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)
（根據開曼群島法律註冊成立的有限公司）

Stock Code 股份代號：1728

2020

INTERIM REPORT 中期報告

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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, China ZhengTong Auto Services Holdings Limited ("Company") and its subsidiaries ("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 of directors ("Directors") of the Company ("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. The Company closely monitored the impact of the COVID-19 and capital management at the Group level and engaged with external valuer to assess on the impairment losses of goodwill and intangible assets.

(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. 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 Logistics Co., Ltd ("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.

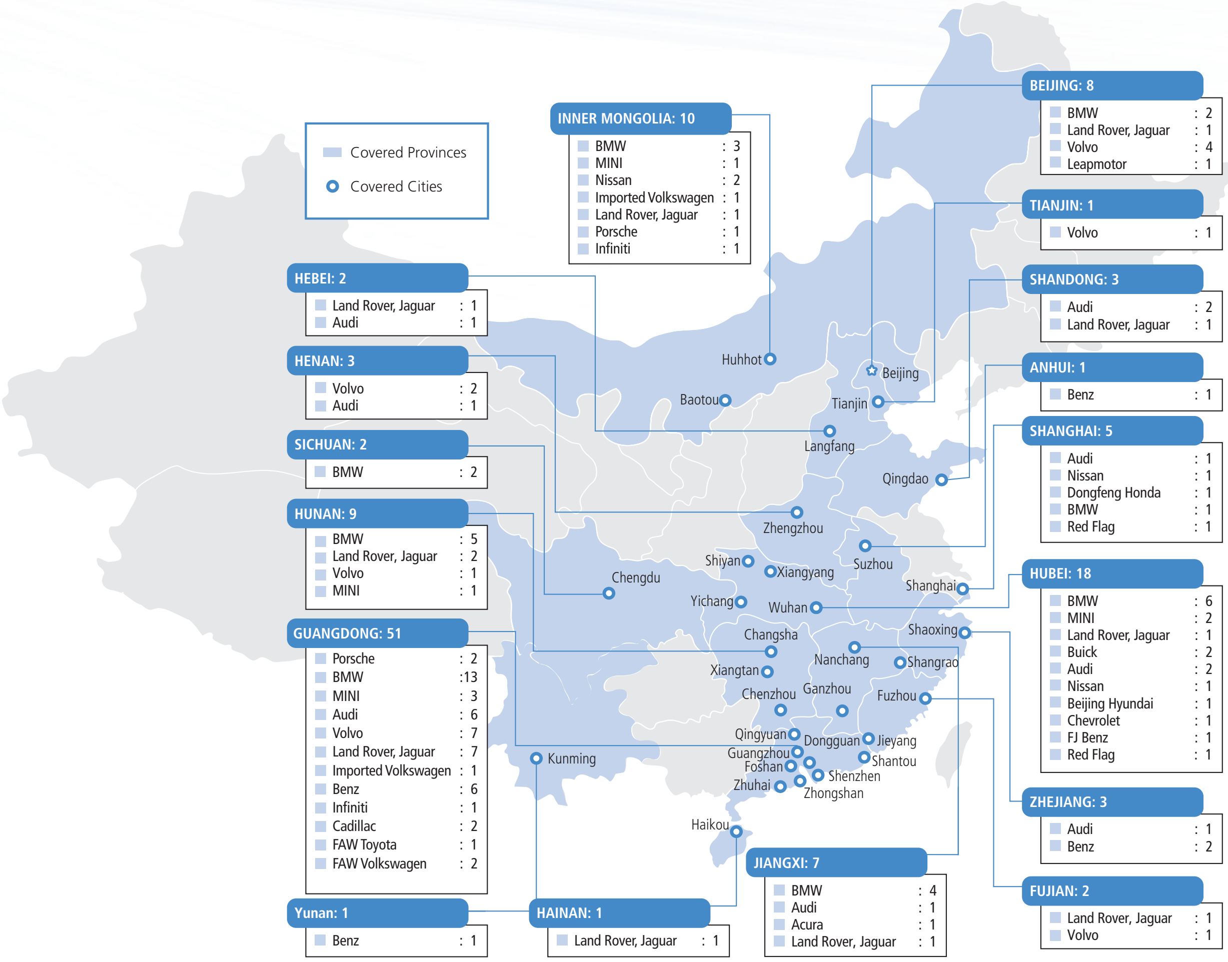
As at the date of this report, there are 9 dealership stores under development, which are franchised by 4S stores for core luxury brands, including Porsche, Benz, BMW and Audi, as well as repair centres with better profitability. The authorized dealership stores to be opened can enhance our competitive 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.

BALANCED NATIONWIDE DEALERSHIP NETWORK



(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

The directors of the Group consider that there are impairment indicators for certain 4S dealership stores for the period ended 30 June 2020, which are independent CGUs, because of the following reasons:

(1) 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 Group has 16 4S stores located in Hubei province, which was more severe impacted than other regions. In addition, the Group had 57 stores located in Guangdong province where business was resumed later than other regions, and the Group had 8 stores located in Beijing where suffered second wave of COVID-19 impact in May and June 2020.

Therefore, the COVID-19 has severe direct impact on the Group's operation and financial performance.

(2) The outbreak of COVID-19 and declined financial performance of the group during the period ended 30 June 2020 has also resulted in more uncertainties leading to strategic repositioning to preserve the Group's capital to deal with the increased uncertainties.

As at 30 June 2020, included in the current liabilities were loans and borrowings of RMB14,090 million, and the Group also had capital commitment of RMB851 million. The Group only had cash and cash equivalents, time deposits and pledged bank deposits amounting to RMB791 million, RMB712 million and RMB1,900 million, respectively, as at 30 June 2020.

As a result of COVID-19 and the objective of preserving the Group's capital to deal with the uncertainties, the Group had repositioned some 4S stores that are expected to be underperforming and planned to reduce their new car purchase volume strategically to maximize the capital resources during the forecast period, which directly led to a reduced new car sales volume and revenue of certain 4S Stores.

During the period under review, the Group engaged an external valuer to conduct an impairment test and has recorded impairment losses of goodwill and intangible assets of approximately RMB916 million and RMB549 million, respectively.

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. The losses were mainly caused by the impairment losses on goodwill and intangible assets.

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 report, 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.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, the interests and/or short positions of the Directors and chief executive of the Company and their respective associates in the shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(i) Long positions in the shares ("Shares") and underlying Shares of the Company:

Name of Director	Capacity/nature of interest	Number of Shares/ underlying Shares Long position	Approximate percentage of shareholding
Wang Muqing	Founder of discretionary trust	1,383,516,820 (Note 2)	56.42%
Wang Kunpeng	Beneficial owner	1,230,000	0.05%
	Beneficiary of a trust (other than a discretionary trust)	4,400,000 (Note 3)	0.18%
Li Zhubo	Beneficial owner	1,550,000	0.06%
	Beneficiary of a trust (other than a discretionary trust)	4,000,000 (Note 4)	0.16%
Wan To	Beneficiary of a trust (other than a discretionary trust)	3,000,000 (Note 5)	0.12%

Notes:

1. As at 30 June 2020, the total number of Shares in issue was 2,452,220,420.

2. As at 30 June 2020, these Shares were directly held by Joy Capital Holdings Limited, the entire voting share capital of which was held by Bright Brilliant Holdings Limited, which in turn was wholly-owned by Credit Suisse Trust Limited in Guernsey as trustee of a family discretionary trust of which Wang Muqing is one of the founders (the other founder being Wang Weize who is the son of Wang Muqing).

   Subsequent to 30 June 2020, on 24 July 2020, the entire issued share capital of Bright Brilliant Holdings Limited became wholly-owned by Credit Suisse Trust Limited in Guernsey as trustee of a new family discretionary trust of which Wang Muqing is one of the founders (the other founder being Wang Boheng who is the grandson of Wang Muqing).

3. The 4,400,000 Shares were granted to Wang Kunpeng and to be issued to BOCI-Prudential Trustee Limited ("Trustee") on trust for him under and pursuant to the terms and conditions of the Share Award Scheme (as defined below).

4. The 4,000,000 Shares were granted to Li Zhubo and to be issued to the Trustee on trust for him under and pursuant to the terms and conditions of the Share Award Scheme.

5. The 3,000,000 Shares were granted to Wan To and to be issued to the Trustee on trust for him under and pursuant to the terms and conditions of the Share Award Scheme.

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executive of the Company or any of their respective associates had or was deemed to have any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, the interests and/or short positions of the substantial shareholders (other than the Directors or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO were as follows:

Name of Shareholders	Capacity/nature of interest	Number of Shares Held Long Position (L) Short Position (S) Lending Pool (P)	Approximate percentage of shareholding
Joy Capital Holdings Limited ("**Joy Capital**")	Beneficial owner	1,383,516,820 (Note 2)	56.42%
Bright Brilliant Holdings Limited ("**Bright Brilliant**")	Interest of a controlled corporation	1,383,516,820 (Note 2)	56.42%
Credit Suisse Trust Limited	Trustee	1,383,516,820 (Note 2)	56.42%
Wang Weize	Founder of a discretionary trust	1,383,516,820 (Note 2)	56.42%

Notes:

1. As at 30 June 2020, the total number of Shares in issue was 2,452,220,420.

2. As at 30 June 2020, these Shares were directly held by Joy Capital, the entire voting share capital of which was held by Bright Brilliant, which in turn was wholly-owned by Credit Suisse Trust Limited in Guernsey as trustee of a family discretionary trust of which Wang Muqing is one of the founders (the other founder being Wang Weize who is the son of Wang Muqing).

   Subsequent to 30 June 2020, on 24 July 2020, the entire issued share capital of Bright Brilliant became wholly-owned by Credit Suisse Trust Limited in Guernsey as trustee of a new family discretionary trust of which Wang Muqing is one of the founders (the other founder being Wang Boheng, the grandson of Wang Muqing).

Save as disclosed above, as at 30 June 2020, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had, or was deemed or taken to have, an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

(a) Share Option Scheme

The Company has adopted a share option scheme ("Share Option Scheme") pursuant to a resolution in writing passed by the Shareholders on 17 November 2010, which enables the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. The Share Option Scheme became effective on 10 December 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of its adoption.

Eligible participants of the Share Option Scheme include the following:

(i) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director) of the Company, any of the Company's subsidiaries or any entity (the "Invested Entity") in which the Group holds an equity interest;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of the Company's subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any member of any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the growth of the Group, and for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

As of the date of this report, the total number of shares of the Company available for issue under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Stock Exchange, i.e. 200,000,000 Shares, representing approximately 7.41% of the issued share capital of the Company as at the date of this report.

The maximum number of Shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial Shareholder, chief executive or Director as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of share options in excess of the Individual Limit is subject to Shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding any independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, in the 12-month period up to and including the date of grant, are subject to Shareholders' approval in general meeting.

The offer of a grant of share options may be accepted by a participant within 21 days from the date of offer upon payment of a nominal consideration of HK$1 by the grantee. The exercise period for the share options granted is determined by the board of Directors, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the options subject to the provisions for early termination under the Share Option Scheme.

The subscription price for shares under the Share Option Scheme shall be a price determined by the board of Directors, but shall not be less than the highest of (i) the closing price of shares of the Company as stated in the daily quotation sheets of the Stock Exchange on the date of the offer of the grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the shares of the Company.

Subject to the earlier termination of the Share Option Scheme in accordance with the Share Option Scheme rules, the Share Option Scheme will expire on 16 November 2020.

No options have been granted under the Share Option Scheme since its adoption.

(b) Pre-IPO Share Option Scheme

The Company has, based on a framework plan formulated on 9 August 2010, formally adopted a pre-initial public offering share option scheme ("Pre-IPO Share Option Scheme") pursuant to a resolution in writing passed by the Shareholders on 17 November 2010, which enables the Company to recognise and reward the contribution of certain Directors, senior management and employees of the Group to the growth and development of the Group and the Listing.

The share options in the Pre-IPO Share Option Scheme were fully exercised/lapsed during the year ended 31 December 2017, there was no share options outstanding as at 30 June 2020.

(c) Restricted Share Award Scheme

Adoption of the Share Award Scheme

The Company adopted a restricted share award scheme ("Share Award Scheme") on 12 June 2020 ("Adoption Date"), which enables the Company to, among other things, provide selected participants with an opportunity to acquire a proprietary interest in the Company; to encourage and retain participants to work with the Group; to provide additional incentive for selected participants to achieve performance goals; and to attract personnel to join the Group, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the selected participants directly to the Shareholders through ownership of Shares. The Share Award Scheme shall initially be valid and effective for a period of ten years from the Adoption Date subject to early termination as stipulated under the rules ("Scheme Rules") related to the Share Award Scheme.

Any employees or directors of the Company or any of its subsidiaries whom the Board considers, in its sole discretion, to have contributed or will contribute to the Group and who are nominated and selected by the Board and approved by the remuneration committee of the Board ("Remuneration Committee") (as to identities of the selected participants and determination of the number of Shares subject to the grant ("Grant Shares")) in accordance with the terms of the Scheme Rules may be qualified as a selected participants under the Share Award Scheme.

Subject to the Scheme Rules, the Grant Shares shall be new Shares to be issued and allotted by the Company for nil consideration. The Grant Shares are subject to acceptance of the selected participants. For the purpose of implementing and administering the Share Award Scheme, the Company has appointed BOCI-Prudential Trustee Limited as the Trustee. Shares granted under the Share Award Scheme will be issued and allotted to the Trustee who shall hold such Shares upon trust for the benefit of the selected participants and shall vest and transfer to the relevant selected participants after fulfilment of all vesting conditions as set out in the Scheme Rules and subject to the vesting schedule ranging from the first to the fourth anniversary of the date on which the Grant Shares is granted ("Grant Date"), as determined and applicable to relevant selected participants according to their respective tenure of office with and/or level of position in the Group.

The aggregate number of Shares administered under the Share Award Scheme and underlying all grants of Shares (excluding Shares where the rights to acquire them has been released or lapsed in accordance with the Share Award Scheme) made pursuant to the Share Award Scheme shall not exceed in total 5% of the Company's issued Shares as at the Adoption Date. The maximum number of Shares which may be granted to an individual selected participant shall not exceed 1% of the issued Shares as at the Adoption Date.

Where any grant is proposed to be made to any selected participant who is a connected person (including a Director), such grant must first be approved by all the independent non-executive Directors and in each case excluding any independent non-executive Director who is the proposed selected participant and shall be separately approved by the Shareholders in general meeting with such connected person and his associates abstaining from voting and shall comply with all other requirements of Chapter 14A of the Listing Rules applicable to such grant.

The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules and is a discretionary scheme of the Company. No Shareholders' approval is required to adopt the Scheme.

On 12 June 2020, based on the recommendation of the Remuneration Committee, the Board considered and approved the grant of a total of 47,100,000 Grant Shares to 40 selected participants in accordance with the terms of the Share Award Scheme. The Trustee will be issued and allotted with a total of 47,100,000 new Shares which shall be held by the Trustee on trust for those selected participants and will be transferred to such selected participants at no cost upon satisfaction of the vesting conditions as set out in the Scheme Rules.

Out of the 47,100,000 Grant Shares, (i) 35,700,000 Grant Shares were granted to 37 non-connected selected participants, all being independent employees of the Group who are not connected persons of the Company, which shall be satisfied by the allotment and issue of new Shares, fully paid or credited as fully paid to the Trustee pursuant to the general mandate granted by the Shareholders to the Directors at the annual general meeting of the Company held on 12 June 2020; and (ii) 11,400,000 Grant Shares were granted to 3 executive Directors of the Company, namely, Mr. Wang Kunpeng, Mr. Li Zhubo and Mr. Wan To, which shall be satisfied by the allotment and issue of new Shares, fully paid or credited as fully paid to the Trustee pursuant to the specific mandate granted by the independent Shareholders to the Directors at the extraordinary general meeting of the Company held on 17 September 2020.

The nominal value of the 47,100,000 Grant Shares is HK$4,710,000. The issue price of the Grant Shares is based on the average five-day closing price of the Shares immediately preceding but excluding the Grant Date (i.e. 12 June 2020) of approximately HK$1.178 per Share and the market value of such 47,100,000 Grant Shares is HK$55,483,800.

During the reporting period, details of the interests of the selected participants under the Share Award Scheme are set out below:

		Number of Grant Shares					
	Grant Date	As at the Grant Date	Granted during the period from the Grant Date up to 30 June 2020	Vested during the period from the Grant Date up to 30 June 2020	Lapsed during the period from the Grant Date up to 30 June 2020	Outstanding as at 30 June 2020	Vesting date/ period (Note 1)
WANG Kunpeng	12 June 2020	4,400,000	–	–	–	4,400,000	12 June 2021
LI Zhubo	12 June 2020	4,000,000	–	–	–	4,000,000	12 June 2021
WAN To	12 June 2020	3,000,000	–	–	–	3,000,000	12 June 2021
37 selected participants who are independent employees of the Group	12 June 2020	35,700,000	–	–	–	35,700,000	12 June 2021 to 12 June 2024 *(Note 2)*
		47,100,000				**47,100,000**	

Notes:

1. The allotment and issue of the Grant Shares and the vesting thereof to the selected participants shall be subject to the satisfaction of the annual performance review of the relevant selected participants and other vesting conditions applicable to them as set out in the Scheme Rules.

2. Among the 35,700,000 Grant Shares, subject to the satisfaction of the annual performance review of the relevant selected participants and other vesting conditions applicable to them, (i) 8,320,000 Grant Shares will vest on 12 June 2021 (i.e. the first anniversary of the Grant Date); (ii) 10,900,000 Grant Shares will vest on 12 June 2022 (i.e. the second anniversary of the Grant Date); (iii) 10,900,000 Grant Shares will vest on 12 June 2023 (i.e. the third anniversary of the Grant Date) and (iv) 5,580,000 Grant Shares will vest on 12 June 2024 (i.e. the fourth anniversary of the Grant Date).

The said 47,100,000 Grant Shares represent approximately 1.92% of the total number of issued Shares as at the Grant Date and approximately 1.75% of the total number of issued Shares as at the date of this report.

For details of the summary of the major terms of the Share Award Scheme and the grant of the Grant Shares during the reporting period, please refer to the announcements of the Company dated 12 June 2020 and 18 June 2020 and the circular of the Company dated 31 August 2020.

DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

On 16 January 2018, the Company (as borrower) entered into a facility agreement with nineteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$380 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). At 30 June 2020, the loan amounted to US$290 million. The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. Pursuant to the facility agreement, Mr. Wang Muqing (王木清先生), and his close relatives or any trust of which Mr. Wang and his close relatives are beneficiaries ceasing to own beneficially (whether directly or indirectly) are required to hold no less than 50% of the total issued share capital of the Company. For details, please refer to the announcement of the Company dated 23 January 2018.

On 30 November 2018, the Company (as borrower) entered into a facility agreement with six financial institutions (as lenders) for a syndicated term loan facility for an aggregate amount of US$150 million. At 30 June 2020, the loan amounted to US$108 million. The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. Pursuant to the facility agreement, Mr. Wang Muqing (王木清先生), and his close relatives or any trust of which Mr. Wang and his close relatives are beneficiaries ceasing to own beneficially (whether directly or indirectly) are required to hold no less than 50% of the total issued share capital of the Company. For details, please refer to the announcement of the Company dated 24 December 2018.

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.

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 for the six months ended 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 COVID-19 and resumption of our dividends policy.

EVENTS AFTER 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 (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 report, the net proceeds had not been utilised.

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 Listing Rules. The Company had complied with the code provisions set out in the CG Code throughout the six months ended 30 June 2020.

COMPLIANCE WITH THE MODEL CODE FOR 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. 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.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules during the reporting period, the changes in information of Directors of the Company are set out below:

Director	**Details of Changes**
Wang Kunpeng	Appointed as Chief Executive Officer of the Company on 12 June 2020.

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.

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

Review Report to the Board of Directors of
China ZhengTong Auto Services Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 29 to 60 which comprises the consolidated statement of financial position of China ZhengTong Auto Services Holdings Limited (the "Company") as of 30 June 2020, and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 August 2020

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	12	**(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

The notes on pages 36 to 60 form part of this interim financial report.

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

The notes on pages 36 to 60 form part of this interim financial report.

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	10	**6,730,876**	6,609,129
Right-of-use assets	11	**3,244,060**	3,431,989
Intangible assets	12	**3,547,160**	4,193,072
Goodwill	12	**1,019,197**	1,935,113
Interest in a joint venture	13	**—**	355,002
Interest in associates	13	**487,237**	15,466
Receivables from financial services	14	**2,222,032**	3,631,142
Deferred tax assets		**360,750**	321,474
Long-term receivables		**224,331**	212,946
Other financial assets	15	**2,737**	17,028
		17,838,380	20,722,361
Current assets			
Inventories	16	**3,678,347**	3,483,098
Trade and bills receivables	17	**1,105,716**	1,434,828
Prepayments, deposits and other receivables	18	**10,381,934**	10,216,300
Receivables from financial services	14	**4,588,312**	5,138,900
Other financial assets	15	**285,000**	285,000
Pledged bank deposits and balances with central bank	19	**1,899,859**	1,399,158
Time deposits		**712,000**	680,929
Cash and cash equivalents	20	**791,171**	1,497,400
		23,442,339	24,135,613
Current liabilities			
Loans and borrowings for financial services	21	**4,076,811**	5,966,821
Loans and borrowings for non-financial services	21	**10,013,628**	11,061,164
Trade and other payables	22	**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

The notes on pages 36 to 60 form part of this interim financial report.

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 liabilities			
Loans and borrowings for financial services	21	**8,211**	15,316
Loans and borrowings for non-financial services	21	**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	22	**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	23		
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

Approved and authorised for issue by the board of directors on 31 August 2020.

Wang, Kunpeng
Director, CEO

Li, Zhubo
Director, CFO

The notes on pages 36 to 60 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 — unaudited

(Expressed in RMB'000)

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital reserves	PRC statutory reserves	Exchange reserves	Discretionary surplus reserves	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2019	209,320	6,120,051	284,097	651,482	(12,610)	4,459	107,041	4,602,535	11,966,375	182,124	12,148,499
Changes in equity for the six months ended 30 June 2019:											
Profit for the period	–	–	–	–	–	–	–	471,498	471,498	48,149	519,647
Other comprehensive income	–	–	–	–	(954)	–	–	–	(954)	–	(954)
Total comprehensive income for the period	–	–	–	–	(954)	–	–	471,498	470,544	48,149	518,693
Issuance of new shares of a subsidiary	–	–	315,517	–	–	–	–	–	315,517	993,651	1,309,168
Purchase and cancellation of own shares	(170)	(7,377)	7,547	–	–	–	–	–	–	–	–
Dividends (note 23(a))	–	–	–	–	–	–	–	(300,787)	(300,787)	(7,017)	(307,804)
Balance at 30 June 2019 and 1 July 2019	209,150	6,112,674	607,161	651,482	(13,564)	4,459	107,041	4,773,246	12,451,649	1,216,907	13,668,556
Changes in equity for the six months ended 31 December 2019:											
Profit for the period	–	–	–	–	–	–	–	192,364	192,364	54,694	247,058
Other comprehensive income	–	–	–	–	(4,388)	–	–	–	(4,388)	–	(4,388)
Total comprehensive income for the period	–	–	–	–	(4,388)	–	–	192,364	187,976	54,694	242,670
Transfer of profits to general reserve	–	–	–	–	–	–	49,006	(49,006)	–	–	–
Dividends (note 23(a))	–	–	–	–	–	–	–	(221,357)	(221,357)	(49,572)	(270,929)
Appropriation to reserves	–	–	–	126,281	–	–	–	(126,281)	–	–	–
Balance at 31 December 2019	209,150	6,112,674	607,161	777,763	(17,952)	4,459	156,047	4,568,966	12,418,268	1,222,029	13,640,297

The notes on pages 36 to 60 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 — unaudited
(Expressed in RMB'000)

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital reserves	PRC statutory reserves	Exchange reserves	Discretionary surplus reserves	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total equity
Balance at 1 January 2020	209,150	6,112,674	607,161	777,763	(17,952)	4,459	156,047	4,568,966	12,418,268	1,222,029	13,640,297
Changes in equity for the six months ended 30 June 2020:											
(Loss)/profit for the period	—	—	—	—	—	—	—	(1,365,503)	(1,365,503)	42,148	(1,323,355)
Other comprehensive income	—	—	—	—	(4,797)	—	—	—	(4,797)	—	(4,797)
Total comprehensive income for the period	—	—	—	—	(4,797)	—	—	(1,365,503)	(1,370,300)	42,148	(1,328,152)
Equity settled share-based transactions	—	—	1,705	—	—	—	—	—	1,705	—	1,705
Dividends (note 23(a))	—	—	—	—	—	—	—	—	—	(7,725)	(7,725)
Balance at 30 June 2020	209,150	6,112,674	608,866	777,763	(22,749)	4,459	156,047	3,203,463	11,049,673	1,256,452	12,306,125

The notes on pages 36 to 60 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020 — unaudited

(Expressed in RMB'000)

	Note	Six months ended 30 June 2020	2019
Operating activities			
Cash generated from operations		**679,672**	444,425
Tax paid		**(110,467)**	(144,070)
Net cash generated from operating activities		**569,205**	300,355
Investing activities			
Payment for the purchase of property, plant and equipment		**(550,819)**	(263,979)
Payment for right-of-use assets		**(13,733)**	(285,714)
Payment for purchase of intangible assets		**(2,116)**	(2,309)
Net cash used in acquisition of business		**(35,500)**	(35,500)
Dividend received from joint venture		**24,061**	—
Payment for purchase of financial assets		**—**	(150,000)
Proceeds from sale of financial assets		**—**	262,782
Other cash generated from investing activities		**185,958**	298,497
Net cash used in investing activities		**(392,149)**	(176,223)
Financing activities			
Proceeds from issuance of new shares of a subsidiary		**—**	1,413,670
Dividends paid to non-controlling interests		**(7,725)**	(7,017)
Dividend paid to equity shareholders of the Company		**—**	(300,787)
Proceeds from loans and borrowings		**10,175,980**	10,048,301
Repayment of loans and borrowings		**(10,209,220)**	(9,235,878)
Capital element of lease rentals paid		**(147,893)**	(288,666)
Interest element of lease rentals paid		**(54,797)**	(80,672)
Interest paid		**(528,401)**	(614,221)
Payments for issue costs and listing expenses of a subsidiary		**—**	(48,454)
Other cash used in financing activities		**(116,551)**	(150,323)
Net cash (used in)/generated from financing activities		**(888,607)**	735,953
Net (decrease)/increase in cash and cash equivalents		**(711,551)**	860,085
Cash and cash equivalents at 1 January		**1,497,400**	2,911,395
Effect of foreign exchange rate changes		**5,322**	204
Cash and cash equivalents at 30 June	20	**791,171**	3,771,684

The notes on pages 36 to 60 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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 report has 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"). It was authorised for issue on 31 August 2020.

The interim financial report has 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 report 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 report contains 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 report is 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. KPMG's independent review report to the board of directors is included on page 27.

2 BASIS OF PREPARATION (Continued)

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.

2 BASIS OF PREPARATION (Continued)

Materiality uncertainty related to going concern (Continued)

(ii) (Continued)

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 financial report 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 report 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 financial report.

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 (see note 11). 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

	Note	Six months ended 30 June 2020 RMB'000	2019 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 13)		**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.

6 (LOSS)/PROFIT BEFORE TAXATION (Continued)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
(c) Other items:		
Cost of inventories (note 16(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 12)	**915,916**	—
— Intangible assets (note 12)	**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 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following four major operating segments:

1 4S dealership business

4S dealership business mainly includes sales of motor vehicles, and after-sales services through the Group's network of 4S dealership in the PRC.

2 Supply chain business

Supply chain business mainly includes provision of motor-related logistics services and trading of lubricant oil.

3 Financial services business

Financial services business mainly includes providing financial services to auto customers and dealers.

4 Comprehensive properties business

Comprehensive properties business mainly includes development and sales of properties in the PRC.

(a) Information about profit or loss, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

- The measure used for reporting segment profit is profit before taxation. To arrive at profit before taxation, the Group's earnings are adjusted for items not specifically attributed to individual segments, such as head office and corporate administration costs, other income and finance costs.

- Segment assets include all current and non-current assets with the exception of intangible assets, goodwill, deferred tax assets and unallocated head office assets. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities and unallocated head office liabilities.

9 SEGMENT REPORTING (Continued)

(a) Information about profit or loss, assets and liabilities (Continued)

- In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment sales), loans and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	4S dealership business		Supply chain business		Financial services business		Comprehensive properties business		Total	
For the six months ended	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Revenue from external customers	8,527,895	16,533,487	346,386	430,621	366,829	466,457	–	–	9,241,110	17,430,565
Inter-segment revenue	–	–	–	–	125,330	153,264	–	–	125,330	153,264
Reportable segment revenue	8,527,895	16,533,487	346,386	430,621	492,159	619,721	–	–	9,366,440	17,583,829
Reportable segment profit/(loss)	116,703	701,369	(17,769)	41,861	244,631	276,200	–	–	343,565	1,019,430
Depreciation and amortisation for the period	465,438	441,899	14,158	17,552	17,933	17,354	–	–	497,529	476,805
Reportable segment assets as at 30 June 2020/31 December 2019	22,383,771	22,891,093	530,299	638,017	9,178,887	11,083,556	529,851	380,038	32,622,808	34,992,704
Additions to non-current segment assets during the period	598,755	995,025	8,081	152,021	35,139	2,984	–	–	641,975	1,150,030
Reportable segment liabilities as at 30 June 2020/31 December 2019	(19,919,310)	(19,551,077)	(222,413)	(267,124)	(4,305,089)	(6,330,700)	(529,851)	(380,038)	(24,976,663)	(26,528,939)
Investment in a joint venture and associates as at 30 June 2020/ 31 December 2019	–	–	471,664	355,002	15,573	15,466	–	–	487,237	370,468

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Reportable segment profit	343,565	1,019,430
Elimination of inter-segment profits	(63,364)	(79,661)
Unallocated head office expenses	(136,005)	(3,147)
Other income	471,260	386,475
Finance costs	(519,562)	(555,489)
Impairment of goodwill	(915,916)	–
Impairment of intangible assets	(549,497)	–
Consolidated (loss)/profit before taxation	(1,369,519)	767,608

9 SEGMENT REPORTING (Continued)

(c) Geographic information

As the Group solely operates in the PRC, no geographical segment information has been presented.

(d) Reconciliations of reportable segment assets and liabilities

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Assets:		
Reportable segment assets	**32,622,808**	34,992,704
Intangible assets	**3,547,160**	4,193,072
Goodwill	**1,019,197**	1,935,113
Deferred tax assets	**360,750**	321,474
Unallocated head office assets	**5,790,085**	5,505,002
Elimination of inter-segment receivables	**(2,059,281)**	(2,089,391)
Consolidated total assets	**41,280,719**	44,857,974
Liabilities:		
Reportable segment liabilities	**(24,976,663)**	(26,528,939)
Income tax payables	**(2,074,744)**	(2,064,217)
Deferred tax liabilities	**(899,908)**	(1,027,790)
Unallocated head office liabilities	**(3,082,560)**	(3,686,122)
Elimination of inter-segment payables	**2,059,281**	2,089,391
Consolidated total liabilities	**(28,974,594)**	(31,217,677)

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment with original costs of RMB566,251,000 in aggregate (six months ended 30 June 2019: RMB428,009,000). Items of property, plant and equipment with a net book value of RMB257,084,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB268,928,000), resulting in net gain on disposal of RMB19,981,000 (six months ended 30 June 2019: RMB18,835,000).

11 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, the Group acquired land use rights and entered into a number of lease agreements for use of buildings, and therefore recognised the additions to right-of-use assets of RMB73,611,000 (six months ended 30 June 2019: RMB719,712,000).

11 RIGHT-OF-USE ASSETS (Continued)

The leases of 4S dealership business contain variable lease payment terms that are based on sales generated from the 4S dealership business and minimum annual lease payment terms that are fixed. These payment terms are common in 4S dealership business in PRC where the Group operates. During the six months ended 30 June 2020, the Group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19. The amount of fixed and variable lease payments for the interim reporting period is summarised below:

	Six months ended 30 June 2020			
	Fixed Payments RMB'000	**Variable Payments RMB'000**	**COVID-19 rent concessions RMB'000**	**Total Payments RMB'000**
4S dealership business	**45,581**	**—**	**(7,187)**	**38,394**

	Six months ended 30 June 2019			
	Fixed Payments RMB'000	Variable Payments RMB'000	COVID-19 rent concessions RMB'000	Total Payments RMB'000
4S dealership business	37,183	—	—	37,183

As disclosed in note 3, the Group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-Related Rent Concessions*, and has applied the practical expedient introduced by the Amendment to all eligible rent concessions received by the Group during the period.

12 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 directors of the Group consider that there are impairment indicators for certain 4S dealership stores for the period ended 30 June 2020, which are independent CGUs, because of the following reasons:

(1) 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 Group has 16 4S stores located in Hubei province, which was more severe impacted than other regions. In addition, the Group had 57 stores located in Guangdong province where business was resumed later than other regions, and the Group had 8 stores located in Beijing where suffered second wave of COVID-19 impact in May and June 2020.

Therefore, the COVID-19 has severe direct impact on the Group's operation and financial performance.

12 INTANGIBLE ASSETS AND GOODWILL (Continued)

Intangible assets — car dealerships and goodwill (Continued)

(2) The outbreak of COVID-19 and declined financial performance of the group during the period ended 30 June 2020 has also resulted in more uncertainties leading to strategic repositioning to preserve the Group's capital to deal with the increased uncertainties.

As at 30 June 2020, included in the current liabilities were loans and borrowings of RMB14,090 million, and the Group also had capital commitment of RMB851 million. The Group only had cash and cash equivalents, time deposits and pledged bank deposits amounting to RMB791 million, RMB712 million and RMB1,900 million, respectively, as at 30 June 2020.

As a result of COVID-19 and the objective of preserving the Group's capital to deal with the uncertainties, the Group had repositioned some 4S stores that are expected to be underperforming and planned to reduce their new car purchase volume strategically to maximize the capital resources during the forecast period, which directly led to a reduced new car sales volume and revenue of certain 4S Stores.

Therefore, management engaged an external valuer to conduct an impairment test to determine the recoverable amount of such CGUs as at 30 June 2020, with the result of recognition of impairment losses of goodwill and intangible assets — car dealerships of approximately RMB916 million and RMB459 million, respectively (30 June 2019: nil).

IMPAIRMENT TESTING OF CGUs

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 according to requirements of Hong Kong Accounting Standard 36 *Impairment of Assets*, and fair values less costs to sell of the CGUs are not estimated to be materially different from their respective value in use amounts. 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 IN THE VALUE IN USE CALCULATION

Key assumptions used in the value in use calculations include: (i) annual revenue growth rates during the forecast period, (ii) gross profit margin, (iii) working capital as a percentage of revenue and (iv) discount rates.

The key inputs and assumptions used in the impairment test for the year of 2019 and the six months period ended 30 June 2020 are listed as follows:

12 INTANGIBLE ASSETS AND GOODWILL (Continued)

KEY ASSUMPTIONS USED IN THE VALUE IN USE CALCULATION (Continued)

As at 30 June 2020

<table>
<tr><th>Inputs</th><th>2020</th><th>2021</th><th>2022–2025</th></tr>
<tr><td>Annual Revenue Growth Rate</td><td>-36.6%~1,375.3%</td><td>1.5%~14,916.3%</td><td>1.5%~8.0%</td></tr>
<tr><td>Gross Profit Margin</td><td>-0.2%~15.5%</td><td colspan="2">3.9%~15.6%</td></tr>
<tr><td>Working Capital as a % of Revenue</td><td>-9.4%~14.0%</td><td colspan="2">-9.4%~9.3%</td></tr>
</table>

As at 31 December 2019

<table>
<tr><th>Inputs</th><th>2020</th><th>2021</th><th>2022–2024</th></tr>
<tr><td>Annual Revenue Growth Rate</td><td>0.0%~221,144.5%</td><td>0.0%~20.0%</td><td>3.0%~8.0%</td></tr>
<tr><td>Gross Profit Margin</td><td>3.9%~14.7%</td><td colspan="2">4.0%~15.6%</td></tr>
<tr><td>Working Capital as a % of Revenue</td><td>-8.2%~7.3%</td><td colspan="2">-11.6%~7.2%</td></tr>
</table>

The key assumptions are estimated by the management with reference to the actual and historical financial performance, expected market growth trend for different brands based on open market data and the trend estimation for repositioned stores:

— for annual revenue growth rate, a negative growth rate was expected in 2020 due to the impact of COVID-19 that no operation had been conducted for several months during the period ended 30 June 2020, and rebound in 2021 was expected due to resume of operation, while for 2022 through 2025 reverting back to a single digit growth rate;

— gross profit margin was mainly estimated based on the historical performance of each store (before COVID-19) and take into consideration of the mix for different revenue categories like new car sales and after-sale services, which is generally in line with 2019;

— working capital as a % of revenue was estimated by calculation based on historical trend (before COVID-19) of turnover days of different balance sheet items or expense to revenue ratios of different profit or loss items, which is generally in line with 2019.

The pre-tax discount rate applied to the impairment test had been adjusted mainly due to the following reasons:

— due to the impact of COVID-19, the overall economic environment changed, and the risk of overall macroeconomic environment increased, leading to the increase in market risk;

— the outbreak of COVID-19 and declined financial performance of the group during the period ended 30 June 2020 made it more challenging to refinance than it has historically been, the corporate specific risk therefore increased.

12 INTANGIBLE ASSETS AND GOODWILL (Continued)

KEY ASSUMPTIONS USED IN THE VALUE IN USE CALCULATION (Continued)

Among the above inputs and assumptions, the main changes were the decreased revenue growth. Although there is rebound in revenue growth in 2021 forecast, however, since the 2020 revenue base was lower and the 2021 revenue would be lower than originally forecasted in 2019. Consequently, the lower base in 2020 will lead to decreased revenue in future years as well. The underlying reasons for such changes was the result of COVID-19 and the objective of preserving the Group's capital to deal with the uncertainties, the Group had repositioned some 4S stores that are expected to be underperforming and reduced their new car purchase volume strategically to maximize the capital resources, which directly led to a reduced new car sales volume and revenue. Such impacts were not reflected in the inputs and assumptions used in the 2019 year end assessment, as COVID-19 was a non-adjusting subsequent events for the year ended 31 December 2019. There have been no subsequent changes in the valuation methods used from those adopted in the year of 2019.

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.

13 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.

14 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.

15 OTHER FINANCIAL ASSETS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Current		
Financial assets carried at FVPL	285,000	285,000
Non-current		
Financial assets carried at FVPL	2,737	17,028
Total	287,737	302,028

Other financial assets mainly included investments in wealth management products purchased from Western Trust Co., Ltd.

16 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	Six months ended 30 June 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.

17 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 RMB'000	At 31 December 2019 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.

18 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Prepayments	**968,454**	1,132,785
Deposits	**520,905**	518,961
Other receivables	**8,892,575**	8,564,554
Prepayments, deposits and other receivables	**10,381,934**	10,216,300

All of the prepayments, deposits and other receivables are expected to be recovered within one year.

Credit risk in respect of prepayments, deposits and other receivables is limited since the counterparties are mainly reputable automobile manufacturers and certain landlords and their receivables are settled on a regular basis.

19 PLEDGED BANK DEPOSITS AND BALANCES WITH CENTRAL BANK

Guarantee deposits in respect of:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Restricted guarantee deposits in respect of:		
Bank loans (i)	314,925	198,374
Bills payable (i)	1,175,378	791,305
Standby letter of credit(ii)	400,000	400,000
	1,890,303	1,389,679
Restricted balances with central bank:		
Deposits with central bank (iii)	9,556	9,479
	1,899,859	1,399,158

(i) The bank deposits pledged for banks loans and bills payables will be released upon the settlement of relevant bank loans and bills payable.

(ii) The bank deposits pledged for the standby letter of credit will be released upon the maturity day of the standby letter of credit.

(iii) Deposits with central bank are statutory and surplus deposit reserves placed by Shanghai Dongzheng Automotive Finance Co., Ltd. with the People's Bank of China ("PBOC"). The statutory deposit reserve ratio applicable is 6.0% (2019: 6.0%). The surplus deposit reserves are maintained with the PBOC for the purpose of cash settlement.

20 CASH AND CASH EQUIVALENTS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Deposit with banks within 3 months of maturity	110,577	287,000
Cash at banks and on hand	680,594	1,210,400
Cash and cash equivalents in the consolidated statements of financial position	791,171	1,497,400
Cash and cash equivalents in the cash flow statements	791,171	1,497,400

21 LOANS AND BORROWINGS

The analysis of the carrying amount of loans and borrowings is as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Current		
Loans and borrowings for financial services		
Unsecured bank loans	4,039,720	5,876,808
Secured borrowings from other financial institutions	19,483	75,959
Secured long-term borrowings from other financial institutions within 1 year	17,608	14,054
	4,076,811	5,966,821
Loans and borrowings for non-financial services		
Unsecured bank loans	1,675,872	2,545,427
Current portion of unsecured long-term bank loans	2,251,308	3,532,319
Unsecured short-term commercial paper	150,000	150,000
Current portion of unsecured borrowings from other financial institutions	100,000	100,000
	4,177,180	6,327,746
Secured bank loans	2,899,624	2,284,505
Current portion of secured long-term bank loans	685,372	227,825
Secured borrowings from other financial institutions	2,251,452	2,221,088
	10,013,628	11,061,164
Sub-total	14,090,439	17,027,985
Non-current		
Loans and borrowings for financial services		
Secured borrowings from other financial institutions	8,211	15,316
	8,211	15,316
Loans and borrowings for non-financial services		
Unsecured bank loans	1,663,767	1,943,402
Secured bank loans	431,772	282,537
	2,095,539	2,225,939
Sub-total	2,103,750	2,241,255
Total	16,194,189	19,269,240

22 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

23 CAPITAL, RESERVES AND DIVIDENDS

(a) 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.

23 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Dividends (Continued)

(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).

(b) Share capital

The share capital of the Group represents the issued capital of the Company at the end of the respective reporting periods.

Movements in the authorised share capital of the Company during the period are as follows:

	At 30 June 2020		At 31 December 2019	
	Number of shares (thousand)	**Amount HK$('000)**	Number of shares (thousand)	Amount HK$('000)
Ordinary shares, authorised:				
Ordinary shares of HK$0.10 each	**20,000,000**	**2,000,000**	20,000,000	2,000,000
Ordinary shares, issued and fully paid:				
At 1 January	**2,452,220**	**245,222**	2,454,142	245,414
Purchase and cancellation of own shares	**—**	**—**	(1,922)	(192)
At 30 June/31 December	**2,452,220**	**245,222**	2,452,220	245,222
RMB equivalent ('000)		**209,150**		209,150

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

Fair value hierarchy

The fair value of the Group's financial instruments are categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value measurement. The level, into which a fair value measurement is classified, is determined with the reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

The following table presents the Group's assets/(liabilities) that are measured at fair value.

		Fair value measurement as at 30 June 2020 categorised into				Fair value measurement as at 31 December 2019 categorised into		
	Fair value at 30 June RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	Fair value at 31 December RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements								
Financial assets:								
Derivative financial instruments:								
Capped cross currency swap (note (i))	**2,737**	**–**	**2,737**	**–**	17,028	–	17,028	–
Wealth management products (note (ii))	**285,000**	**–**	**–**	**285,000**	285,000	–	–	285,000
Financial liabilities:								
Derivative financial instruments:								
Capped cross currency swap (note (i))	**(77,246)**	**–**	**(77,246)**	**–**	(102,603)	–	(102,603)	–

Notes:

(i) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the capped cross currency swap is determined by discounted-cash flow method and Black-Scholes model. The discount rate used is the rate of market yield for financial instruments with substantially identical contract terms and characteristics.

(ii) Information about Level 3 fair value measurements

The fair value of wealth management products have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future interest return on maturity of the wealth management products. The directors believe that the estimated fair values resulting from the valuation technique are reasonable, and that they were the most appropriate values at the end of reporting period.

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

Below is a summary of significant unobservable inputs to the valuation of the wealth management products together with a quantitative sensitivity analysis at the end of reporting period:

30 June 2020

	Valuation techniques	Significant unobservable inputs	Range
Wealth management products	Discounted cash flow method	Interest return rate	6.5% to 6.9% (2019: 5.00% to 5.90%)

The movements during the period in the balance of these Level 3 fair value measurements was as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Wealth management products:		
At 1 January	285,000	385,000
Payment for purchases	—	150,000
Redemption of investment	—	(250,000)
At 30 June/At 31 December	285,000	285,000
Total gains for the period included in profit or loss for assets held at the end of the reporting period	—	12,782

Any gain or loss arising from the remeasurement of the wealth management products are presented in the "Other income" line item in the consolidated statement of profit or loss and other comprehensive income.

25 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Contracted for	851,079	860,885

26 MATERIAL RELATED PARTY TRANSACTIONS

During the period ended 30 June 2020, the directors are of the view that the following individual/companies are related parties of the Group:

Name of party	Relationship
Wang Muqing and Wang Muqing's family member 王木清及王木清家屬	Controlling Shareholder
Beijing Guangze Real Estate Development Co., Ltd. ("Beijing Guangze") 北京廣澤房地產開發有限公司	Controlled by Wang Muqing's family members
Hubei Xike Industry Co., Ltd. ("Hubei Xike") 湖北熙可實業有限公司	Controlled by Wang Muqing's family members
Beijing Baoze Automobile Technology Development Co., Ltd. ("Beijing Development") 北京寶澤汽車科技發展有限公司	Controlled by Beijing Guangze
Inner Mongolia Shengze Dingjie Automobile Trading Co., Ltd. ("Inner Mongolia Dingjie Automobile Trading") 內蒙古聖澤鼎傑汽車貿易有限公司	Controlled by Beijing Guangze
Changsha Shengze Ruibao Electronics Trading Co., Ltd. ("Changsha Shengze") 長沙聖澤瑞寶電子產品貿易有限公司	Controlled by Beijing Guangze
Wuhan Shengze Jieyun Trading Co., Ltd. ("Wuhan Shengze Jieyun") 武漢聖澤捷運貿易有限公司	Controlled by Beijing Guangze
Wuhan Shengze Jiezhong Logistics Co., Ltd. ("Wuhan Shengze Jiezhong") 武漢聖澤捷眾物流有限公司	Controlled by Beijing Guangze
Wuhan Jiangrong Investment Co., Ltd. ("Wuhan Investment") 武漢江融投資有限公司	Controlled by Beijing Guangze

Note: The English translation of the Company names is for reference only. The official names of the companies established in the PRC are in Chinese.

26 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Recurring transactions

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Property development related services:		
Receipt and payment on behalf of the Group:		
Beijing Guangze	**335,834**	—
Management services:		
Beijing Guangze	**16,792**	—
	352,626	—
Property management expense:		
Beijing Development	**3,158**	3,158

(b) Rental services

Based on HKFRS 16, the minimum amount of rent payable by the Group to related parties under the terms of the arrangement in connection with its use of land use rights and buildings had resulted in recognition of a lease liability with the balance of RMB207,017,000 and a right of use asset with the balance of RMB171,244,000 as at 30 June 2020. In addition, the Group recorded depreciation of right-of-use asset of RMB57,082,000 and interest expense of RMB5,436,000 in its consolidated statement of comprehensive income for the six months ended 30 June 2020.

The total amounts of lease payments incurred by the Group under the lease arrangement with related parties for the six months ended 30 June 2020 were RMB56,028,000 (for the six months ended 30 June 2019: RMB56,028,000). The related payables to related parties as at 30 June 2020 amounted to RMB22,785,000 (31 December 2019: related payable balance of RMB8,045,000).

27 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 Company (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 Company, subject to formal agreement to be signed by Joy Capital and ITG Holding.

28 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures. These contingency measures include: further assessing the 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 Group will keep the contingency measures under review as the situation evolves.

As far as the Group's businesses are concerned, COVID-19 pandemic has impacted on the Group's financial position and financial performance. For the six months ended 30 June 2020, revenue was impacted by the COVID-19 pandemic as 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Muqing *(Chairman)*
Mr. Wang Kunpeng
(Chief Executive Officer and Vice Chairman)
Mr. Koh Tee Choong (retired on 12 June 2020)
Mr. Li Zhubo
Mr. Wan To

Independent Non-executive Directors

Dr. Wong Tin Yau, Kelvin
Dr. Cao Tong
Ms. Wong Tan Tan

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS

Baoze Plaza
No. 59 West Third-Ring South Road
Beijing, PRC

PLACE OF BUSINESS IN HONG KONG

Unit 5905, 59/F
The Center
99 Queen's Road Central
Hong Kong

WEBSITE ADDRESS

www.zhengtongauto.com

COMPANY SECRETARY

Ms. Yeung Wing Yee

AUTHORIZED REPRESENTATIVES

Mr. Li Zhubo
Mr. Wan To

AUDIT COMMITTEE

Dr. Wong Tin Yau, Kelvin *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

NOMINATION COMMITTEE

Mr. Wang Muqing *(Chairman)*
Dr. Cao Tong
Ms. Wong Tan Tan

REMUNERATION COMMITTEE

Dr. Cao Tong *(Chairman)*
Mr. Wang Muqing
Dr. Wong Tin Yau, Kelvin

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL BANKERS

China Construction Bank Corporation, Hubei Branch
Industrial and Commercial Bank of China, Wuhan Branch
Bank of China, Hubei Branch
Industrial Bank Co., Ltd., Wuhan Branch
China Merchants Bank, Wuhan Branch
China Minsheng Banking Corp., Ltd., Communications Finance Business Department
China Guangfa Bank, Shanghai Branch
Shanghai Pudong Development Bank Co., Ltd.
DBS Bank (China) Limited
Standard Chartered Bank (China) Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia (China) Limited
Ping An Bank Company Limited, Shanghai Branch
China Citic Bank Corporation Limited, Headquarter General Banking

AUDITORS

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

HONG KONG LEGAL COUNSELS

Chiu & Partners

正通

CHINA ZHENGTONG
AUTO SERVICES HOLDINGS LIMITED
中國正通汽車服務控股有限公司

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