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

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

(Stock Code: 1728)

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board (the "**Board**") of directors (the "**Directors**") of China ZhengTong Auto Services Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2021 together with the comparative figures for the corresponding period in 2020 as set out below.

HIGHLIGHTS OF RESULTS

For the six months ended 30 June 2021:

- revenue increased by approximately 8.2% to approximately RMB9,612 million;
- overall gross profit declined by approximately 97.0% to approximately RMB31 million, gross profit margin declined by 11.6 percentage points to 0.3%;
- interest and service income from the financial services business amounted to approximately RMB178 million (from external customers), with a period-on-period decrease of 50.4%;
- loss attributable to equity shareholders of the Company was approximately RMB1,455 million;

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2021 — unaudited
(Expressed in RMB'000)

	Note	**Six months ended 30 June** **2021**	2020 (Restated) (Note)
Continuing operations			
Revenue	*4*	**9,612,130**	8,881,114
Cost of sales		**(9,580,777)**	(7,820,190)
Gross profit		**31,353**	1,060,924
Other income		**481,826**	458,874
Selling and distribution expenses		**(585,652)**	(462,169)
Administrative expenses		**(528,409)**	(583,371)
Impairment losses on goodwill and intangible assets	*8*	**(161,308)**	(1,465,413)
Loss from operations		**(762,190)**	(991,155)
Finance costs	*5(a)*	**(599,888)**	(518,537)
Share of profit of a joint venture and associates		**19,435**	7,427
Loss before taxation	*5*	**(1,342,643)**	(1,502,265)
Income tax credit	*6*	**25,304**	79,446
Loss for the period from continuing operations		**(1,317,339)**	(1,422,819)
Discontinued operations	*13*		
(Loss)/profit for the period from discontinued operations, net of tax		**(201,356)**	99,464
Loss for the period		**(1,518,695)**	(1,323,355)

Note: The presentation of certain comparative information in respect of the six months ended 30 June 2020 has been restated to show the discontinued operations separately from continuing operations.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*
for the six months ended 30 June 2021 — unaudited
(Expressed in RMB'000)

	Note	Six months ended 30 June 2021	2020 (Restated) (Note)
(Loss)/profit for the period attributable to:			
Equity shareholders of the Company			
— from continuing operations		**(1,312,432)**	(1,436,161)
— from discontinued operations		**(143,042)**	70,658
		(1,455,474)	(1,365,503)
Non-controlling interests			
— from continuing operations		**(4,907)**	13,343
— from discontinued operations		**(58,314)**	28,805
		(63,221)	42,148
Loss for the period		**(1,518,695)**	(1,323,355)
Basic and diluted (loss)/earning per share			
— from continuing operations (RMB cents)	7	**(48.7)**	(58.6)
— from discontinued operations (RMB cents)	7	**(5.3)**	2.9
		(54.0)	(55.7)

Note: The presentation of certain comparative information in respect of the six months ended 30 June 2020 has been restated to show the discontinued operations separately from continuing operations.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2021 — unaudited
(Expressed in RMB'000)

	Six months ended 30 June	
	2021	2020 (Restated) (Note)
Loss for the period	**(1,518,695)**	(1,323,355)
Other comprehensive income for the period (after tax):		
Item that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of:		
— financial statements of entities outside of the Mainland China	**2,589**	(4,797)
Other comprehensive income for the period	**2,589**	(4,797)
Total comprehensive income for the period	**(1,516,106)**	(1,328,152)
Attributable to:		
Equity shareholders of the Company		
— from continuing operations	**(1,309,843)**	(1,440,958)
— from discontinued operations	**(143,042)**	70,658
	(1,452,885)	(1,370,300)
Non-controlling interests		
— from continuing operations	**(4,907)**	13,343
— from discontinued operations	**(58,314)**	28,805
	(63,221)	42,148
Total comprehensive income for the period	**(1,516,106)**	(1,328,152)

Note: The presentation of certain comparative information in respect of the six months ended 30 June 2020 has been restated to show the discontinued operations separately from continuing operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2021 — unaudited
(Expressed in RMB'000)

	Note	**At 30 June 2021**	At 31 December 2020
Non-current assets			
Property, plant and equipment		**6,151,468**	6,098,398
Right-of-use assets		**2,845,924**	3,036,412
Intangible assets	*8*	**2,737,757**	2,979,596
Goodwill	*8*	**693,791**	693,791
Interest in associates		**536,321**	516,887
Deferred tax assets		**483,963**	442,782
Long-term receivables		**249,932**	237,924
Other financial assets		**—**	35,000
		13,699,156	14,040,790
Current assets			
Inventories	*9*	**2,090,021**	1,801,768
Trade and bills receivables	*10*	**1,097,501**	1,054,337
Prepayments, deposits and other receivables	*11*	**3,699,442**	4,373,866
Other financial assets		**265,000**	250,000
Pledged bank deposits		**1,045,948**	989,711
Time deposits		**452,530**	443,180
Cash and cash equivalents		**319,390**	395,119
Assets held for sale	*13*	**3,414,663**	4,647,182
		12,384,495	13,955,163
Current liabilities			
Loans and borrowings		**11,870,618**	10,122,239
Lease liabilities		**271,638**	529,620
Trade and other payables	*12*	**3,830,045**	4,197,308
Income tax payables		**331,672**	387,750
Liabilities held for sale	*13*	**1,066,792**	2,203,270
		17,370,765	17,440,187
Net current liabilities		**(4,986,270)**	(3,485,024)
Total assets less current liabilities		**8,712,886**	10,555,766

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
at 30 June 2021 — unaudited
(Expressed in RMB'000)

	Note	**At 30 June 2021**	At 31 December 2020
Non-current liabilities			
Loans and borrowings		**1,213,874**	1,433,964
Bonds payable		**1,411,613**	1,417,105
Lease liabilities		**1,074,757**	1,161,212
Deferred tax liabilities		**964,605**	946,546
Trade and other payables	*12*	**237,634**	251,656
Other financial liabilities		**—**	32,383
		4,902,483	5,242,866
NET ASSETS		**3,810,403**	5,312,900
CAPITAL AND RESERVES			
Share capital		**235,203**	231,265
Reserves		**2,433,615**	3,876,829
Total equity attributable to equity shareholders of the Company		**2,668,818**	4,108,094
Non-controlling interests		**1,141,585**	1,204,806
TOTAL EQUITY		**3,810,403**	5,312,900

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), including compliance with Hong Kong Accounting Standard ("**HKAS**") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). It was authorised for issue on 31 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

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

The outbreak of COVID-19 had a severe and direct impact on the financial performance of the Group in 2020, which led to continual decline in the Group's financial performance and increased strain over the Group's liquidity position.

As such, the Group had carried out various measures such as the reduction of new car purchases from automakers in 2020. These measures, while necessary, resulted in failure to achieve certain agreed purchase volume, failure to meet certain sales targets agreed with automakers, and failure to satisfy with certain standards on dealership operation as stipulated in dealer agreements with automakers, such as customer satisfaction ratings. As a result, the Group was alleged by automakers to have damaged their brands, and some dealership agreements have then been terminated or suspended as at 31 December 2020.

In the first half of 2021, the Group has been making improvements such as achieving the purchases and sales targets assigned by automakers for the six months ended 30 June 2021 and improving customer satisfaction ratings, and has been in active negotiation with the automakers to ease the relationship and to re-build trust. As a result, certain of the aforementioned suspended dealership agreements had been gradually resumed, although some dealerships were subsequently terminated or still remained suspended due to the continual underperformance compared with the targets set by the automakers.

Notwithstanding the above situation, the Group's purchase and sales were gradually resuming. Besides, the Group has repositioned some of its underperforming 4S stores and plans new car purchase volume strategically to maximize its financial resources.

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 (the "**Target Shares**") at a consideration of HK$1,403,371,394 (the "**Original Transaction**").

On 30 July 2021, upon negotiations between the parties of the SPA, the Buyer had withdrawn from the Original Transaction, and Joy Capital entered into a supplemental sale and purchase agreement (the "**Supplemental Agreement**") with the original parties and Xiamen ITG Holding Group Co., Ltd. (the "**Xiamen ITG**", the "**New Buyer**"), a state-owned enterprise in the People's Republic of China, to amend certain major terms of the SPA. The parties to the Supplemental Agreement agreed (among other things) that: (i) the New Buyer shall enjoy all such rights and assume all such obligations of the Buyer under the SPA, (ii) the number of Target Shares to be transferred under the SPA has been adjusted to 820,618,184 (representing 29.9% of the entire issued share capital of the Company as at the date of the Supplemental Agreement), at a total consideration of HK$1,427,875,640.16, representing HK$1.74 per Share which remains unchanged (subject to adjustment in accordance with the terms of the SPA) (the "**Transaction**").

The Company has been subsequently informed by Joy Capital that all of the conditions precedent as set out in the SPA have been fulfilled or waived. Completion of the SPA (as amended by the Supplemental Agreement) took place on 31 August 2021 in accordance with the terms and conditions of the SPA (as amended by the Supplemental Agreement). Upon completion of the SPA (as amended by the Supplemental Agreement), Xiamen ITG holds 820,618,184 shares, representing approximately 29.9% of the Company's share capital in issue and then becomes the single largest shareholder of the Company, and Joy Capital holds 562,898,636 shares, representing approximately 20.51% of the Company's share capital in issue, and is no longer a controlling shareholder of the Company. On 31 August 2021, two candidates were nominated by Xiamen ITG as directors of the Company.

The Group incurred a net loss of RMB1,519 million for the six months ended 30 June 2021. The Group had net current liabilities of RMB4,986 million as at 30 June 2021. Included in the current liabilities were loans and borrowings of RMB11,871 million and trade and other payables of RMB3,830 million, lease liabilities of RMB272 million, income tax payables of RMB332 million, and the Group also had capital commitment of RMB1,466 million. The Group had cash and cash equivalents, time deposits and pledged bank deposits amounting to RMB319 million, RMB453 million and RMB1,046 million, respectively, as at 30 June 2021. Notwithstanding these conditions, the Group's condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared on a going concern basis and the directors consider that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern. This is because Xiamen ITG, the single largest shareholder of the Group after the Transaction, has informed the Group that, on the basis that in compliance with regulatory regime applicable to state owned enterprises and after obtaining internal resolutions and approvals, it will provide financial support to the Group as may be necessary to enable the Group to continue operation as a going concern for the next twelve months.

3 CHANGES IN ACCOUNTING POLICIES

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

- Amendment to HKFRS 16, *COVID-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE

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

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
		(Restated)
		(Note)
Revenue from contracts with customers within the scope of HKFRS 15		
Continuing operations		
Sales of passenger motor vehicles	**7,566,395**	6,757,976
Provision of after-sales services	**1,613,169**	1,769,919
Provision of logistics services	**290,679**	228,902
Sales of lubricant oil	**135,882**	117,483
	9,606,125	8,874,280
Discontinued operations		
Service income from financial services	**19,565**	39,873
Revenue from other sources		
Continuing operations		
Others	**6,005**	6,834
Discontinued operations		
Interest income from financial services	**158,820**	320,123
	9,790,515	9,241,110
Revenue from continuing operations	**9,612,130**	8,881,114
Revenue from discontinued operations	**178,385**	359,996

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

Note: The presentation of certain comparative information in respect of the six months ended 30 June 2020 has been restated to show the discontinued operations separately from continuing operations.

5 LOSS BEFORE TAXATION

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

	Note	Six months ended 30 June 2021 RMB'000	2020 RMB'000 (Restated) (Note)
(a) Finance costs:			
Continuing operations:			
Interest on loans and borrowings and bonds payable		**576,294**	477,122
Interest on lease liabilities		**47,003**	60,135
Finance cost for consideration of business combination	*(i)*	**8,843**	11,835
Other finance costs	*(ii)*	**11,679**	19,897
Less: interest capitalised		**(43,931)**	(50,452)
		599,888	518,537
Discontinued operations:			
Interest on lease liabilities		**719**	1,025
		600,607	519,562
(b) Staff costs:			
Continuing operations:			
Salaries, wages and other benefits		**433,640**	330,982
Contributions to defined contribution retirement plans	*(iii)*	**25,860**	9,577
Equity settled share-based payment expenses		**13,609**	1,705
		473,109	342,264
Discontinued operations:			
Salaries, wages and other benefits		**26,653**	31,615
Contributions to defined contribution retirement plans		**2,991**	1,149
		29,644	32,764
		502,753	375,028

Note: The presentation of certain comparative information in respect of the six months ended 30 June 2020 has been restated to show the discontinued operations separately from continuing operations.

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

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

(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 2020.

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
		(Restated)
		(Note)
(c) Other items:		
Continuing operations:		
Cost of inventories *(note 9(b))*	**9,597,426**	7,495,057
Depreciation		
— Owned property, plant and equipment	**168,545**	191,320
— Right-of-use assets	**194,994**	201,407
Amortisation of intangible assets	**82,049**	95,309
Operating lease charges	**2,887**	2,841
Impairment losses		
— Goodwill *(note 8)*	**—**	915,916
— Intangible assets *(note 8)*	**161,308**	549,497
Net foreign exchange (gain)/loss	**(43,347)**	89,734
	10,163,862	9,541,081
Discontinued operations:		
Cost of interests*	**80,098**	111,652
Depreciation		
— Owned property, plant and equipment	**—**	1,613
— Right-of-use assets	**—**	4,658
Amortisation of intangible asset	**—**	3,222
Operating lease charges	**50**	69
Impairment losses		
— Receivables from financial services	**375,416**	83,953
Net foreign exchange (gain)/loss	**(425)**	2,558
	455,139	207,725

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

Note: The presentation of certain comparative information in respect of the six months ended 30 June 2020 has been restated to show the discontinued operations separately from continuing operations.

6 INCOME TAX

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
		(Restated)
		(Note)
Continuing operations		
Current tax:		
(Credit)/provision for PRC income tax for the period	**(2,182)**	91,412
Deferred tax:		
Origination of temporary differences	**(23,122)**	(170,858)
	(25,304)	(79,446)
Discontinued operations		
Current tax:		
Provision for PRC income tax for the period	**27,593**	29,582
Deferred tax:		
(Origination)/reversal of temporary differences	**(97,555)**	3,700
	(69,962)	33,282

Note: The presentation of certain comparative information in respect of the six months ended 30 June 2020 has been restated to show the discontinued operations separately from continuing operations.

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

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

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

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

7 LOSS/EARNINGS PER SHARE

The calculation of basic loss/earnings per share for the six months ended 30 June 2021 was based on the loss attributable to equity shareholders of the Company of RMB1,312,432,000 from continuing operations and loss attributable to equity shareholders of the Company of RMB143,042,000 from discontinued operations (six months ended 30 June 2020: loss of RMB1,436,161,000 and profit of RMB70,658,000 from continuing and discontinued operations, respectively) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2021 of 2,697,442,420 (six months ended 30 June 2020: 2,452,220,420).

The potential ordinary shares in respect of vesting of restricted shares on 12 June 2021 pursuant to the share award scheme was anti-dilutive, as they would lead to a decline for the loss per share.

8 INTANGIBLE ASSETS AND GOODWILL

Intangible assets — car dealerships and goodwill

The car dealerships arise from prior business combinations and relate to relationships with automakers 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 a prior business combination through an agreement on strategic operation management cooperation scheme, with an estimated 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 period ended 30 June 2021 is included in administrative expenses in the consolidated statement of profit or loss.

As disclosed in note 2, to improve the relationships with automakers that have been strained with the outbreak of COIVD-19, the Group has been taking various measures and has been in active negotiation with the automakers. During the six months ended 30 June 2021, some dealership rights have been resumed; however, some other dealership agreements were newly terminated or remained suspended due to the continual underperformance compared with the targets set by certain automakers, which was mainly caused by the unexpected delay for certain 4S dealership stores in obtaining or extending their bank facilities.

In addition, the imposition of purchase quotas by automakers due to the supply shortage of car chips was not fully anticipated as of 31 December 2020, which directly led to an underperformance of new car sales volume and revenue for certain 4S dealership stores during the six months ended 30 June 2021, comparing with 2020 financial budgets approved by management.

As such, the directors of the Group consider that there are impairment indicators for certain 4S dealership stores for the period ended 30 June 2021, which were independent Cash-generating Units ("**CGUs**").

Therefore, management engaged an external valuer to assist with an impairment test to determine the recoverable amount of the related CGUs as at 30 June 2021, with the result of recognition of impairment losses of intangible assets — car dealerships of approximately RMB133 million (30 June 2020: RMB549 million). No impairment loss of goodwill was recognised (30 June 2020: RMB916 million), as the goodwill allocated to these CGUs has been fully written off as of 31 December 2020.

Impairment testing of intangible assets — car dealerships and goodwill

The recoverable amounts of CGUs have been determined based on the higher of their fair values less costs to sell and value-in-use calculations in accordance with the requirements of Hong Kong Accounting Standard 36 *Impairment of Assets*, and the fair values less costs to sell of the CGUs are estimated to be not materially different from their respective value-in-use amounts. The value-in-use 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% (2020: 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% (2020: 16%). The carrying amount of a CGU has been reduced to its recoverable amount, with the impairment being first applied to reduce any remaining carrying amount of goodwill that has been allocated to the CGU, and then any 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), such that no asset would be carried at an amount that is less than the higher of its recoverable amount (if it is determinable) and zero.

Key assumptions used in the value-in-use calculation

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

The key inputs and assumptions used in the impairment test for the year of 2020 and the six months ended 30 June 2021 are listed as follows:

As at 30 June 2021

Inputs	2021	2022	2023–2025
Annual Revenue Growth Rate	–45.5% ~ 54.3%	3.0% ~ 78.8%	3.0% ~ 12.2%
Gross Profit Margin	4.0% ~ 15.5%	4.0% ~ 15.5%	
Working Capital as % of Revenue	–24.3% ~ 7.4%	–24.3% ~ 7.1%	

As at 31 December 2020

Inputs	2021	2022	2023–2025
Annual Revenue Growth Rate	–97.0% ~ 194.9%	3.0% ~ 70.2%	3.0% ~ 12.2%
Gross Profit Margin	5.2% ~ 46.5%	5.2% ~ 46.5%	
Working Capital as % of Revenue	–40.3% ~ 17.7%	–40.3% ~ 17.7%	

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

— For annual revenue growth rate:

  (a) For certain dealership stores whose dealership agreements had been newly terminated and would be focus only on after-sale services or self-operation, a significant reduction in estimated revenue in 2021 was expected, while for 2022 through 2025 reverting back to a single digit growth rate;

  (b) For other dealership stores, the estimated revenue for 2021 has been adjusted to a lower level being commensurate with the actual revenue achieved in the first half of 2021 for reasons as aforementioned, and for 2022 through 2025, as the growth was from an relatively low base, a more steady growth rate is expected on the basis that operations will revert back to a level comparable to the periods before COVID-19.

— Gross profit margin was mainly estimated based on the historical performance of each stores (before COVID-19 and liquidity strain) and take into consideration of mix for different revenue categories like new car sales and after-sale services and of the actual performance for the first half of 2021.

— Working capital as percentage of revenue was estimated by calculation based on historical trend (before COVID-19 and liquidity strain) of turnover days of different balance sheet items or expense to revenue ratios of different profit or loss items, which is generally in line with years comparable to the periods before COVID-19.

The pre-tax discount rate applied to the impairment test had not been adjusted compared to 31 December 2020 as the overall market risk has not been increased significantly during the six months ended 30 June 2021.

Among the above inputs and assumptions, the main changes compared to 31 December 2020 were the changes in revenue growth. As mentioned above, for those dealership stores whose dealership rights were newly terminated or suspended, their focuses will be on after-sale services only or self-operation, and therefore a reduction in revenue growth was forecasted for the full year of 2021; and for other stores, a rebound in revenue growth for the full year of 2021 was forecasted. Consequently, the low base will lead to continuous increase in growth rate in future years as well. Such impacts were not reflected in the inputs and assumptions used in the 2020 year end assessment, as the new termination or suspension of dealership occurred in first half of 2021 was non-adjusting subsequent events for the year ended 31 December 2020. There have been no subsequent changes in the valuation methods used compared with those adopted in the year of 2020.

Intangible assets — trademark

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

During the six months ended 30 June 2021, the operating results of several 4S dealership stores under Top Globe Limited had not achieved the year-to-date 2021 financial budgets approved by management, as those dealership agreements within this group were newly terminated or remained suspended. Management has re-adjusted the five-year financial budgets of these stores to incorporate the actual revenue performance in the first half of 2021, and the fair value of trademark was therefore reduced by RMB29,963,000 as at 30 June 2021 (30 June 2020: RMB90,102,000).

9 INVENTORIES

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

	At 30 June 2021 *RMB'000*	At 31 December 2020 *RMB'000*
4S dealership business		
— Motor vehicles	**1,291,994**	967,392
— Automobile spare parts	**219,438**	256,610
— Others	**42,282**	41,459
	1,553,714	1,265,461
Comprehensive properties business		
— Properties under development for sale	**536,307**	536,307
	2,090,021	1,801,768

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

		Six months ended 30 June 2021 *RMB'000*	2020 *RMB'000*
Carrying amount of inventories sold		**9,520,777**	7,492,170
Write-down of inventories		**37,331**	4,020
Reversal of write-down of inventories	*(i)*	**(2,791)**	(1,133)
Re-assessment of rebate receivables	*(ii)*	**42,109**	—
		9,597,426	7,495,057

(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 on 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, certain dealership agreements were newly terminated or remained suspended during the six months ended 30 June 2021 due to the continual underperformance compared with the targets set by automakers. Accordingly, these automakers have alleged that the Group failed to make improvement against the damage the Group brought to their brands and clawed back the Group's prior years' rebate entitlements. The Group has therefore reassessed the recoverability of the rebate receivables, and a reduction of rebate receivable by RMB42,109,000 was recognised for the six months ended 30 June 2021.

10 TRADE AND BILLS RECEIVABLES

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

	At 30 June 2021	At 31 December 2020
	RMB'000	*RMB'000*
Within 3 months	**1,071,320**	1,013,109
Over 3 months but within 1 year	**14,108**	21,962
Over 1 year	**12,073**	19,266
	1,097,501	1,054,337
Trade receivables	**1,096,218**	1,053,682
Bills receivables	**1,283**	655
Trade and bills receivables	**1,097,501**	1,054,337

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

11 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2021	At 31 December 2020
	RMB'000	*RMB'000*
Prepayments	**571,792**	763,067
Deposits	**473,359**	510,213
Other receivables	**2,654,291**	3,100,586
Prepayments, deposits and other receivables	**3,699,442**	4,373,866

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

12 TRADE AND OTHER PAYABLES

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

	At 30 June 2021 *RMB'000*	At 31 December 2020 *RMB'000*
Current		
Within 3 months	**1,918,374**	1,530,030
Over 3 months but within 6 months	**162,599**	190,570
Over 6 months but within 12 months	**2,853**	8,521
Total creditors and bills payable	**2,083,826**	1,729,121
Contract liabilities	**977,341**	916,287
Other payables and accruals	**768,878**	1,551,900
	3,830,045	4,197,308
Non-current		
Long-term payables	**237,634**	251,656
Total	**4,067,679**	4,448,964

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 30 June 2021 and as discontinued operations for the period.

The presentation of certain comparative information in respect of the period ended 30 June 2020 has been restated to show the discontinued operations separately from continuing operations.

As of 30 June 2021, no binding sales and purchase agreements have been entered into by the Company with any potential purchasers and the discussion and negotiation are still in progress.

The presentation of certain comparative information in respect of the period ended 30 June 2020 has been restated to show the discontinued operations separately from continuing operations.

(i) The results of the discontinued operations of Dongzheng for the period are as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Revenue	**231,141**	478,799
Elimination of inter-segment revenue	**(52,756)**	(118,803)
External revenue	**178,385**	359,996
Cost	**(523,788)**	(246,353)
Other revenue	**772**	12,386
Administrative expenses	**(45,101)**	(53,386)
Finance cost *(note 5(a))*	**(719)**	(1,025)
Elimination on consolidation	**119,133**	61,128
Results from operating activities	**(271,318)**	132,746
Income tax	**69,962**	(33,282)
Results from operating activities, net of tax	**(201,356)**	99,464

The loss from the discontinued operation for the six months ended 30 June 2021 attributable to the owners of the Company amounted to RMB143,042,000 (six months ended 30 June 2020: profit of RMB70,658,000).

(ii) Cash flows generated from/used in discontinued operations for the period are summarised as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
Cash flows generated from operating activities	**135,477**	65,521
Cash flows used in investing activities	**(1,409)**	(8,494)
Cash flows used in financing activities	**(5,397)**	(5,538)
Net cash inflow	**128,671**	51,489

(iii) The major classes of assets and liabilities of Dongzheng are as follow:

	At 30 June 2021 *RMB'000*	At 31 December 2020 *RMB'000*
Property, plant and equipment	**7,866**	7,598
Right-of-use assets	**20,636**	20,636
Intangible assets	**11,587**	11,337
Receivables from financial services	**2,841,908**	4,389,884
Deferred tax assets	**185,103**	87,548
Prepayments, deposits and other receivables	**122,062**	34,758
Cash and cash equivalents	**225,501**	95,421
Assets reclassified as held-for-sale	**3,414,663**	4,647,182
Add: inter-segment receivables	**1,560,287**	1,621,580
Dongzheng reportable assets as at the reporting date	**4,974,950**	6,268,762
Loans and borrowings	**(932,015)**	(2,033,911)
Trade and other payables	**(109,392)**	(127,608)
Lease liabilities	**(18,694)**	(23,372)
Income tax payables	**(6,691)**	(18,379)
Liabilities reclassified as held-for-sale	**(1,066,792)**	(2,203,270)
Add: inter-segment payables	**(95,050)**	(932)
Dongzheng reportable liabilities	**(1,161,842)**	(2,204,202)

14 DIVIDENDS

(i) No interim dividend was proposed after the end of reporting periods of six months ended 30 June 2021 and 30 June 2020.

(ii) No final dividend was proposed in respect of the previous financial year, approved and paid during the interim periods of six months ended 30 June 2021 and 30 June 2020.

(iii) Other dividends

During the period ended 30 June 2021, none of the subsidiaries of the Group has declared or paid any dividends in cash to non-controlling shareholders (for the six months ended 30 June 2020: RMB7,725,000).

15 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Potential disposal of shares by the controlling shareholder

As disclosed in note 2, on 30 July 2021, the Company has announced that it was informed by Joy Capital that Xindeco had withdrawn from the Original Transaction and Joy Capital entered into the Supplemental Agreement with the original parties and Xiamen ITG. Pursuant to the Supplemental Agreement, Xiamen ITG shall enjoy all such rights and assume all such obligations of the Xindeco under the SPA, and the number of Target Shares to be transferred under the SPA has been adjusted to 820,618,184 (representing 29.9% of the entire issued share capital of the Company as at the date of the Supplemental Agreement), at a total consideration of HK$1,427,875,640.16, representing HK$1.74 per Share which remains unchanged (subject to adjustment in accordance with the terms of the SPA).

The Company has been subsequently informed by Joy Capital that all of the conditions precedent as set out in the SPA have been fulfilled or waived. Completion of the SPA (as amended by the Supplemental Agreement) took place on 31 August 2021 in accordance with the terms and conditions of the SPA (as amended by the Supplemental Agreement). Upon completion of the SPA (as amended by the Supplemental Agreement), Xiamen ITG holds 820,618,184 shares, representing approximately 29.9% of the Company's share capital in issue and then becomes the single largest shareholder of the Company, and Joy Capital holds 562,898,636 shares, representing approximately 20.51% of the Company's share capital in issue, and is no longer a controlling shareholder of the Company. On 31 August 2021, two candidates were nominated by Xiamen ITG as directors of the Company.

(b) 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

MARKET REVIEW

In the first half of 2021, with the regular prevention and control of the "COVID-19" novel coronavirus epidemic (hereinafter referred to as the "**COVID-19**"), China's economy continued its stable recovery, with a period-on-period growth of 12.7% in GDP in the first half of the year. In particular, the growth in the first quarter and the second quarter were 18.3% and 7.9%, respectively. The overall economy achieved solid and stable development with an upward trend. Meanwhile, the world economy was gradually recovering, and the recovery of global manufacturing and trade was accelerated. However, the global supply chain was facing challenges due to multiple factors.

According to statistics released by the China Association of Automobile Manufacturers, sales of passenger automobiles in China grew by 27.0% period-on-period to 10,007,000 units in the first half of 2021. In general, the stable recovery of China's economic operations has played a good role in supporting automobile consumption. However, constraints such as chip supply problems and COVID-19 still bring uncertainties to the development of the automobile market. The luxury branded automobile market continued to maintain a sound development momentum. According to the information released by the Passenger Car Information Exchange Association (乘用車市場信息聯席會), in the first half of 2021, the sales of luxury branded automobile market in China was approximately 1,472,000 units, representing a period-on-period growth of 39.7%, showing a strong growth momentum.

As a core dealer of various luxury brands in China, the Group continued to collaborate closely with respective luxury branded automobile manufacturers during the reporting period to focus on restoring business scale and optimizing network structure. As a service enterprise focusing on offline business, the Group actively undertakes social responsibility under the new normalization of prevention of COVID-19, puts protection for health of employees and customers as the top priority, and formulates a complete epidemic prevention and control system and emergency response plan, so as to fully cater to the epidemic prevention and control led by the government, and create a safe business and service environment. It actively adjusts business strategies against the market changes, increases dealership stores of superior brands, and implements strategic transformation for stores with poor profitability. It also actively communicates with manufacturers and financial institutions to restore partners' confidence through favorable results performance. In line with its strategic planning, the Group has formulated reasonable business objectives and performance plans to guide the steady improvement of business scale and operational quality. Various measures have been adopted to ensure the rapid recovery and sound development of the Group's business during the reporting period.

The Group had achieved steady recovery of the business and the rapid improvement of its business results in the first half of 2021, which was attributable to the dedication of all employees as well as the trust and support of its business partners and shareholders of the Company ("**Shareholders**"). The Board would like to express its sincere gratitude to our Shareholders, business partners and customers for their long-term support and trust to the Group, as well as our loyal staff for their hard work and contributions to the Group over the first half of the year.

BUSINESS REVIEW

In the first half of 2021, the Group was committed to developing luxury and ultra-luxury branded auto sales and after-sales services business, with recovery of various businesses in a rapid and stable manner as its primary goal. The Group formulated scientific and reasonable business strategies, upgraded management concepts, and reduced costs and increased efficiency through refined management. During the reporting period, the Group had a new Benz brand store and a new Porsche brand store, further expanding the network of superior brands. It adjusted the business strategies against market changes to implement targeted optimization of the business network structure. It took advantage of resources and network to enhance the sales scale of superior brands and the recovery of key brand businesses. It actively deployed the new energy vehicle market, tried new business operation models, and accumulated new energy vehicle service experience. It also further improved the sales of new automobiles, after-sales service, pre-owned automobile replacement, pre-owned automobile sales and other automobile full life-cycle business layout.

For the six months ended 30 June 2021, the Group recorded a revenue of approximately RMB9,612 million, representing a period-on-period growth of approximately 8.23%, and gross profit of approximately RMB31 million, representing a period-on-period decline of approximately 97.04%. Loss attributable to equity holders of the Company was approximately RMB1,455 million and basic loss per share was approximately RMB54 cents, representing a period-on-period increase of approximately 6.59% and a decrease of approximately 3.05%, respectively.

The growth in the business results for the first half of 2021 was mainly attributable to the fundamentally improved funding environment, reasonable business planning and efficient execution, as well as the resource support of the agency brand manufacturers.

(I) Review of sales of new automobiles business

In the first half of 2021, the sales of new automobiles business of the Group quickly recovered and developed, and both sales and sales profits of new automobiles achieved significant period-on-period growth.

For the six months ended 30 June 2021, the sales of new automobiles of the Group reached 24,424 units in total, representing a period-on-period growth of approximately 13.2%, including 18,198 units of luxury branded and ultra-luxury branded automobiles with a period-on-period growth of approximately 3.6%. The gross profit margin from the sales of new automobiles was −7.5%, representing a decrease of 11.6 percentage points as compared to the same period of last year.

During the reporting period, the Group formulated a differentiated sales strategy based on the market performance of each brand, focused on expanding the sales scale and profit contribution of strong brands, and also improved the quality of operations to achieve a full recovery and growth of the sales business of the Group. After the liquidity risk of the Group was relieved, the Group actively coordinated with financial institutions to restore credit lines, and expand the credit limit, ensuring the capital needs for rapid business development. Faced with the shortage of vehicle supply caused by chip problems, while completing the manufacturer's established sales tasks with high quality, the Group actively communicated with automobile manufacturers to secure more high-quality resources. It kept abreast of market changes and flexibly adjusted sales strategies to ensure maximum profit from sales of vehicle. Through focusing on overdue inventory of vehicles, and increasing sales turnover, it reduced occupation of funds and improved operational efficiency. It also established a sales business process indicator monitoring system, used a digital management platform to monitor key sales indicators and optimized the sales funnel. The Group adhered to and deepened the concept of refined management, and even downed to managing the front-line business. Through process optimization, cost control, horizontal management and other methods, the operating quality and efficiency of the sales business were further improved, laying a solid foundation for breakthroughs in sales business in the second half of the year.

(II) Review of after-sales services business

In the first half of 2021, the Group's after-sales services business served 592,551 units of automobiles in aggregate, representing a period-on-period decrease of approximately 3.5%. Revenue from after-sales services amounted to approximately RMB1,613 million, representing a period-on-period decrease of 8.9%. The gross profit was approximately RMB568 million, representing a decrease of 24.4% as compared to the same period of last year, and the gross profit margin was approximately 35.2%. The decline in after-sales business during the reporting period was mainly due to the withdrawal of the manufacturer's dealer authorization for Volvo brand stores.

During the reporting period, the Group was committed to focusing on customer experience and improving service quality to promote the rapid recovery and development of after-sales business. By leveraging on the advanced digital information management system, it provided users' needs through big data analysis, and provided personalized service plans according to customer needs, so as to enhance customer experience. The Group analyzed the after-sales needs of customers in the surrounding areas of stores to improve regional coverage and expand business boundaries. The connections between new automobiles and pre-owned automobile were strengthened to provide customers with "one-stop" services. The Group strengthened cooperation with insurance companies, and launched competitive after-sales service products to retain leaving customers in the early stage, effectively expanded its customer base, and ensured the continuous and steady recovery and growth of the Group's after-sales business.

(III) Operation system of pre-owned automobiles

According to the data published by China Automobile Dealers Association, a total of 8,434,000 units of pre-owned automobiles were traded nationwide in the first half of 2021, representing a significant period-on-period increase of 52.9%, and an increase of 22.9% as compared with the same period in 2019. The domestic pre-owned automobile market rebounded rapidly after the epidemic was effectively controlled.

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 took advantage of the rapid increase in sales of new automobiles to further improve the pre-owned automobile business management tools, and strengthen the follow-up of the replacement needs of transacted customers and potential customers. It set a reasonable target for the automobile evaluation rate, and used the performance appraisal program to promote the conversion of pre-owned automobile business. It also connected the information of potential customers of new automobiles, after-sales and pre-owned automobiles to promote mutual conversion among business lines, and strengthen the synergy among sales of pre-owned automobiles and new automobiles and after-sales business, effectively improving the pre-owned automobile business.

(IV) Auto finance technology segment

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

During the first half of 2021, as the domestic market was still being affected by COVID-19 pandemic, and taking into account the market and credit risks, Dongzheng AFC continued to adopt cautious approach to approve loan applications, increase the proportion of joint loans products and reduce the use of its financial resources, resulting in a decline in newly granted loan amounts. As at 30 June 2021, the scale of Dongzheng AFC's loans decreased by 29% from RMB5.75 billion as at 31 December 2020 to RMB4.11 billion. For the six months ended 30 June 2021, net interest income was RMB164 million, representing a decrease of 43% from the same period in 2020. Dongzheng AFC recorded a net loss of RMB260 million for the six months ended 30 June 2021 as compared to a net profit of RMB143 million in the same period of 2020. As at 30 June 2021, Dongzheng AFC's non-performing loan ratio was 10.7%.

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

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

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

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

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

Covering National Offline Auto Finance Channels by Licensed Financial Institution

As at 30 June 2021, Dongzheng AFC had a registered capital of RMB2.14 billion, which provided strong financial support for 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 was 870 as of 30 June 2021 covering over 225 cities in China. The distribution channels of Dongzheng AFC mainly focus on mid- to high-end brands and its target customer base is those with high consumption power. Leveraging the network advantages and reasonable market layout strategies, Dongzheng AFC provides consumers with satisfactory customers' experiences and services.

In term of product design, the principal businesses of Dongzheng AFC comprise 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.

In risk control, for the purposes of risk management, Dongzheng AFC has strengthened its risk management and control capacity with focusing on risk policies, big data risk control, risk monitoring and asset preservation. Owing to the severe impact caused by the pandemic, there were circumstances of overdue principals and interests from certain customers. Although Dongzheng AFC had closely communicated with relevant customers to provide additional credit enhancement measures, relevant loans were classified into non-performing loans according to applicable regulations and taking into account the circumstances of the customers. As at 30 June 2021, the Company's non-performing loan ratio was 10.70%.

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, the Group will provide its customers with a diversified product mix to provide various insurance demands at different stages for its vehicle consumers. At the internal level, the Group will scale up the integration of management and optimize the staffing structure to significantly enhance management efficiency.

(V) Supply chain business

In the first half of 2021, through continuous focusing on passenger motor vehicle brands and social resource brands of Dongfeng Group and FAW, Shengze Jietong Supply Chain Co., Ltd. ("**Shengze Jietong**") carried out vehicle logistics, vehicle warehousing, spare parts warehousing and distribution services. Currently, Shengze Jietong has 21 dealership stores, involving 123 transportation routes, 1 storage and transportation center and 1 spare parts warehousing center. Various businesses have achieved positive growth for three consecutive years. In the first half of 2021, despite the dual impact of the COVID-19 and the shortage of chips, Shengze Jietong actively maintained close communication with original equipment manufacturers (OEMs) to formulated countermeasures for logistics business models and made adjustment in a timely manner. Giving play to the advantage of multimodal transportation of "roads, railways and waterways", the Group rationalized and scientized transportation routes, integrated transportation resources, and avoided risky routes to improve transportation efficiency. Through strategic cooperation among peers, internal fine scheduling and adjustments, and strengthening of logistics networks, the Group was dedicated to ensuring the business needs of customers in the sector of automotive logistics services.

In the first half of 2021, a total of 200,492 vehicles were shipped under major business brands of vehicle transportation, representing an increase of 16.13% as compared to 172,649 vehicles in the first half of 2020. Of which, the shipment volume of Dongfeng Nissan's business (including its Infiniti and Dongfeng Venucia) increased by 40.71% period-on-period to 185,323 vehicles. The shipment volume of Dongfeng Honda's business in Wuhan plant decreased by 72.11% period-on-period to 4,632 vehicles in the first half of the year which was caused by the routes adjustments by plants of Dongfeng Honda and reduction in chip production. The shipment volume of FAW-Volkswagen business increased by 37.66% period-on-period to 18,343 vehicles. The shipment volume of FAW Benteng/Hongqi/Mazda's businesses decreased by 15.81% period-on-period to 5,354 vehicles in the first half of the year. The shipment volume of Tong Fang Global (Toyota)'s business was 4,097 vehicles in the first half of the year, and the shipment volume of other resource brands was 1,391 vehicles.

In the first half of 2021, the spare parts warehousing and distribution business radiated to 187 dealers in Central China, with the number of packages delivered of 1.6399 million pieces, representing a period-on-period increase of 109.31%, and a period-on-period increase of 6% in customers satisfaction appraise. In terms of vehicle warehousing business, it completed the shuttle task of 50,218 vehicles/time, with the number of customer complaints of zero.

The four certificates, namely Real Estate Certificate, Planning Permit for Use of Land, Planning Permit for Engineering and Commencement Permit of Construction, required for the construction of Shengze Jietong's logistics base park in Hannan have all been obtained. Furthermore, the construction of the main body of warehouse No. 1 has been completed, and a relocation plan based on the principle of "relocation without halting production, relocation and tallying shall be conducted at the same time" will be carried out subsequently. It is expected that the overall relocation work will be completed in October 2022.

In the future, Shengze Jietong's logistics base in Hannan will develop a seamless logistics park of "roads, railways and waterways" for strategic customers, and waterways and railways transportation will bring significant cost effect. Also, it will develop a digital platform with strategic customers to establish an integrated online and offline supply chain service platform, so as to provide functions such as warehousing, transportation, circulation processing and information services for upstream and downstream customers in the automotive (vehicles and spare parts), and ultimately realize the sharing of resources and benefits.

In addition, due to the continuing impact of the pandemic and the shortage of global chip resources, OEMs of various brands have made varying levels of adjustments to the production plans formulated at the beginning of the year. In the second half of the year, Shengze Jietong will continue to focus on and make targeted adjustment to its business strategies, and make positive adjustments to the impact of the recurring epidemic.

In the first half of 2020, the revenue from sales of lubricant oil business was RMB116.97 million, and the revenue from sales for the same period in the first half of 2021 was RMB149.50 million, representing a period-on-period increase of 27.81%. During the reporting period, due to containment of the domestic epidemic, various industries basically resumed normal operations, and revenue from sales in the first half of 2021 increased as compared to the same period of last year. However, the continuous and repeated impact of the overseas COVID-19 and the over-issuance of the US bailout currency resulted in a soaring cost of commodities and oil prices, shortage of global chip and the increasingly fierce competition in the terminal market during the same period, bringing a great shock and negative impact on the overall profit in 2021.

(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, Kunming, Dalian, Shantou and other places in China. All of these comprehensive property projects are apartment projects, and projects in Kunming, Dalian and Shantou have obtained the pre-sale permits for sales. The Group believes that the above arrangement is a reasonable arrangement to improve the efficiency of capital utilisation and will bring higher return for the Shareholders.

(VII) Network development

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

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, Hongqi, Volvo, 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 30 June 2021, the Group owned 121 dealership stores in 40 cities across 17 provinces and municipalities in China. In the first half of 2021, the Group opened two new 4S stores, namely Chengdu Porsche and Wuhan Benz, and re-secured the authorisation of Volvo in Beijing. In addition, based on the actual operation of the dealership stores and comprehensive analysis of the brand and regional profitability of each dealership store, the Group strategically converted the form for part of its dealership stores and closed down 4 self-operated stores. In response to the development trend of the automobile market, the Group paid close attention to the comprehensive recovery of various dealership stores, the continuous optimization of brands and regions in order to explore new growth drivers.

As of 30 June 2021, there were a total of 6 dealership stores under development, which were franchised by 4S stores for core luxury brands, including Porsche, Benz, BMW and Audi, as well as repair centres. The overall new applications for authorisation and project construction have been strategically slowed down, but the Group will make full efforts to promote the superior projects as schedule and open as soon as possible. Furthermore, the Group actively cooperated with OEMs to gradually carry out brand upgrades, strengthened interaction with branded OEMs, and strived to simultaneously improve both quantity and quality, thereby comprehensively improving customer experience and the operating capabilities of each dealership store.

The following table sets forth the details of the Group's dealership stores as of 30 June 2021:

	Dealership stores in operation	Authorized dealership stores to be opened	Total
5S/4S stores for luxury and ultra-luxury brands	75	4	79
4S stores for mid to high-end brands	12	0	12
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 online stores	17	0	17
Total	**121**	**6**	**127**

As a mainstream strategic partner of OEMs 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 merger and acquisition opportunities as well as innovative strategic operation and cooperation scheme to rapidly enlarge business scale and enhance profitability.

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

In the first half of 2021, the Group leveraged the business recovery and reshaping by accelerating its "transformation and upgrade" process and applying more new technologies and new models on corporate business management. The Group further introduced innovative concepts on management, implemented refined management measures, and through establishing a learning-oriented organization, the Group strengthened its corporate culture construction, improved its corporate management standard, enhanced its operational efficiency, and further strengthened its core competitiveness.

Strengthening of results review and improvement of operational quality

During the reporting period, the Group continued to optimise the store operation performance-based assessment system, so as to conduct scientific analysis and assessment of the results of its dealership stores through key operation indicators, identify weaknesses in the store business, formulate targeted improvement plans and action plans, and regularly review store results and work of management team, forming a virtuous cycle and effectively promoting the overall improvement of the operational quality of the Group.

Innovative marketing models

Under the regular epidemic prevention and control, the Group's offline business at store was limited due to the reduction in part of customers' willingness to travel. In this end, the Group guided stores to actively explore novel marketing models and maintained interaction and communication with customers through various live broadcasts platform, and broaden marketing channels, with a view to be effectively accessible to potential customers while ensuring hygiene and safety, and effectively improve the efficiency of customer acquisition and business expansion of stores.

Establishment of learning-oriented organization

The Group always recognizes the importance of employee training and development. By establishing a learning-oriented organization, the Group improves employees' professional skills and comprehensive qualities and is able to provide premiere customer services while improving its operational capabilities. In the first half of 2021, Zhengtong Academy, the Group's learning platform, launched 119 online courses, with registered lecturers giving 27 minutes of per capita teaching hours and organization of more than 1,800 special examinations to over 8,000 trainees cumulatively. At the same time, the Group conducted off-line transfer training activities that complemented to online training, put theory into practice and helped trainees to apply new knowledge to actual business situation, thereby effectively improving employees' learning efficiency and business standards.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2021, the Group recorded a revenue of approximately RMB9,612 million, representing an increase of approximately 8.2% as compared to the revenue of approximately RMB8,881 million (restated) in the first half of 2020. The increase in revenue was mainly due to an increase in sales of new automobiles during the period under review.

Revenue of the Group was derived from the sales of new automobiles, after-sales services, financial services and other businesses. In the first half of 2021, revenue from the sales of new automobiles amounted to approximately RMB7,566 million, representing an increase of approximately 12.0% as compared to approximately RMB6,758 million in the first half of 2020, and accounted for approximately 78.7% and 76.1% of the total revenue in the first half of 2021 and 2020, respectively. The revenue from sales of luxury and ultra-luxury branded automobiles increased by approximately 7.9% to approximately RMB6,771 million from approximately RMB6,274 million in the first half of 2020, accounting for approximately 89.5% and 92.8% of revenue from the sales of new automobiles for the first half of 2021 and 2020, respectively.

Revenue from the after-sales services was approximately RMB1,613 million, representing a decline of approximately 8.9% as compared to approximately RMB1,770 million in the first half of 2020. In the first half of 2021, revenue from the after-sales services accounted for approximately 16.8% of the Group's total revenue.

Cost of sales

For the six months ended 30 June 2021, the Group's cost of sales increased by approximately 22.5% to approximately RMB9,581 million as compared to approximately RMB7,820 million (restated) in the first half of 2020. In the first half of 2021, the cost of sales for new automobiles of the Group increased by approximately 25.6% to approximately RMB8,137 million from approximately RMB6,478 million in the first half of 2020. Cost of the after-sales services increased by approximately 2.6% to approximately RMB1,045 million from approximately RMB1,019 million in the first half of 2020.

Gross profit and gross profit margin

For the six months ended 30 June 2021, the Group's gross profit decreased by approximately 97.1% to approximately RMB31 million from approximately RMB1,061 million (restated) in the first half of 2020, and the gross profit margin decreased by approximately 11.6 percentage points to approximately 0.3% from 11.9% in the first half of 2020.

The Group's gross profit was principally derived from after-sales services business, sales of new automobiles business and automobile financing services business. In the first half of 2021, gross profit of sales of new automobiles business decreased by approximately 303.6% to approximately RMB-570 million from approximately RMB280 million in the first half of 2020, mainly due to less vendor rebate had been recognised for the period; Accordingly, gross profit margin of sales of new automobiles was −7.5%, a decrease of 11.6 percentage points as compared to 4.1% in the first half of 2020. Among which, the gross profit of sales of luxury and ultra-luxury branded automobiles declined by approximately 303.5% as compared to the same period of last year to approximately RMB-515 million, and gross profit margin of sales of luxury and ultra-luxury branded automobiles decreased to −7.6% from 4.0% in the first half of 2020. In the first half of 2021, the Group's gross profit of after-sales services business was approximately RMB568 million, representing a decrease of approximately 24.4% as compared to the same period of last year, and gross profit margin of after-sales services business decreased by approximately 7.2 percentage points to approximately 35.2% from approximately 42.4% in the first half of 2020.

Selling and distribution expenses

For the six months ended 30 June 2021, the Group's selling and distribution expenses increased by approximately 26.8% to approximately RMB586 million from approximately RMB462 million in the first half of 2020. The increase in selling and distribution expenses was mainly attributable to the increases in staff cost and publicity costs.

Administrative expenses

For the six months ended 30 June 2021, the Group's administrative expenses amounted to approximately RMB528 million, representing a decrease of approximately 9.4% over approximately RMB583 million in the first half of 2020.

Impairment losses on goodwill and intangible assets

During the period under review, the Group recorded impairment loss in intangible assets of approximately RMB161 million, which was due to the failure in the operating results of certain 4S dealerships to reach the 2021 financial budget as approved by the management.

Loss from operations

For the six months ended 30 June 2021, the Group's operating loss was approximately RMB762 million. The loss in the first half of 2020 was approximately RMB991 million (restated).

Income tax credit/expense

For the six months ended 30 June 2021, the Group's income tax credit was approximately RMB25 million, the income tax credit amounted to approximately RMB79 million (restated) in the first half of 2020.

Loss for the period

For the six months ended 30 June 2021, the Group's loss for the period was approximately RMB1,519 million, and the loss was approximately RMB1,323 million (restated) in the first half of 2020.

Current assets and current liabilities

As at 30 June 2021, the Group's current assets amounted to approximately RMB12,384 million, representing a decrease of approximately RMB1,571 million as compared to the current assets of approximately RMB13,955 million as at 31 December 2020.

As at 30 June 2021, the Group's current liabilities amounted to approximately RMB17,371 million, representing a decrease of approximately RMB69 million as compared to the current liabilities of approximately RMB17,440 million as at 31 December 2020, which was mainly due to the decrease in loans and borrowings.

Cash flow

As at 30 June 2021, the Group had cash and cash equivalents amounting to approximately RMB545 million, representing an increase of approximately RMB54 million from approximately RMB491 million as at 31 December 2020. The Group's transactions and monetary assets were principally denominated in Renminbi. The Group's primary uses of funds were to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to finance the Group's working capital and daily operating expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the six months ended 30 June 2021, the Group had net cash outflow of approximately RMB60 million generated from its operating activities (six months ended 30 June 2020: cash inflow of approximately RMB569 million), which was primarily due to the increase in purchase of inventory and collection of trade and bills receivables.

Capital expenditure and investment

For the six months ended 30 June 2021, the Group's capital expenditure and investment were approximately RMB412 million.

Inventory

The Group's inventories included vehicles, automobile spare parts and properties under development for sale. In general, each of the Group's dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group utilizes its information technology systems to manage its inventories, and also monitors the inventories within its whole dealership network and may transfer automobiles from one dealership store to another to rebalance inventory levels. The inventories of the Group amounted to approximately RMB2,090 million as at 30 June 2021, increased by approximately RMB288 million when compared with approximately RMB1,802 million as at 31 December 2020. Such change was mainly due to the increase of inventory of motor vehicle. The Group's average inventory turnover days (excluding the impact of properties under development for sale) in the first half of 2021 decreased by 44.9 days to 27.5 days from 72.4 days in the first half of 2020. The following table sets forth our average inventory turnover days for the period indicated:

	For the six months ended 30 June (day)	
	2021	2020 (Restated)
Average inventory turnover days (excluding the impact of properties under development for sale)	**27.5**	72.4

Foreign exchange risk

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. However, the Group's operating cash flow and liquidity have not been subject to significant influence from fluctuations in exchange rate. The Group used cross currency swap to hedge its US-dollar and HKD future loans repayment. As at 30 June 2021, a gross financial liability of approximately RMB0 million measured at fair value was recognised by the Group on the cross currency swap, and gross financial assets of approximately RMB0 million (excluding wealth management products) measured at fair value were recognised (31 December 2020: a gross financial liability of approximately RMB32 million measured at fair value was recognised by the Group on the cross currency swap, and gross financial assets of approximately RMB35 million (excluding wealth management products) measured at fair value).

Liquidity and capital resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks. As at 30 June 2021, the Group's cash and bank deposits were approximately RMB1,818 million (including: pledged bank deposits of approximately RMB1,046 million, time deposits of approximately RMB453 million and cash and cash equivalents of approximately RMB319 million), representing an increase of approximately RMB10 million, from approximately RMB1,828 million as at 31 December 2020. As at 30 June 2021, loans and borrowings, lease liabilities and bonds payable of the Group amounted to approximately RMB15,844 million (31 December 2020: loans and borrowings, lease liabilities, and bonds payable of the Group amounted to approximately RMB14,664 million). Save as loans and borrowings, lease liabilities, and bonds payable of approximately RMB12,142 million that bear fixed interest rates, other loans and borrowings bear floating interest rates. As at 30 June 2021, net gearing ratio of the Group was approximately 368.1%, (31 December 2020: approximately 241.6%). Net gearing ratio was calculated as loans and borrowings, lease liabilities, and bonds payable less cash and bank deposits divided by total equity. The Group will actively consider various financing methods to improve its existing financial position and reduce the degree of leverage of the Group.

Pledged assets of the Group

The Group has pledged its assets as security for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 30 June 2021, the pledged assets of the Group amounted to approximately RMB7,146 million (31 December 2020: approximately RMB11,128 million).

Material acquisition and disposal of subsidiary and associate

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 Dongzheng AFC, a subsidiary of the Company, by improper means and the Company and its related parties engaged in non-compliant related-party transactions with Dongzheng AFC; and (ii) Dongzheng AFC'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 AFC 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 AFC. 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 AFC (the "**Potential Disposal**") with an objective of achieving a completed sale within 2021. Accordingly, the interests in Dongzheng AFC have been presented as a disposal group held for sale as at 30 June 2021 and as discontinued operations for the period under review.

As of 30 June 2021, no binding sales and purchase agreements have been entered into by the Company with any potential purchasers and no valuation of Dongzheng AFC has been performed in respect of the Potential Disposal, and the discussion and negotiation are still in progress although the three-month period as requested by CBIRC has expired.

Save as the abovesaid Potential Disposal, there is no material acquisition and disposal of subsidiary and associate as of the date of this announcement.

Investments held in foreign currency and hedging

For the six months ended 30 June 2021, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group had 7,740 employees in China (31 December 2020: 7,997 employees). The total staff costs incurred for the six months ended 30 June 2021 was approximately RMB385 million (for the six months ended 30 June 2020: approximately RMB311 million). The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans. The Group also provides the employees with good working environment and diversified training program.

FUTURE OUTLOOK AND STRATEGIES

As the prevention and control of COVID-19 has become normalized, China's economy has further demonstrated its development vigour, the macro-economy has developed steadily, the household consumption has continued to rise, the automobile consumption upgrading trend will continue and the development prospects of the luxury branded automobiles market will be promising.

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.

PROPOSED INTERIM DIVIDEND

Given the severity of the COVID-19 epidemic development across the world and its unfathomable impact on the local and global economy in the foreseeable future, the Board has decided that no interim dividends shall be paid out as of 30 June 2021 after thorough consideration. The Board considers such consideration a reasonable move under current situation and feels optimistic with the economic recovery from COIVD-19 and resumption of our dividends policy.

EXTRACT OF REPORT ON REVIEW OF INTERIM FINANCIAL REPORT

The following is the extract of the Report on Review of Interim Financial Report of the Group for the six months ended 30 June 2021 from the auditor of the Group, KPMG:

"**CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2021 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 *Interim financial reporting*."

REVIEW OF INTERIM RESULTS

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

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for six months ended 30 June 2021. KPMG, the Group's external auditor, has carried out a review of the unaudited interim consolidated financial statements for the six months ended 30 June 2021 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

EVENTS AFTER THE REPORTING PERIOD

On 30 July 2021, the Company was informed by Joy Capital Holdings Limited ("**Joy Capital**") that upon negotiations between the parties, Xiamen Xindeco Ltd. (廈門信達股份有限公司) ("**Xiamen Xindeco**" or the "**Purchaser**") had withdrawn from the purchase of shares of the Company ("**Shares**") carrying approximately 29.9% of the voting rights of the total issued Shares, equivalent to 806,535,284 Shares at a consideration of HK$1,403,371,394 pursuant to a sale and purchase Agreement ("**SPA**") entered into among Joy Capital, Xiamen Xindeco and Mr. Wang Muqing on 19 October 2020. On the same date, Joy Capital entered into a supplemental sale and purchase agreement (the "**Supplemental Agreement**") with the original parties of the SPA and Xiamen ITG Holding Group Co., Ltd. (廈門國貿控股集團有限公司) (the "**New Purchaser**") to amend certain major terms of the SPA.

The parties to the Supplemental Agreement agreed (among other things) that (i) the New Purchaser shall enjoy all such rights and assume all such obligations of the Purchaser under the SPA; (ii) the number of Shares to be transferred under the SPA has been adjusted to 820,618,184 (representing 29.9% of the entire issued share capital of the Company as at the date of the Supplemental Agreement), at a total consideration of HK$1,427,875,640.16, representing HK$1.74 per Share which remains unchanged (subject to adjustment in accordance with the terms of the SPA); and (iii) subject to the relevant candidates satisfying the relevant requirements regarding directors of listed companies under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"), Joy Capital shall procure that three candidates nominated by the New Purchaser shall be appointed as Directors, with the appointment of two of which to be effective on the date of completion of the transaction and the remaining one to be effective on 9 October 2021. Joy Capital shall procure the resignation of two existing executive Directors which shall take effect on the date of completion of the transaction and of one existing executive Director which shall take effect on 9 October 2021. Joy Capital has agreed to support the Director(s) so nominated by the New Purchaser to be the Chairman of the Board, the chief executive officer of the Company and the chairman of the nomination committee of the Board. The Supplemental Agreement also stipulates consequential changes to conditions precedent to the transaction and the transaction is subject to, among other things, approval by the shareholder of the New Purchaser.

The New Purchaser is a Fortune Global 500 Company with operations in commodity trading, circulation automobile trading, logistics business, commodity retail business and others. Subject to completion of the transaction, the Company would expect such relationship with the New Purchaser as the single largest shareholder to provide synergies and significant opportunities for the Group to further develop and strengthen the development of the Group's businesses by leveraging on the scale, network and financial strength of the New Purchaser.

For further details, please refer to the announcements of the Company dated 20 October 2020 and 30 July 2021 respectively and note 2 of the notes to the unaudited interim financial statements hereinabove in this announcement.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Listing Rules. The Company had complied with the code provisions set out in the CG Code throughout the six months ended 30 June 2021.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code (the "**Securities Dealing Code**") regarding securities transactions of the directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**"). In response to a specific enquiry by the Company, each of the Directors confirmed that they had complied with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2021.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com) and the interim report for the six months ended 30 June 2021 of the Company containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the above websites in due course.

APPRECIATION

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

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

31 August 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.