC dividend withholding tax *(iv)*	**12,160**	—
Income tax	**396,359**	634,706

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) No provision for Hong Kong Profits Tax was made for the subsidiaries located in Hong Kong as the subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25% (2018: 25%).

(iv) Under the CIT Law and its relevant regulations, dividends receivable by non-PRC resident enterprises from PRC resident enterprises for earnings accumulated beginning on 1 January 2008 are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. The PRC dividend withholding tax of RMB12,160,000 was paid for dividend distribution out of earnings of PRC subsidiaries of RMB121,600,000 during the year ended 31 December 2019.

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2019 was based on the profit attributable to equity shareholders of the Company of RMB663,862,000 (2018: RMB1,224,065,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2019 of 2,452,220,420 (2018: 2,453,012,879), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2019	2018
	(Unaudited)	
Issued ordinary shares at 1 January	**2,452,220,420**	2,265,539,420
Effect of shares issued for placing	—	214,824,176
Effect of purchase and cancellation of own shares	—	(27,350,717)
Weighted average number of ordinary shares at 31 December	**2,452,220,420**	2,453,012,879

There were no dilutive potential ordinary shares for the year ended 31 December 2019 and, therefore, diluted earnings per share are equivalent to basic earnings per share.

8 GOODWILL

	At 31 December 2019 *RMB'000* (Unaudited)
Cost:	
At 1 January 2018, 31 December 2018 and 31 December 2019	**2,006,335**
Accumulated impairment losses:	
At 1 January 2018, 31 December 2018 and 1 January 2019	**—**
Impairment during the year	**71,222**
At 31 December 2019	**71,222**
Carrying amount:	
At 31 December 2019	**1,935,113**
At 31 December 2018	**2,006,335**

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the operating segments as follows:

	At 31 December 2019 *RMB'000* (Unaudited)	2018 *RMB'000*
4S dealership business	**1,935,113**	2,006,335

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated by using an estimated growth rate of 3% (2018: 3%) which is consistent with the forecasts included in industry reports. The pre-tax discount rates applied to the cash flow projections beyond the one year period is 14% (2018: 14%).

Key assumptions used for value in use calculations are the growth rates for sales, corresponding gross margin rates and working capital changes, based on past performance and its expectation for market development.

As at 31 December 2019, the operating results of several 4S dealership stores did not meet the management's expectation. Based on an analysis of relevant cash generating units, the Group recognised an impairment of goodwill amounting to RMB71,222,000 (2018: nil).

9 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
4S dealership business		
— Motor vehicles	**2,679,440**	3,508,903
— Automobile spare parts	**384,533**	301,767
— Others	**39,894**	35,057
	3,103,867	3,845,727
Comprehensive properties business		
— Properties under development for sale	**379,231**	—
	3,483,098	3,845,727

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Carrying amount of inventories sold	**30,102,488**	31,963,559
Write down of inventories	**8,688**	9,287
Reversal of write-down of inventories	**(924)**	(6,892)
	30,110,252	31,965,954

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain motor vehicles as a result of a change in consumer preferences.

10 TRADE AND BILLS RECEIVABLES

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Trade receivables	**1,434,828**	1,070,104
Bills receivable	**—**	1,405
	1,434,828	1,071,509

All of the trade and bills receivables are expected to be recovered within one year. Management has a credit policy in place and the exposure to these credit risk are monitored on an ongoing basis.

Credit risk in respect of trade and bills receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent mortgage granted by major financial institutions to customers of the Group and warranty receivables from automobile manufacturers. The mortgage is normally settled within one month directly by major financial institutions. While for the receivables from automobile manufacturers, risk of default is considered low, as these are either reputable companies or with good credit rating. Based on past experience, the Group was of the opinion that no provision for impairment was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. Normally, the Group does not obtain collateral from customers.

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date, is as follows:

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Within 3 months	**1,402,439**	1,025,394
More than 3 months but within 1 year	**27,372**	39,460
Over 1 year	**5,017**	6,655
	1,434,828	1,071,509

11 RECEIVABLES FROM FINANCIAL SERVICES

	At 31 December 2019 RMB'000 (Unaudited)	2018 RMB'000
Current		
Receivable from retail customers	**4,096,702**	4,204,798
Receivable from auto dealers	**1,151,206**	209,329
Less: Allowance for impairment losses	**(109,008)**	(95,398)
	5,138,900	4,318,729
Non-current		
Receivable from retail customers	**3,707,354**	3,927,899
Less: Allowance for impairment losses	**(76,212)**	(46,922)
	3,631,142	3,880,977
Net receivables from financial services	**8,770,042**	8,199,706

Receivable from retail customers are expected to be recovered within one to five years. Receivable from auto dealers are expected to be recovered within one year. Management has a credit policy in place and the exposure to these credit risk are monitored on an ongoing basis.

The counterparties are mainly a large group of individual customers. The Group maintains the credit risk grading to categorise exposures according to their degree of risk of default. Expected credit loss model is used to determine the allowance for impairment losses.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of receivables from financial services, based on the invoice date and net of allowance for impairment losses, is as follows:

	At 31 December 2019 RMB'000 (Unaudited)	2018 RMB'000
Within 3 months	**1,782,058**	1,786,451
More than 3 months but within 1 year	**3,452,675**	4,114,413
More than 1 year	**3,535,309**	2,298,842
	8,770,042	8,199,706

(b) Impairment of receivables from financial services

The movement in the allowance for impairment losses during the year, including both specific and collective loss components, is as follows:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Balance at 1 January	**142,320**	91,871
Impairment loss recognised	**110,154**	86,017
Uncollectible amounts written off	**(71,750)**	(36,364)
Recovery after write-off	**4,496**	796
Balance at 31 December	**185,220**	142,320

12 TRADE AND OTHER PAYABLES

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Current		
Trade payables	**1,133,626**	1,158,484
Bills payable	**2,447,408**	3,440,016
	3,581,034	4,598,500
Contract liabilities	**915,334**	569,331
Other payables and accruals	**1,799,665**	1,532,777
Payables due to related parties	**—**	26,040
	6,296,033	6,726,648
Non-Current		
Long-term payables	**277,057**	299,302
	6,573,090	7,025,950

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

	At 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Within 3 months	**3,322,566**	4,267,235
Over 3 months but within 6 months	**255,088**	327,398
Over 6 months but within 12 months	**3,380**	3,867
	3,581,034	4,598,500

13 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Interim dividend declared and paid of HK$0.10 per ordinary share (2018: HK$0.10)	**221,357**	213,904
No final dividend proposed after the end of the reporting period (2018: HK$0.14 per ordinary share)	**—**	294,489
	221,357	508,393

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.14 per ordinary share (2018: HK$0.14 per ordinary share)	**300,787**	283,413

(iii) Other dividends

During the year of 2019, certain subsidiaries of the Group declared and paid dividends of RMB56,589,000 in cash to non-controlling shareholders (2018: nil).

14 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Impact of 2019 novel Coronavirus

The wide spread of the novel Coronavirus in China since beginning of 2020 is a fluid and challenging situation facing all industries of the society. The Group is closely monitoring impact of the situation on the operation of the Group and take possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future. As at the date of this announcement, the Group was not aware of material adverse effects on the financial statements as a result of the novel Coronavirus outbreak.

(b) Issuance of US$ 12.0% Senior Notes Due 2022

The Company issued 12.0% Senior Notes due 2022 in the principal amount of US$160,000,000 and US$13,000,000, which were effective on 22 January 2020 and 17 February 2020, respectively. The Company intends to use the net proceeds of the Notes Issue to refinance certain of indebtedness and for general corporate and working capital purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group acts as a major dealer of various luxury and ultra-luxury automobile brands, and a strategic partner that maintains close collaboration with the manufacturers of those luxury automobile brands. The Group keeps abreast of the latest industry trend and market changes, analyses the changes in customers' preference and explores innovative services. Leveraging its diversified brand portfolio, reasonable sales network, comprehensive operation platform and advanced service philosophy, the Group has determined to be a world-class automobile servicing brand.

In 2019, the Group was committed to developing luxury and ultra-luxury auto brand sales and after-sales services, strengthening the upgrade of our existing dealership stores and performance capacity, and expanding the prestigious brand portfolios and the dealership networks of affluent areas. Furthermore, the Group identified and utilized the values of customer data and assets by expediting the development of network information and cloud-based platform technologies. By fully utilizing its advantages in financing and supply chains to strengthen its core competitiveness, the Group continued to optimize its business scope covering the entire life cycle of vehicles from sales of new cars to maintenance and repair, finance and insurance, and automobile replacement and leasing so as to manifest synergies among different business segments. In the meantime, we pursued the practice of streamlined management, optimized the customer service processes, and improved our performance assessment and incentive mechanism so that our operating efficiency was enhanced with lowered operating costs. Driven by the further intensifying competition in the luxury brand market, coupled with our strategic realignment of some brand operations based on market conditions, the results of the Group for 2019 had a slight decrease as compared to last year. For the year ended 31 December 2019, the Group recorded revenue and gross profit of approximately RMB35,138 million and RMB3,818 million, respectively, representing decrease of approximately 6.2% and 14.9% as compared to the corresponding year, respectively. Profit attributable to equity shareholders of the Company was approximately RMB664 million and the basic earnings per share was approximately RMB27.1 cents, representing decrease of approximately 45.8% and approximately 45.7% as compared to the corresponding year, respectively.

(I) Sales of new automobiles business

In 2019, under our prudent brand and network development strategy, we expanded our distribution network for selected luxury and ultra-luxury brands to maintain the proportion of brands with higher profitability. The revenue and profit of Group remained stable. The Group managed to strike a balance between "quantity" and "quality" in the fierce market competition. For the year ended 31 December 2019, the Group recorded sales volume of new automobiles of 103,220 units, representing a year-on-year decrease of approximately 8.3%, including 81,735 units luxury and ultra-luxury branded automobiles with a year-on-year decrease of approximately 5.4%.

During the year, major luxury automobile brands under the Group's dealership, including BMW, Mercedes-Benz, and Porsche, launched new models that offer much more competitive prices in response to the market needs, including the launch of BMW X5 and X7, Benz A-Class and S-Class, Porsche Cayenne, and other new series of luxury brands. This initiative provided the Group with tremendous support to stabilize its profitability. It is expected that the luxury vehicle market will continue to see an intensifying competition. To enhance the overall profitability of new automobile sales, the Group will maintain good collaboration with the automobile manufacturers to improve their rebate rate, and further strengthen our service standard of the extended businesses for sales of new automobiles, including finance and insurance, modification sales, and dealership licensing.

Despite the market share and profitability of new energy vehicles to be further improved, the Group remains highly conscious of the practices of environmental protection and energy conservation. With our focus on new energy vehicles, we strengthened the promotion and sales of new energy vehicles under our licensed brands, and continued to enhance the sales proportion of new energy vehicles. To better accommodate the market, the Group conducted in-depth research on the automobile market and customers' changing needs, and actively explored new models of automobile retailing. We redoubled our efforts to reform the collection of internet leads of potential customers, carried out marketing and promotion based on market highlights in an attempt to acquire more potential customers, and boosted the telephone and internet marketing capability. With more attractive sales service and product mix in place, the customers' order conversion rate increased.

The Group was committed to utilizing advanced technology. By further developing and applying informationized and intelligent management platform (cloud platform/OMS2.1), we established a data-centric alert mechanism to carry out multi-dimensional analysis, monitor the operation of dealership stores and follow up problems in the course of operation on a real-time basis. By using the intelligent data management system to control the manufacturing quotas and available-for-sales resources in advance, we were able to adjust the sales progress and monitor the changes in inventory vehicles timely. We analyzed and adjusted the inventory structure so to ensure the reasonable scale and structure of new vehicles. As such, utilization of funds on inventories was optimized, utilization efficiency of working capital was improved, and inventory cost was reduced effectively. We also made good use of the internet technology to establish an operation management system that is more scientific and efficient for collecting accurate and visible data based on facts in a timely manner. The Group continued to streamline the processes, improved its decision-making relevance and timeliness, and accelerated the response to customers' needs. As a result, the Group constantly improved its overall operation management quality.

(II) After-sales services business

In 2019, after-sales services business of the Group (including repair and maintenance services and automobile augmented products and services) achieved sound and rapid growth. The Group served 1,517,701 units of automobiles in aggregate, representing an increase of approximately 17.1% compared to the corresponding year. Revenue of after-sales services of the Group amounted to approximately RMB4,771 million with an increase of 10.2% as compared to the corresponding year, and the gross profit was approximately RMB2,138 million with gross profit margin of approximately 44.8%.

With the outburst of automotive after-sales market, automobile users have become more mature, supporting the development of a more professional and branded automotive after-sales market. The after-sales service business of the Group focused on addressing customers' needs, and pursued the fundamental services quality. The Group continued to improve its customer information management and implemented classified customer management. Throughout the car ownership cycle, the Group streamlined the business procedures, and offered more customised services in order to enhance the satisfaction of customers. The Group endeavoured to satisfy the personal, exquisite and differentiated needs of customers. Sales guidelines for frontline staff were issued and service contracts for after-sales services were secured to further improve the customer retention rate. Through the advancement and upgrade of management system, the efficiency and effectiveness of business processes were enhanced and customer experience has become the sole criterion for the evaluation of procedures, model, management and control, which therefore achieved positive growth in after-sales service scale and profitability. Throughout the life cycle of customers, we continued to explore the potential demand, new business models and revenue growth drivers, while engaging in active expansion of service products or product mix. By detailing product and service categories, we fulfilled various customer demands to ensure the rapid growth of after-sales services in a right direction.

(III) Pre-owned car business

During 2019, a total of 14,920,000 units of pre-owned automobiles were traded, representing a year-on-year increase of 8.0%. The growth of pre-owned automobile market slowed down and the industry entered a new adjustment cycle. As one of the Group's important strategic business segments, we attached great importance to the sound and rapid development of the pre-owned automobile business. While closely tracking the trend of the pre-owned automobile market, we also integrated internal resources to fully utilize the strengths of an authorized brand dealer in automobile assessment and certification, and continued to enrich and modify the offerings of our pre-owned automobile services. Comprehensive services including automobile evaluation, retail, insurance agency, extended warranty and financial mortgage were provided, further increasing the customer service values.

In 2019, the Group focused on the promotion of automobile trade-in when selling new cars by providing competitive offers to encourage the replacement of used cars. The Group provided tailored services and products in accordance with their requirement of individual customers, resulting in a constant growth in average used car replacement rate in major first-tier cities. Upon the launch of the "Zhengtong Auction" online platform, the advanced information platform and regulated business procedures are utilized to deliver open and transparent vehicle information. By bidding, the automobile pricing became more reasonable, while the operating efficiency and profitability of the used cars segment was effectively improved.

(IV) Auto finance technology segment

Shanghai Dongzheng Automotive Finance Co., Ltd. ("**Dongzheng AFC**"), a subsidiary of the Company, is an automotive finance Company regulated by the CBIRC focusing on the luxury vehicle market. It is principally engaged in retail loan and dealer loan businesses. Dongzheng AFC was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 3 April 2019 and raised net proceeds of approximately HK$1,529 million from global offering (equivalent to RMB1,309 million).

Owing to the strategy of focusing on the luxury vehicle market, as at 31 December 2019, the loan portfolio of Dongzheng AFC grew to RMB10,004 million from RMB8,426 million as at 31 December 2018, representing an increase of 18.7%. In 2019, net interest income increased by approximately 22.1% to RMB536 million, while net profit of RMB389 million decreased by 14.1% as compared to 2018. In 2019, Dongzheng AFC's non-performing loan ratio was 0.44%, the loan provision rate was 1.89%, and the provision coverage ratio was 423.97%

In addition, a completely closed-loop auto finance technology ecosystem developed by the Group has taken into shape, aiming to provide customers with one-stop auto finance and related services and offer automobile related financial products covering new automobiles and pre-owned automobiles. The platform involves:

- Dongzheng AFC holding an auto financial license granted by the CBIRC is the only auto finance Company with a dealership background in China;

- Shenzhen Zhengyuan Automobile Technology Co., Ltd. ("**Zhengyuan Technology**") specializing in big-data risk control and ABS cloud finance technology;

- Xiamen International Financial Asset Exchange Co., Ltd. ("**Xiamen International Financial Asset Exchange**") providing an online asset transaction platform; and

- Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. ("**Dingze Leasing**") and Dingze Insurance Agency Co., Ltd. ("**Dingze Insurance Agency**") providing financial leasing, insurance brokerage and other related services.

The Group has been more mature and clearer in exploring the model of automobile finance consumer loan and future development direction. The burgeoning growth of auto finance market has provided a broader development for financial institutions. Under the guidance of enhanced regulatory policies, the market environment has been further purified, and the licensed financial institutions benefited from the standardization of operation. The market reshuffle will facilitate the "**good money drives out the bad**" for the auto finance service institutions, and will also be helpful for the licensed financial institutions' business to remain reasonable and healthy.

Covering National Offline Auto Finance Channels by Licensed Financial Institution

Dongzheng AFC obtained the financial business permit from the CBIRC and commenced its operation in March 2015. In 2019, Dongzheng AFC increased its registered capital to RMB2.14 billion and further improved its capital adequacy ratio which provided strong financial support to its loan business.

Dongzheng AFC has established a dealer network with a broad geographical coverage in China. The number of dealers within the sales network exceeded 900 as of 31 December 2019. Capitalizing on the advantages of 4S automobile distribution channels of the Group, as well as the well-established external dealership network, Dongzheng AFC has proactively expanded its business to cover over 200 mid- to high-end 4S stores in over 172 cities and cooperated with over 900 dealers. The distribution channels of Dongzheng AFC mainly focus on mid- to high-end brands and target customer base with high consumption power. Leveraging on the network advantages and reasonable marketing strategies, Dongzheng AFC provides consumers with satisfactory customers' experiences and services.

Product Design

Dongzheng AFC is mainly comprised of: (i) retail loan business, whereby retail loans, direct leasing products and other financial services will be provided to end customers, major clients, and corporate clients for purchase of vehicles; (ii) dealer loan business, whereby inventory financing services will be provided to dealers to facilitate their procurement and sale of vehicles to their end customers.

Risk Control

As regards risk management, a comprehensive risk management system has been established. In particular, the Company has formulated the relevant risk management system and operating procedures with respect to admission review, approval requirements, disbursement process, post-loan monitoring and other procedures to manage the credit risk. To constantly optimize risk management and prevent risk, the capability to identify and assess risk is enhanced by implementing measures related to staff training, screening mechanism, client visits, data analysis, etc.

Creating Comprehensive Auto Finance Fintech Platform by Professional Team

Zhengyuan Technology, established in December 2017, was committed to exploring the online auto finance Fintech field and establishing a comprehensive loan support platform, on which financial assets and capitals are highly-efficient connected to the financial technology.

Zhengyuan Technology has focused its Fintech technology core on system connection for assets-end and capital-end: by empowering the B-end, the big-data risk management system will shortlist high quality customers, and connect to insurance institutions and online electronic certifications to refine the performance guarantee of a single trade, while the ABS cloud technology ensures the high speed transfer of auto financial assets that were in line with standardized ABS among financial institutions. The fully connected systems and the information-sharing streams will allow funds with different returns and risk preferences to match quickly, and will generate a unique technology power for the auto finance industry.

Zhengyuan Technology has fully developed and launched the trading systems for the entire trading process. The core system has been fully constructed, and will enable the big-data risk management system to achieve the speedy trading approvals online. Meanwhile, end-customers were able to enjoy the speedy approval and contracted lending service on distant system because of the successful connection between systems and the CFCA.

Zhengyuan Technology was introducing financial institutions to carry out business linkage based on the support of Dongzheng AFC. With more capital injected, the increase of loan assets will not only be helpful in market expansion, but the increase in the number of end-customer samples will also drive the improvement of the database for its own risk control system. Currently, various trusts of the financial institutions have been integrated while account consolidation is in process.

Within the entire closed-loop financial ecosystem, trading performance guarantee is crucial in the fundamental credit enhancement step, so Zhengyuan Technology has signed a strategic cooperation agreement with PICC after the interim period. While the system docking is in progress, the electronic policy implements performance insurance with real-time full coverage for each loan business, and has effectively reduced the risk of capital loss, in addition to laying a foundation for subsequent assets transfer.

After Zhengyuan Technology has accomplished its assets and capital accumulation, it will empower other subsidiaries of the Group with Fintech. In an effort to realize information sharing and integrate different operations, the Group will create a multi-win situation amid the financial closed-loop ecology.

As the financial asset transaction circulation platform, Xiamen International Financial Asset Exchange is also a key part of the closed-loop. The cumulative acceptance of assets has exceeded RMB100 billion. Fundraising through ABS platform has a lower cost and higher efficiency. In order to quickly enlarge its coverage of end-customers and to create a new high in the field of inclusive auto finance industry, the Group will expand the channels of auto financing asset securitization, and accelerate assets circulation.

Financial Leasing and Insurance Brokerage have been further refined

Under the synergy effect of the Group, Dingze Leasing has made substantial progress in its business. In response to the development trend and industry rules of the small B-end of the automotive industry chain, the Company has created and launched the OCF financial concept and new financial service product U-car (U享車) at the same time. It has been recognised by the market dealer groups and 4S stores, and has achieved a great performance.

As regards the insurance brokerage, the Group further consolidated the online new insurance and renewal insurance businesses, the profitability of which is further strengthened. Meanwhile, by pursuing the "customer-oriented" business philosophy, we will provide our customers with a diversified product mix to provide various insurance demands at different stages for our vehicle consumers. At the internal level, we will scale up the integration of management and optimize the staffing structure to significantly enhance management efficiency.

(V) Supply chain business

In 2019, Shengze Jietong Supply Chain Co., Ltd. (hereinafter referred to as "Shengze Jietong"), in accordance with Zhengtong Group's business strategic development plan, actively put its efforts in the tender of transportation business for the next three years on in respect of the transportation for various automobile brands of our major customers, FAW and Dongfeng Group, the specific results of which are as follows:

Tender results of vehicle logistics business

In 2019, Shengze Jietong obtained an overall transportation volume of approximately 609,000 vehicles for the next year, representing a strong growth of 60% year-on-year, including:

1. in December 2019, obtained an average annual transportation volume of 480,000 vehicles of Dongfeng Nissan brands (including Infiniti and Dongfeng Venucia) for the next three years, with an average annual growth rate of nearly 100%.

2. in December 2019, obtained an average annual transportation volume of 41,000 vehicles of Dongfeng Renault brands for the next three years, with an average annual growth rate of over 100%.

3. from April to September 2019, obtained a average annual transportation volume of total 85,000 vehicles of FAW Logistics (including FAW-Volkswagen, FAW Benteng, FAW Hongqi and FAW Mazda brands) for the next three years, with an average annual growth rate of over 100%.

4. in October 2019, obtained an average annual transportation volume of 9,800 vehicles in respect of Dongguan distribution business of FAW Toyota. Securing this business marks the first time that Shengze Jietong has entered the Toyota transportation system, which also means the full coverage of the three major Japanese brands of Nissan, Honda and Toyota. As the standard management of Toyota brand is relatively high, it provides Shengze Jietong the advantage of management technology reference for future development of other auto brand businesses, and also establishes a cooperative foundation for the expansion into the transportation business of Toyota production bases in the future.

Through the above-mentioned development of logistics business, Shengze Jietong will accelerate the achievement of the management goal of establishing a national fast logistics channel. In the meantime, due to the expansion of the logistics network, it will be easier to attract other brands to join and form a larger logistics and transportation platform.

Expansion of warehousing and logistics lease area

In December 2019, FAW Logistics and Shengze Jietong signed an agreement to expand the vehicle warehousing lease area by 25%. The increase in warehousing area reflects that FAW Logistics strengthens the importance of the transfer and distribution in Central China for production bases across China, which also lays foundation for business communication in respect of Shengze Jietong's Wuhan base cooperation project in the future.

Construction of Wuhan logistics base

The land purchase procedures and business design standards and other processes for the Wuhan logistics base have been completed in 2019, and the construction commenced in November 2019. It is planned to complete the main construction of office buildings, dormitory buildings, and spare parts warehouse structures in 2020. The whole project will consist of four dock berths, a 6-storey vehicle warehouse, an automated spare parts warehouse and two spare parts mechanized warehouses, office and living facilities. It will increase its investments in logistics facilities, which will further increase its core competitiveness and cost advantages, and get well-prepared for the expansion of the integrated logistics business of terminal operations, warehousing, PDI and transportation.

Opportunities arising from the establishment of Dongfeng Logistics by Dongfeng Motor Group

Dongfeng Motor Corporation (東風汽車公司) and Dongfeng Import & Export established a joint venture (i.e. Dongfeng Logistics (Wuhan) Co., Ltd. (東風物流(武漢)股份有限公司)) on 15 January 2020. Shengze Jietong holds the interests of the joint venture through its 20% equity interests in Fengshen Logistics. By taking this opportunity, Shengze Jietong could obtain better business resources and commercial conditions from Dongfeng in the future, and may have the priority to expand into the logistics sector of Dongfeng brands (vehicle, parts, warehousing, etc.).

Construction of informationized management

In June 2019, Shengze Jietong increased its efforts in informationized construction and planned to achieve the systematic coverage of whole process and all elements (personnel, vehicle, cargo, and warehouse) within three years. It aims to realize digital transformation and online business operation through building a vehicle transportation system which covers all customers and supports coordination among various parties including suppliers, improving the application of the spare parts WMS system and promoting projects such as the automated warehouse in Wuhan base in the future. Shengze Jietong plans to build smart operation cockpits and logistics control towers and utilize visual means and digital management to assist decision-making and scientific operation, boosting the replacement of "personnel" with "equipment" and the transformation from "sweat logistics" to "smart logistics" in the future.

In respect of sales of lubricant oil business, in the 2019, the revenue from sales was RMB329 million, representing a year-on-year increase of 20.7%. In 2020, the Company will strive to maintain steady growth amid the material impact caused by the COVID-19 epidemic and uncertainties of the market.

(VI) Comprehensive properties business

To fully utilize on the potential value of the land held by it, the Group planned to conduct construction of comprehensive property projects for its existing 4S dealership stores in 2019, which are located in Kunming and Dalian. Both of these two comprehensive property projects are service apartments, which are nearly completed and have obtained the pre-sale permits for sales. Construction costs of the above two comprehensive property projects have been included in the inventory as properties under development for sale. The Group believes that the said arrangement is a reasonable arrangement to improve the efficiency of capital utilisation and bring higher return for the shareholders.

(VII) Network development

Balanced and reasonable deployment of the nationwide dealership network for luxury brands complemented by ongoing optimization of the brand portfolio and dealership store network, and stable development

As a leading dealership group of luxury brands in China, the Group focuses on dealership of luxury and ultra-luxury branded automobiles, including Porsche, Benz, BMW, Audi, Jaguar and Land Rover, Volvo, Cadillac and Infiniti. The Group also operates dealership stores of mid-end market brands, including FAW-Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

As at 31 December 2019, the Group operated 135 dealership stores in 41 cities across 17 provinces and municipalities in China. During the year, the Group opened a Benz 4S store in Kunming, Yunnan, while opening a Leapmotor 4S store in Tongzhou, Beijing. In the meantime, to enhance the market competitive strength and profitability of our dealership stores, the Group strategically shut down 7 dealership stores to improve our dealership store presence based on those showrooms with an underperforming profitability.

As at the date of this announcement, there are 10 dealership stores under development, which are franchised by core luxury automobile brands, including Porsche, Benz, BMW, and Audi. Authorized dealership stores to be opened can enhance our competitive advantages in traditional provinces and regions, including Guangdong, Hubei, Zhejiang and Sichuan, as well as regions with potential for rapid development, such as Chongqing, Jiangsu and Liaoning. The expansion in geographical coverage will further enhance the Group's advantages in terms of scale and channels. In addition, in response to the development trend of the automobile market, the Group paid close attention to new energy vehicle projects and repair centers and other dealership stores in order to explore new growth drivers.

The following table sets forth the details of our dealership stores as at 31 December 2019:

	Dealership stores in operation	Authorized dealership stores to be opened	Total
5S/4S store for luxury and ultra-luxury brands	101	7	108
4S store for mid- to high-end and new energy brands	14	0	14
Urban showroom for luxury and new energy brands	14	0	14
Authorized repair service centre for luxury brands	5	3	8
Pre-owned automobile centre	1	0	1
Total	135	10	145

As a leading strategic partner of manufacturers of luxury brands and ultra-luxury brands in the PRC, the Group will continue its network expansion strategies with its focus on a balanced layout of dealership stores of core luxury brands and a refined brand structure in its pursuit of prudent development. Meanwhile, the Group will integrate industry resources by seeking appropriate strategic merger and acquisition opportunities and innovative strategic operation cooperation scheme to rapidly enlarge its business scale and enhance its profitability.

(VIII) Innovation of management and improvement of operational quality

In response to the industrial development trend in 2019, the Group accelerated its transformation and upgrading of automobile dealership management. We developed and utilized information technology in corporate operation and management and refined our management. The Group improved its management through innovative ideas and measures to streamline the business processes for enhancing the Group's core competitiveness.

Establishment of smart 4S stores

The Group has been committed to enhancing customer experiences with the aid of internet and information technology. To this end, the Group cooperated with Tencent Technology. The Group independently developed a new generation of Cloud Platform (雲平台) operation management intermediary system enabled by Tencent Industry, integrating data analysis, customer service, product deployment, and business management through technological means. By linking information islands and building up communication channels between front line business at stores and back office management, the order, door-to-door delivery and online payment by customers, all through one click, can be realized. The scope of business and service have been expanded and the customer experience has been greatly enhanced.

Establishment of expertise-driven organization

The Group always recognizes the importance of employee training and development. By enhancing the employees' expertise and comprehensive capability in an excellent workplace conditions and environment, we believe the employees will stay focused on providing premiere customer services. In 2019, the Group officially established the Zhengtong Academy as the learning platform for all employees, which is aimed at further promoting the transformation and upgrade of dealership management, as well as providing a source of expertise and creativity for business transformation, and management and business innovation.

Improvement in operating quality

In continuing to improve service quality and customer satisfaction in 2019, the Group further enhanced the operating standard of branded dealership stores, and streamlined sales and aftersales business procedures. In addition, the Group explored new social media as a new point of contact for customers in order to continue the improvement of customer service experiences. Furthermore, the Group integrated corporate resources to rationalize the allocation of required resources based on the actual conditions and various requirements of the brand operations, which is aimed at enhancing the overall operating efficiency and quality, as well as improving the asset utilization rate.

Classification management of stores

In 2019, the Group continued to optimise the operation assessment system of stores so as to conduct a scientific analysis and assessment of all key operation figures. The results can allow the managers to manage their stores at different levels. With specific measures in place, the Group optimized cost control, identified business potential, and further expanded the authority of outstanding stores in resources allocation, performance management, and decision-making so as to stimulate the initiative and motivation of the stores and enhance customers' satisfaction by offering better services. The results were very positive.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded a revenue of approximately RMB35,138 million, representing a decrease of approximately 6.2% as compared to the revenue of approximately RMB37,456 million in 2018. The decrease was mainly due to a decrease in steady sales of new automobiles during the year.

Revenue of the Group was derived from the sales of new automobiles, after-sales services, financial services and other business. In 2019, revenue from the sales of new automobiles amounted to approximately RMB28,564 million, representing a decrease of approximately 9.4% as compared to approximately RMB31,529 million in 2018, and accounted for approximately 81.3% and 84.2% of the total revenue in 2019 and 2018, respectively. The revenue from sales of luxury and ultra-luxury branded automobiles decreased by approximately 8.4% to RMB25,986 million from approximately RMB28,383 million in 2018, accounting for approximately 91.0% and 90.0% of revenue from the sales of new automobiles in 2019 and 2018, respectively.

Revenue from the after-sales services business was approximately RMB4,771 million, representing a growth of approximately 10.2% as compared to approximately RMB4,331 million in 2018. In 2019, revenue from the after-sales services business accounted for approximately 13.6% of our total revenue, representing an increase of approximately 2.0 percentage point in revenue from the after-sales services business.

Cost of sales

For the year ended 31 December 2019, the Group's cost of sales decreased by approximately 5.0%, which was lower than the decrease in revenue, to approximately RMB31,319 million as compared to approximately RMB32,969 million in 2018. In 2019, the cost of sales for new automobiles of the Group decreased by approximately 7.3% to approximately RMB27,432 million from approximately RMB29,604 million in 2018. Cost of the after-sales services business increased by approximately 13.1% to approximately RMB2,633 million from approximately RMB2,328 million in 2018.

Gross profit and gross profit margin

For the year ended 31 December 2019, the Group's gross profit decreased by approximately 14.9% to RMB3,818 million from approximately RMB4,487 million in 2018, and the Group's gross profit margin decreased by approximately 1.1 percentage points to approximately 10.9% from 12.0% in 2018.

The Group's gross profit was principally generated from after-sales services, sales of new automobiles business and automobile financing services. In 2019, gross profit of sales of new automobiles decreased by approximately 41.2% to approximately RMB1,132 million from approximately RMB1,925 million in 2018; gross profit margin of sales of new automobiles decreased to 4.0% from approximately 6.1% in 2018. Gross profit of sales of luxury and ultra-luxury branded automobiles decreased by approximately 41.2% as compared to last year to approximately RMB1,112 million, and gross profit margin of sales of luxury and ultra-luxury branded automobiles decreased to 4.3% from 6.7% in 2018. In 2019, gross profit of our after-sales services business was approximately RMB2,138 million, representing an increase of approximately 6.7% as compared to last year, and gross profit margin of after-sales services business decreased by approximately 1.4 percentage point to approximately 44.8% from approximately 46.2% in 2018.

Selling and distribution expenses

For the year ended 31 December 2019, the Group's selling and distribution expenses increased by approximately 6.1% to approximately RMB1,100 million from approximately RMB1,037 million in 2018. The increase in selling and distribution was mainly attributable to an increase in staff cost and depreciation arising from the increase in the dealership stores.

Administrative expenses

For the year ended 31 December 2019, the Group's administrative expenses amounted to approximately RMB1,392 million, representing a decrease of approximately 15.6% over approximately RMB1,650 million in 2018. Such decline was primarily due to the fact that the exchange loss incurred from the deprecation of Renminbi during 2019 was substantially less than that of 2018.

Profit from operations

For the year ended 31 December 2019, the Group's profit from operations decreased by approximately 21.2% to approximately RMB2,178 million from approximately RMB2,763 million in 2018, and the operating profit margin was approximately 6.2%, representing a decrease of approximately 1.2 percentage point over approximately 7.4% in 2018.

Income tax expenses

For the year ended 31 December 2019, the Group's income tax expenses amounted to approximately RMB396 million and the effective tax rate was approximately 34.1% (2018: 33.6%).

Profit for the year

For the year ended 31 December 2019, the Group's profit for the year decreased by approximately 38.9% to approximately RMB767 million from approximately RMB1,255 million in 2018. During the year, profit margin was approximately 2.2%, representing a decrease of 1.2 percentage point as compared to 3.4% in 2018.

Contingent liabilities

As at 31 December 2019, the Group had no material contingent liabilities or guarantees save as those assets pledged to the bank.

Current assets and current liabilities

As at 31 December 2019, the Group's current assets amounted to approximately RMB24,136 million, representing a decrease of approximately RMB804 million as compared to the current assets of approximately RMB24,940 million as at 31 December 2018.

As at 31 December 2019, the Group's current liabilities amounted to approximately RMB25,819 million, representing an increase of approximately RMB2,017 million as compared to the current liabilities of approximately RMB23,802 million as at 31 December 2018, which was mainly due to an increase in loans and borrowings.

Cash flow

As at 31 December 2019, the Group had cash and cash equivalents amounting to approximately RMB1,497 million, representing a decrease of approximately RMB1,414 million over approximately RMB2,911 million as at 31 December 2018. The Group's transactions and monetary assets were principally conducted in Renminbi. The Group's primary uses of cash were to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to fund the Group's working capital and ordinary recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the year ended 31 December 2019, the Group had net cash inflow of approximately RMB2,546 million generated from its operating activities (for the year ended 31 December 2018: net cash inflow from operating activities approximately RMB776 million), which was primarily due to the effective control of inventories.

Capital expenditure and investment

For the year ended 31 December 2019, the Group's capital expenditure and investment were approximately RMB1,782 million (2018: RMB2,815 million).

Inventory

The Group's inventories included vehicles, automobile spare parts and properties under development for sale. In general, each of the Group's dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group utilizes its information technology systems to manage its inventory, and also monitors the inventories within its whole dealership network and may transfer automobiles from one dealership store to another to rebalance inventory levels. The inventories of the Group was approximately RMB3,483 million as at 31 December 2019, decreased by approximately RMB363 million when compared with RMB3,846 million as at 31 December 2018. Such change was due to the effective control in the inventories of new automobiles by the Group based upon market situation. The Group's average inventory turnover days (excluding the impact of properties under development for sale) of 2019 decreased by 3.4 days to 40.6 days from 44.0 days for 2018. The following table sets forth our average inventory turnover days for the year indicated:

	For the year ended 31 December (day)	
	2019	2018
Average inventory turnover days (excluding the impact of properties under development for sale)	**40.6**	44.0

Risks of foreign exchange

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. However, the Group's operating cash flow and liquidity has not been subject to significant influence from fluctuations in exchange rate. The Group used cross currency swap to hedge its US-dollar and HKD future loans repayment. As at 31 December 2019, a financial liability of RMB103 million measured at fair value was recognised by the Group on the cross currency swap, and other financial assets of RMB17 million (excluding wealth management products) measured at fair value was recognised (at 31 December 2018: a financial liability of RMB33 million measured at fair value was recognised by the Group on the cross currency swap, and other financial assets of RMB25 million (excluding wealth management products)).

Liquidity and capital resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks. As at 31 December 2019, the Group's cash and bank deposits were approximately RMB3,577 million (including: pledged bank deposits and balances with central bank of approximately RMB1,399 million, time deposits of RMB681 million and cash and cash equivalents of RMB1,497 million), representing a decrease of approximately RMB2,262 million, from approximately RMB5,839 million as at 31 December 2018. As at 31 December 2019, loans and borrowings, lease liabilities (recorded due to the application of the HKFRS 16 on 1 January 2019), and bonds payable of the Group amounted to approximately RMB21,450 million (at 31 December 2018: loans and borrowings, obligations under finance leases, and bonds payable of the Group amounted to approximately RMB21,949 million). Save as loans and borrowings, lease liabilities, and bonds payable of approximately RMB12,607 million that bear fixed interest rates, other loans and borrowings bear floating interest rates. As at 31 December 2019, net gearing ratio of the Group was approximately 131.0%, and would be approximately 116.2% if the impacts under the HKFRS 16 were excluded (at 31 December 2018: approximately 130.7%, which was not restated due to the impacts of the HKFRS 16). Net gearing ratio was calculated as loans and borrowings, lease liabilities, and bonds payable less cash and bank deposits divided by total equity.

Issuance of new shares of a subsidiary

On 3 April 2019, Dongzheng AFC had completed the spin-off and separate listing on the Hong Kong Stock Exchange (the "IPO"), by issuing 533,336,000 new ordinary shares at HK$3.06 per share, the net proceeds after deducting the issuance costs amounted to approximately HK$1,511 million (approximately equivalent to RMB1,293 million). On 25 April 2019, Dongzheng AFC partially exercised the over-allotment option at HK$3.06 per share, the net proceeds after deducting the issuance costs approximately amounted to HK$18 million (approximately equivalent to RMB16 million).

Upon completion of IPO and exercise of over-allotment option, the Group's equity interest in Dongzheng AFC had been diluted from 95% to 71.04% and the Group retains control over Dongzheng AFC.

Pledged assets

The Group has pledged its assets as the security for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 31 December 2019, the pledged assets of the Group amounted to approximately RMB4,954 million (at 31 December 2018: approximately RMB5,443 million).

Investments held in foreign currency and hedging

For the year ended 31 December 2019, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

Employees and remuneration policies

As at 31 December 2019, the Group had a total of 10,729 employees in China (at 31 December 2018: 12,353 employees). The staff costs incurred for the year ended 31 December 2019 were approximately RMB992 million (2018: approximately RMB884 million). The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans. The Group also provided good working environment and diversified training program.

FUTURE OUTLOOK AND STRATEGIES

In the coming few years, China's macroscopic economy will maintain its moderate growth with a steady increase in both household disposable income and consumer spending. Given the fact that the government continues with the release of the potential domestic demand, and introduces policies to develop new formats and models of consumption, we believe that the domestic consumer market will continue to grow expeditiously. As regards the automobile industry, in line with new records of registered car ownership, a mature domestic automobile market becomes increasingly noticeable, with market players seeking business growth in quality rather than quantity, as well as the market demand manifesting geographic and structural changes. As a result, the consumption upgrade is expected to become evident, while the luxury vehicle demand will continue to grow in the midst of increasingly fierce competition. In this case, consumers will pursue higher quality demand and expectation for automobile products and services, and auto dealers are required to constantly improve their business management and service standard amid the growing demands for professionalism and product diversity.

Keeping abreast of the automobile development trend, the Group will be committed to customer services for luxury and ultra-luxury automobile brands in the domestic market by continuing to improve brand structure and strategic network, invest in the development of management and operation information systems, and focusing on employee training and development. Our business transformation will be accelerated by knowledge and information technologies, and innovative management approaches will be adopted to optimize the operating efficiency and enhance the profitability. In doing so, the Company will achieve steady and flexible operation in response to various uncertainties and risks arising from the external environment. The Group will also utilize the advantages of our financial business to develop our core competitive strengths. By upholding the fundamental business quality, as well as considering customer demands, the

Group will proactively enrich service and product contents, expand service channels, and enhance service quality, with a view to providing better consumer experiences. Besides continuing to increase the percentage of maintenance and repair, finance and insurance services, modification sales, and other businesses in the profitability structure, the Group will vigorously improve the pre-owned vehicle services and quality standards, and explore the contents and models of marketing, sales, and services for new energy vehicles. These initiatives will assist the Company with rationalize its business structure in parallel with customer demands, to create higher value for shareholders, staff and the community.

EVENTS AFTER THE REPORTING PERIOD

Issuance of US$ 12.0% Senior Notes Due 2022

The Company issued 12.0% Senior Notes due 2022 in the principal amount of US$160,000,000 and US$13,000,000, which were effective on 22 January 2020 and 17 February 2020, respectively. The Company intends to use the net proceeds of the Notes Issue to refinance certain of its existing indebtedness and for general corporate and working capital purposes.

For details, please refer to the announcements of the Company dated 16 January 2020, 21 January 2020 and 14 February 2020.

IMPACT OF 2019 NOVEL CORONAVIRUS

The COVID-19 outbreak since early 2020 has brought additional uncertainties in the global macroeconomic situation. The Group will continue to closely monitor the development of the COVID-19, evaluate its potential impacts and respond swiftly on our strategy and operation executions. Up to the approval date of the financial statement, such measures are being carried out by the Group meticulously.

As of the announcement date, all the Group's subsidiaries outside Hubei Province have resumed full operation, and performance of these subsidiaries to date meets the Group's expectation with a gradual recovery. The Group's the other 16 subsidiaries located in Hubei have not yet opened. According to the government's notice so far, the enterprises in Hubei Province are tentatively scheduled to resume work on 8 April 2020. The official resumption time of the subsidiaries will depend on government's further notification. As at the date of this announcement, the Group was not aware of material adverse effects on the financial statements as a result of the novel Coronavirus outbreak, and there will be no significant changes to the Group's sales strategy.

After considering the impact of the epidemic, the Group made forecast on future operating conditions (including but not limited to operating expenses, repayment and extension of loans, and capital expenditures, etc.). Based on the forecasts, the Group's going concern assumption will not be affected by the epidemic.

DIVIDENDS

Given the severity of the COVID-19 epidemic development across the world and its unfathomable impact on the local and global economy in the foreseeable future, the Group has decided that no dividends shall be paid out of the remaining profits for 2019 after thorough consideration. The Group considers such temporary suspension a reasonable move under current situation and feels optimistic with the economic recovery from COIVD-19 and resumption of our dividends policy.

MATERIAL ACQUISITION AND DISPOSAL

On 30 June 2019, the Company, Wisdom Achieve Global Limited (a wholly-owned subsidiary of the Company), Joy Capital Holdings Limited (怡都控股有限公司)(a connected person) and Waterwood Santong Investment, L.P. entered into the Subscription Agreement, pursuant to which following completion of the relevant Restructuring and other Closing Conditions being fulfilled (or, where applicable, waived), Wisdom Achieve Global Limited will issue related shares according to the terms thereto.

As of the date of this announcement, conditions precedent to completion of the Agreement have not been fulfilled. the Long Stop Date for the fulfilment of the Closing Condition for the Completion was extended to 30 June 2020 (or such later date as the parties may agree in writing).

For details, please refer to the announcements of the Company dated 1 July 2019, 7 August 2019, 30 September 2019 and 2 January 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Purchase of Own Shares

In November 2018, a total of 1,922,000 Shares (those repurchased by the Company during the period at prices ranging from HK$4.22 to HK$4.59 per Share) were settled by the Company during the period. The aggregate amount paid by the Company for such repurchase cancelled on 18 January 2019 was approximately HK$8.51 million.

The Shares repurchased were cancelled and accordingly the issued share capital of the Company was reduced. The repurchase of the Company's Shares during the period were effected by the Directors pursuant to the mandate granted by shareholders at the previous annual general meeting of the Company, with a view to benefiting shareholders as a whole by enhancing the net asset value per Share and earnings per Share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Board believes that maintaining good corporate governance is crucial to increase investors' confidence and safeguard shareholders' interests. The Company has adopted the code provisions 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 "**Stock Exchange**") (the "**Listing Rules**"). The Board is of the view that throughout the year ended 31 December 2019, the Company has complied with the respective code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Securities Dealing Code regarding securities transactions of the directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the Securities Dealing Code and the Model Code during the year ended 31 December 2019.

REVIEW OF UNAUDITED ANNUAL RESULTS

The Audit Committee of the Group comprises three independent non-executive directors, namely, Dr. Wong Tin Yau, Kelvin (Chairman of the Audit Committee), Dr. Cao Tong and Ms. Wong Tan Tan.

Due to the outbreak of Coronavirus Disease 2019 (COVID-19), a series of temporary measures such as delayed resumption of work, traffic control, and personnel isolation have been adopted in various regions of the Mainland China, resulting in the failure of certain subsidiaries of the Group to operate business normally, especially applicable to those 16 subsidiaries located in Hubei province. The auditing process for annual results for the year ended 31 December 2019, on areas including but not limited to on-site audit work and distribution and collection of audit confirmations, was inevitably delayed and cannot be completed as planned mainly due to the (i) travel and transportation restrictions in force as well as the quarantine measures for traveller imposed by the PRC government which prevented the auditor from performing certain audit procedures on site, in particular for the Group's subsidiaries in Hubei province, and (ii) delay in the distribution and the collection of audit confirmations, in particular related to banks located in Hubei province which are closed due to the outbreak of COVID-19. Further on-site audit work will be arranged by the auditor with the Group when it becomes feasible. In view of the above, the unaudited annual results contained herein have not been agreed by the Company's auditor.

The Audit Committee has discussed with the Group's management on the unaudited result announcement in conjunction with the external auditor's work-in-process up to the date of the Audit Committee meeting on 25 March 2020, focused on certain areas such as the recognition of vendor rebates, impairment of goodwill and intangible assets, and management's going concern assessment, which involved subject judgements and estimates that made by the management in preparing the unaudited annual results.

The audit committee has also conducted communication with KPMG, the Group's auditor, to understand their audit work progress to date. Based on the current progress, it is expected that the audit process will be completed on or before 30 April 2020, subject to the release of travel and transportation restrictions in the near future.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited annual results for the year ended 31 December 2019 and material differences, if any, as compared with the unaudited annual results contained herein.

PUBLICATION OF RESULTS ANNOUNCEMENT

This results announcement is available for viewing on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com).

APPRECIATION

The Board would like to express its sincere gratitude to the management team and employees for their commitment and diligence, and would also like to thank our shareholders and business associates for their strong support to the Group.

For and on behalf of the Board of Directors of
China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
Wang Muqing
Chairman

Hong Kong, 30 March 2020

As at the date of this announcement, the Board comprises Mr. WANG Muqing (Chairman), Mr. WANG Kunpeng, Mr. KOH Tee Choong, Mr. LI Zhubo and Mr. WAN To as executive Directors; and Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan as independent non-executive Directors.