China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司

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

(Stock Code: 1728)

US DENOMINATED SENIOR NOTES DUE 2022

(Stock Code: 40132)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHTS OF RESULTS

For the year ended 31 December 2020:

- Revenue was approximately RMB16,881 million
- Overall gross loss was approximately RMB5,173 million
- Gain from the financial services business amounted to approximately RMB24 million for the year
- Loss attributable to equity shareholders of the Company was approximately RMB8,564 million

The board (the "**Board**") of directors (the "**Directors**") of China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (the "**Company**" or "**ZhengTong**", together with its subsidiaries, the "**Group**") is pleased to announce the Group's annual consolidated results for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020
(Expressed in RMB'000)

	Note	For the year ended 31 December 2020	2019
Continuing operations			(Restated)
Revenue	*3*	**16,880,923**	34,258,232
Cost of sales		**(22,054,370)**	(30,854,527)
Gross (loss)/profit		**(5,173,447)**	3,403,705
Other income		**665,223**	800,578
Selling and distribution expenses		**(1,502,673)**	(1,099,365)
Administrative expenses		**(1,066,925)**	(1,232,809)
Impairment losses on goodwill and intangible assets	*7, 8*	**(2,262,744)**	(71,222)
(Loss)/profit from operations		**(9,340,566)**	1,800,887
Finance costs	*4(a)*	**(1,091,937)**	(1,074,627)
Share of profit of a joint venture and associates		**37,077**	61,753
(Loss)/profit before taxation	*4*	**(10,395,426)**	788,013
Income tax credit/(expense)	*5(a)*	**1,782,957**	(302,163)
(Loss)/profit for the year from continuing operations		**(8,612,469)**	485,850
Discontinued operations	*13*		
Profit for the year from discontinued operations, net of tax		**23,865**	280,855
(Loss)/profit for the year		**(8,588,604)**	766,705
(Loss)/profit for the year attributable to:			
Owners of the Company			
— from continuing operations		**(8,596,060)**	450,484
— from discontinued operations		**16,954**	213,378
		(8,579,106)	663,862

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*
For the year ended 31 December 2020
(Expressed in RMB'000)

	Note	**For the year ended 31 December 2020**	2019 (Restated)
(Loss)/profit for the year attributable to:			
Non-controlling interests			
— from continuing operations		**(16,409)**	35,366
— from discontinued operations		**6,911**	67,477
		(9,498)	102,843
(Loss)/profit for the year		**(8,588,604)**	766,705
Basic and diluted (loss)/earnings per share	*6*		
from continuing operations (RMB cents)		**(335.5)**	18.4
from discontinued operations (RMB cents)		**0.7**	8.7
		(334.8)	27.1

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

(Expressed in RMB'000)

		For the year ended 31 December	
	Note	**2020**	2019 (Restated)
Other comprehensive income for the year (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of:			
financial statements of entities outside the Mainland China		**14,772**	(5,342)
Other comprehensive income for the year		**14,772**	(5,342)
Total comprehensive income for the year		**(8,573,832)**	761,363
Attributable to:			
Equity shareholders of the Company			
— from continuing operations		**(8,581,288)**	445,142
— from discontinued operations		**16,954**	213,378
		(8,564,334)	658,520
Non-controlling interests			
— from continuing operations		**(16,409)**	35,366
— from discontinued operations		**6,911**	67,477
		(9,498)	102,843
Total comprehensive income for the year		**(8,573,832)**	761,363

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2020
(Expressed in RMB'000)

	Note	**At 31 December 2020**	At 31 December 2019
Non-current assets			
Property, plant and equipment		**6,098,398**	6,609,129
Right-of-use assets		**3,036,412**	3,431,989
Intangible assets	*7*	**2,979,596**	4,193,072
Goodwill	*8*	**693,791**	1,935,113
Interest in a joint venture		—	355,002
Interest in an associate		**516,887**	15,466
Receivables from financial services	*9*	—	3,631,142
Deferred tax assets		**442,782**	321,474
Long-term receivables		**237,924**	212,946
Other financial assets		**35,000**	17,028
		14,040,790	20,722,361
Current assets			
Inventories	*10*	**1,801,768**	3,483,098
Trade and bills receivables	*11*	**1,054,337**	1,434,828
Prepayments, deposits and other receivables	*12*	**4,373,866**	10,216,300
Receivables from financial services	*9*	—	5,138,900
Other financial assets		**250,000**	285,000
Pledged bank deposits and balances with central bank		**989,711**	1,399,158
Time deposits		**443,180**	680,929
Cash and cash equivalents		**395,119**	1,497,400
Assets held for sale	*13*	**4,647,182**	—
		13,955,163	24,135,613
Current liabilities			
Loans and borrowings for financial services		—	5,966,821
Loans and borrowings for non-financial services		**10,122,239**	11,061,164
Lease liabilities		**529,620**	428,019
Trade and other payables	*14*	**4,197,308**	6,296,033
Income tax payables		**387,750**	2,064,217
Other financial liabilities		—	2,761
Liabilities held for sale	*13*	**2,203,270**	—
		17,440,187	25,819,015
Net current liabilities		**(3,485,024)**	(1,683,402)
Total assets less current liabilities		**10,555,766**	19,038,959

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
At 31 December 2020
(Expressed in RMB'000)

	Note	At 31 December **2020**	2019
Non-current liabilities			
Loans and borrowings for financial services		—	15,316
Loans and borrowings for non-financial services		**1,433,964**	2,225,939
Bonds payable		**1,417,105**	298,535
Lease liabilities		**1,161,212**	1,454,183
Deferred tax liabilities		**946,546**	1,027,790
Trade and other payables	*14*	**251,656**	277,057
Other financial liabilities		**32,383**	99,842
		5,242,866	5,398,662
NET ASSETS		**5,312,900**	13,640,297
CAPITAL AND RESERVES			
Share capital		**231,265**	209,150
Reserves		**3,876,829**	12,209,118
Total equity attributable to equity shareholders of the Company		**4,108,094**	12,418,268
Non-controlling interests		**1,204,806**	1,222,029
TOTAL EQUITY		**5,312,900**	13,640,297

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Group and the Group's interest in a joint venture and associates.

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

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

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

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

Material uncertainty related to going concern

The outbreak of COVID-19 in early 2020 and the resulting mandatory extension of holidays, travel restriction and quarantine measures in China disrupted the operations of and had a severe and direct impact on the financial performance of the Group, in particular its 4S dealership business.

The Group has sixteen 4S stores located in the Hubei province, which was more severely impacted than other regions in China. In addition, the Group had fifty-seven stores located in the Guangdong province where business resumed later than the other regions, and the Group had eight stores located in Beijing which suffered from the second wave of COVID-19 outbreak in May and June 2020.

In the second half year of 2020, in response to the continual decline in the Group's financial performance and the increased strain over the Group's liquidity position, the Group had carried out various measures to improve its liquidity. These measures, while necessary, resulted in failure among other things to satisfy with certain overriding standards on dealership operations as set in dealer agreements with automakers, e.g. customer satisfaction ratings. As a result, the Group was alleged by automakers to have damaged their brands, and various dealership rights were threatened to be terminated or suspended. The Group has since been taking improvement measures and has been in active negotiation with the automakers; as at 31 December 2020 many dealerships rights have been gradually resumed, but some major dealership agreements have been terminated or remained suspended. Against this background, the Group's purchase and sales for 2020 remained behind the targets for the year, and the Group had to continue with repositioning some of its underperforming 4S stores and planning new car purchase volume strategically to maximize its financial resources.

The above changes in circumstances have led to impairment losses on or re-assessment of the carrying amounts of various assets, including goodwill (see note 8), intangible assets (see note 7), property, plant and equipment, inventories (see note 10), and rebate receivables (see note 10(b)).

And as a consequence, the Group incurred a net loss of RMB8,589 million for the year ended 31 December 2020. As at 31 December 2020, included in the current liabilities were loans and borrowings of RMB10,122 million and trade and other payables of RMB4,197 million, lease liabilities of RMB530 million, income tax payables of RMB388 million, and the Group also had capital commitment of RMB1,172 million. The Group only had cash equivalents, time deposits and pledged bank deposits amounting to RMB395 million, RMB443 million and RMB990 million, respectively, as at 31 December 2020.

The Group will be unable to repay the loans and borrowings or other liabilities in full when they fall due unless the Group is able to generate sufficient cash inflows from its future operations, to renew or refinance the banking facilities upon maturity and to obtain additional financing.

These facts and circumstances indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its business 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 31 December 2020. Certain measures have been planned or taken to mitigate the liquidity pressures and to improve its financial position which include, but not limited to, the following:

(i) On 19 October 2020, the controlling shareholder of the Company, i.e. Joy Capital Holdings Limited ("**Joy Capital**") and Mr. Wang Muqing (the "**Seller**") entered into a sale and purchase agreement (the "**SPA**") with Xiamen Xindeco Ltd. ("**Xindeco**", the "**Buyer**"). Pursuant to the SPA, Joy Capital conditionally agreed to sell and Xindeco conditionally agreed to purchase shares carrying 29.9% of the voting rights of the total issued shares of the Company at a consideration of HK$1,403,371,394 (the "**Transaction**"). Upon completion of the Transaction, Xindeco shall become the single largest shareholder of the Company and will be able to provide financial support to the Group. The completion of the Transaction is subject to fulfillment or waiver of several conditions precedent set out in the SPA, including obtaining necessary authorizations, agreements or approvals from relevant regulators, etc. As of the date of approval of these financial statements, the Transaction is still in process. Although the Buyer and Seller continue to work together to fulfil the conditions as set out in the SPA and they anticipate to complete the Transaction within 2021, there is no guarantee that all conditions will be satisfied as scheduled.

(ii) On 22 March 2021, the Company negotiated and revised the repayment schedule with the Group's lenders for an outstanding instalment of a loan in the amount of US$290.5 million (RMB equivalent 1,691 million), revising the due date from 19 January 2021 to a date of no later than 19 July 2022, after partially repaid RMB223 million after 31 December 2020. The Company reached the extension of loan with the lenders on the condition that the Transaction as mentioned above will be completed.

(iii) Among the current liabilities of loans and borrowings amounting to RMB1,080 million that were originally due during 1 January 2021 to 31 March 2021, RMB708 million had been subsequently repaid after 31 December 2020, and the Group negotiated and revised the repayment schedule for the remaining part with the Group's lenders for an extension of 2 to 6 months and the Group anticipate that they can obtain further extension of their repayment schedule based on current negotiation with the lenders on the condition that the Transaction as mentioned above will be completed within 2021.

Among the current liabilities of loans and borrowings amounting to RMB6,871 million that were originally due during 1 April 2021 to 31 December 2021, the Group had negotiated with the lenders for extension or repayment plans. RMB606 million had been subsequently repaid after 31 December 2020, and the Group anticipate that they can obtain extension of repayment schedule for the remaining part when they fall due based on current negotiation with lenders, on the condition that the Transaction as mentioned above will be completed within 2021, or the Group may fulfill repayments via new proceeds obtained from the following ways:

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

— financial support from Xindeco when the Transaction is completed; or

— Operating cash flows from business operations.

Among the current liabilities of loans and borrowings amounting to RMB480 million were due to auto finance companies of the respective automobile manufactures for purchase of motor vehicles, which are pledged by inventories purchased, and they are being drawn down and repaid on a revolving basis. The Group anticipate that these borrowings can be rolled over following the resumption of business operations.

(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. Assuming the completion of the Transaction as planned and success of other measures set out above, the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2020. Accordingly, the directors are of the opinion that it is appropriate to prepare the Group's consolidated financial statements for the year ended 31 December 2020 on a going concern basis. If the Transaction is not completed as planned and the Group is not 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 these financial statements.

(c) Changes in accounting policy

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

(d) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal groups constituting the discontinued operation.

3 REVENUE

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

(i) Disaggregation of revenue

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

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
		(Restated)
Revenue from contracts with customers within the scope of HKFRS 15		
Continuing operations		
Sales of passenger motor vehicles	**12,605,564**	28,564,086
Provision of after-sales services	**3,373,363**	4,771,068
Provision of logistics services	**611,266**	563,764
Sales of lubricant oil	**280,576**	328,755
	16,870,769	34,227,673
Discontinued operations		
Service income from financial services	**72,597**	173,828
Revenue from other sources		
Continuing operations:		
Others	**10,154**	30,559
Discontinued operations:		
Interest income from financial services	**547,908**	705,734
	17,501,428	35,137,794
Revenue of continuing operations	**16,880,923**	34,258,232
Revenue of discontinued operations	**620,505**	879,562

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for passenger vehicles such that the Group does not include information about revenue that the Group will be entitled to when it satisfied the remaining performance obligations under the contracts for sales of passenger vehicles that had an original expected duration of one year or less.

4 (LOSS)/PROFIT BEFORE TAXATION

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

		For the year ended 31 December	
	Note	**2020**	2019
		RMB'000	*RMB'000*
			(Restated)
(a) Finance costs:			
Continuing operations:			
Interest on loans and borrowings for non-financial services and bonds payable		**1,046,242**	955,852
Interest on lease liabilities		**102,650**	139,066
Finance cost for consideration of business combination	*(i)*	**22,219**	27,689
Other finance costs	*(ii)*	**20,433**	39,998
Less: Interest capitalised*		**(99,607)**	(87,978)
		1,091,937	1,074,627
Discontinued operations:			
Interest on lease liabilities		**1,899**	1,633
		1,093,836	1,076,260

* The borrowing costs have been capitalised at a rate of 4.13%–8.80% per annum (2019: 4.13%–7.50%).

	Note	For the year ended 31 December **2020** ***RMB'000***	 2019 *RMB'000* (Restated)
(b) Staff costs:			
Continuing operations:			
Salaries, wages and other benefits		**1,293,136**	828,594
Contributions to defined contribution retirement plans	*(iii)*	**17,944**	73,065
Equity settled share-based transactions		**17,310**	—
		1,328,390	901,659
Discontinued operations:			
Salaries, wages and other benefits		**69,101**	90,328
Contributions to defined contribution retirement plans	*(iii)*	**749**	8,115
		69,850	98,443
		1,398,240	1,000,102

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

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

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

The Group also operates a Mandatory Provident Fund Scheme (the "**MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

Due to the impact of an outbreak of COVID-19, a number of policies including the relief of social insurance have been promulgated by the government since February 2020 to expedite resumption of economic activities, which contributed to the relief of certain defined contribution plans during the year.

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

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
		(Restated)

(c) Other items:

Continuing operations:		
Cost of inventories *(note 10(b))*	**21,312,963**	30,110,252
Depreciation		
— Owned property, plant and equipment	**371,919**	372,510
— Right-of-use assets	**397,899**	377,424
Amortisation of intangible assets	**183,897**	188,664
Operating lease charges	**5,735**	53,468
Realised and unrealised net (gain)/loss on derivative financial instruments	**(1,216)**	18,850
Net foreign exchange (gain)/loss	**(350,442)**	94,188
Impairment losses		
— Goodwill *(note 8)*	**1,241,322**	71,222
— Intangible assets *(note 7)*	**1,021,422**	—
— Property, plant and equipment	**235,628**	—
Discontinued operations:		
Cost of interests*	**147,915**	373,603
Depreciation		
— Owned property, plant and equipment	**3,143**	2,563
— Right-of-use assets	**9,290**	8,609
Amortisation of intangible assets	**5,536**	6,488
Operating lease charges	**320**	345
Net foreign exchange loss/(gain)	**995**	(39,703)
Impairment losses		
— Receivables from financial services	**309,266**	110,154
Listing expenses	**—**	9,207

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

5 INCOME TAX

(a) Continuing operation

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

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
		(Restated)
Current tax:		
Provision for income tax for the year	**(1,548,535)**	375,161
Deferred tax:		
Origination of temporary differences	**(234,422)**	(72,998)
	(1,782,957)	302,163

(b) Discontinued operations:

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

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
		(Restated)
Current tax:		
Provision for income tax for the year	**64,434**	103,076
Over-provision in respect of prior years	**(143)**	—
	64,291	103,076
Deferred tax:		
Origination of temporary differences	**(55,678)**	(8,880)
	8,613	94,196

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

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

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25% (2019: 25%).

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

6 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2020 was based on the loss attributable to equity shareholders of the Company of RMB8,596,060,000 for continuing operation and profit attributable to equity shareholders of the Company of RMB16,954,000 for discontinued operation (2019: profit of RMB450,484,000 and RMB213,378,000 for continuing and discontinued operations, respectively) and the weighted average number of ordinary shares in issue during the year ended 31 December 2020 of 2,562,402,360 (2019: 2,452,220,420), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2020	2019
Issued ordinary shares at 1 January	**2,452,220,420**	2,452,220,420
Effect of shares issued for placing	**110,181,940**	—
Weighted average number of ordinary shares at 31 December	**2,562,402,360**	2,452,220,420

There were no dilutive potential ordinary shares for the year ended 31 December 2020 and, therefore, diluted earnings per share are equal to basic earnings per share.

7 INTANGIBLE ASSETS

	Car dealerships *RMB'000*	Dealership operation rights *RMB'000*	Favourable lease contracts *RMB'000*	Trademark *RMB'000*	Software *RMB'000*	Others *RMB'000*	Total *RMB'000*
Cost:							
At 1 January 2019	3,967,085	881,468	36,904	362,732	31,082	363	5,279,634
Additions	—	—	—	—	21,861	—	21,861
At 31 December 2019 and 1 January 2020	3,967,085	881,468	36,904	362,732	52,943	363	5,301,495
Additions	—	—	—	—	8,716	—	8,716
Reclassification to assets classified as held for sale *(note 13)*	—	—	—	—	(38,189)	—	(38,189)
At 31 December 2020	3,967,085	881,468	36,904	362,732	23,470	363	5,272,022
Accumulated amortisation:							
At 1 January 2019	780,423	88,147	29,469	—	15,232	—	913,271
Additions	96,476	88,147	3,221	—	7,308	—	195,152
At 31 December 2019 and 1 January 2020	876,899	176,294	32,690	—	22,540	—	1,108,423
Additions	177,326	—	2,828	—	9,279	—	189,433
Reclassification to assets classified as held for sale *(note 13)*	—	—	—	—	(26,852)	—	(26,852)
At 31 December 2020	1,054,225	176,294	35,518	—	4,967	—	1,271,004
Accumulated impairment losses							
At 1 January 2019, 31 December 2019 and 1 January 2020	—	—	—	—	—	—	—
Additions	905,758	—	—	115,664	—	—	1,021,422
At 31 December 2020	905,758	—	—	115,664	—	—	1,021,422
Net book Value:							
At 31 December 2020	2,007,102	705,174	1,386	247,068	18,503	363	2,979,596
At 31 December 2019	3,090,186	705,174	4,214	362,732	30,403	363	4,193,072

Intangible assets — car dealerships

The car dealerships arise from relationship with automobile manufacturers, 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.

The dealership operation rights arise from business combination through an agreement on strategic operation management cooperation scheme, with a contractual useful life of 10 years. The fair value of the dealership operation rights as at the acquisition date was determined by using the multiple excess earning method.

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

As disclosed in note 2, the operational disruption and the liquidity strain brought about by the covid-19 outbreak during 2020 has led to significant deterioration in certain overriding and ongoing performance metrics, such as customer satisfaction ratings, under the various dealership agreements between the Group and automakers. As such, many automakers have alleged that the Group has damaged their brands and threatened to terminate the dealership agreements. While the Group has since been taking improvement measures and has been in active negotiation with the automakers and a number of dealerships rights have been gradually resumed, as at 31 December 2020, some major dealership have been terminated or remained suspended.

Against this background, the Group's purchase and sales for 2020 remained behind the targets for the year, and the Group had to continue with repositioning some of its underperforming 4S stores and planning new car purchase volume strategically to maximize its financial resources, which directly led to a reduced new car sales volume and revenue of certain 4S Stores during the forecast period.

Therefore, management engaged an external valuer to assist with an impairment test to determine the recoverable amount of the related CGUs as at 31 December 2020, with the result of recognition of impairment losses of goodwill and intangible assets — car dealerships of approximately RMB1,241 million and RMB906 million, respectively (2019: RMB71 million and nil).

Impairment testing of intangible assets — car dealerships and goodwill

The recoverable amount of CGUs 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%). The carrying amount of these CGUs has been reduced to their recoverable amount, the impairment first reduced the carrying amount of goodwill allocated to the CGU, then the remaining amount of the impairment loss was allocated pro rata to other assets in the CGU, on the basis of the carrying amount of each asset in the CGU (including intangible assets), no less than the highest of its recoverable amount (if it is determinable) and zero.

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.

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

During the year ended 31 December 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 RMB116 million as at 31 December 2020 (2019: Nil).

8 GOODWILL

	RMB'000
Cost:	
At 1 January 2019, 31 December 2019 and 31 December 2020	**2,006,335**
Accumulated impairment losses:	
At 1 January 2019, 31 December 2019 and 1 January 2020	**71,222**
Impairment during the year	**1,241,322**
At 31 December 2020	**1,312,544**
Carrying amount:	
At 31 December 2020	**693,791**
At 31 December 2019	**1,935,113**

Impairment test for cash-generating unit containing goodwill

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

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
4S dealership business	**693,791**	1,935,113

As mentioned in note 7 above, an impairment loss of RMB1,241,322,000 (2019: RMB71,222,000) had been recognised by the Group in "Impairment losses on goodwill and intangible assets". Any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment loss.

9 RECEIVABLES FROM FINANCIAL SERVICES

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current		
Receivable from retail customers	—	4,096,702
Receivable from auto dealers	—	1,151,206
Less: Allowance for impairment losses	—	(109,008)
	—	5,138,900
Non-current		
Receivable from retail customers	—	3,707,354
Less: Allowance for impairment losses	—	(76,212)
	—	3,631,142
Net receivables from financial services	—	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. Management has a credit policy in place and the exposure to these credit risk are monitored on an ongoing basis.

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

(a) Ageing analysis

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

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	—	1,782,058
More than 3 months but within 1 year	—	3,452,675
More than 1 year	—	3,535,309
	—	8,770,042

(b) Impairment of receivables from financial services

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

	2020	2019
	RMB'000	*RMB'000*
Balance at 1 January	—	142,320
Impairment loss recognised	—	110,154
Uncollectible amounts written off	—	(71,750)
Recovery after write-off	—	4,496
Balance at 31 December	—	185,220

10 INVENTORIES

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

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
4S dealership business		
— Motor vehicles	**967,392**	2,679,440
— Automobile spare parts	**256,610**	384,533
— Others	**41,459**	39,894
	1,265,461	3,103,867
Comprehensive properties business		
— Properties under development for sale	**536,307**	379,231
	1,801,768	3,483,098

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

		For the year ended 31 December	
	Note	**2020**	2019
		RMB'000	*RMB'000*
Carrying amount of inventories sold		**16,894,387**	30,102,488
Write down of inventories		**101,190**	8,688
Reversal of write-down of inventories	*(i)*	**(664)**	(924)
Reversal of vendor rebates	*(ii)*	**4,318,050**	—
		21,312,963	30,110,252

(i) 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.

(ii) Rebate receivables in prior years were accrued based the terms of the underlying vendor rebate policies and relevant inputs, including sales and purchase volume data, rebate rates and other specific criteria such as customer satisfactory results, store demonstration requirements, etc., as set out in the respective vendor rebate policies.

As disclosed in note 2, the operational disruption and the liquidity strain brought about by the COVID-19 outbreak during 2020 has led to significant deterioration in certain overriding and ongoing performance metrics, such as customer satisfaction ratings, under the various dealership agreements between the Group and automakers. As such, many automakers have alleged that the Group has damaged their brands and threatened to terminate the dealership agreements and claw back the Group's prior years' rebate entitlements. While the Group has since been taking improvement measures and has been in active negotiation with the automakers and a number of dealerships rights have been gradually resumed, as at 31 December 2020 some major dealership agreements have been terminated or remained suspended. The Group has therefore reassessed the recoverability of the rebate receivable in light of the above development. Accordingly, a provision of RMB4,318,050,000 has been made against rebate receivable during the year ended 31 December 2020. Such provision covered stores whose dealership rights have been terminated or suspended, and also stores whose dealership rights have been resumed but there remained significant uncertainties around the recoverability of the rebate receivable owing to the prior allegation of the related automakers.

11 TRADE AND BILLS RECEIVABLES

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**1,053,682**	1,434,828
Bills receivable	**655**	—
	1,054,337	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 risks are monitored on an ongoing basis.

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

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

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**1,013,109**	1,402,439
More than 3 months but within 1 year	**21,962**	27,372
Over 1 year	**19,266**	5,017
	1,054,337	1,434,828

12 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		At 31 December	
	Note	**2020**	2019
		RMB'000	*RMB'000*
Prepayments		**763,067**	1,132,785
Deposits		**510,213**	518,961
Other receivables	*(ii)*	**3,100,586**	8,564,554
		4,373,866	10,216,300

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

(ii) The counterparties of other receivables are mainly automobile manufacturers for vendor rebates. As mentioned in note 10(b)(ii), a provision of RMB4,318,050,000 has been made against rebate receivable, which was included in other receivables, during the year ended 31 December 2020.

13 DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS

On 20 October 2020, the Company received from Shanghai Office of the China Banking and Insurance Regulatory Commission (the "**CBIRC**") an administrative decision against the Company (the "**CBIRC Decision**"), alleging that (i) the Company obtained administrative licenses and permits for the establishment of Shanghai Dongzheng Automotive Finance Co., Ltd* ("**Dongzheng**"), a subsidiary of the Company, by improper means and the Company and its related parties engaged in non-compliant related-party transactions with Dongzheng; and (ii) Dongzheng's dealer auto loan business was carried out in serious violation of the principle of prudent operation. CBIRC required that the Company shall withdraw the Company's interest in Dongzheng within 3 months from the date of the CBIRC decision.

In response to the CBIRC Decision, the Company had committed to sell its entire interests in Dongzheng which constituted the Group's financial services segment, had engaged a financial adviser to assist in the probable disposal of its interests in Dongzheng (the "**Potential Disposal**") and had been actively identifying potential purchasers with an objective of achieving a completed sale within 2021. Accordingly, the interests in Dongzheng have been presented as a disposal group held for sale as at 31 December 2020 and as discontinued operations for the year.

As at 31 December 2020, no binding sales and purchase agreements have been entered into by the Company with any potential purchasers and no valuation of Dongzheng has been performed in respect of the Potential Disposal, and the discussion and negotiation are still in progress.

The presentation of certain comparative information in respect of the year ended 31 December 2019 has been restated to show the discontinued operations separately from continuing operations following the requirements as set out in note 2(d).

(i) Analysis of profit for the year from Dongzheng

The results of the discontinued operations of Dongzheng for the year are as follows:

	Note	**For the year ended 31 December 2020** *RMB'000*	2019 *RMB'000*
Revenue		**808,709**	1,167,114
Elimination of inter-segment revenue		**(188,204)**	(287,552)
External revenue	*3*	**620,505**	879,562
Cost		**(630,414)**	(579,694)
Other revenue		**9,521**	90,270
Administrative expenses		**(111,946)**	(156,278)
Finance cost		**(1,899)**	(1,633)
Elimination of expenses related to inter-segment sales		**146,711**	142,824
Results from operating activities		**32,478**	375,051
Income tax	*5(b)*	**(8,613)**	(94,196)
Results from operating activities, net of tax		**23,865**	280,855

The profit from the discontinued operation for the year attributable to the owners of the Company amounted to RMB16,954,000 (2019: RMB213,378,000).

The major classes of assets and liabilities of Donngzheng as at 31 December 2020 are as follow:

	At 31 December 2020
	RMB'000
Property, plant and equipment	**7,598**
Right-of-use assets	**20,636**
Intangible assets	**11,337**
Receivables from financial services	**4,389,884**
Deferred tax assets	**87,548**
Prepayments, deposits and other receivables	**34,758**
Cash and cash equivalents	**95,421**
Assets reclassified as held-for-sale as at 31 December 2020	**4,647,182**
Add: inter-segment receivables	**1,621,580**
Dongzheng reportable assets as at 31 December 2020	**6,268,762**
Loans and borrowings	**(2,033,911)**
Trade and other payables	**(127,608)**
Lease liabilities	**(23,372)**
Income tax payables	**(18,379)**
Liabilities reclassified as held-for-sale as at 31 December 2020	**(2,203,270)**
Add: inter-segment payables	**(932)**
Dongzheng reportable liabilities as at 31 December 2020	**(2,204,202)**

14 TRADE AND OTHER PAYABLES

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current		
Trade payables	**1,029,801**	1,133,626
Bills payable	**699,320**	2,447,408
	1,729,121	3,581,034
Contract liabilities	**916,287**	915,334
Other payables and accruals	**1,528,557**	1,799,665
Payables due to related parties	**23,343**	—
	4,197,308	6,296,033
Non-Current		
Long-term payables	**251,656**	277,057
	4,448,964	6,573,090

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

	At 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**1,530,030**	3,322,566
Over 3 months but within 6 months	**190,570**	255,088
Over 6 months but within 12 months	**8,521**	3,380
	1,729,121	3,581,034

15 DIVIDENDS

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

	2020	2019
	RMB'000	*RMB'000*
No interim dividend declared and paid (2019: HK$0.10 per ordinary share)	**—**	221,357
No final dividend proposed after the end of the reporting period (2019: Nil)	**—**	—
	—	221,357

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

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

	2020	2019
	RMB'000	*RMB'000*
No final dividend in respect of the previous financial year, approved and paid during the year (2019: HK$0.14 per ordinary share)	—	300,787

(iii) Other dividends

During the year of 2020, certain subsidiaries of the Group declared and paid dividends of RMB7,725,000 in cash to non-controlling shareholders (2019: RMB56,589,000).

16 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Disposal of shares by the controlling shareholder

As disclosed in note 2, on 19 October 2020, the controlling shareholder of the Company, i.e. Joy Capital and Mr. Wang Muqing entered into the SPA with Xindeco. Pursuant to the SPA, Joy Capital conditionally agreed to sell and Xindeco conditionally agreed to purchase shares carrying 29.9% of the voting rights of the total issued shares of the Company at a consideration of HK$1,403,371,394. Upon completion of the Transaction, Xindeco shall become the single largest shareholder of the Company and will be able to provide financial support to the Group. The completion of the Transaction is subject to fulfillment or waiver of several conditions precedent set out in the SPA, including obtaining necessary authorizations, agreements or approvals from relevant regulators, etc.

As of the date of approval of these financial statements, the Transaction is still in process.

Potential disposal of a subsidiary

As disclosed in note 13, the Company had committed to sell its entire interests in Dongzheng which constituted the Group's financial services segment. The Company had been actively identifying potential purchasers and had engaged a financial adviser to assist in the Potential Disposal with an objective of achieving a completed sale within 2021.

As of the date of this announcement, no binding sales and purchase agreements have been entered into by the Company with any potential purchasers and no valuation of Dongzheng has been performed in respect of the Potential Disposal, and the discussion and negotiation are still in progress.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2020, the Group was committed to luxury and ultra-luxury branded auto sales and after-sales services business, and eliminating the impact of the pandemic and liquidity risk to ensure the Group's normal operation 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 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. The Group maintained efficient communication with manufacturers and cooperative financial institutions to ensure rapid business recovery after the improvement of the operating environment.

For the year ended 31 December 2020, the Group recorded a revenue of approximately RMB16,881 million, representing a year-on-year decline of approximately 50.7%, and gross loss of approximately RMB5,173 million, representing a year-on-year decline of approximately 252.0%. Loss attributable to equity holders of the Company was approximately RMB8,579 million and basic loss per share was approximately RMB334.8 cents, representing a year-on-year decline of approximately 1,392.0% and 1,335.4%, respectively.

The decline in the Group's business results in 2020 was mainly attributable to the adverse impact resulting from the COVID-19 pandemic and tight capital chain. The Company closely monitored the impact of the COVID-19 pandemic and capital management at the Group level and engaged external valuer to assess on the impairment losses of goodwill and intangible assets.

(I) Sales of new automobiles business

In 2020, due to the adverse impact brought by COVID-19 pandemic and liquidity risk, the Group's sales of new automobiles business experienced a significant decline.

For the year ended 31 December 2020, the sales of new automobiles of the Group reached 41,394 units in total, representing a year-on-year decline of approximately 59.9%, including 31,565 units of luxury branded and ultra-luxury branded automobiles with a year-on-year decrease of approximately 61.4%. In 2020, the Group recorded negative gross profit margin from the sales of new automobiles of 52.4%, representing a drop of 56.4 percentage points as compared to the same period of last year.

In order to cope with the adverse impact of COVID-19 pandemic and the liquidity risk, 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 pandemic. We actively communicated with manufacturers and repositioned some stores that recorded significant losses based on actual conditions and operating environment, adjusted operational thinking and business targets and coordinated resources support under special circumstances; the Group also strengthened its inventory management, formulated competitive promotion plans to clear the long and accumulated inventory, improved inventory turnover efficiency, reduced occupation of funds, reduced capital costs, and avoided capital strain caused by excessive inventory pressure, and leveraged the synergy advantages of the Group to coordinate the deployment of operating resources among our stores so as to ensure the basic operation of stores. Thanks to a variety of effective responsive measures, the Group's stores have steadily gone through the rising period of COVID-19 pandemic. After the effective relief of its liquidity risk, the Group actively communicated with manufacturers at once to quickly restore vehicle supply, and actively coordinated with cooperative financial institutions to expand the credit limit and form a virtuous cycle of capital operation. By the end of 2020, the Group's overall sales business has returned to normal. At the same time, taking the opportunity to respond to the pandemic and liquidity risk, the Group even down to managing the front-line business and further improved its overall operating quality and efficiency by process optimization, cost control, horizontal management and other methods, laying a solid foundation for the comprehensive recovery and long-term development of our business.

(II) After-sales services business

In 2020, the Group served 1,245,486 units of automobiles in aggregate, representing a decrease of approximately 17.9% as compared to the same period of last year. Revenue from after-sales services of the Group amounted to approximately RMB3,373 million, with a decrease of 29.3% as compared to the same period of last year. The gross profit was approximately RMB1,291 million, representing a decrease of 39.6% as compared to the same period of last year, and the gross profit margin was approximately 38.3%.

Facing the impact of pandemic, the Group diversified customer offers in a targeted manner, providing customers with safe and secured car maintenance experience, while enabling the 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 to satisfy the individual needs of existing customers and leaving customers customized services and products, effectively expanded its customer base, and ensured the rapid recovery and steady growth of the its after-sales business.

(III) Pre-owned automobile business

According to the data published by China Automobile Dealers Association, a total of 14,340,000 units of pre-owned automobiles were traded nationwide in 2020, representing a year-on-year decrease of 3.9%. The trading volume of pre-owned automobiles also declined due to the pandemic.

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, the sales channels and the scale of second-hand online business, with an aim to accelerate automobiles turnover, increase the premium of pre-owned automobiles, and simultaneously improve the operating efficiency and profitability of pre-owned automobiles. Benefiting from the national preferential tax rate for pre-owned automobiles, the Group's overall profitability for pre-owned automobiles has also increased. 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**"), a subsidiary of the Company, is an automotive finance Company regulated by the China Banking and Insurance Regulatory Commission (the "**CBIRC**") focusing on the luxury vehicle market. It is principally engaged in automotive finance businesses. Dongzheng AFC commenced listing on the Main Board of the Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 3 April 2019.

Due to the outbreak of the COVID-19 pandemic and other impacts, consumers' consumption demand for passenger vehicle purchase has lowered, the auto finance industry faced serious challenges and new loans disbursed has decreased in 2020. As at 31 December 2020, the loan portfolio of Dongzheng AFC decreased to RMB5.75 billion from RMB10.00 billion as at 31 December 2019, representing a decrease of 42.5%. In 2020, net interest income decreased by approximately 7.6% to RMB495 million, while net profit of RMB55 million decreased by 85.9% as compared to 2019. In 2020, Dongzheng AFC's non-performing loan ratio was 0.36%, the loan provision rate was 7.35%, and the provision coverage ratio was 2,037.81%.

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 services provided by the Company's subsidiaries as follows:

- Dongzheng AFC holding an auto financial license granted by the CBIRC is the only auto finance company with a dealership background in China;
- Shenzhen Zhengyuan Automobile Technology Co., Ltd. ("**Zhengyuan Technology**") specializing in big-data risk control and ABS cloud finance technology;
- Xiamen International Financial Asset Exchange Co., Ltd. ("**Xiamen International Financial Asset Exchange**") providing an online asset transaction platform; and
- Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. ("**Dingze Leasing**") and Dingze Insurance Agency Co., Ltd. ("**Dingze Insurance Agency**") providing financial leasing, insurance brokerage and other related services.

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

Covering National Offline Auto Finance Channels by Licensed Financial Institution

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

Dongzheng AFC has established a dealer network with a broad geographical coverage in China. The number of dealers within the sales network exceeded 900 as of 31 December 2020. Capitalizing on the advantages of 4S automobile distribution channels of the Group, as well as the well-established external dealership network, Dongzheng AFC has proactively expanded its business to cover over 172 cities. The distribution channels of Dongzheng AFC mainly focus on mid- to high-end brands and target customer base with high consumption power. Leveraging on the network advantages and reasonable marketing strategies, Dongzheng AFC provides consumers with satisfactory customers' experiences and services.

Product Design

Principal businesses of Dongzheng AFC comprises automotive finance business which provides loans, direct leasing products and other financial services to the end customers, major customers and corporate clients for purchases of vehicles.

Risk Control

For the purposes of risk management, Dongzheng AFC has strengthened its risk management and control capacity with focuses on risk policies, big data risk control, risk monitoring and asset preservation and has achieved a decrease in both non-performing loan ratio and non-performing loan balance. During the year, Dongzheng AFC has adopted the following measures to improve its non-performing loan: (i) it introduced multi-dimensional risk data and applied statistics principle and machine learning algorithm to promote the iterative upgrade of the big data risk control model, enhanced the automated approval system in respect of the ability to identify customer fraud risk and credit risk and improved the efficiency of credit and loan approval and decision-making; (ii) it strengthened the daily risk monitoring mechanism including channel business quality monitoring, business risk cost monitoring, business risk special investigation, post-loan monitoring and client visits, etc. to identify and control potential risks in a faster and more accurate manner; and (iii) under the pressure that a general decrease in repayment capabilities of customers due to the pandemic, it comprehensively improved the asset preservation strategy, enhanced the asset recovery and disposal capacity at all stages, and raised the working efficiency in the legal litigation stage. Dongzheng AFC's overall recovery capacity of overdue assets has been significantly improved compared with previous years.

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 the ends of financial assets and capitals are highly-efficient connected to the financial technology.

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

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

Shengze Jietong Supply Chain Co., Ltd. ("**Shengze Jietong**") successfully completed the handover of the logistics business expansion for next three years for a total of seven automobile brands under Dongfeng Nissan and FAW Logistics in 2019.

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

As impacted by the pandemic at the end of January 2020, the vehicle warehousing and transportation, spare parts warehousing and transportation business of Shengze Jietong in Hubei Province were closed for nearly 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 responded to the government's call for resumption of work and production by quickly cooperating with customers to resume production. As the pandemic in China was gradually alleviating and market demand recovered, with the year-on-year decrease of approximately 6% in domestic vehicle sales, the business of Shengze Jietong actually achieved throughout the year was better than market expectation, which is summarized as follows:

In 2020, a total of 479,300 vehicles were shipped under various business brands, representing a year-on-year increase of 33.98%. Among these, the business of Dongfeng Group grew by 36.3% and FAW by 33.0%; the business of major brand, Dongfeng Nissan, including Infiniti and Dongfeng Venucia, achieved year-on-year increase by 46.9% in transportation volume after bidding for new business (FY2020-2022) due to the increased market share; the business of Wuhan factory of Dongfeng Honda fell by 21.1% due to the city closure arising from the pandemic; the business of FAW-Volkswagen increased by 20.8%; the business of FAW Pentium/Hongqi/Mazda increased by 239.8% as a whole due to new lines and marketing and other reasons; the annual delivery completion rate of FAW Toyota in Dongguan (new business in November 2019) was 98.08%; businesses of other brands including new energy Xiaopeng, Geely, Shenlong, and EHi Car Rental increased by 150.7%.

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, 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 December 2020, our vehicle warehousing business has acquired the temporary warehouse business of FAW Hongqi Central China Warehousing, making a good start. In the future, FAW Hongqi intends to establish a formal transfer warehouse in Wuhan. The operation of this temporary warehouse has established a good management image for FAW Hongqi and laid a solid foundation for the official establishment of the transfer warehouse. The foundation of business cooperation is expected to realize the most complete transfer warehouse for FAW's regional business brands in Central China in combination with the existing FAW Audi, Volkswagen, Jetta, Pentium, Mazda and other brands in the future.

In 2021, Shengze Jietong will further accelerate the construction of the new logistics base in Hannan District, Wuhan. The whole project will consist of 3 dock berths, a 6-storey vehicle warehouse, an automated spare parts warehouse and two spare parts mechanized warehouses, office and living facilities. 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 and foundation construction, acceptance and delivery of the open warehouse of 79,400 square meters works of the project had started. In 2021, it is planned to complete the construction in July and deliver the indoor warehouse of 14,800 square meters in October and the spare parts warehouse of 49,000 square meters in January 2022. The Group will further accelerate investment and construction of remaining projects. The delivery and use of the base will further increase the Company's core competitiveness and cost advantages, and continue to provide efficient integrated logistics services to FAW, Dongfeng Group and other business customers.

(VI) Comprehensive properties business

To fully utilize on the potential value of the land held by it, the Group planned to conduct construction of comprehensive property projects for its existing 4S dealership stores, which are respectively located in Chongqing, Dalian, Shantou and other places. All of these comprehensive property projects are apartment projects, and project in Shantou has obtained the pre-sale permits for sales. The Group believes that the said arrangement is a reasonable arrangement to improve the efficiency of capital utilisation and bring higher return for the shareholders of the Company (the "**Shareholders**").

(VII) Network development

Insistence on deployment of the nationwide dealership network for luxury brands complemented by ongoing optimization of the 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, Cadillac and Infiniti. The Group also operates dealership stores of mid to high-end market brands, including FAW-Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

As of 31 December 2020, the Group owned 125 dealership stores in 38 cities across 17 provinces and municipalities in China. In 2020, the Group continued to optimize the existing business network through closing down 7 branded 4S stores and 3 urban showrooms strategically with underperformed profitability based on the development and operating conditions of different cities, so as to enhance the Group's overall market competitive strength and profitability of our business network. In addition, due to the impact of the COVID-19 pandemic and the adjustment of brand manufacturers' development strategies, the authorization of some of the Group's dealerships was terminated by cooperating brand manufacturers. Based on the comprehensive analysis of the brand and regional profitability of each store, the Group decided to convert some of the above dealership stores into self-operated outlets and new authorized outlets in due course in future. At the same time, the Group has been actively communicating with brand manufacturers to strive for the early resumption of agency authorization for related businesses.

As of 31 December 2020, there are a total of 8 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. The authorized dealership stores to be opened can enhance our competitive advantages in provinces and regions, including Guangdong, Hubei, Zhejiang and Sichuan, as well as those cities and regions with greater potential for development, such as Nanjing and Dalian. The expansion in geographical coverage will further enhance the Group's brand structure and regional distribution. In addition, due to the impact of the COVID-19 pandemic and the adjustment of the Group's overall development strategy, the Group's new project construction progress has slightly slowed down in 2020. As of the date of this announcement, Wuhan Benz 4S store has been completed and put into operation, and Chengdu Porsche 4S store will soon be completed and opened.

The following table sets forth the details of our dealership stores as of 31 December 2020:

	Dealership stores in operation	Authorized dealership stores to be opened	Total
5S/4S stores for luxury and ultra-luxury brands	75	6	81
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	6	2	8
Self-operated stores	20	0	20
Total	125	8	133

As a mainstream strategic partner of manufacturers of luxury and ultra-luxury brands in the PRC, the Group will continue its network expansion strategies by insisting on the layout of the national luxury brand dealer network and continuously optimize brand structure and regional distribution to achieve a balanced layout of dealership stores for core luxury brands and a refined brand structure in its pursuit of prudent development. 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 actively participate in due course and explore new growth drivers. The Group will also 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.

(VIII) Innovation of management and improvement of operational quality

In 2020, the Group leveraged and reacted to the adverse impact of COVID-19 pandemic by accelerating our "transformation and upgrade" process. 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.

Classification management of stores

During the year, 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 motivation and initiatives. 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.

Innovative marketing models

Offline business at the store was limited at the beginning of the COVID-19 pandemic. In this regard, the Group actively explored novel marketing models and maintained interaction and communication with customers through online events and platform live broadcasts, which effectively achieves customer acquisition and the maintenance of customer relationship while ensuring hygiene and safety. In the later stage of the pandemic, the Group continued to maintain online promotion and marketing channels, promoted the integration of online and offline businesses, and helped business recovery and improvement.

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. For the year ended 31 December 2020, Zhengtong Academy, the Group's learning platform, launched 144 online courses, with 180 registered lecturers giving over 48 minutes of per capita teaching hours to over 37,500 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 year ended 31 December 2020, the Group recorded a revenue of approximately RMB16,881 million, representing a decrease of approximately 50.7% (restated) as compared to the revenue of approximately RMB34,258 million (restated) in 2019. The decrease was mainly due to a decrease in the sales of new automobiles during the year. Revenue of the Group was derived from the sales of new automobiles, after-sales services, financial services and other business. In 2020, revenue from the sales of new automobiles amounted to approximately RMB12,606 million, representing a decrease of approximately 55.9% as compared to approximately RMB28,564 million in 2019, and accounted for approximately 74.6% and 81.3% of the total revenue in 2020 and 2019, respectively. The revenue from sales of luxury and ultra-luxury branded automobiles decreased by approximately 55.8% to approximately RMB11,495 million from approximately RMB25,986 million in 2019, accounting for approximately 91.2% and 91.0% of revenue from the sales of new automobiles in 2020 and 2019, respectively. Revenue from the after-sales services was approximately RMB3,373 million, representing a decrease of approximately 29.3% as compared to approximately RMB4,771 million in 2019. In 2020, revenue from the after-sales services accounted for approximately 20.0% of our total revenue, representing an increase of approximately 6.4 percentage points in revenue from that of last year.

Cost of sales

For the year ended 31 December 2020, the Group's cost of sales decreased by approximately 28.5% (restated) to approximately RMB22,054 million as compared to approximately RMB30,855 million (restated) in 2019. In 2020, the cost of sales for new automobiles of the Group decreased by approximately 30.1% to approximately RMB19,165 million from approximately RMB27,432 million in 2019. Cost of sales for after-sales services decreased by approximately 20.9% to approximately RMB2,083 million from approximately RMB2,633 million in 2019. The cost of sales for the year ended 31 December 2020 included a provision of RMB4,318 million made against rebate receivables.

Gross (loss)/profit and gross (loss)/profit margin

For the year ended 31 December 2020, the Group incurred gross loss of approximately RMB5,173 million, while the Group had gross profit of approximately RMB3,404 million (restated) in 2019. The Group's gross loss margin was approximately 30.6%, while gross profit margin was 9.9% (restated) in 2019.

The Group's gross profit was principally generated from sales of new automobiles and after-sales services business. In 2020, the Group incurred gross loss from sales of new automobiles of approximately RMB6,560 million, while the Group had gross profit of approximately RMB1,132million in 2019. In 2020, the Group incurred gross loss from after-sales services of approximately RMB1,291 million, while the Group had gross profit of approximately RMB2,138 million in 2019.

Selling and distribution expenses

For the year ended 31 December 2020, the Group's selling and distribution expenses increased by approximately 36.8% to approximately RMB1,503 million from approximately RMB1,099 million in 2019. The increase in selling and distribution was mainly attributable to an increase in discretionary bonus and redundancy cost, etc.

Administrative expenses

For the year ended 31 December 2020, the Group's administrative expenses amounted to approximately RMB1,067 million, representing a decrease of approximately 13.5% over approximately RMB1,233 million (restated) in 2019. Such decline was primarily due to the fact that the Group generated foreign exchange gain of RMB350 million from the appreciation of Renminbi during 2020, while the Group had exchange loss of RMB98 million (restated) in 2019.

(Loss)/Profit from operations

For the year ended 31 December 2020, the Group incurred loss from operations of approximately RMB9,341 million, while the Group had profit from operations of approximately RMB1,801 million (restated) in 2019. The operating loss margin was approximately 55.3% in 2020, while the operating profit margin was 5.3% (restated) in 2019.

Income tax credit

For the year ended 31 December 2020, the Group's income tax credit amounted to approximately RMB1,783 million as a result of loss from operation incurred during the year and the effective tax rate was approximately 17.2% (2019: 38.3% (restated)).

(Loss)/Profit for the year

For the year ended 31 December 2020, the Group incurred loss of approximately RMB8,589 million, while the Group had profit of approximately RMB767 million (restated) in 2019. The loss margin was 50.9% in 2020, while the profit margin was 2.2% in 2019.

Contingent liabilities

As at 31 December 2020, the Group had no material contingent liabilities or guarantees save as those assets pledged to the bank.

Current assets and current liabilities

As at 31 December 2020, the Group's current assets amounted to approximately RMB13,955 million, representing a decrease of approximately RMB10,180 million as compared to the current assets of approximately RMB24,136 million as at 31 December 2019. As at 31 December 2020, the Group's current liabilities amounted to approximately RMB17,440 million, representing a decrease of approximately RMB8,379 million as compared to the current liabilities of approximately RMB25,819 million as at 31 December 2019, which was mainly due to a decrease in loans and borrowings.

Cash flow

As at 31 December 2020, the Group had cash and cash equivalents amounting to approximately RMB491 million, representing a decrease of approximately RMB1,006 million over approximately RMB1,497 million as at 31 December 2019. The Group's transactions and monetary assets were principally conducted in Renminbi. The Group's primary uses of capital were to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to fund the Group's working capital and ordinary recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the year ended 31 December 2020, the Group had net cash inflow of approximately RMB346 million generated from its operating activities (for the year ended 31 December 2019: net cash inflow from operating activities approximately RMB2,546 million).

Capital expenditure and investment

For the year ended 31 December 2020, the Group's capital expenditure and investment were approximately RMB644 million (2019: RMB1,782 million).

Inventory

The Group's inventories included vehicles, automobile spare parts and properties under development for sale. In general, each of the Group's dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group utilizes its information technology systems to manage its inventory, and also monitors the inventories within its whole dealership network and may transfer automobiles from one dealership store to another to rebalance inventory levels. The inventories of the Group were approximately RMB1,802 million as at 31 December 2020, which decreased by approximately RMB1,681 million when compared with RMB3,483 million as at 31 December 2019. Such change was mainly due to the effective control in the inventories of new automobiles by the Group based upon market situation. The Group's average inventory turnover days of 2020 decreased by 4.1 days to 36.5 days from 40.6 days for 2019. The following table sets forth our average inventory turnover days (excluding the impact of properties under development for sale) for the year indicated:

	For the year ended 31 December (day)	
	2020	2019
Average inventory turnover days (excluding the impact of properties under development for sale)	**36.5**	40.6

Risks of foreign exchange

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. However, the Group's operating cash flow and liquidity 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 31 December 2020, a financial liability of approximately RMB32 million measured at fair value was recognised by the Group on the cross currency swap, and other financial assets of approximately RMB35 million (excluding wealth management products) measured at fair value was recognised (31 December 2019: a financial liability of approximately RMB103 million measured at fair value was recognised by the Group on the cross currency swap, and other 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 31 December 2020, the Group's cash and bank deposits were approximately RMB1,828 million (including: pledged bank deposits and balances with central bank of approximately RMB990 million, time deposits of RMB443 million and cash and cash equivalents of RMB395 million), representing a decrease of approximately RMB1,749 million, from approximately RMB3,577 million as at 31 December 2019. As at 31 December 2020, the Group's loans and borrowings, lease liabilities, and bonds payable amounted to approximately RMB14,664 million (31 December 2019: loans and borrowings, obligations under finance leases, and bonds payable amounted to approximately RMB21,450 million).

Potential disposal of a subsidiary

On 20 October 2020, the Company received from Shanghai Office of the China Banking and Insurance Regulatory Commission (the "**CBIRC**") an administrative decision against the Company (the "**CBIRC Decision**"), alleging that (i) the Company obtained administrative licenses and permits for the establishment of Shanghai Dongzheng Automotive Finance Co., Ltd* ("**Dongzheng**"), a subsidiary of the Company, by improper means and the Company and its related parties engaged in non-compliant related-party transactions with Dongzheng; and (ii) Dongzheng's dealer auto loan business was carried out in serious violation of the principle of prudent operation. CBIRC required that the Company shall withdraw its interests in Dongzheng within 3 months from the date of the CBIRC decision.

In response to the CBIRC Decision, the Company had committed to sell its entire interests in Dongzheng. The Company had been actively identifying potential purchasers and had engaged a financial adviser to assist on the possible disposal of its interests in Dongzheng (the "**Potential Disposal**") with an objective of achieving a completed sale within 2021. Accordingly, the interests in Dongzheng have been presented as a disposal group held for sale as at 31 December 2020 and as discontinued operations for the year.

As of the date of this announcement, no binding sales and purchase agreements have been entered into by the Company with any potential purchasers and no valuation of Dongzheng has been performed in respect of the Potential Disposal, and the discussion and negotiation are still in progress.

Pledged assets

The Group has pledged its assets as the security for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 31 December 2020, the pledged assets of the Group amounted to approximately RMB11,128 million (31 December 2019: approximately RMB4,954 million).

Investments held in foreign currency and hedging

For the year ended 31 December 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 31 December 2020, the Group had a total of 7,997 employees in China (at 31 December 2019: 10,729 employees). The staff costs incurred for the year ended 31 December 2020 were approximately RMB1,392 million (2019: approximately RMB992 million). The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans. The Group also provided good working environment and diversified training program.

FUTURE OUTLOOK AND STRATEGIES

The COVID-19 pandemic in China has been effectively controlled currently, and the regular pandemic prevention measures make the pandemic's impact on the national economy controllable. In the future, China's macroscopic economy will demonstrate its development potential after recovery and maintain a steady growth with a steady increase in household disposable income. At the same time, the government will adhere to the expansion of domestic demand as the strategic basis, accelerate the construction of a new development paradigm with the domestic cycle as the main body and the domestic and international cycles mutually reinforcing. It is expected that the domestic consumption capacity will continue to grow, the level of consumption will be further improved, and the trend of consumption upgrading will continue to develop. Thanks to it, demands for luxury vehicle in China's market will continue to improve steadily and the development for the industry as a whole is positive.

Based on the outlook of the future market, the Group has formulated short-term, medium-term and long-term and targeted development strategies based on the operational status. In the short term, the Group will introduce strategic investment partners, eliminate its liquidity risks, improve operating environment, enhance operating efficiency, and accelerate business recovery to its due level; In the medium term, leveraging on a diversified portfolio of luxury brands and personalized finance, insurance and other high value-added services, the Group will adhere to the development strategy rooted in the luxury vehicle market, continue to improve the network layout of luxury brands so as to create a leading consumer experience for customers and continue to enhance the competitiveness of the market; In the long term, based on the luxury vehicle market, the Group will integrate superior resources, enhance external cooperation and form a business loop centring on the whole car ownership cycle, aiming to build a world-class automobile service brand. During this period, the Group will accelerate the process of transformation and upgrading, continue to optimize internal management, improve operational efficiency and continue to create greater value for Shareholders, staff and society.

DIVIDENDS

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

MATERIAL ACQUISITION AND DISPOSAL

On 30 June 2019, the Company, Wisdom Achieve Global Limited (a wholly-owned subsidiary of the Company), Joy Capital Holdings Limited (怡都控股有限公司) ("**Joy Capital**") (a connected person) and Waterwood Santong Investment, L.P. entered into a subscription agreement ("**Subscription Agreement**"), pursuant to which following completion of the relevant group restructuring and other closing conditions being fulfilled (or, where applicable, waived), Wisdom Achieve Global Limited will issue certain shares to Joy Capital and Waterwood Santong Investment L.P. as subscribers according to the terms of the Subscription Agreement.

As of 31 December 2020, being the extended long stop date, conditions precedent to completion of the Subscription Agreement have not been fulfilled. Having taken into account then market conditions and the announcements made by the Company since July 2020, the Company considered that it would be in the interest of the Company to terminate the transactions contemplated under Subscription Agreement. On 31 December 2020, parties to the Subscription Agreement entered into a termination agreement, pursuant to which the parties thereto agreed to terminate the Subscription Agreement with effect from 31 December 2020. The Subscription Agreement has accordingly lapsed and has no further effect (save for certain provisions under the Subscription Agreement), and no party to the Subscription Agreement shall have any claim against the other parties, save in respect of any antecedent breaches of the Subscription Agreement.

For details, please refer to the announcements of the Company dated 1 July 2019, 7 August 2019, 30 September 2019, 2 January 2020, 30 June 2020 and 4 January 2021.

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

On 15 July 2020, after trading hour, the Company entered into a 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 shares of the Company ("**Placing Share(s)**") owned by Joy Capital at the placing price of HK$1.09 per Placing Share. The aggregate nominal value of the Placing Shares is HK$24,522,200. The closing price as quoted on the Stock Exchange on 15 July 2020 was HK$1.29 per 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. To the best knowledge of the Directors after having made all reasonable enquiries, the placees and their ultimate beneficial owners are not connected persons of the Company and are independent of and not connected with the Company, the directors, chief executive or substantial shareholders of the Company or its subsidiaries, or any of their respective associates. The 245,222,000 Subscription Shares, representing approximately 9.09% of the total number of 2,697,442,420 issued shares immediately after the completion of Subscription and as enlarged by the 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$263,350,000 and the net price per Subscription Share was HK$1.07. The Company intended to use the net proceeds from the Subscription primarily for general working capital purpose. In particular, approximately 90% of the net proceeds will be used for providing capital for operation of the Company's automobile business, including purchases of automobiles and related components; and approximately 10% of the net proceeds will be used for repayment of offshore operating expense. As at the date of this announcement, all of the net proceeds have been utilized for the above purposes.

By entering into the Placing and Subscription Agreement, the Group is able to raise capital through the Subscription to further strengthen its capital base and financial position.

For details of the above top-up placing, please refer to the announcements of the Company dated 15 July 2020 and 28 July 2020 respectively.

Save as the Subscription, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2020.

CORPORATE GOVERNANCE

The Board believes that maintaining good corporate governance is crucial to increase investors' confidence and safeguard Shareholders' interests. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Board is of the view that throughout the year ended 31 December 2020, the Company has complied with the respective code provisions of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code ("**Securities Dealing Code**") regarding securities transactions of the Directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the Securities Dealing Code and the Model Code during the year ended 31 December 2020.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT FROM THE FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2020

The following is the extract of the Independent auditor's report on audit of consolidated financial statements of the Group for the year ended 31 December 2020 from KPMG, the auditor of the Group:

"Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to note 2 to the consolidated financial statements which describes that the Group incurred a net loss of RMB8,589 million for the year ended 31 December 2020 and the Group expects to repay loans and borrowings totalling RMB10,122 million within one year, trade and other payables of RMB4,197 million, lease liabilities of RMB530 million, income tax payables of RMB388 million, and the Group also had capital commitment of RMB1,172 million. As explained in note 2, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the availability of support from Xiamen Xindeco Ltd, a potential investor, the Group's lenders and the Group's ability to generate sufficient net cash inflows from future operations. 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. Our opinion is not modified in respect of this matter."

REVIEW OF ANNUAL RESULTS

The audit committee of the Board ("**Audit Committee**") comprises three independent non-executive Directors, namely, Dr. Wong Tin Yau, Kelvin (Chairman of the Audit Committee), Dr. Cao Tong and Ms. Wong Tan Tan. The Group's annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee.

The financial figures in respect of Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF RESULTS ANNOUNCEMENT

This results announcement is available for viewing on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com) and the annual report for the year ended 31 December 2020 of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 31 March 2021

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