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

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

(Stock code: 1728)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

- Turnover increased by approximately 127.4% to approximately RMB13,683 million over the same period last year
- Gross profit increased by approximately 89.7% to approximately RMB1,195 million over the same period last year
- Profit for the period increased by approximately 13.2% to approximately RMB351 million over the same period last year
- Basic earnings per share increased by approximately 2.0% to RMB15.0 cents per share over the same period last year

The board of directors (the "Board") of China ZhengTong Auto Services Holdings Limited 中國正通汽車服務控股有限公司 (the "Company" or "ZhengTong Auto") 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 2012 together with the comparative figures for the corresponding period in 2011 as set out below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012
(Expressed in RMB'000)

		(Unaudited) Six months ended 30 June	
	Note	**2012**	2011
Turnover	*4*	**13,682,712**	6,016,376
Cost of sales		**(12,487,682)**	(5,386,289)
Gross profit		**1,195,030**	630,087
Other revenue	*5*	**92,507**	38,111
Other net income	*5*	**38,302**	10,008
Selling and distribution expenses		**(304,265)**	(113,825)
Administrative expenses		**(335,606)**	(115,016)
Profit from operations		**685,968**	449,365
Finance costs	*6(a)*	**(200,373)**	(45,368)
Share of profit of a jointly controlled entity		**9,681**	7,340
Profit before taxation	*6*	**495,276**	411,337
Income tax	*7*	**(144,465)**	(100,898)
Profit for the period		**350,811**	310,439
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of foreign operations		**(1,231)**	1,004
Other comprehensive income for the period, net of tax		**(1,231)**	1,004
Total comprehensive income for the period		**349,580**	311,443

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
For the six months ended 30 June 2012
(Expressed in RMB'000)

		(Unaudited) Six months ended 30 June	
	Note	**2012**	2011
Profit attributable to:			
Shareholders of the Company		**330,221**	293,322
Non-controlling interests		**20,590**	17,117
Profit for the period		**350,811**	310,439
Total comprehensive income attributable to:			
Shareholders of the Company		**328,990**	294,326
Non-controlling interests		**20,590**	17,117
Total comprehensive income for the period		**349,580**	311,443
Earnings per share	*8*		
– Basic (RMB cents)		**15.0**	14.7
– Diluted (RMB cents)		**15.0**	14.7

CONSOLIDATED BALANCE SHEET

At 30 June 2012
(Expressed in RMB'000)

	Note	**(Unaudited) At 30 June 2012**	(Audited) At 31 December 2011
Non-current assets			
Property, plant and equipment		**1,253,042**	984,188
Lease prepayments		**262,916**	176,453
Intangible assets		**4,172,583**	4,271,997
Goodwill		**1,926,551**	1,926,551
Interest in a jointly controlled entity		**151,283**	141,602
Deferred tax assets		**14,156**	21,270
		7,780,531	7,522,061
Current assets			
Inventories	*10*	**4,333,907**	3,244,023
Trade and other receivables	*11*	**3,096,076**	2,945,858
Pledged bank deposits	*12*	**1,086,012**	1,168,909
Time deposits		**16,963**	11,800
Cash and cash equivalents	*13*	**1,262,308**	1,096,771
		9,795,266	8,467,361
Current liabilities			
Loans and borrowings	*14*	**5,585,839**	4,220,370
Trade and other payables	*15*	**4,086,911**	4,156,397
Income tax payables		**263,101**	305,935
		9,935,851	8,682,702
Net current liabilities		**(140,585)**	(215,341)
Total assets less current liabilities		**7,639,946**	7,306,720
Non-current liabilities			
Deferred tax liabilities		**961,250**	984,801
		961,250	984,801
NET ASSETS		**6,678,696**	6,321,919
Equity			
Share capital		**188,611**	187,959
Reserves		**6,363,802**	6,022,445
Equity attributable to shareholders of the Company		**6,552,413**	6,210,404
Non-controlling interests		**126,283**	111,515
TOTAL EQUITY		**6,678,696**	6,321,919

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) 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, motor-related logistics business and lubricant oil trading business in the People's Republic of China (the "PRC").

In August 2011, the Group entered into a share purchase agreement with Exactwin Limited, an independent third party, to acquire 100% equity interest in Top Globe Limited at a total consideration of RMB5,500,000,000, which qualified as a very substantial acquisition under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Top Globe Limited and its subsidiaries are principally engaged in the business of automobile dealership and after-sales services. Its major assets mainly consist of 22 dealership stores, mainly including Volvo, Land Rover and Jaguar, in the PRC. The above acquisition was approved by the Company's shareholders at the extraordinary general meeting held on 22 December 2011 and was completed on the same date.

2 BASIS OF PREPARATION

The Company has a financial year end date of 31 December. The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Listing Rules, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 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 judgments, 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 annual financial statements for the year ended 31 December 2011 which were issued on 26 March 2012. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report for the six months ended 30 June 2012 is unaudited, and it was authorised for issue on 26 August 2012. The interim financial report 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 financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those statutory financial statements in their report dated 26 March 2012.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. None of these developments are relevant to the Group's interim financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 TURNOVER

The Group is mainly engaged in sales of passenger motor vehicles, motor spare parts, provision of maintenance services, provision of logistics services and sales of lubricant oil. Turnover represents the sales of goods and services rendered to customers.

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Sales of passenger motor vehicles	**12,377,760**	5,392,638
Sales of motor spare parts	**177,650**	100,690
Provision of maintenance services	**874,824**	323,101
Provision of logistics services	**84,400**	67,817
Sales of lubricant oil	**168,078**	132,130
	13,682,712	6,016,376

5 OTHER REVENUE AND NET INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Other revenue:		
Commission income	**83,028**	25,880
Interest income from bank deposits	**9,158**	11,690
Others	**321**	541
	92,507	38,111
Other net income:		
Net gain on disposal of property, plant and equipment	**29,695**	8,406
Others	**8,607**	1,602
	38,302	10,008

6 PROFIT BEFORE TAXATION

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

	Note	Six months ended 30 June 2012 RMB'000	2011 RMB'000
(a) Finance costs:			
Interest on loans and borrowings wholly repayable within 5 years		**172,430**	12,133
Other finance costs	*(i)*	**31,871**	33,235
Less: interest capitalised		**(3,928)**	–
		200,373	45,368
(b) Staff costs:			
Salaries, wages and other benefits		**214,925**	93,977
Contributions to defined contribution retirement plans	*(ii)*	**13,706**	6,367
Equity settled share-based transactions		**717**	7,744
		229,348	108,088

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

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

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

	Six months ended 30 June 2012 RMB'000	2011 RMB'000
(c) Other items:		
Cost of inventories	**12,373,215**	5,321,494
Depreciation	**74,416**	25,880
Amortisation of lease prepayments	**3,164**	1,420
Amortisation of intangible assets	**99,414**	2,477
Operating lease charges	**70,981**	18,822
Net foreign exchange (gain)/loss	**(1,189)**	1,869

7 INCOME TAX

Income tax in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current tax:		
Provision for PRC income tax for the period	**160,902**	97,893
Deferred tax:		
(Origination)/reversal of temporary differences	**(16,437)**	3,005
	144,465	100,898

(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) According to the PRC corporate income tax laws and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC enterprises.

The Group's subsidiaries in the PRC are directly or indirectly held by the Group's intermediate holding companies, Rising Wave Development Limited and Wealth Fame Holdings Limited, both of which are Hong Kong tax residents. Since the Group can control the quantity and timing of distribution of profits of the Group's PRC subsidiaries, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed in the foreseeable future.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 was based on the profit attributable to shareholders of the Company for the six months of RMB330,221,000 (30 June 2011: RMB293,322,000) and the weighted average number of ordinary shares of 2,206,823,282 (30 June 2011: 2,000,000,000) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2012 is based on the profit attributable to shareholders of the Company of RMB330,221,000 (30 June 2011: RMB293,322,000) and the weighted average number of ordinary shares of 2,207,951,754 (30 June 2011: 2,000,000,000) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's pre-IPO employee share option scheme.

(c) Weighted average number of shares (diluted)

	Six months ended 30 June	
	2012	2011
	Number of shares	*Number of shares*
Weighted average number of ordinary shares	**2,206,823,282**	2,000,000,000
Effect of deemed issue of shares under the pre-IPO employee share option scheme	**1,128,472**	–
	2,207,951,754	2,000,000,000

9 SEGMENT REPORTING

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

1 4S dealership business

4S dealership business mainly includes sales of motor vehicles, motor spare parts and provision of maintenance services through the Group's network of 4S dealership in the PRC.

2 Logistics business

Logistics business mainly includes provision of motor-related logistics services.

3 Lubricant oil business

Lubricant oil business mainly includes trading of lubricant oil.

As neither of logistics business nor lubricant oil business has exceeded the quantitative threshold for determining a reportable segment, they are grouped together to form one reportable segment. Consequently, the Group has two reportable segments, namely "4S dealership business" and "Logistics and lubricant oil businesses".

(a) Segment results, assets and liabilities

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

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

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

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

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

	4S dealership business		Logistics and lubricant oil businesses		Total	
	2012	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
For six months ended 30 June						
Turnover from external customers	**13,430,234**	5,816,429	**252,478**	199,947	**13,682,712**	6,016,376
Inter-segment turnover	**–**	–	**307**	4,725	**307**	4,725
Reportable segment turnover	**13,430,234**	5,816,429	**252,785**	204,672	**13,683,019**	6,021,101
Reportable segment profit	**538,981**	374,641	**38,556**	40,182	**577,537**	414,823
Depreciation and amortisation for the period	**174,111**	27,680	**2,883**	2,097	**176,994**	29,777
Reportable segment assets as at 30 June 2012/31 December 2011	**10,118,277**	8,720,709	**1,571,380**	1,161,123	**11,689,657**	9,881,832
Additions to non-current segment assets during the period	**508,198**	209,984	**5,655**	337	**513,853**	210,321
Reportable segment liabilities as at 30 June 2012/31 December 2011	**(9,518,183)**	(8,489,035)	**(1,017,418)**	(642,530)	**(10,535,601)**	(9,131,565)
Interest in a jointly controlled entity as at 30 June 2012/31 December 2011	**–**	–	**151,283**	141,602	**151,283**	141,602

(b) Reconciliations of reportable segment turnover, profit before taxation, assets and liabilities

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Turnover:		
Reportable segment turnover	**13,683,019**	6,021,101
Elimination of inter-segment turnover	**(307)**	(4,725)
Consolidated turnover	**13,682,712**	6,016,376
Profit before taxation:		
Reportable segment profit	**577,537**	414,823
Unallocated head office expenses	**(12,697)**	(6,237)
Other revenue	**92,507**	38,111
Other net income	**38,302**	10,008
Finance costs	**(200,373)**	(45,368)
Consolidated profit before taxation	**495,276**	411,337

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Assets:		
Reportable segment assets	**11,689,657**	9,881,832
Intangible assets	**4,172,583**	4,271,997
Goodwill	**1,926,551**	1,926,551
Deferred tax assets	**14,156**	21,270
Unallocated head office assets	**651,493**	643,620
Elimination of inter-segment receivables	**(878,643)**	(755,848)
Consolidated total assets	**17,575,797**	15,989,422
Liabilities:		
Reportable segment liabilities	**(10,535,601)**	(9,131,565)
Income tax payables	**(263,101)**	(305,935)
Deferred tax liabilities	**(961,250)**	(984,801)
Unallocated head office liabilities	**(15,792)**	(1,050)
Elimination of inter-segment payables	**878,643**	755,848
Consolidated total liabilities	**(10,897,101)**	(9,667,503)

(c) Geographic information

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

10 INVENTORIES

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Motor vehicles	**4,095,716**	3,039,142
Motor spare parts	**230,474**	199,173
Others	**7,717**	5,708
	4,333,907	3,244,023

11 TRADE AND OTHER RECEIVABLES

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Trade receivables	**300,518**	291,207
Bills receivable	**5,592**	7,887
	306,110	299,094
Prepayments	**654,106**	1,374,323
Deposit within an escrow account	**300,000**	300,000
Other receivables and deposits	**1,827,083**	972,159
Receivables due from third parties	**3,087,299**	2,945,576
Receivables due from related parties	**8,777**	282
Trade and other receivables	**3,096,076**	2,945,858

All of the trade and other receivables are expected to be recovered within one year.

Credit risk in respect of trade receivables is limited since credit sales are offered in rare cases subject to high level management's approval, for which management has a credit policy in place and the exposures to the credit risks are monitored on an ongoing basis.

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Current	**264,668**	279,644
Less than 3 months past due	**33,694**	7,201
3 to 12 months past due	**7,062**	10,055
1 year past due	**686**	2,194
Total amount past due	**41,442**	19,450
	306,110	299,094

12 PLEDGED BANK DEPOSITS

Guarantee deposits in respect of:

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Bank loans	**101,756**	18,554
Bills payable	**984,256**	1,150,355
	1,086,012	1,168,909

The pledged bank deposits will be released upon the settlement of relevant bank loans and bills payable.

13 CASH AND CASH EQUIVALENTS

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Bank deposits within 3 months of maturity	**–**	5,910
Cash at banks and on hand	**1,262,308**	1,090,861
	1,262,308	1,096,771

14 LOANS AND BORROWINGS

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

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Unsecured bank loans	**2,802,486**	1,955,652
Unsecured borrowings from other financial institutions	**250,000**	–
	3,052,486	1,955,652
Secured bank loans	**1,308,093**	1,208,541
Secured borrowings from other financial institutions	**225,260**	56,177
Other secured borrowings	**1,000,000**	1,000,000
	2,533,353	2,264,718
	5,585,839	4,220,370

15 TRADE AND OTHER PAYABLES

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Trade payables	**223,664**	131,339
Bills payable	**3,035,384**	2,865,830
	3,259,048	2,997,169
Receipts in advance	**339,256**	543,644
Other payables and accruals	**488,607**	615,584
Trade and other payables	**4,086,911**	4,156,397

All trade and other payables are expected to be settled within one year.

An ageing analysis of trade and bills payables is as follows:

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Due within 3 months	**3,174,666**	2,981,984
Due after 3 months but within 6 months	**84,033**	14,303
Due after 6 months but within 12 months	**349**	882
	3,259,048	2,997,169

16 CONTINGENT LIABILITIES

At 30 June 2012 and 31 December 2011, the Group did not have any significant contingent liabilities.

MARKET REVIEW

In the first half of 2012, Chinese economy slowed down but maintained a steady growth in the whole. According to the statistics released by the National Bureau of Statistics of China, in the first half of 2012, the gross domestic products (GDP) of China recorded a year-on-year growth rate of approximately 7.8%. Meanwhile, the passenger automobile market in China also continued a moderate growth, a similar trend witnessed in the second half of 2011. In the first half of 2012, the sales volume of China's passenger automobile market reached 7.6 million, representing a growth of 7.1% over the same period last year. The sales of the premium and ultra premium branded automobiles remained robust in Chinese market and higher than the average level of the passenger automobile market in the PRC. The sales volume of Audi branded automobiles in China reached 193,871 in the first half of 2012, representing a growth of 37.8% over the same period last year, the BMW group sold a total of 158,956 BMW and MINI branded automobiles in Chinese mainland market, representing an increase of 30.7% over the same period last year, and the total sales volume of Jaguar and Land Rover branded automobiles in the PRC reached 36,451 in the first half of the year, representing a growth of 100.0% over the same period last year.

As at the end of June 2012, motor vehicle ownership in the PRC reached 233 million and it increased by 3.67% or 8.26 million as compared with that at the end of 2011. Among which, automobiles reached approximately 114 million and they increased by 7.66% or 8.11 million as compared with that at the end of 2011. The automobile ownership in each of 17 cities across the country has exceeded one million. Among them, the automobile ownership in each of five cities including Beijing, Chengdu, Tianjin, Shenzhen and Shanghai, has exceeded 2 million. Private automobile ownership reached approximately 86 million, and it accounted for 75.62% of the total automobile ownership and increased by 1.21 percentage point as compared with that at the end of 2011. The ownership of automobiles continued to maintain a strong growth trend, providing reasonable guaranty for the rapid growth of the Group's after-sales services business.

As Chinese economy slowed down and automobile manufacturers substantially increased the supply of new automobiles in the first half of 2012, resulting in the supply of new automobiles exceeding their demand. As a result, the gross profit margin for automobile dealers' sales of new automobiles was affected to a certain extent.

BUSINESS REVIEW

Steady growth in sales of premium and ultra premium branded automobile

In the first half of 2012, the market for premium and ultra premium branded automobiles in the PRC had maintained a relatively rapid growth trend. As the Group's strategies focus on premium and ultra premium brands, benefiting from the above market trends, in the first half of 2012, the sales revenue of premium and ultra premium branded automobiles for the Group was approximately RMB10,897 million, representing an increase of approximately 150.5% over the same period last year. The sales revenue of premium and ultra premium branded automobiles accounted for approximately 88.0% of the sales revenue of new automobiles (first half of 2011: approximately 80.7%). The surge of the Group's sales revenue of premium and ultra premium branded automobiles was due to the fact that the relatively rapid growth of the premium and ultra premium branded automobiles continued to be maintained in the first half of 2012 as well as the expansion of the Group's sales network and improvement in operation efficiency.

In the first half of 2012, the Group set up an Audi 4S store in Wuhan and a Porsche 4S store in Hohhot. A Jaguar/Land Rover 4S store in Shantou and a BMW M centre in Beijing, which were put in trial operation in 2011, commenced operation in January and March 2012 respectively. As of the date of this announcement, the Group had 61 dealership outlets, including 45 premium and ultra premium branded dealership stores and 16 mid-to-high-end branded dealership stores. In addition, the Group had franchise of 13 manufacturers involving brands like Lamborghini, Land Rover, BMW, Audi, Benz, Volvo, Cadillac and Imported Volkswagen.

Significant upgrade of after-sales services business

In the first half of 2012, the Group's after-sales services business contributed turnover of approximately RMB1,052 million, up by approximately 148.1% from the turnover of approximately RMB424 million over the same period last year. Gross profit generated from the after-sales services increased from approximately RMB184 million in the first half of 2011 to approximately RMB474 million, representing a growth of 157.6%. The gross profit margin of after-sales services also increased to 45.0% (first half of 2011: 43.5%). Moreover, since the Group is committed to improving customer satisfaction and perfecting structure of after-sales services business, there is further room for improvement of the gross profit margin of after-sales services. Revenue and gross profit from the Group's after-sales services have risen fast, and the percentage of revenue and gross profit from such service has also been increasing since the Group was listed. In the first half of 2012, the percentage of revenue and gross profit from after-sales services rose to 7.7% and 39.7% from 7.0% and 29.2% in the first half of 2011 respectively. The after-sales services have become another pillar of the Group's business in addition to the sales of new automobiles. Benefiting from the innovation of the after-sales services mode by the Group as well as the Group's customer-oriented principle, the profitability of after-sales services business has increased. The Group raised the number of automobiles using after-sales services via enhancement on customer care, invitation, self-experience and commencement of marketing campaigns for after-sales services. Quality of after-sales services is enhanced via active optimization of the flow of after-sales services, reasonable introduction of informationization and management tools by segments, and satisfaction on customer services was enhanced, thereby nurturing loyalty among customer base. In addition, the customer base of the Group's after-sales services was rapidly expanded with the rising number of its dealership stores and the accumulative new automobiles sold. Since the after-sales services are less subject to the impact of overall economic situation, it will bring about stable profit and income for the Group in the future and also play an increasingly important role in the Group's overall business in the future.

Further development of extended service business

As sales volume and number of automobile owners in China's passenger automobile market further increased, extended service business became the Group's third largest business subsequent to automobile sales business and after-sales services business. Extended service business represents all relevant service businesses (including sale of accessories for automobile, automobile financing, insurance agency and registration of plate for customers) derived from the two operating businesses, i.e. automobiles sales and after-sales services.

Sale of accessories for automobile, being the current largest extended service business of the Group, has become its new profit growth point. During the first half of 2012, after the Group established a centralised procurement center for automobile accessories, the decentralized procurement of automobiles by each 4S store was turned into a centralized procurement by the Group, which substantially reduced purchase cost and improved gross profit margin for sale of accessories for automobiles. In the meantime, the Group also established dedicated electronic management system for sale of automobile accessories to improve its operating efficiency and ensure faster response to customer's feedback.

During the first half of 2012, the Group launched more extended service projects, both by its independent development and in collaboration with other service institutions, to satisfy customers' different requirements. Currently, the Group has launched extended service businesses including sale of accessories, registration of plate for customers and insurance agency. The revenue contribution from extended service business has been increasing over time. In view of this, the Group is preparing to set up a professional company, which will operate independently the extended service business, to operate and manage the Group's extended service business as a whole. In addition, the Group is also optimistic about the automobile financing business and is in the process of the establishment of a company specialising in the automobile financing business.

Business integration upon mergers and acquisitions

During 2011, the Group has conducted a series of mergers and acquisitions for business expansion and competitiveness improvement. As a result, it acquired twenty-six 4S dealership stores, including Top Globe Limited and its subsidiaries ("SCAS Group"), and a repair center. The Group's operation points also increased to 59, and it became a core dealer of the five major premium brands, namely BMW/MINI, Audi, Land Rover, Jaguar and Volvo.

In order to realize its advantages on scale and synergies after mergers and acquisitions of SCAS Group and other 4S dealership stores, the Group adopted the following measures to complete the integration of mergers and acquisitions of SCAS Group and other 4S dealership stores in the first half of 2012:

(i) the Group applied its advanced management system, management tools and management philosophy to SCAS Group in order to comprehensively improve SCAS Group's operational efficiency.

(ii) the Group retained the original management of SCAS Group in office, optimized the remuneration and performance system for SCAS Group's employees, and strengthened the incentive roles of such system to improve the efficiency of SCAS Group's employees.

(iii) the Group applied its advanced business operation model to SCAS Group. For example, the Group turned the decentralized procurement mode into centralized procurement one in terms of automobile accessories to reduce procurement costs and improve the gross profit of sales of automobile accessories.

(iv) the Group configured unified financial management software for SCAS Group, and unified financial rules and financial management mode to improve the efficiency of financial management.

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2012, the Group generated turnover of approximately RMB13,683 million, representing an increase of approximately 127.4% over the turnover of approximately RMB6,016 million in the first half of 2011. The increase in turnover was mainly due to the strong growth in the income from the Group's sales and after-sales services business for premium and ultra premium branded automobiles. The Group adopted a number of strategies, such as expanding its dealership network, to enhance its operating efficiency and take advantage of market opportunities in a timely manner. Turnover grew rapidly as a result.

	For the six months ended 30 June			
	2012		2011	
Source of turnover	**Turnover** *(RMB'000)*	**Contribution** *(%)*	Turnover *(RMB'000)*	Contribution *(%)*
Sales of new automobiles	**12,377,760**	**90.5%**	5,392,638	89.6%
After-sales services	**1,052,474**	**7.7%**	423,791	7.0%
Logistics and lubricant oil	**252,478**	**1.8%**	199,947	3.4%
Total	**13,682,712**	**100%**	6,016,376	100%

The Group generated most of its revenue from the sales of new automobiles, whereas the remaining was from the provision of after-sales services and other business. During the first half of 2012, revenue from the sales of new automobiles amounted to approximately RMB12,378 million, representing an increase of RMB6,985 million or approximately 129.5% over the first half of 2011, and accounted for approximately 90.5% of the total revenue of the first half of 2012; whereas revenue from the provision of after-sales services amounted to approximately RMB1,052 million, representing an increase of approximately 148.1% over the first half of 2011, and accounted for approximately 7.7% of the total revenue of the first half of 2012.

For the six months ended 30 June 2012, turnover from premium and ultra premium branded automobiles was approximately RMB10,897 million, representing a growth of approximately RMB6,547 million or approximately 150.5% over the first half of 2011, and accounted for approximately 88.0% of the revenue from the sales of new automobiles.

	For the six months ended 30 June			
	2012		2011	
Source of turnover from sales of new automobiles	**Turnover** *(RMB'000)*	**Contribution** *(%)*	Turnover *(RMB'000)*	Contribution *(%)*
Premium and ultra premium branded automobiles	**10,896,517**	**88.0%**	4,350,076	80.7%
Middle market branded automobiles	**1,481,243**	**12.0%**	1,042,562	19.3%
Total	**12,377,760**	**100%**	5,392,638	100%

For the six months ended 30 June 2012, revenue from the Group's logistics service business and lubricant oil trading business amounted to approximately RMB252 million (first half of 2011: approximately RMB200 million).

Cost of sales

For the six months ended 30 June 2012, cost of sales of the Group amounted to approximately RMB12,488 million, representing an increase of approximately RMB7,102 million or approximately 131.9% over the first half of 2011. Such increase was mainly due to the increase in the cost of sales for new automobiles. In the first half of 2012, the cost of sales for new automobiles of the Group rose by approximately 134.6% to approximately RMB11,698 million from approximately RMB4,986 million for the first half of 2011.

The increase in cost of sales was also partially due to the increase in cost of sales for after-sales services by approximately 140.8% from approximately RMB240 million in the first half of 2011 to approximately RMB578 million, which was in line with the increase in turnover of after-sales services.

Gross Profit

For the six months ended 30 June 2012, the Group's gross profit was approximately RMB1,195 million, representing an increase of approximately 89.7% over approximately RMB630 million for the first half of 2011. In particular, gross profit generated from the sales of premium and ultra premium branded automobiles increased from approximately RMB333 million in the first half of 2011 to approximately RMB657 million, representing a growth of 97.3%. Gross profit generated from the provision of after-sales services increased from approximately RMB184 million in the first half of 2011 to approximately RMB474 million, representing an increase of 157.6%.

	For the six months ended 30 June			
	2012		2011	
Source of gross profit	**Gross profit** *(RMB'000)*	**Contribution** *(%)*	Gross profit *(RMB'000)*	Contribution *(%)*
Sales of new automobiles	**680,243**	**56.9%**	406,553	64.6%
After-sales services	**473,610**	**39.7%**	184,299	29.2%
Logistics and lubricant oil	**41,177**	**3.4%**	39,235	6.2%
Total	**1,195,030**	**100%**	630,087	100%

For the six months ended 30 June 2012, the gross profit margin of the Group was approximately 8.7%, representing a decrease of approximately 1.8 percentage point as compared with approximately 10.5% for the first half of 2011. The gross profit margin for the sales of new automobiles was 5.5% (first half of 2011: 7.5%), among which, the gross profit margin for the sales of premium and ultra premium branded new automobiles was 6.0% (first half of 2011: 7.7%). The decrease in the gross profit margin for sales of new automobiles was mainly due to the fact that automobile manufacturers substantially increased the supply of new automobiles in the first half of 2012, resulting in the supply of new automobiles exceeding their demand. The gross profit margin for after-sales services was 45.0% (first half of 2011: 43.5%). The increase in the gross profit margin for the after-sales services was due to the improvement of the operating efficiency of the Group's after-sales services and perfection of structure of the Group's after-sales services business.

For the six months ended 30 June 2012, the gross profit from the Group's logistics and lubricant oil trading business was approximately RMB41 million (first half of 2011: RMB39 million).

Selling and distribution expenses

For the six months ended 30 June 2012, the Group's selling and distribution expenses amounted to approximately RMB304 million, representing an increase of approximately 166.7% over approximately RMB114 million for the first half of 2011. Such increase was primarily as a result of the expansion of the Group's sales network resulting from a series of acquisitions that were completed in 2011.

Administrative expenses

For the six months ended 30 June 2012, the Group's administrative expenses amounted to approximately RMB336 million, representing an increase of approximately 192.2% over approximately RMB115 million for the first half of 2011. Such increase was primarily as a result of the increase in staff remuneration, salary expenses as well as staff benefits resulting from the Group's acquisition of SCAS Group and newly-established 4S stores in 2011 and the amortisation of intangible assets – car dealerships.

Profit from operations

For the six months ended 30 June 2012, the Group's profit from operations amounted to approximately RMB686 million, representing an increase of approximately 52.8% as compared with approximately RMB449 million for the first half of 2011. The operating profit margin was approximately 5.0%, a decrease of approximately 2.5 percentage point over that in the first half of 2011.

Income tax expenses

For the six months ended 30 June 2012, the Group's income tax expenses amounted to approximately RMB144 million and the effective tax rate was approximately 29.1%.

Profit for the period

For the six months ended 30 June 2012, the Group's profit for the period was approximately RMB351 million, representing an increase of approximately 13.2% over approximately RMB310 million for the first half of 2011. The net profit margin for the period was approximately 2.6%, representing a decrease of approximately 2.6 percentage point over that in the first half of 2011.

Interim dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2012.

Contingent liabilities

As at 30 June 2012, the Group had no material contingent liabilities or guarantees save as those assets pledged to the bank.

Current assets and current liabilities

As at 30 June 2012, the Group's current assets amounted to approximately RMB9,795 million, representing an increase of RMB1,328 million as compared to current assets of approximately RMB8,467 million as at 31 December 2011. Such increase was primarily attributable to the increase in inventories for the Group's newly added 4S dealership stores and the expansion of the existing 4S dealership store business.

As at 30 June 2012, the Group's current liabilities amounted to approximately RMB9,936 million, representing an increase of approximately RMB1,253 million as compared to approximately RMB8,683 million as at 31 December 2011. Such increase was mainly due to the increase in borrowing for liquidity for the Group's newly added 4S dealership stores and the expansion of the existing 4S dealership store business, as well as the increase in bills payable used for the purchase of inventories.

Cash flow

As at 30 June 2012, the Group has cash and cash equivalents amounting to approximately RMB1,262 million, representing an increase of approximately RMB165 million over approximately RMB1,097 million as at 31 December 2011.

The Group's transactions and monetary assets are principally conducted in RMB. During the first half of 2012, the Group's working capital or liquidity did not face any material difficulties or material impacts as a result of the movement in exchange rate.

The Group's primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to fund the Group's working capital and normal recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings.

For the six months ended 30 June 2012, the Group had net cash outflow of approximately RMB541 million in its operating activities.

Capital expenditure and investment

For the six months ended 30 June 2012, the Group's capital expenditure and investment was approximately RMB514 million.

Inventory analysis

The Group's inventories included vehicles, which primarily consisted of new automobiles kept in its dealership stores and warehouses as well as automobiles in transit of which the titles and risks had been transferred to the Group. The Group's inventories also included automobile spare parts. Generally, 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 also monitors the inventories within its whole dealership network and, subject to the consent of automobile manufacturers, may also transfer automobiles from one dealership store to another to rebalance inventory levels. The Group utilizes its information technology systems to manage its inventory.

The inventories of the Group increased from approximately RMB3,244 million as at 31 December 2011 to approximately RMB4,334 million as at 30 June 2012, which was primarily attributable to the Group's newly added 4S dealership stores and the increase in inventories with various models and colors of automobiles proactively to meet the diversified demands of customers.

The following table sets forth the average inventory turnover days of the Group for the half-year periods indicated:

	For the six months ended 30 June	
	2012	2011
Average inventory turnover days	**54.6**	33.7

Exchange risks

The Group conducts its business primarily in Renminbi and the majority of its monetary assets and liabilities are denominated in Renminbi. Accordingly, the Directors consider that the Group is not exposed to any material foreign exchange risks. The Group does not use any financial instruments for hedging purposes.

Loans and borrowings

As at 30 June 2012, the Group's loans and borrowings amounted to approximately RMB5,586 million (31 December 2011: approximately RMB4,220 million). The reason for the increase in loans and borrowings for the period was the increase in borrowing for liquidity for the Group's newly added 4S dealership stores and the expansion of the existing 4S dealership store business. The gearing ratio of the Group as at 30 June 2012 was approximately 49.1%, which was calculated as total interest bearing liabilities divided by total assets. Interest bearing liabilities include bank loans and other borrowings and bills payable.

Pledged assets of the Group

The Group has pledged its corporate assets as the security for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 30 June 2012, the pledged assets of the Group amounted to approximately RMB4,013 million (31 December 2011: approximately RMB3,882 million).

Investments held in foreign currency and hedging

For the six months ended 30 June 2012, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not face any material difficulties or material impacts as a result of the movement in exchange rate. Currently, the Group does not employ any financial instruments for hedging purposes.

Employees and remuneration policies

As at 30 June 2012, the Group had a total of 6,318 employees in China (31 December 2011: 7,107 employees).

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 good working environment and diversified training program.

Future prospects and strategy

The Group anticipates that the high growth of the market for premium and ultra premium branded automobiles in China in the future will also be maintained. Therefore, the Group that focuses on the sales of premium and ultra premium branded automobiles will benefit from it and maintain the momentum of sustained growth of revenue and profit. Leveraging on the geographical distribution of its dealership network and the advantages of its brand portfolio, the Group will further enhance its leading position in the market for premium and ultra premium branded automobiles in China.

The Group will provide great support to the after-sales services business and the extended business while consolidating the sales of new automobiles. The continuous expansion in the sales of new automobiles of the Group and rapid growth in customer base for after-sales services resulting from consolidation of original customers of SCAS Group laid a solid foundation for rapid development of the after-sales services business of the Group in future. On one hand, the Group's after-sales services business becomes mature gradually; on the other hand, the Group also makes great efforts to develop the extended business. It features a high gross profit margin and a stable customer base, and is a new profit point of the Group in the future. As the after-sales services business or the extended business is less subject to economic fluctuation, the two can provide stable revenue and profit for the Group and play a more important role in the course of the Group's development in the future.

The PRC government expressed that it would continue to implement active financial policies and stable monetary policies in order to reinforce and improve macro adjustment and control continuously, adjust the economic structure, eliminate the backward production capacity and seek new economic growth points, giving it the new vitality. It is more possible that the macro-economic environment will become positive in the second half of the year. Based on the past experience, it is expected that the second half of the year is traditionally a peak season of automobile sales, which will result in a moderate growth of the passenger automobile market in China. At the same time, the State's Twelfth Five-Year Plan has clearly put forward the necessity to learn from mature international experience in accelerating and improving relevant policies, regulations and systems during the "Twelfth Five-Year" planning period and adopting effective measures to foster the rapid and healthy development of the automobile distribution sector , and the PRC government will foster three to five large-scale automobile dealership groups with revenue from principal business of over RMB100 billion during the Twelfth Five-Year planning period, resulting in accelerated integration and consolidating in the automobile dealership industry, and creating new opportunities for the Group's development. Therefore, the Group is confident about the sales of premium and ultra premium branded automobiles and the steady growth of after-sales business for automobiles in the PRC automobile market for the second half of the year.

REVIEW OF INTERIM RESULTS

The Group's interim results for the six months ended 30 June 2012 have been reviewed by the audit committee of the Company ("Audit Committee"), which comprises all independent non-executive directors, namely Dr. Wong Tin Yau, Kelvin (Chairman of the Audit Committee), Mr. Zhang Yansheng and Mr. Tan Xiangyong.

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 2012.

CORPORATE GOVERNANCE

The Company had complied with the code provisions set out in the Code on Corporate Governance Practices/Corporate Governance Code in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2012, except for the deviation from code provisions A.2.1 and A.6.7 mentioned below:

The Company has not yet appointed the Chairman of the Board and Mr. Wang Kunpeng, the Chief Executive Officer, usually chairs the meetings of the Board. In performing his role as chairman of the meetings, Mr. Wang provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices. The Board considers that the current arrangement does not impair the balance of power and authority between the management of the Board and the management of the business of the Company.

Due to other commitments, the Non-executive Director and all Independent Non-executive Directors did not attended the 2012 annual general meeting of the Company.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code ("Securities Dealing Code") regarding securities transactions of the directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. In response to a specific enquiry by the Company, all Directors confirmed that they had compiled with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2012.

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 2012 of the Company containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on the above websites in due course.

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 Kunpeng
Chief Executive Officer and Executive Director

26 August 2012

As at the date of this announcement, the Board of the Company comprises Mr. WANG Kunpeng (Chief Executive Officer), Mr. LI Zhubo, Mr. SHAO Yong Jun and Mr. CHEN Tao as Executive Directors; Mr. WANG Muqing as Non-Executive Director; and Dr. WONG Tin Yau, Kelvin, Mr. TAN Xiangyong and Mr. ZHANG Yansheng as Independent Non-Executive Directors.