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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)

US DENOMINATED SENIOR NOTES DUE 2022
(Stock Code: 40132)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the "**Board**") of China ZhengTong Auto Services Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019 as set out below.

HIGHLIGHTS OF RESULTS

For the six months ended 30 June 2020:

- revenue declined by approximately 47.0% to approximately RMB9,241 million;
- overall gross profit declined by approximately 40.0% to approximately RMB1,230 million, gross profit margin grew by 1.5 percentage points to 13.3%;
- interest and service income from the financial services business amounted to approximately RMB367 million (from external customers), with a year-on-year decrease of 21.2%;
- loss attributable to equity shareholders of the Company was approximately RMB1,366 million;

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2020 — unaudited
(Expressed in RMB'000)

	Note	Six months ended 30 June **2020**	2019
Revenue	*4*	**9,241,110**	17,430,565
Cost of sales		**(8,011,270)**	(15,379,204)
Gross profit		**1,229,840**	2,051,361
Other income	*5*	**471,260**	386,475
Selling and distribution expenses		**(462,169)**	(523,521)
Administrative expenses		**(630,902)**	(609,246)
Impairment losses on goodwill and intangible assets	*9*	**(1,465,413)**	—
(Loss)/profit from operations		**(857,384)**	1,305,069
Finance costs	*6(a)*	**(519,562)**	(555,489)
Share of profit of a joint venture and associates		**7,427**	18,028
(Loss)/profit before taxation	*6*	**(1,369,519)**	767,608
Income tax	*7*	**46,164**	(247,961)
(Loss)/profit for the period		**(1,323,355)**	519,647
Attributable to:			
Equity shareholders of the Company		**(1,365,503)**	471,498
Non-controlling interests		**42,148**	48,149
(Loss)/profit for the period		**(1,323,355)**	519,647
(Loss)/earnings per share			
— Basic (RMB cents)	*8*	**(55.7)**	19.2
— Diluted (RMB cents)	*8*	**(55.7)**	19.2

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the six months ended 30 June 2020 — unaudited
(Expressed in RMB'000)

	Six months ended 30 June	
	2020	2019
(Loss)/profit for the period	**(1,323,355)**	519,647
Other comprehensive income for the period (after tax):		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of:		
— financial statements of entities outside of the Mainland China	**(4,797)**	(954)
Other comprehensive income for the period	**(4,797)**	(954)
Total comprehensive income for the period	**(1,328,152)**	518,693
Attributable to:		
Equity shareholders of the Company	**(1,370,300)**	470,544
Non-controlling interests	**42,148**	48,149
Total comprehensive income for the period	**(1,328,152)**	518,693

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 — unaudited

(Expressed in RMB'000)

	Note	**At 30 June 2020**	At 31 December 2019
Non-current assets			
Property, plant and equipment		**6,730,876**	6,609,129
Right-of-use assets		**3,244,060**	3,431,989
Intangible assets	*9*	**3,547,160**	4,193,072
Goodwill	*9*	**1,019,197**	1,935,113
Interest in a joint venture	*10*	**—**	355,002
Interest in associates	*10*	**487,237**	15,466
Receivables from financial services	*11*	**2,222,032**	3,631,142
Deferred tax assets		**360,750**	321,474
Long-term receivables		**224,331**	212,946
Other financial assets		**2,737**	17,028
		17,838,380	20,722,361
Current assets			
Inventories	*12*	**3,678,347**	3,483,098
Trade and bills receivables	*13*	**1,105,716**	1,434,828
Prepayments, deposits and other receivables		**10,381,934**	10,216,300
Receivables from financial services	*11*	**4,588,312**	5,138,900
Other financial assets		**285,000**	285,000
Pledged bank deposits and balances with central bank		**1,899,859**	1,399,158
Time deposits		**712,000**	680,929
Cash and cash equivalents		**791,171**	1,497,400
		23,442,339	24,135,613
Current liabilities			
Loans and borrowings for financial services		**4,076,811**	5,966,821
Loans and borrowings for non-financial services		**10,013,628**	11,061,164
Trade and other payables	*14*	**6,161,724**	6,296,033
Lease liabilities		**460,429**	428,019
Income tax payables		**2,074,744**	2,064,217
Other financial liabilities		**543**	2,761
		22,787,879	25,819,015
Net current assets/(liabilities)		**654,460**	(1,683,402)
Total assets less current liabilities		**18,492,840**	19,038,959

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
at 30 June 2020 — unaudited
(Expressed in RMB'000)

	Note	**At 30 June 2020**	At 31 December 2019
Non-current liabilities			
Loans and borrowings for financial services		**8,211**	15,316
Loans and borrowings for non-financial services		**2,095,539**	2,225,939
Bonds payable		**1,507,968**	298,535
Lease liabilities		**1,333,608**	1,454,183
Deferred tax liabilities		**899,908**	1,027,790
Trade and other payables	*14*	**264,778**	277,057
Other financial liabilities		**76,703**	99,842
		6,186,715	5,398,662
NET ASSETS		**12,306,125**	13,640,297
Capital and reserves			
Share capital		**209,150**	209,150
Reserves		**10,840,523**	12,209,118
Total equity attributable to equity shareholders of the Company		**11,049,673**	12,418,268
Non-controlling interests		**1,256,452**	1,222,029
TOTAL EQUITY		**12,306,125**	13,640,297

NOTES TO THE UNAUDITED INTERIM 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 business and comprehensive properties business in the People's Republic of China (the "PRC").

2 BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

This interim financial statements are unaudited, but has been reviewed by the Company's auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA.

Materiality uncertainty related to going concern

The Group incurred a net loss of RMB1,323 million for the period ended 30 June 2020. As at 30 June 2020, included in the current liabilities were loans and borrowings for financial services of RMB4,077 million and loans and borrowings for non-financial services of RMB10,013 million, and the Group also had capital commitment of RMB851 million. The Group only had cash and cash equivalents and pledged bank deposits for financial services amounting to RMB177 million and RMB10 million, respectively, and cash and cash equivalents, time deposits and pledged bank deposits for non-financial services amounting to RMB614 million, RMB712 million and RMB1,890 million, respectively, as at 30 June 2020.

In addition, the outbreak of COVID-19 in 2020 and the resulting mandatory extension of holidays in China, temporary travel restriction and quarantine measures disrupted the operations of the Group. The subsidiaries of the Group outside Hubei province had gradually resumed operations since March 2020 and the subsidiaries in Hubei province had gradually resumed operations since early April 2020. However, the duration and intensity of COVID-19 remain uncertain as there are still outbreaks after April 2020 in different regions where the Group's subsidiaries locate, which disrupted the normal operations and the operating results of the Group, including the cash flows, could not reach management's plans. It may also be more challenging to refinance loans than it has historically been.

The Group will be unable to repay the loans and borrowings in full when they fall due unless the Group is able to generate sufficient cash inflows from its future operations and to draw down unutilized facilities and renew or refinance the banking facilities upon maturity. These facts and circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

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. The directors have reviewed the Group's cash flow projections prepared by management, which covers a period of twelve months from 30 June 2020. Certain plans and measures have been taken to mitigate the liquidity pressures and to improve its financial position which include, but not limited to, the following:

(i) On 15 July 2020, the Company entered into a placing and subscription agreement with Joy Capital Holdings Limited as the Vendor and CCBI as the placing agent, pursuant to which the Company issued 245,222,000 placing shares at HK$1.09 per share to placees, representing a discount of approximately 15.50% to the closing price of HK$1.29 on that date. The net proceeds from the placement were approximately HK$263.35 million;

(ii) On 23 July 2020, the Company negotiated and revised the repayment schedule with the Group's lenders for an outstanding instalment of a loan in the principal amount of US$415 million, (RMB equivalent 2,936 million). The Company has agreed with the lenders to revise the due date for the payment of the third instalment in the sum of 25% of the principal amount, which originally fell on 20 July 2020 to the date of no later than 19 January 2021, i.e. the due date of the fourth instalment.

    Accordingly, the total remaining instalments, i.e. the third and fourth instalments, of the loan to be repaid by 19 January 2021 amounted to US$290.5 million, (RMB equivalent 2,057 million). The Company plans to make the repayment via new proceeds from below ways:

    — issuance of senior notes or additional loans from banks or financial institutions;

    — expedite the sales of properties under development for sale; or

    — raising funds via the pledge of certain land use rights.

No confirmed commitment or facility had been reached for the above repayment as of the date of approval of this interim results announcement yet.

(iii) As at 30 June 2020, the Group had unutilized facilities from domestic banks and borrowers amounting to RMB10,443 million.

Management is actively negotiating with the Group's existing banks and borrowers for draw down of such unutilized facilities, renewal or extension of existing bank facilities, as well as discussions with various parties (including but not limited to banks and financial institutions) to secure additional sources of financing for the Group;

(iv) The Group will continue its efforts to recover from the impact of COVID-19, and expedite sales of inventories, collection of receivables, while maintaining more stringent cost control measure and containment of discretionary capital expenditures.

The plans and measures as described above incorporate assumptions about future events and conditions. If the above plans and measures are successful, the Group will be able to generate sufficient financing and operating cash flows to meet its liquidity requirements for the next twelve months from the end of the reporting period.

Based on the directors' intentions and the cash flow forecast mentioned above, the directors are of the opinion that it is appropriate to prepare the Group's interim financial statements for the six months ended 30 June 2020 on a going concern basis. Should the Group not be able to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in this interim results announcement.

3 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendment to HKFRS 16, *COVID-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendment to HKFRS 16, *COVID-19-Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

4 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.

The amount of each significant category of revenue recognised during the period is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of passenger motor vehicles	**6,757,976**	14,098,689
Provision of after-sales services	**1,769,919**	2,434,798
Provision of logistics services	**228,902**	267,024
Sales of lubricant oil	**117,484**	163,597
Service income from financial services	**39,873**	128,211
	8,914,154	17,092,319
Revenue from other sources		
Interest income from financial services	**326,956**	338,246
	9,241,110	17,430,565

Revenue from logistics services and service income from financial services — joint loan services are recognised over-time upon fulfilment of services obligation, whereas revenue from sales of passenger motor vehicles, after-sales services, sales of lubricant oil and service income from financial services — consulting services are recognised at a point in time.

5 OTHER INCOME

		Six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Service income		**288,572**	365,939
Interest income from bank deposits		**18,742**	26,827
Net gain on disposal of property, plant and equipment		**19,981**	18,835
Realised and unrealised net loss on derivative financial instruments		**(12,559)**	(33,566)
Government grants	*(i)*	**12,148**	—
Gain on disposal of interest in a joint venture *(note 10)*		**133,403**	—
Others		**10,973**	8,440
		471,260	386,475

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

6 (LOSS)/PROFIT BEFORE TAXATION

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

	Note	Six months ended 30 June **2020** ***RMB'000***	2019 *RMB'000*
(a) Finance costs:			
Interest on loans and borrowings for non-financial services and bonds payable		**488,957**	501,501
Interest on lease liabilities		**61,160**	76,595
Other finance costs	*(i)*	**19,897**	22,923
Less: interest capitalised		**(50,452)**	(45,530)
		519,562	555,489
(b) Staff costs:			
Salaries, wages and other benefits		**362,597**	419,117
Contributions to defined contribution retirement plans	*(ii)*	**10,726**	34,303
Equity settled share-based payment expenses		**1,705**	—
		375,028	453,420

(i) It mainly represents the interest expenses arising from discounting of bills payables.

(ii) 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.

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
(c) Other items:		
Cost of inventories *(note 12(b))*	**7,495,057**	14,768,660
Cost of interests*	**111,664**	250,773
Depreciation		
— Owned property, plant and equipment	**192,933**	196,350
— Right-of-use assets	**206,065**	183,200
Amortisation		
— Intangible assets	**98,531**	97,255
Operating lease charges	**2,910**	33,631
Impairment losses		
— Receivables from financial services	**83,953**	42,512
— Goodwill *(note 9)*	**915,916**	—
— Intangible assets *(note 9)*	**549,497**	—
Net foreign exchange loss	**92,292**	309

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

7 INCOME TAX

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Current tax:		
Provision for PRC income tax for the period	**120,994**	289,129
Deferred tax:		
Origination of temporary differences	**(167,158)**	(41,168)
	(46,164)	247,961

(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 Group's subsidiaries located in Hong Kong as these subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the period. 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%.

Taxation for the Group's PRC subsidiaries is calculated using the estimated annual effective rates of taxation that are expected to be applicable.

8 (LOSS)/EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2020 is based on the loss attributable to equity shareholders of the Company for the six months of RMB1,365,503,000 (30 June 2019: profit of RMB471,498,000) and the weighted average number of ordinary shares of 2,452,220,420 (30 June 2019: 2,452,220,420) in issue during the period.

There were no dilutive potential ordinary shares for the six months ended 30 June 2020 and, therefore, diluted loss/earnings per share are equivalent to basic loss/earnings per share.

9 INTANGIBLE ASSETS AND GOODWILL

Intangible assets — car dealerships and goodwill

The car dealerships represent the relationship with automobile manufacturers arising from acquisitions of 4S business, with an estimated useful life of 40 years. The fair value of the car dealerships as at the respective acquisition date was determined by using the multiple excess earning method.

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to 4S dealership business. The recoverable amount of the CGU is determined based on the higher of its fair value less costs to sell and 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% (2019: 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 16% (2019: 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.

During the period ended 30 June 2020, the operating results of several 4S dealership stores, i.e. the respective individual CGU, had not achieved the 2020 financial budgets approved by management. As at 30 June 2020, management has revisited the key assumptions of the five-year financial budgets of these stores, mainly including the revised growth rates for sales and corresponding gross margin rates, to determine the value in use amount of such CGUs. As a result, the carrying amount of these CGUs has been reduced to their recoverable amount, and impairment losses on goodwill and intangible assets — car dealerships of RMB915,916,000 and RMB459,395,000, respectively, (30 June 2019: nil) had been recognised by the Group. Any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment loss.

Intangible assets — trademark

The trademark, arising from the acquisition of Top Globe Limited, has an indefinite useful life because it is expected to contribute net cash inflows to the Group indefinitely. The fair value of the trademark as at the acquisition date was determined by using the relief from royalty method.

During the period ended 30 June 2020, the operating results of several 4S dealership stores under Top Globe Limited had not achieved the 2020 financial budgets approved by management. Management has revisited the five-year financial budgets of these stores, and the fair value of trademark was reduced by RMB90,102,000 as at 30 June 2020.

10 INTEREST IN A JOINT VENTURE AND ASSOCIATES

Fengshen Logistics Co., Ltd ("Guangzhou Fengshen") is an unlisted corporate entity in which the Group had 50% ownership interest and had joint control and therefore classified as interest in a joint venture, which was equity-accounted for as at 31 December 2019.

On 16 January 2020, the Group entered into an agreement with an independent third party Dongfeng Logistics (Wuhan) Co., Ltd. ("Wuhan Dongfeng") such that Wuhan Dongfeng would issue its shares to the Group in exchange for acquiring the 50% equity interest in Guangzhou Fengshen held by the Group. Upon the completion of such transaction and other acquisitions made by Wuhan Dongfeng, the Group holds 14.43% equity interest in Wuhan Dongfeng, which holds 100% equity interest in Guangzhou Fengshen and another two entities. As a result of the above, the Group classified its interest in Wuhan Dongfeng as an associate, and recognized a gain on disposal of interest in a joint venture of RMB133,403,000 accordingly.

11 RECEIVABLES FROM FINANCIAL SERVICES

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Current		
Receivable from retail customers	**3,528,283**	4,096,702
Receivable from auto dealers	**1,171,985**	1,151,206
Less: allowance for impairment losses	**(111,956)**	(109,008)
	4,588,312	5,138,900
Non-Current		
Receivable from retail customers	**2,280,258**	3,707,354
Less: allowance for impairment losses	**(58,226)**	(76,212)
	2,222,032	3,631,142
Net receivables from financial services	**6,810,344**	8,770,042

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.

12 INVENTORIES

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

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
4S dealership business		
— Motor vehicles	**2,840,997**	2,679,440
— Automobile spare parts	**288,396**	384,533
— Others	**40,985**	39,894
	3,170,378	3,103,867
Comprehensive properties business		
— Properties under development for sale	**507,969**	379,231
	3,678,347	3,483,098

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

	Six months ended 30 June 2020 *RMB'000*	2019 *RMB'000*
Carrying amount of inventories sold	**7,492,170**	14,760,459
Write down of inventories	**4,020**	8,939
Reversal of write-down of inventories	**(1,133)**	(738)
	7,495,057	14,768,660

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.

13 TRADE AND BILLS RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date (or date of revenue recognition, if earlier), is as follows:

	At 30 June 2020	At 31 December 2019
	RMB'000	*RMB'000*
Within 3 months	**1,054,330**	1,402,439
Over 3 months but within 1 year	**40,295**	27,372
Over 1 year	**11,091**	5,017
	1,105,716	1,434,828
Trade receivables	**1,103,462**	1,434,828
Bills receivables	**2,254**	—
Trade and bills receivables	**1,105,716**	1,434,828

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 to individuals are offered in rare cases subject to management's approval. The counterparties are mainly banks and financial institutions that will release mortgage loans to the Group. The Group considers such counterparties to have low credit risk.

14 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Current		
Within 3 months	**2,886,464**	3,322,566
Over 3 months but within 6 months	**280,480**	255,088
Over 6 months but within 12 months	**58,981**	3,380
Total creditors and bills payable	**3,225,925**	3,581,034
Contract liabilities	**1,279,194**	915,334
Other payables and accruals	**1,656,605**	1,799,665
	6,161,724	6,296,033
Non-current		
Long-term payables	**264,778**	277,057
Total	**6,426,502**	6,573,090

15 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the interim period.

	Six months ended 30 June	
	2020 *RMB'000*	2019 *RMB'000*
No interim dividend proposed after the end of reporting period (six months ended 30 June 2019: HK$0.10 per ordinary share)	**—**	220,930

The interim dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
No final dividend proposed in respect of the previous financial year, approved and paid during the following interim period (six months ended 30 June 2019: HK$0.14 per ordinary share)	—	300,787

(iii) Other dividends

During the period ended 30 June 2020, a subsidiary of the Group declared and paid dividends of RMB7,725,000 in cash to non-controlling shareholders (for the six months ended 30 June 2019: RMB7,017,000).

16 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Placing of existing shares and top-up subscription of new shares

On 15 July 2020, the Company entered into a placing and subscription agreement with Joy Capital Holdings Limited as the Vendor and CCBI as the placing agent, pursuant to which the Company issued 245,222,000 placing shares at HK$1.09 per share to placees, representing a discount of approximately 15.50% to the closing price of HK$1.29 on that date. The net proceeds from the placement were approximately HK$263.35 million.

(b) Revised repayment schedule of the third instalment of the Loan

On 23 July 2020, the Company negotiated and revised the repayment schedule with the Group's lenders for an outstanding instalment of a term loan facility in the principal amount of US$415 million owing by the Company as borrower. The Company agreed with the lenders to revise the due date for the payment of the third instalment in the sum of 25% of the principal amount, which originally fell on 20 July 2020 to 19 January 2021.

(c) Potential disposal of shares by the controlling shareholder

On 30 July 2020, the Group has announced that it was informed by Joy Capital Holdings Limited, the controlling shareholder of the Group, which holds 1,383,516,820 shares of the Group (representing approximately 51.29% of the total issued Shares as at 30 July 2020), that on 29 July 2020, Joy Capital entered into a memorandum of understanding (the 'MOU') with Xiamen ITG Holding Group Co., Ltd ("ITG Holding"), an independent third party, pursuant to which Joy Capital intends to sell, and ITG Holding intends to purchase, approximately 29.9% interests of the Group, subject to formal agreement to be signed by Joy Capital and ITG Holding.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the first half of 2020, as being severely affected by the "COVID-19" novel coronavirus epidemic (hereinafter referred to as "COVID-19"), China's gross domestic product (GDP) dropped by 1.6% year-on-year on comparable prices basis. In the second quarter, benefiting from the effective control in domestic epidemic conditions, the macroeconomic recovery had rebounded. However, at the same time, the overseas epidemic situation was at rising stage, making China's domestic macroeconomic development still weaker than its potential level.

The COVID-19 has also bombarded serious impact on the automobile market. According to statistics released by the China Association of Automobile Manufacturers, sales of passenger automobiles in China decreased by 22% year-on-year to 7,870,000 units in the first half of 2020. Thanks to the increasing number of passenger automobiles entering the replacement cycle and the strong risk resistance capabilities of major customer groups, the luxury branded automobiles market was less affected. According to the information released by the Passenger Car Information Exchange Association (乘用車市場信息聯席會), in the first half of 2020, the sales of luxury branded automobile market in China reached 1,040,000 units, representing a year-on-year growth of 1%, which was relatively strong when compared to the overall market.

As a core dealer of various luxury brands in China, the Group continues to collaborate closely with respective luxury branded automobile manufacturers, and jointly respond to the adverse effects caused by COVID-19. Under the impact of COVID-19, the Group actively undertakes social responsibility and strives to protect the rights and interests of employees and customers; reduces various expenses based on actual conditions and controls operating costs reasonably, aiming to reduce losses caused by COVID-19. It actively adjusts business strategies and communicates with manufacturers effectively, repositions some of the severely affected stores, and aligns resources support with operational goals; actively pilots new marketing models, explores the interaction and linkage between online marketing and offline business; adjusts performance goals in a timely manner, clarifies business orientation, and ensures quick business resumption after the COVID-19. Multiple measures were implemented to effectively reduce the adverse impact from COVID-19 epidemic on the Group's operations.

The Group had weathered the storm under the impact of COVID-19 epidemic in the first half of 2020, which was attributable to the dedication of all employees as well as the trust and support of its business partners and shareholders of the Company ("Shareholders"). The Board would like to express its sincere gratitude to our Shareholders, business partners and customers for their long-term support and trust to the Group, as well as our loyal staff for their hard work and contributions to the Group over the first half of the year.

BUSINESS REVIEW

In the first half of 2020, the Group was committed to developing luxury and ultra-luxury branded auto sales and after-sales services business, and eliminating the impact of COVID-19 is its primary goal. The Group adjusted operational thinking, upgraded management concepts, explored new business models, reduced costs and increased efficiency through refined management; integrated superior resources, gave full play to the synergy effect of finance and supply chain of the Group to strengthen core competitiveness, and continued to improve the sales of new automobiles, after-sales service, pre-owned automobile replacement, pre-owned automobile sales and other automobile full life-cycle business layout; reviewed existing store operating environment, adjusted store positioning in combination with the differentiated development among the brands, and improved operational efficiency. For the six months ended 30 June 2020, the Group recorded a revenue of approximately RMB9,241 million, representing a year-on-year decline of approximately 47.0%, and gross profit of approximately RMB1,230 million, representing a year-on-year decline of approximately 40.0%. Loss attributable to equity holders of the Company was approximately RMB1,366 million and basic loss per share was approximately RMB55.7 cents, both representing a year-on-year decline of approximately 390.1%. The decline in the Group's business results for the first half of the year was mainly attributable to the adverse impact resulting from the COVID-19 epidemic (especially the Group had 16 4S stores located in Hubei Province, which resumed normal operations slower than other regions) and tight capital chain.

(I) Review of sales of new automobiles business

In the first half of 2020, affected by COVID-19 and the macroeconomic situation, China's passenger automobiles market experienced a significant decline. Thanks to the continuous growth of replacement demand and the strong risk resistance capabilities of target customer groups, the sales volume of luxury brand automobile market achieved a year-on-year increase of 1% for the first half of the year, showing a better performance than the passenger vehicle market with a decline of 22% in its overall sales volume.

For the six months ended 30 June 2020, the sales of new automobiles of the Group reached 21,572 units in total, representing a year-on-year decline of approximately 58.6%, including 17,570 units of luxury branded and ultra-luxury branded automobiles with a year-on-year decrease of approximately 57.0%. For the first half of 2020, the Group's gross profit margin from the sales of new automobiles reached 4.1%, representing a drop of 0.6 percentage points as compared to the same period of last year.

In order to cope with the adverse impact of COVID-19, the Group actively tried new marketing models, effectively interacted with customers through online live streams and other means, and launched competitive marketing programs to boost online transactions; followed up the support policies issued by local governments to reduce the direct losses caused by COVID-19. We actively communicated with manufacturers to coordinate resources support under special circumstances; leveraged the synergy advantages of the Group to coordinate the deployment of operating resources among our stores to ensure rapid resumption of various businesses after the COVID-19 is relieved. Thanks to a variety of effective responsive measures, the Group's stores have steadily gone through the COVID-19 rising period, and its sales business has quickly recovered along with the market. In order to minimize the losses caused by COVID-19, the Group actively communicated with licensed manufacturers and repositioned some stores that recorded significant losses based on actual conditions and operating environment, adjusted operational thinking and business targets, and achieved a smooth transition. After the sales business was resumed normally, the Group also strengthened its inventory management, formulated competitive promotion plans to clear the long and accumulated inventory, improved inventory turnover efficiency, reduced capital tied up, effectively reduced capital costs, and avoided capital strain caused by excessive inventory pressure. At the same time, the Group continued to adhere to and deepen the concept of refined management, and even down to managing the front-line business. Through process optimization, cost control, horizontal management and other methods, the overall operating quality and efficiency of the Group were further improved, laying a foundation for sales business expansion in the second half of the year.

(II) Review of after-sales services business

Affected by COVID-19, the Group's after-sales services business scales declined significantly in the first half of 2020. The Group served 613,815 units of automobiles in aggregate, representing a decrease of approximately 13.0% as compared to the same period of last year. Revenue from after-sales services of the Group amounted to approximately RMB1,770 million, with a decrease of 27.3% as compared to the same period of last year. The gross profit was approximately RMB751 million, representing a decrease of 33.4% as compared to the same period of last year, and the gross profit margin was approximately 42.4%.

Facing the impact of COVID-19, the Group leveraged the digitalized information management system to diversify customer offers in a targeted manner, providing customers with safe and secured car maintenance experience, while enabling the steady and rapid recovery of offline after-sales activities. The Group actively expanded the research and development and marketing of new products and services, strengthened the inter-linkage with new car sales, and comprehensively increased the penetration rate of derivative products such as maintenance, warranty, insurance renewal and extended warranty to increase customers' loyalty. In terms of cost control, the Group optimized centralized procurement channels, increased spare parts turnover, and controlled costs stringently. The Group also implemented a customer-segmented management system, which catered for individual and differentiated needs of customers through customized services and products. At the same time, through an intelligent customer information management system and a rich product portfolio, the Group tried actively to retain leaving customers and had effectively expanded its customer base, and ensured the continuous and steady growth of the Group's after-sales business.

(III) Operation system of pre-owned automobiles

According to the data published by China Automobile Dealers Association, a total of 5,520,000 units of pre-owned automobiles were traded nationwide in the first half of 2020, representing a year-on-year decrease of 19.6%. The pre-owned automobiles market was also severely affected by COVID-19. As an important strategic business segment, the Group has attached great importance to the sound development of the pre-owned automobile business. During the reporting period, the Group actively promoted the cooperation with a third-party platform in the industry, and strived to expand the use of the "ZhengTong Auction" online platform, with an aim to accelerate automobiles turnover and improve customer replacement experience. The Group achieved a steady growth in replacement rate despite the decline in new car sales. The average replacement rate in key first-tier cities was close to 40%. Benefiting from the national preferential tax rate for pre-owned automobiles, the Group's overall profitability for pre-owned automobiles has also increased. At the same time, by integrating internal resources, exploring business models, and optimizing business chain, the operating quality of the Group's pre-owned automobile business was improved effectively.

(IV) Auto finance technology segment

Shanghai Dongzheng Automotive Finance Co., Ltd. ("Dongzheng AFC"), our subsidiary focusing on the luxury vehicle market, is an automotive finance company regulated by the China Banking and Insurance Regulatory Commission (the "CBIRC"). It is principally engaged in retail loan and dealer loan businesses.

Affected by the COVID-19 outbreak, in the first half of 2020, customer demand for passenger automobiles had dropped significantly as compared to the same period of last year, therefore Dongzheng AFC's newly granted loans also decreased. As at 30 June 2020, the scale of Dongzheng AFC's loans decreased by 18.5% from RMB10.00 billion as at 31 December 2019 to RMB8.15 billion. For the six months ended 30 June 2020, net interest income was RMB289 million, representing an increase of 30.1% from the same period in 2019, while net profit was RMB143 million, decreased by 29.2% from RMB202 million in the same period of 2019. As at 30 June 2020, Dongzheng AFC's non-performing loan ratio was 0.41%, the loan provision rate was 2.19%, and the provision coverage ratio was 538.28%.

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 consumer 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. Dongzheng AFC has gained the recognition for its compliance operation from the regulators.

Covering National Offline Auto Finance Channels by Licensed Financial Institution

As at 30 June 2020, Dongzheng AFC has a registered capital of RMB2.14 billion, which provided strong financial support for its loan business.

Dongzheng AFC operates and perfects its dealership network, including our 4S automobile distribution channels and external dealership network. Dongzheng AFC has proactively expanded its business to cover over 180 cities in the PRC and cooperated with over 900 dealers. The distribution channels of Dongzheng AFC mainly focus on mid- to high-end brands and its target customer base is those with high consumption power. Leveraging the network advantages and reasonable market layout strategies, Dongzheng AFC provides consumers with satisfactory customers' experiences and services.

In terms of products, the principal businesses of Dongzheng AFC include: (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; and (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.

In terms of risk management, Dongzheng AFC has focused on the re-planning of the access standards for customers and dealers from the aspects of credit risk prevention and operational risk management. Dongzheng AFC continuously strengthens the operation and management of big data risk control tools in credit review, loan review, and post-loan collection, and incorporates big data tools into the employee training and evaluation mechanism. With the abovementioned measures, Dongzheng AFC consolidates its comprehensive risk management, operation management and other related systems and processes, and it will iterate and optimize its automated approval tools, improve customer risk identification capabilities and continuous monitoring, prevention and risk control, providing strong security support for its loan business.

Creating Comprehensive Auto Finance Fintech Technology 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 end 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 China Financial Certification Authority.

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 the People's Insurance Company of China. 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

After successfully completing the handover of the logistics business expansion for next three years for the four brands under FAW Logistics in 2019, Shengze Jietong Supply Chain Co., Ltd. ("Shengze Jietong") continued to complete the connecting works of expanding the transportation business for next three years with Dongfeng Nissan, a subsidiary of Dongfeng Group, in March 2020. As impacted by the COVID-19 at the beginning of the year, the business brands of Shengze Jietong in Hubei Province (Dongfeng Honda and Dongfeng Peugeot Citroën Automobile) were closed for 2 months due to city lockdown, which had affected the business of Shengze Jietong in the first quarter. In April 2020, with the support of the Wuhan Municipal Government, Shengze Jietong actively responded to the government's call for resumption of work and production by quickly cooperating with customers to commence production. As the COVID-19 in China is gradually alleviating and market demand recovered, with the year-on-year decrease of 22.13% in domestic vehicle sales, the business of Shengze Jietong actually achieved in the first half of the year was better than market expectation, which is summarized as follows:

In the first half of 2020, a total of 175,831 vehicles were shipped under various business brands, representing an increase of 4.1% as compared to 168,922 vehicles in the first half of 2019. Of which, the shipment volume of Dongfeng Nissan's business (including its Infiniti and Dongfeng Venucia) increased by 15.8% year-on-year to 131,709 vehicles. The shipment volume of Dongfeng Honda's business in Wuhan plant decreased by 9.2% year-on-year to 16,607 vehicles in the first half of the year which was caused by the urban lockdown due to COVID-19. The shipment volume of FAW-Volkswagen business increased by 17.3% year-on-year to 13,325 vehicles. The shipment volume of FAW Benteng/ Hongqi/ Mazda's businesses acquired in September 2019 was 4,623 vehicles in the first half of the year. The shipment volume of FAW Toyota's business in Dongguan acquired in November 2019 was 4,035 vehicles in the first half of the year. The shipment volume of the new energy Xiaopeng Motors' business in the first half of the year increased by 11% year-on-year to 2,350 vehicles, which was attributable to the new production plant established in Zhaoqing, Guangdong.

In January 2020, Dongfeng Motor Corporation (東風汽車公司) and China Dongfeng Motor Industry Imp. & Exp. Co., Ltd. (中國東風汽車工業進出口有限公司) established a joint venture (i.e. Dongfeng Logistics (Wuhan) Co., Ltd. (東風物流(武漢)股份有限公司)). On 16 January 2020, the Group entered into an agreement with Dongfeng Logistics (Wuhan) Co., Ltd. ("Wuhan Dongfeng") such that Wuhan Dongfeng would issue its shares to the Group in exchange for acquiring the 50% equity interest in Guangzhou Fengshen held by the Group. Upon the completion of such transaction and other acquisitions made by Wuhan Dongfeng, the Group holds 14.43% equity interest in Wuhan Dongfeng, which holds 100% equity interest in Guangzhou Fengshen and another two entities. By taking this opportunity, the Group 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.).

In June 2020, based on Shengze Jietong's years of vehicle warehousing management in Hubei Province and the rapid logistics network advantages in Central China, Shengze Jietong entered into a business cooperation agreement with Geely Auto, pursuant to which, Shengze Jietong shall be responsible for the vehicle warehousing and transit transportation business of Geely Auto that distributes to Central China and its surrounding provinces after being transported to Wuhan from various plants by roads, railways and waterways, signifying that Shengze Jietong has successfully entered the logistics system of the leading brand for domestic vehicle after grasping the services for the three joint venture brands, namely Nissan, Honda and Toyota, and it looks forward to further planning to reach a nationwide transportation business cooperation in future based on Shengze Jietong's existing national business logistics network of FAW and Dongfeng Group.

In respect of the newly constructed Shengze Jietong logistics base in Hannan District, Wuhan, the land purchase procedures and business design standards and other processes for the base of 297 mu(畝) in area have been completed in 2019, and the construction was commenced in November 2019. The foundation construction works of the project had started in the first half of 2020, and it is planned that the main construction of the office buildings, dormitory buildings, and spare parts warehouse structures will be completed in the second half year. The entire project will consist of four dock berths, one 6-storey vehicle warehouse, one automated spare parts warehouse and two spare parts mechanized warehouses, office and living facilities. The Company 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.

In 2019, the revenue from sales of lubricant oil business was RMB164 million, and the revenue from sales for the same period of 2020 was RMB117 million, representing a year-on-year decrease of 28.7%. During the reporting period, the impact of the COVID-19 epidemic and continuous escalation of the Sino-US conflicts has led to a high degree of uncertainty in the market environment, which resulted a significant reduction in petroleum demand and the terminal market competition intensified. However, the Company will strive to maintain a steady business, reduce the impact of negative factors, stabilize the downward trend, and maintain sound operations.

(VI) Network development

Balanced and reasonable deployment of the nationwide dealership network for luxury brands, complemented by the continuous optimization of brand portfolio and regional distribution

As a leading dealership group of luxury brands in China, the Group continues to focus on the 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 of 30 June 2020, the Group operated 127 dealership stores in 41 cities across 17 provinces and municipalities in China. In the first half of 2020, the construction of new dealership stores was slowed down slightly due to the COVID-19 epidemic. At the same time, the Group continued to optimize the existing business network through closing down 8 showrooms and branded 4S stores strategically with underperformed profitability, so as to enhance the overall market competitive strength and profitability of our business network.

As at the date of this announcement, there are 9 dealership stores under development, which are franchised by 4S stores for core luxury brands, including Porsche, Benz, BMW and Audi, as well as repair centres with better profitability. The 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 those 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 centres and other dealership stores in order to explore new growth drivers.

The following table sets forth the details of our dealership stores as of 30 June 2020:

	Dealership stores in operation	**Authorized dealership stores to be opened**	**Total**
5S/4S stores for luxury and ultra-luxury brands	98	7	105
4S stores for mid to high-end brands	13	0	13
Urban showrooms for luxury brands	10	0	10
Pre-owned automobile centre	1	0	1
Authorized repair service centres for luxury brands	5	2	7
Total	127	9	136

As a leading strategic partner of manufacturers of luxury 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 for 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 mergers and acquisition opportunities as well as innovative strategic operation and cooperation scheme to rapidly enlarge business scale and enhance profitability.

(VII) Innovation of management model and improvement of operational quality

In the first half of 2020, the Group leveraged and reacted to the impact of COVID-19 by accelerating our "transformation and upgrade" process and applying more new technologies and new models on corporate business management. The Group further introduced innovative concepts on management, implemented refined management measures, and through establishing a learning-oriented organization, we improved our corporate management standard, enhanced the Group's operational efficiency, and strengthened our core competitiveness effectively.

Establishment of smart 4S stores

In the process of industry informatization and technologization, the Group has always been committed to enhancing customer experiences with the aid of science and technology. To this end, the Group cooperated with Tencent Technology and had independently developed a new generation of Cloud Platform (雲平台) for the operational management system enabled by Tencent Industry. The system integrates customer service, data analysis, resources allocation, and business management through technological means. By linking up isolated information together and building up communication channels between front line business stores and back office management, the quality of operation and service capabilities are improved effectively.

Classification management of stores

During the reporting period, the Group continued to optimise the store operation performance-based assessment system, so as to conduct scientific analysis and assessment of all key operation data from our dealership stores. The results have enabled us to conduct classification management on stores. With targeted and differentiated management models, store performances are improved. The Group further delegated independent authority to outstanding stores in terms of performance management, resources allocation and decision-making, so as to stimulate their initiatives and motivation. For good performing stores, the Group also rationalised and diagnosed various business lines such as sales, after-sales and pre-owned automobiles, so as to identify weaknesses, propose solutions, and make up for business shortcomings. For stores that have potential, the Group has established an efficiency improvement project department at the headquarters level to help individual stores adjust operation thinking, formulate operating plans, tap business potential, and improve operating performance. The store classification management has greatly improved our efficiency in resources allocation and improved the overall profitability of the Group effectively.

Establishment of learning-oriented organization

The Group always recognizes the importance of employee training and development. By establishing a learning-oriented organization, we improve employees' professional skills and comprehensive qualities and are able to provide premiere customer services while improving our operational capabilities. In the first half of 2020, Zhengtong Academy, the Group's learning platform, launched 122 online courses, with 180 registered lecturers giving over 40 minutes of per capita teaching hours to over 30,000 trainees cumulatively. At the same time, the Group conducted off-line transfer training activities that complemented to online training, put theory into practice and helped trainees to apply new knowledge to actual business situation, thereby effectively improving employees' learning efficiency and business standards.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, the Group recorded a revenue of approximately RMB9,241 million, representing a decrease of approximately 47.0% as compared to the revenue of approximately RMB17,431 million in the first half of 2019. The decrease in revenue was mainly due to a decrease in sales of new automobiles during the period under review.

Revenue of the Group was derived from the sales of new automobiles, after-sales services, financial services and other businesses. In the first half of 2020, revenue from the sales of new automobiles amounted to approximately RMB6,758 million, representing a decrease of approximately 52.1% as compared to approximately RMB14,099 million in the first half of 2019, and accounted for approximately 73.1% and 80.9% of the total revenue in the first half of 2020 and 2019, respectively. The revenue from sales of luxury and ultra-luxury branded automobiles decreased by approximately 50.9% to approximately RMB6,274 million from approximately RMB12,766 million in the first half of 2019, accounting for approximately 92.8% and 90.5% of revenue from the sales of new automobiles for the first half of 2020 and 2019, respectively.

Revenue from the after-sales services was approximately RMB1,770 million, representing a decline of approximately 27.3% as compared to approximately RMB2,435 million in the first half of 2019. In the first half of 2020, revenue from the after-sales services accounted for approximately 19.2% of our total revenue.

Cost of sales

For the six months ended 30 June 2020, the Group's cost of sales decreased by approximately 47.9% to approximately RMB8,011 million as compared to approximately RMB15,379 million in the first half of 2019. In the first half of 2020, the cost of sales for new automobiles of the Group decreased by approximately 51.8% to approximately RMB6,478 million from approximately RMB13,439 million in the first half of 2019. Cost of the after-sales services decreased by approximately 22.1% to approximately RMB1,019 million from approximately RMB1,308 million in the first half of 2019.

Gross profit and gross profit margin

For the six months ended 30 June 2020, the Group's gross profit decreased by approximately 40.0% to approximately RMB1,230 million from approximately RMB2,051 million in the first half of 2019, and the gross profit margin increased by approximately 1.5 percentage points to approximately 13.3% from 11.8% in the first half of 2019.

The Group's gross profit was principally derived from after-sales services business, sales of new automobiles business and automobile financing services business. In the first half of 2020, gross profit of sales of new automobiles business decreased by approximately 57.6% to approximately RMB280 million from approximately RMB660 million in the first half of 2019; gross profit margin of sales of new automobiles dropped to 4.1% as compared to the first half of 2019. Among which, the gross profit of sales of luxury and ultra-luxury branded automobiles declined by approximately 61.7% as compared to the same period of last year to approximately RMB253 million, and gross profit margin of sales of luxury and ultra-luxury branded automobiles decreased to 4.0% from 5.2% in the first half of 2019. In the first half of 2020, the Group's gross profit of after-sales services business was approximately RMB751 million, representing a decrease of approximately 33.4% as compared to the same period of last year, and gross profit margin of after-sales services business decreased by approximately 3.9 percentage points to approximately 42.4% from approximately 46.3% in the first half of 2019.

Selling and distribution expenses

For the six months ended 30 June 2020, the Group's selling and distribution expenses decreased by approximately 11.8% to approximately RMB462 million from approximately RMB524 million in the first half of 2019. The decrease in selling and distribution expenses was mainly attributable to the decrease in staff cost and operating lease charges arising from the COVID-19 impacts.

Administrative expenses

For the six months ended 30 June 2020, the Group's administrative expenses amounted to approximately RMB631 million, representing an increase of approximately 3.6% over approximately RMB609 million in the first half of 2019.

Impairment losses on goodwill and intangible assets

During the period under review, the Group has recorded impairment losses of goodwill and intangible assets of approximately RMB916 million and RMB549 million, respectively. The losses were due to the operating results of several 4S dealership stores had not achieved the 2020 financial budgets approved by management.

Loss from operations

For the six months ended 30 June 2020, the Group's operating loss was approximately RMB857 million. Excluding the impairment losses on goodwill and intangible assets, the operating profit was approximately RMB608 million, and the profit in the first half of 2019 was approximately RMB1,305 million.

Income tax credit/expense

For the six months ended 30 June 2020, the Group's income tax credit was approximately RMB46 million, the income tax expenses amounted to approximately RMB248 million in the first half of 2019.

Loss for the period

For the six months ended 30 June 2020, the Group's loss for the period was approximately RMB1,323 million, in comparison with the profit of approximately RMB520 million in the first half of 2019.

Contingent liabilities

As at 30 June 2020, the Group had no any material contingent liabilities or guarantees save as those assets pledged to the bank.

Current assets and current liabilities

As at 30 June 2020, the Group's current assets amounted to approximately RMB23,442 million, representing a decrease of approximately RMB694 million as compared to the current assets of approximately RMB24,136 million as at 31 December 2019.

As at 30 June 2020, the Group's current liabilities amounted to approximately RMB22,788 million, representing a decrease of approximately RMB3,031 million as compared to the current liabilities of approximately RMB25,819 million as at 31 December 2019, which was mainly due to the decrease in loans and borrowings.

Cash flow

As at 30 June 2020, the Group had cash and cash equivalents amounting to approximately RMB791 million, representing a decrease of approximately RMB706 million from approximately RMB1,497 million as at 31 December 2019. The Group's transactions and monetary assets were principally denominated in Renminbi. The Group's primary uses of funds 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 finance the Group's working capital and daily operating 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 six months ended 30 June 2020, the Group had net cash inflow of approximately RMB569 million generated from its operating activities (six months ended 30 June 2019: approximately RMB300 million), which was primarily due to the decrease in purchase of inventory and collection of trade and bills receivables.

Capital expenditure and investment

For the six months ended 30 June 2020, the Group's capital expenditure and investment were approximately RMB580 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 inventories, 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 amounted to approximately RMB3,678 million as at 30 June 2020, increased by approximately RMB195 million when compared with approximately RMB3,483 million as at 31 December 2019. Such change was mainly due to the increase of properties under development for sale. The Group's average inventory turnover days (excluding the impact of properties under development for sale) in the first half of 2020 increased by 26.0 days to 70.6 days from 44.6 days in the first half of 2019. The following table sets forth our average inventory turnover days for the period indicated:

	For the six months ended 30 June (day)	
	2020	2019
Average inventory turnover days (excluding the impact of properties under development for sale)	**70.6**	44.6

Foreign exchange risk

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 have 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 30 June 2020, a gross financial liability of approximately RMB77 million measured at fair value was recognised by the Group on the cross currency swap, and gross financial assets of approximately RMB3 million (excluding wealth management products) measured at fair value were recognised (31 December 2019: a gross financial liability of approximately RMB103 million measured at fair value was recognised by the Group on the cross currency swap, and gross financial assets of approximately RMB17 million (excluding wealth management products) measured at fair value).

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 30 June 2020, the Group's cash and bank deposits were approximately RMB3,403 million (including: pledged bank deposits and balances with central bank of approximately RMB1,900 million, time deposits of approximately RMB712 million and cash and cash equivalents of approximately RMB791 million), representing a decrease of approximately RMB174 million, from approximately RMB3,577 million as at 31 December 2019. As at 30 June 2020, loans and borrowings, lease liabilities and bonds payable of the Group amounted to approximately RMB19,496 million (at 31 December 2019: loans and borrowings, lease liabilities, and bonds payable of the Group amounted to approximately RMB21,450 million). Save as loans and borrowings, lease liabilities, and bonds payable of approximately RMB11,967 million that bear fixed interest rates, other loans and borrowings bear floating interest rates. As at 30 June 2020, net gearing ratio of the Group was approximately 130.8%, (at 31 December 2019: approximately 131.0%). Net gearing ratio was calculated as loans and borrowings, lease liabilities, and bonds payable less cash and bank deposits divided by total equity. The Group will actively consider various financing methods to improve our existing financial position and reduce the degree of leverage of the Group.

Pledged assets of the Group

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 30 June 2020, the pledged assets of the Group amounted to approximately RMB5,812 million (at 31 December 2019: approximately RMB4,954 million).

Material acquisition and disposal of subsidiary and associate

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) (our controlling shareholder) and Waterwood Santong Investment L.P. entered into a subscription agreement ("Subscription Agreement"), pursuant to which following completion of the restructuring of relevant companies of the Group focusing on the business of automotive logistics management and other closing conditions for the completion of the Subscription Agreement being fulfilled (or where applicable waived), Wisdom Achieve Global Limited will issue shares to Joy Capital Holdings Limited and Waterwood Santong Investment L.P. at a total subscription price of approximately RMB200 million.

As of the date of this announcement, certain conditions precedent to completion of the Subscription Agreement have not been fulfilled, the long stop date for the fulfilment of the said closing condition for the completion was extended to 31 December 2020 (or such later date as the parties may agree in writing).

Investments held in foreign currency and hedging

For the six months ended 30 June 2020, 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 30 June 2020, the Group had 9,023 employees in China (31 December 2019: 10,729 employees). The staff costs incurred for the six months ended 30 June 2020 was approximately RMB375 million (for the six months ended 30 June 2019: approximately RMB453 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 provides the employees with good working environment and diversified training program.

FUTURE OUTLOOK AND STRATEGIES

Affected by COVID-19, China's macro-economy and automobile industry will suffer a major setback in the short run. With the COVID-19 in China effectively under control, the macro economy and automobile consumption will recover quickly, the automobile consumption upgrading trend will continue and the development prospects of the luxury branded automobiles market will remain promising. Leveraged the future market outlook, the Group has formulated targeted short-term, medium-term and long-term development strategies. In the short run, the Group will actively introduce strategic investment partners to eliminate the negative impact of COVID-19 as well as other unfavourable factors on our operations as soon as possible, so as to enable the Group's business operations to resume quickly. In the medium term, the Group will adhere to the development strategy of luxury branded automobiles market, continue to improve the luxury branded automobiles network layout, continue to enhance market competitiveness by relying on a diversified luxury brand portfolio and customised financial, insurance and other high value-added services to create a leading consumer experience for customers. In the long run, by having a presence in the luxury branded automobiles market, the Group will integrate our advantageous resources, strengthen external cooperation, and form a closed-loop business environment focusing on the full cycle of customer vehicle usage, aiming to build a world-class automobile service brand. During this period, the Group will accelerate our transformation and upgrade progress, continue to optimise internal management, improve operational efficiency, and continue to create greater value for our shareholders, employees and the society.

PROPOSED INTERIM DIVIDEND

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 Board has decided that no interim dividends shall be paid out as of 30 June 2020 after thorough consideration. The Board considers such consideration a reasonable move under current situation and feels optimistic with the economic recovery from COIVD-19 and resumption of our dividends policy.

EXTRACT OF REPORT ON REVIEW OF INTERIM FINANCIAL REPORT

The following is the extract of the Report on Review of Interim Financial Report of the Group for the six months ended 30 June 2020 from the auditor of the Group, KPMG:

"**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

Material Uncertainty Related to Going Concern

Without qualifying our review conclusion, we draw attention to note 2 to the interim financial report which describes that the Group is committed to repay loans and borrowings totaling RMB14,090 million within one year and that the Group's ability to meet these liquidity requirements depends on its ability to generate sufficient net cash inflows from future operations and to draw down unutilized facilities and renew or refinance the banking facilities upon maturity. These facts and circumstances, along with other matters as set forth in note 2, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern."

For details of the above-mentioned note 2 to the interim financial report, please refer to note 2 of the notes to the unaudited interim financial statement of this announcement.

REVIEW OF INTERIM RESULTS

The audit committee of the Company (the "**Audit Committee**") comprises three members, all of whom are independent non-executive directors of the Company, namely Dr. Wong Tin Yau, Kelvin (the chairman of the Audit Committee), Dr. Cao Tong and Ms. Wong Tan Tan.

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for six months ended 30 June 2020. KPMG, the Group's external auditor, has carried out a review of the unaudited interim consolidated financial statements for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

EVENTS AFTER THE REPORTING PERIOD

On 15 July 2020, after trading hour, the Company entered into the placing and subscription agreement ("**Placing and Subscription Agreement**") with Joy Capital Holdings Limited (怡都控股有限公司) ("**Joy Capital**") (as vendor) and CCB International Capital Limited (as placing agent) ("**Placing Agent**"), pursuant to which the Placing Agent has agreed to procure placees, on a best effort basis, for purchase of a total of up to 245,222,000 placing shares ("**Placing Share(s)**") owned by Joy Capital at HK$1.09 per Placing Share. Under the Placing and Subscription Agreement, Joy Capital has conditionally agreed to subscribe for the subscription shares ("**Subscription Share(s)**") (the exact number of which would be equivalent to the number of the Placing Shares actually placed under the placing) at HK$1.09 per Subscription Share ("**Subscription**"), such Subscription Shares would be issued and allotted pursuant to the general mandate ("**General Mandate**") granted to the Directors by a resolution of the Shareholders passed at the annual general meeting of the Company held on 12 June 2020. On 20 July 2020, 245,222,000 Placing Shares were placed to no less than six placees and 245,222,000 Subscription Shares were allotted and issued to Joy Capital on 27 July 2020 pursuant to the General Mandate. The net proceeds from the Subscription were approximately HK$263.35 million. The Company intends to use the net proceeds from the Subscription primarily for general working capital purpose. In particular, approximately 90% of the net proceeds will be used for providing capital for operation of the Company's automobile business, including purchases of automobiles and related components; and approximately 10% of the net proceeds will be used for repayment of offshore operating expense. As at the date of this announcement, the net proceeds had not been utilised.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

CORPORATE GOVERNANCE

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of its shareholders.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company had complied with the code provisions set out in the CG Code throughout the six months ended 30 June 2020.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code ("**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 set out in Appendix 10 to the Listing Rules ("**Model Code**"). In response to a specific enquiry by the Company, each of the Directors confirmed that they had complied with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com) and the interim report for the six months ended 30 June 2020 of the Company containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the above websites in due course.

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

31 August 2020

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