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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

For the year ended 31 December 2016:

- Revenue increased by approximately 7.3% to approximately RMB31,519 million
- Overall gross profit increased by approximately 5.8% to approximately RMB2,736 million
- Interest and service income from the financial services business amounted to approximately RMB398 million for the year, representing an increase of approximately RMB329 million as compared to the corresponding period of the previous year. The segment delivered reportable profit of approximately RMB221 million in 2016
- Profit attributable to shareholders decreased by approximately 20.2% to approximately RMB493 million
- Basic earnings per share decreased by approximately 20.4% to RMB22.3 cents per Share
- Recommended payment of a final dividend of HK$0.1 per share

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", together with its subsidiaries, the "Group") is pleased to announce the Group's annual consolidated results for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016 (Expressed in RMB'000)

	Note	**For the year ended 31 December 2016**	2015
Revenue	*3*	**31,519,255**	29,361,499
Cost of sales		**(28,782,921)**	(26,774,726)
Gross profit		**2,736,334**	2,586,773
Other revenue	*4*	**402,910**	457,505
Other net income	*4*	**128,730**	66,006
Selling and distribution expenses		**(948,116)**	(847,289)
Administrative expenses		**(1,072,188)**	(911,850)
Profit from operations		**1,247,670**	1,351,145
Finance costs	*5(a)*	**(482,275)**	(459,908)
Share of profit of joint venture and associates		**25,403**	30,542
Profit before taxation	*5*	**790,798**	921,779
Income tax	*6(a)*	**(282,439)**	(293,117)
Profit for the year		**508,359**	628,662
Attributable to:			
Equity Shareholders of the Company		**493,282**	618,530
Non-controlling interests		**15,077**	10,132
Profit for the year		**508,359**	628,662
Earnings per share	*7*		
Basic (RMB cent)		**22.3**	28.0
Diluted (RMB cent)		**22.3**	27.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016 (Expressed in RMB'000)

	Note	At 31 December 2016	2015
Non-current assets			
Property, plant and equipment		**3,912,899**	3,428,069
Lease prepayments		**1,108,570**	1,067,350
Receivables from financial services		**1,931,884**	704,353
Intangible assets		**3,691,704**	3,789,357
Goodwill		**1,926,551**	1,926,551
Interest in a joint venture		**244,114**	217,314
Interest in associates		**21,803**	3,200
Deferred tax assets		**154,912**	113,208
Other financial assets		**143,456**	27,041
		13,135,893	11,276,443
Current assets			
Inventories	*9*	**3,018,856**	3,193,735
Trade and other receivables	*10*	**6,384,103**	5,294,363
Receivables from financial services		**1,732,996**	834,684
Pledged bank deposits and balances with central bank		**1,831,934**	1,481,308
Cash and cash equivalents		**1,625,128**	1,599,117
		14,593,017	12,403,207
Current liabilities			
Loans and borrowings for financial services		**3,252,885**	1,169,500
Loans and borrowings for non-financial services		**5,392,584**	4,481,582
Obligations under finance leases		**101,720**	–
Trade and other payables	*11*	**5,501,303**	5,132,648
Income tax payables		**1,129,926**	972,331
		15,378,418	11,756,061
Net current (liabilities)/assets		**(785,401)**	647,146
Total assets less current liabilities		**12,350,492**	11,923,589

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
At 31 December 2016 (Expressed in RMB'000)

		At 31 December	
	Note	**2016**	2015
Non-current liabilities			
Loans and borrowings for financial services		**–**	188,000
Loans and borrowings for non-financial services		**224,000**	–
Bonds payable		**2,314,703**	2,158,071
Deferred tax liabilities		**869,628**	888,180
		3,408,331	3,234,251
NET ASSETS		**8,942,161**	8,689,338
Equity			
Share capital		**188,788**	188,788
Reserves		**8,669,543**	8,399,844
Equity attributable to shareholders of the Company		**8,858,331**	8,588,632
Non-controlling interests		**83,830**	100,706
TOTAL EQUITY		**8,942,161**	8,689,338

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. 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.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

The Group is mainly engaged in sales of passenger motor vehicles, motor spare parts, provision of maintenance 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 in revenue during the year is as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Sales of passenger motor vehicles	**27,042,043**	25,302,074
Sales of motor spare parts	**691,859**	766,214
Provision of maintenance services	**2,730,283**	2,609,350
Provision of logistics services	**411,946**	350,995
Sales of lubricant oil	**245,280**	264,434
Interest and service income from financial services	**397,844**	68,432
	31,519,255	29,361,499

4 OTHER REVENUE AND NET INCOME

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Other revenue:		
Service income	**377,447**	424,264
Interest income from bank deposits	**20,605**	31,518
Others	**4,858**	1,723
	402,910	457,505
Other net income:		
Net gain on disposal of property, plant and equipment	**20,860**	23,294
Net gain on derivative financial instruments	**96,148**	15,981
Others	**11,722**	26,731
	128,730	66,006

5 PROFIT BEFORE TAXATION

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

		For the year ended 31 December	
	Note	**2016**	2015
		RMB'000	*RMB'000*
(a) Finance costs:			
Interest on loans and borrowings and bonds payable		**470,519**	471,112
Other finance costs	*(i)*	**43,818**	37,818
Less: interest capitalised*		**(32,062)**	(49,022)
		482,275	459,908

* The borrowing costs have been capitalised at a rate of 4.35–7.80% per annum (2015: 4.50–7.80%).

(b) Staff costs:			
Salaries, wages and other benefits		**661,372**	605,502
Contributions to defined contribution retirement plans	*(ii)*	**51,674**	47,452
		713,046	652,954

(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.

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
(c) Other items:		
Cost of inventories	**28,295,264**	26,226,635
Depreciation	**278,158**	238,522
Amortisation of lease prepayments	**23,860**	20,198
Amortisation of intangible assets	**101,509**	100,872
Operating lease charges	**306,170**	270,131
Net gain on derivative financial instruments	**(96,148)**	(15,981)
Net foreign exchange loss	**169,254**	118,370
Allowance for doubtful debts	**30,728**	11,819

6 INCOME TAX

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

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current tax:		
Provision for income tax for the year	**342,695**	354,282
Deferred tax:		
Origination of temporary differences	**(60,256)**	(61,165)
	282,439	293,117

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

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

(iii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax rate of 25% (2015: 25%).

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before taxation	**790,798**	921,779
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**197,700**	230,445
Non-deductible expenses	**58,884**	70,308
Unused tax losses not recognised	**32,206**	–
Non-taxable income on:		
– Share of profits recognised under the equity method	**(6,351)**	(7,636)
Income tax	**282,439**	293,117

(c) Income tax payables in the consolidated statement of financial position represent:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Balance at beginning of the year	**972,331**	776,580
Provision for current income tax for the year	**342,695**	354,282
Payment during the year	**(185,100)**	(158,531)
Balance at the end of the year	**1,129,926**	972,331

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2016 was based on the profit attributable to shareholders of the Company of RMB493,282,000 (2015: RMB618,530,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2016 of 2,210,200,440 (2015: 2,210,154,002), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2016	2015
Issued ordinary shares at 1 January	**2,210,200,440**	2,210,050,440
Effect of share options exercised	**–**	103,562
Weighted average number of ordinary shares at 31 December	**2,210,200,440**	2,210,154,002

(b) **Diluted earnings per share**

The calculation of diluted earnings per share for the year ended 31 December 2016 is based on the profit attributable to shareholders of the Company of RMB493,282,000 (2015: RMB618,530,000) and the weighted average number of ordinary shares of 2,212,369,686 (2015: 2,213,469,125) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's pre-IPO employee share option scheme, calculated as follows:

Weighted average number of shares (diluted)

	For the year ended 31 December	
	2016	2015
Weighted average number of ordinary shares for the year ended 31 December	**2,210,200,440**	2,210,154,002
Effect of deemed issue of shares under the pre-IPO employee share option scheme	**2,169,246**	3,315,123
Weighted average number of ordinary shares at 31 December	**2,212,369,686**	2,213,469,125

8 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 dealerships in the PRC.

2 Supply chain business*

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

* Wuhan Zhengtong United Industrial Investment Group Co., Ltd ("Wuhan Zhengtong"), formerly known as Wuhan Shengze Jietong Logistics Co., Ltd, was an inter-mediate holding company of the Group, which engaged in logistics service business and sales of spare parts before the year 2016. Wuhan Zhengtong was managed in supply chain business segment for internal reporting by the Group in 2015 and before. During the year 2016, Wuhan Zhengtong transferred its entire logistics service business to Shengze Jietong Supply Chain Co., Ltd., ("Jietong Supply Chain") and it remains as an investment holding company. As a result, Wuhan Zhengtong has been excluded from the segment reporting, while the financial information of Jietong Supply Chain has been included in supply chain segment.

The relevant comparative figures within supply chain business segment have not been restated for this change in composition of reportable segment as necessary information is not available and the cost to develop it would be excessive.

3 Financial services business

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

(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		**Supply chain business**		**Financial services business**		**Total**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**30,464,185**	28,677,638	**657,226**	615,429	**397,844**	68,432	**31,519,255**	29,361,499
Inter-segment revenue	**–**	–	**–**	380,220	**58,788**	3,609	**58,788**	383,829
Reportable segment revenue	**30,464,185**	28,677,638	**657,226**	995,649	**456,632**	72,041	**31,578,043**	29,745,328
Reportable segment profit	**586,319**	875,252	**119,703**	107,414	**221,431**	18,250	**927,453**	1,000,916
Depreciation and amortisation for the year	**371,409**	344,190	**16,967**	12,620	**15,151**	2,782	**403,527**	359,592
Reportable segment assets	**16,175,278**	14,137,909	**234,729**	3,226,969	**4,413,169**	1,917,643	**20,823,176**	19,282,521
Additions to non-current segment assets during the year	**764,634**	1,093,656	**10,465**	3,245	**277,799**	16,765	**1,052,898**	1,113,666
Reportable segment liabilities	**(12,523,755)**	(10,958,515)	**(144,001)**	(2,267,591)	**(3,531,114)**	(1,397,238)	**(16,198,870)**	(14,623,344)
Investment in a joint venture and associates	**–**	–	**247,314**	220,514	**18,603**	–	**265,917**	220,514

(b) Reconciliations of reportable segment

	For the year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue:		
Reportable segment revenue	**31,578,043**	29,745,328
Elimination of inter-segment revenue	**(58,788)**	(383,829)
Consolidated revenue	**31,519,255**	29,361,499
Profit before taxation:		
Reportable segment profit	**927,453**	1,000,916
Elimination of inter-segment profits	**(17,274)**	–
Unallocated head office expenses	**(168,746)**	(142,740)
Other revenue	**402,910**	457,505
Other net income	**128,730**	66,006
Finance costs	**(482,275)**	(459,908)
Consolidated profit before taxation	**790,798**	921,779

	At 31 December 2016 RMB'000	2015 RMB'000
Assets:		
Reportable segment assets	**20,823,176**	19,282,521
Intangible assets	**3,691,704**	3,789,357
Goodwill	**1,926,551**	1,926,551
Deferred tax assets	**154,912**	113,208
Unallocated head office assets	**2,356,499**	65,153
Elimination of inter-segment receivables	**(1,223,932)**	(1,497,140)
Consolidated total assets	**27,728,910**	23,679,650
Liabilities:		
Reportable segment liabilities	**(16,198,870)**	(14,623,344)
Income tax payables	**(1,129,926)**	(972,331)
Deferred tax liabilities	**(869,628)**	(888,180)
Unallocated head office liabilities	**(1,812,257)**	(3,597)
Elimination of inter-segment payables	**1,223,932**	1,497,140
Consolidated total liabilities	**(18,786,749)**	(14,990,312)

(c) Geographic information

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

9 INVENTORIES

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

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Motor vehicles	**2,765,645**	2,911,859
Automobile spare parts	**229,487**	262,771
Others	**23,724**	19,105
	3,018,856	3,193,735

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

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**28,275,220**	26,226,635
Write down of inventories	**20,044**	–
	28,295,264	26,226,635

10 TRADE AND OTHER RECEIVABLES

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**713,488**	528,168
Bills receivable	**340**	5,450
	713,828	533,618
Prepayments	**1,054,354**	837,255
Other receivables and deposits	**4,615,921**	3,923,490
Trade and other receivables	**6,384,103**	5,294,363

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. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**676,669**	509,220
More than 3 months but within 1 year	**26,404**	16,680
Over 1 year	**10,755**	7,718
	713,828	533,618

11 TRADE AND OTHER PAYABLES

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables	**615,156**	446,018
Bills payable	**3,489,345**	3,431,310
	4,104,501	3,877,328
Receipts in advance	**503,332**	484,462
Other payables and accruals	**887,826**	770,858
Payables due to related parties	**5,644**	–
Trade and other payables	**5,501,303**	5,132,648

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

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

	At 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**3,831,245**	3,729,025
Over 3 months but within 6 months	**271,299**	145,251
Over 6 months but within 12 months	**1,957**	3,052
	4,104,501	3,877,328

12 DIVIDENDS

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

	2016	2015
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of HK$0.10 (2015: HK$0.10 per ordinary share)	**197,705**	185,162

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

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

	2016	2015
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.10 per share (2015: HK$0.10 per ordinary share)	**187,209**	174,201

(iii) Other dividends

During the year of 2016, certain subsidiaries of the Group declared and paid dividends of RMB13,868,000 (2015: RMB24,002,000) in cash to non-controlling shareholders.

13 CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2016, China recorded a GDP growth of 6.7% as compared to the previous year. The economy of China maintained a steady growth in general. Attributable to the stabilized real economy and recovery of consumption power and sentiment of consumers, total retail sales of consumer goods in China in 2016 saw an improvement of 10.4% over the previous year.

According to the China Association of Automobile Manufacturers, the sales of passenger vehicles hit a record high in 2016 to 24,376,900 units, representing an increase of 14.93% as compared to the previous year. The increment was 7.63% higher than that of the previous year. Against a backdrop of steady growth in the passenger vehicle market as compared to the previous year, the growth of different luxury brands varied and competition was increasingly intensive. In respect of the major brands under the Group's dealership, the sales volume of BMW and MINI brands in China was 516,355 units, representing an increase of 11.3% as compared to the corresponding year (2015: 463,736 units); the sales volume of Audi brand in China was 591,554 units, representing an increase of 3.6% as compared to the corresponding year (2015: 570,889 units); the sales volume of Benz brand in China was 472,884 units, representing an increase of 26.6% as compared to the corresponding year (2015: 373,459 units); the sales volume of Jaguar and Land Rover brands in China was 119,048 units, representing an increase of 28.7% as compared to the corresponding year (2015: 92,474 units); the sales volume of Volvo brand in China was 90,930 units, representing an increase of 11.5% as compared to the corresponding year (2015: 81,588 units); the sales volume of Porsche brand in China was 65,246 units, representing an increase of 12.5% as compared to the corresponding year (2015: 58,009 units).

China ZhengTong Auto Services Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") act as a major dealer of various luxury automobile brands in China. Through long term cooperation with major luxury automobile manufacturers, the Group has promptly grasped the opportunities arising from the latest industry trend and changes in automobile buyers' preference to further improve its existing services and explore innovative services. Leveraging its diversified brand portfolio, reasonable sales network and comprehensive sales and service platform, the Group is able to enhance the service experience of its customers.

In 2016, while strengthening the traditional after-sale services for automobiles such as repair, maintenance and sale of accessories, the Group made full use of its unique characteristics to develop new businesses. In particular, the introduction of financial services business had made a significant progress that financial cooperation with manufacturers was consolidated to provide customers with additional services. The Group offered customers with more personalized and competitive auto finance solutions, which significantly supported by the growth of the sales of new and pre-owned vehicles, financial leasing and customer relationship development.

According to the Traffic Management Bureau of the Ministry of Public Security, as of the end of 2016, the number of vehicles registered in China was 194 million units, and the number of licensed drivers was over 310 million. The number of registered passenger vehicles amounted to 160 million units, including 146 million of passenger vehicles registered in the name of individuals (private cars), accounting for 90% of registered passenger vehicles. Judging from the increasing numbers of registered vehicles and drivers, vehicles have become an integral part of daily lives, creating huge potential for the development of automobile-related markets.

In addition, as the auto market in China is becoming more mature, the market of automobiles offers tremendous opportunities with increasingly severe competition. Demand for more professional and personalized services from consumers continues to increase. The Company is exploring opportunities through its diversified after-sales services and value-added services for vehicles.

BUSINESS REVIEW

In 2016, in addition to its continuous effort in the auto sales and after-sales services for luxury brands and ultra-luxury brands, the Group further expanded to auto-related businesses with high added values, such as auto finance, insurance brokerage, financial leasing and pre-owned cars. For the year ended 31 December 2016, the Group recorded revenue and gross profit of approximately RMB31,519 million and RMB2,736 million, respectively, representing increases of approximately 7.3% and 5.8% as compared to the corresponding year, respectively. Profit attributable to shareholders of the Company was approximately RMB493 million and the basic earnings per share was approximately RMB22.3 cents.

(I) Sales of new automobiles

In 2016, the Group continued to selectively expand its sales network of luxury automobiles by boosting the development of same-store sales to consolidate its regional competitive edges. The sales of new automobiles amounted to 96,883 units, representing an increase of approximately 9.5% as compared to the corresponding year. The sales of luxury brands and ultra-luxury brands amounted to 67,962 units, representing an increase of approximately 11.4% as compared to the corresponding year. In 2016, revenue from the sales of new automobiles amounted to approximately RMB27,042 million, representing an increase of approximately 6.9% as compared to the corresponding year. With the more diversified product lines offered by the major automobile manufacturers under the Group's dealership, the average selling price of automobiles continued to decrease and the product cycle and competition landscape of major brands under the Group's dealership further changed, resulting in varied gross profit margins. In 2016, the Group recorded an overall gross profit margin for new auto sales of approximately 2.9%, representing a slight decrease as compared to the corresponding year. The Group believes that the further improvement of the sales growth and gross profit margin of new automobiles will mainly be benefited from the improvement of the product cycle of major brands under the Group's dealership, higher demand arising from the market's stable consumption, further strengthening of our relationship with auto manufacturers, as well as the upgrading of the Group's service platform and financial services.

(II) After-sales services

In 2016, revenue and gross profit of after-sales services of the Group amounted to approximately RMB3,422 million and approximately RMB1,621 million, representing an increase of approximately 1.4% and a decrease of approximately 0.9% as compared to the corresponding year, respectively. The gross profit margin was approximately 47.4%. In 2016, with greater demand for after-sales services, the Group served 987,766 units of automobiles in aggregate, representing an increase of approximately 8.3% as compared to the corresponding year, of which the Group has served 730,198 units of luxury branded automobiles, representing an increase of 12.1% as compared to the corresponding year.

In 2016, despite the increased pressure regarding the average selling price of after-sales services arising from the adjustment in the price of the market's spare parts and components, the Group vigorously increased its customer loyalty. Through increasing units of automobiles served and the adjustment to the price of parts and components, the Group maintained sound growth in the revenue and gross profit from after-sales services. Great efforts have also been made to expand the research and marketing of new products and services. In particular, in respect of product marketing, the Group leveraged its strength to improve its customized plans including maintenance, repairing, warranty renewal and warranty extension for a higher rate of penetration. In respect of customer experience, the Group provided more efficient after-sales services for its customers through instant appointment and express bodywork. On top of the loaner vehicles services, the Group also offered insurance coverage and discounts for the loaner vehicles. In respect of cost control, the Group restructured its departments to streamline the centralized procurement channels and enhance the management of inventories and spare parts so as to strictly control the costs.

(III) Financial services business

In 2016, the Group exerted great efforts to develop the financial segment consisting of Shanghai Dongzheng Automotive Finance Co., Ltd. ("Dongzheng AFC"), Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. ("Dingze Leasing") and Dingze Insurance Agency Co., Ltd. ("Dingze Insurance Agency"). The Group strove to satisfy the demand of individual customers through the launch of various products, such as differentiated consumer loans provided by Dongzheng AFC, product packages jointly offered by Dongzheng AFC and Dingze Leasing, and auto-related products provided by Dingze Insurance Agency.

Leveraging on the strategic alliance with major luxury brands under the Group's dealership and by proactively exploring the national network coverage, Dongzheng AFC has further expanded and optimized the cooperation with auto manufacturers and other dealers.

As of 31 December 2016, the total assets of Dongzheng AFC amounted to RMB4,153 million. The balance of retail loans amounted to approximately RMB3,505 million, accounting for approximately 90.79% of the balance of total loans. The retail loans had an average term of 31.68 months. With the rapid growth of Dongzheng AFC, its financing costs and operating costs will be further optimized and the credit risks will be further diversified.

In respect of insurance brokerage business, in 2016, the Group continued to raise the penetration rate of policy renewal while maintaining a high level of new businesses. With an aim to satisfy diverse customer needs and increase the revenue and penetration rate of its insurance products, the Group was actively developing special products, such as three-year insurance, warranty extension, robbery and theft insurance and glass insurance, as well as providing installment payment option for customers supported by the financial business of the Group.

In the future, Dongzheng AFC will carry on auto consumption loans business and realize growth in asset quality, business scale and profit by taking advantage of its strengths in risk control, standardized operation and financing. Besides, under the prospective strategic deployment of the Group, Dingze Leasing and Dingze Insurance Agency will engage in the businesses for large corporate customers and auto-related consumption, so as to achieve synergistic benefits with Dongzheng AFC and boost the general competitiveness of the financial services segment.

(IV) Supply chain business

The automobile supply chain business of the Group mainly consists of automobile logistics business and trading of auto maintenance supplies. With the national "5A" logistic enterprise qualifications, the automobile logistics business has developed its own comprehensive logistics management system covering the whole supply chain of automobile logistics ranging from procurement logistics, production logistics, distribution processing, distribution logistics and automobile logistics to logistics-related consulting services. The trading of auto maintenance supplies mainly includes the trading of lubricant oil. Automobile logistics business mainly serves major automobile groups in 25 provinces and municipalities in China. As a cutting-edge automobile logistics service platform in China, the Group's automobile logistics business has great growth potential in the future. The Group is committed to becoming one of the largest third-party logistics service providers independently operated by a Chinese company rather than dominated by OEMs.

(V) Network development

Reasonably laying out the dealership network of luxury brands in China and continuously optimizing the mix of brands to enhance profitability of the Group

As a leading dealership group of luxury brands in China, the Group focuses on dealership of luxury and ultra-luxury branded automobiles, such as Porsche, Mercedes-Benz, BMW, Audi, Jaguar and Land Rover, Volvo, Infiniti and Cadillac. The Group also operates dealership stores of middle market brands, such as FAW-Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

As of 31 December 2016, the Group operated 108 dealership stores in 15 provinces and municipalities, covering 36 cities in China. During the year under review, the Group set up six new dealership stores for luxury automobiles, including three Audi 4S Stores in Shenzhen, Zhengzhou and Qingdao, one Jaguar and Land Rover 4S Store in Wuhan, one Volvo 4S Store in Guangzhou and one Mercedes-Benz service center in Shenzhen (深圳奔馳便捷服務中心).

As of the date of this report, the Group set up another Benz 4S Store in Suzhou and obtained authorization for one dealership store of ultra-luxury brand. 16 authorized dealership stores for core luxury brands, including Porsche, Mercedes-Benz, Audi, BMW, Jaguar and Land Rover, were under construction or to be constructed. With the newly authorized projects covering tier-one cities such as Beijing, Shanghai, Guangzhou, Shenzhen and Chongqing as well as booming areas such as Yunnan, Jiangsu, Anhui, Hubei and Guangdong, the scale and channels of the Group were further expanded.

In 2016, while steadily expanding its dealership network, the Group optimized the reasonable distribution of its existing dealership stores and brand structure and controlled the costs so as to further improve the profitability of the whole network. As of the end of 2016, the Group shut down four 4S stores and six urban showrooms due to relocation.

The following table sets forth the details of dealership stores of the Group as of 31 December 2016:

	Dealership store in operation	**Authorized dealership stores to be opened**	**Total**
5S/4S store for luxury and ultra-luxury brands	78	15	93
4S store for mid – to high-end brands	13	0	13
Urban showroom for luxury brands	11	0	11
Authorized repair service centre for luxury brands	6	0	6
Pre-owned automobile centre	0	1	1
Total	108	16	124

As a leading strategic partner of manufacturers of luxury brands and ultra-luxury brands in the PRC, the Group will continue its network expansion strategies with its focus on a balanced layout of dealership stores of core luxury brands and a refined brand structure in its pursuit of prudent development. Meanwhile, the Group will seek appropriate merger opportunities to rapidly enlarge its business scale and enhance its profitability.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, the revenue of the Group increased by approximately 7.3% to approximately RMB31,519 million from approximately RMB29,361 million in 2015, of which the revenue of automobile financial services increased by approximately 481% to approximately RMB398 million from approximately RMB68 million in 2015. The growth in revenue was mainly benefited from a steady growth in new automobiles and a rapid increase in automobile financing revenue.

The Group generated revenue from sales of new automobiles, after-sales services and other businesses. In 2016, the revenue from sales of new automobiles increased by approximately 6.9% to approximately RMB27,042 million from approximately RMB25,302 million in 2015, representing approximately 85.8% of the total revenue in 2016. Revenue from after-sales services increased by approximately 1.4% to approximately RMB3,422 million from approximately RMB3,376 million in 2015. Sales revenue from luxury and ultra-luxury branded automobiles increased by approximately 7.4% to approximately RMB23,522 million in 2016 from approximately RMB21,906 million in 2015, representing approximately 87.0% of sales revenue from new automobiles. In 2016, revenue from sales of new automobiles and revenue from after-sales services accounted for 85.8% and 10.9% of the total revenue, respectively. The proportion of revenue from after-sales services decreased by approximately 0.6% as compared to the corresponding year.

Cost of sales

For the year ended 31 December 2016, the cost of sales of the Group increased by approximately 7.5% to approximately RMB28,783 million from approximately RMB26,775 million in 2015, which was basically in line with the increase in revenue. The cost of sales for new automobiles increased by approximately 7.3% to approximately RMB26,260 million in 2016 from approximately RMB24,463 million in 2015. The increase was basically in line with the increase in the revenue from sales of new automobiles. The cost of sales for after-sales services increased by approximately 3.5% to approximately RMB1,801 million from approximately RMB1,740 million in 2015.

Gross profit and gross profit margin

For the year ended 31 December 2016, the gross profit of the Group increased by approximately 5.8% to approximately RMB2,736 million from approximately RMB2,587 million in 2015 while the gross profit margin decreased by approximately 0.1% to 8.7% from approximately 8.8% in 2015.

The Group recorded gross profit mainly from after-sales services, sales of new automobiles and automobile financial services. In 2016, gross profit from sales of new automobiles amounted to approximately RMB782 million, representing a decrease of approximately 6.8% as compared to the corresponding year. Gross profit margin from sales of new automobiles amounted to 2.9%, representing a slight decrease as compared to that of 2015. Gross profit from sales of luxury and ultra-luxury branded automobiles amounted to approximately RMB723 million, representing a decrease of approximately 8.7% as compared to the corresponding year. Gross profit margin from sales of luxury and ultra-luxury branded automobiles slightly decreased to 3.1% from 3.6% in 2015, which was mainly due to relatively sluggish market demands and weak product life cycles of certain brands. In 2016, gross profit from after-sales services of the Group amounted to approximately RMB1,621 million, representing a decrease of approximately 0.9% as compared to the corresponding year. Gross profit margin from after-sales services decreased by approximately 1.1% to approximately 47.4% from approximately 48.5% in 2015. Dongzheng AFC recorded gross profit of approximately RMB286 million in 2016 and its gross profit margin amounted to approximately 65.0%.

Selling and distribution expenses

For the year ended 31 December 2016, the selling and distribution expenses of the Group increased by approximately 11.9% to approximately RMB948 million from approximately RMB847 million in 2015. The increase was mainly due to an increase in leasing charges, staff costs and depreciation costs as a result of an increase in the number of dealership stores.

Administrative expenses

For the year ended 31 December 2016, the administrative expenses of the Group increased by approximately 17.6% to approximately RMB1,072 million from approximately RMB912 million in 2015, which was due to an increase in the number of dealership stores during the period under review and an exchange loss incurred from the depreciation of Renminbi as compared to the beginning of the year.

Profit from operations

For the year ended 31 December 2016, the profit from operations of the Group decreased by approximately 7.7% to approximately RMB1,248 million from approximately RMB1,351 million in 2015. The operating profit margin decreased by approximately 0.6% to approximately 4.0% from approximately 4.6% in 2015.

Income tax expenses

For the year ended 31 December 2016, the income tax expenses of the Group amounted to approximately RMB282 million. The effective tax rate was approximately 35.7%.

Profit during the period

For the year ended 31 December 2016, the profit during the period of the Group decreased by approximately 19.1% to approximately RMB508 million from approximately RMB629 million in 2015. During the period, the net profit margin decreased by approximately 0.5% to approximately 1.6% from approximately 2.1% in 2015.

Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities or guarantees save as those assets pledged to banks.

Current assets and current liabilities

As at 31 December 2016, the current assets of the Group increased by approximately RMB2,190 million to approximately RMB14,593 million from approximately RMB12,403 million as at 31 December 2015, which was mainly due to an increase in trade and other receivables and receivables from financial services of the Group.

As at 31 December 2016, the current liabilities of the Group increased by approximately RMB3,622 million to approximately RMB15,378 million from approximately RMB11,756 million as at 31 December 2015, which was mainly due to an expansion of the automobile financing business of the Group.

Cash flow

As at 31 December 2016, the cash and cash equivalents of the Group increased by approximately RMB26 million to approximately RMB1,625 million from approximately RMB1,599 million as at 31 December 2015. The transactions and monetary assets of the Group are denominated in Renminbi. The funds of the Group are mainly used for the purchase of new automobiles, spare parts, automobile accessories and automobile lubricant oil, the settlement of loans, borrowings and other indebtedness, the appropriation to working capital and normal recurring expenses, the establishment of new dealership stores or the acquisition of dealership stores or other businesses. The Group finances its liquidity requirement with a combination of cash flow generated from operating activities, bank loans and other funds. For the year ended 31 December 2016, the Group had net cash inflow generated from operating activities of approximately RMB647 million (for the twelve months ended 31 December 2015, the Group had net cash inflow generated from operating activities of approximately RMB1,526 million).

Capital expenditure and investment

For the year ended 31 December 2016, the capital expenditure and investment of the Group amounted to approximately RMB1,049 million (2015: approximately RMB1,099 million), which was mainly applied to the renovation, upgrades of equipment and purchase of automobiles for test drive.

Inventory

Inventories of the Group primarily include automobiles and automobile spare parts. Generally, each dealership store of the Group independently manages its quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group manages inventories with its information technology systems. It also monitors the inventories within its whole dealership network and coordinates all dealership stores to balance their automobile inventory levels. As of 31 December 2016, the inventories of the Group amounted to approximately RMB3,019 million, representing a decrease of approximately RMB175 million as compared to RMB3,194 million as of 31 December 2015, mainly attributable to the inventory decrease of new automobiles by the Group based on the market demand. The average inventory turnover days of the Group for 2016 decreased by 11.9 days to 39.5 days from 51.4 days for 2015. The following table sets forth its average inventory turnover days for the years indicated:

	For the year ended 31 December	
	2016	2015
Average inventory turnover days	**39.5**	51.4

Risks of Foreign Exchange

The Group conducts its business primarily in Renminbi. Certain bank deposits, bank loans and credit enhanced bonds 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 hedges its future bonds payable in US dollars by adopting cross currency swap. As at 31 December 2016, a fair value of approximately RMB143 million (as at 31 December 2015: RMB27 million) was recognised by the Group in respect of the cross currency swap.

Liquidity and Capital Resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks. As at 31 December 2016, cash and bank deposits of the Group were approximately RMB3,457 million (including pledged bank deposits and balances with the central bank of approximately RMB1,832 million and cash and cash equivalents of RMB1,625 million), representing an increase of approximately RMB377 million as compared to approximately RMB3,080 million as at 31 December 2015. As at 31 December 2016, loans and borrowings, obligations under finance leases and bonds payable of the Group amounted to approximately RMB11,286 million (as at 31 December 2015: approximately RMB7,997 million). As at 31 December 2016, save as loans and borrowings, obligations under finance leases and bonds payable of approximately RMB8,594 million that bore interest at fixed rates, other loans and borrowings bore interest at floating rates. As at 31 December 2016, net gearing ratio of the Group was approximately 87.5% (as at 31 December 2015: approximately 56.6%). Net gearing ratio was calculated as loans and borrowings, obligations under finance leases and bonds payable less cash and bank deposits divided by owner's equity. The increase in the ratio was mainly attributable to the growth in the scale of the auto finance business of the Group.

Pledged assets of the Group

The Group has pledged its group assets as the security for loans and borrowings as well as bank financing which would be used as working capital for daily operations. As at 31 December 2016, the pledged assets of the Group amounted to approximately RMB3,748 million (as at 31 December 2015: approximately RMB3,620 million).

Material acquisition and disposal of subsidiaries and associates

For the year ended 31 December 2016, there was no material acquisition or disposal of subsidiaries and associates by the Group.

Investments held in foreign currency and hedging

For the twelve months ended 31 December 2016, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group did not encounter any material difficulties or material impacts in respect of its working capital or liquidity as a result of the movement in exchange rate.

Employees and remuneration policies

As at 31 December 2016, the Group had 9,120 employees in China (as at 31 December 2015: 8,765 employees). For the year ended 31 December 2016, the total labour cost of the Group amounted to approximately RMB713 million (for the year ended 31 December 2015: RMB653 million). The Group offers competitive remuneration packages and welfare benefits, including pensions, work-related compensation benefits, maternity insurance, medical and unemployment plans. The Group also provides a good working environment and diversified training programs to its employees. The Group has adopted share option schemes and a restricted share award scheme for granting shares to eligible employees as incentives or rewards for their contribution to the Group.

FUTURE OUTLOOK AND STRATEGIES

China's automobile market becomes increasingly mature. Due to the steady growth of household disposal income, sales of automobiles and consumption of relevant services, automobile consumption will escalate gradually. Meanwhile, there will be higher requirements for product and service quality. Due to the increasing consumption of luxury automobiles, customers will require more specialized services at various stages of consumption relating to automobiles, and will expect to enjoy one-stop integrated services which are of higher quality and convenience. The Group will take the advantage of its diversified portfolio of luxury brands, mature nationwide networks as well as customized and high value-added services in respect of finance and insurance so as to create excellent customer experience. The Group will also fully exercise its advantage in integrated platform and independent business to cater for customers' changing consumption habits. Efforts will also be made to enrich its services and products and expand its service channels to fully capture opportunities. In addition, the Group will develop traditional sales networks on a more selective basis and continue to optimize internal management and operation efficiency to create greater value to its shareholders, employees and the community.

EVENTS AFTER THE REPORTING PERIOD

(1) Mr. Wang Kunpeng, an executive Director of the Company, has been re-designated as the Vice Chairman of the Board and ceased to be the Chief Executive Officer since 6 January 2017. On the same day, Mr. Koh Tee Choong, Ivan was appointed as the Chief Executive Officer of the Company with effect from 6 January 2017.

(2) On 12 January 2017, the Company (as borrower) and two of its Hong Kong incorporated subsidiaries (as guarantors) entered into a facility agreement (the "Facility Agreement") with (among other parties) fifteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$409 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). The final repayment date of the loan facility shall be the date falling 36 months after the first utilization date. The purpose of the loan facility is primarily to refinance the existing indebtedness and for the corporate funding requirement of the Company and its subsidiaries.

(3) Mr. Koh Tee Choong, Ivan (許智俊), the chief executive officer of the Company, was appointed as the executive Director of the Company on 31 March 2017, on which Mr. Li Yi resigned as the executive Director of the Company with effective on the same day.

PROPOSED FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company on the forthcoming annual general meeting to be held on 18 May 2017 (the "2017 AGM") for the distribution of a final dividend of HK$0.1 per share for the year ended 31 December 2016 payable to the shareholders of the Company whose names are listed in the register of members of the Company on 26 May 2017. The proposal for the distribution of the final dividend is subject to the consideration and approval by the shareholders of the Company at the 2017 AGM. Subject to the said approval, the final dividend will be paid in cash to the shareholders of the Company on or around 2 June 2017

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 15 May 2017 to Thursday, 18 May 2017 (both days inclusive) and from Wednesday, 24 May 2017 to Friday, 26 May 2017 (both days inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the 2017 AGM, unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration before 4:30 p.m. on Friday, 12 May 2017. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the 2017 AGM), unregistered holders of shares of the Company shall lodge share transfer documents with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Tuesday, 23 May 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted 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 (the "Model Code") set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the Securities Dealing Code and the Model Code during the year ended 31 December 2016.

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 year ended 31 December 2016.

CORPORATE GOVERNANCE

The Board believes that maintaining good corporate governance is crucial to increase investors' confidence and safeguard shareholders' interests. The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Board is of the view that throughout the year ended 31 December 2016, the Company has complied with the respective code provisions ("Code Provisions") of the CG Code, except for the deviations from Code Provision E.1.2 that due to other commitments, Mr. Wang Muqing, Chairman of the Board, was unable to attend the 2016 annual general meeting of the Company.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2016 have been reviewed by the audit committee of the Company (the "Audit Committee") and audited by the independent auditor of the Company, KPMG. The Audit Committee comprises three independent non-executive directors, namely, Dr. Wong Tin Yau, Kelvin (Chairman of the Audit Committee), Dr. Cao Tong and Ms. Wong Tan Tan.

PUBLICATION OF RESULTS ANNOUNCEMENT

This results announcement is available for viewing on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com) and the annual report for the year ended 31 December 2016 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.

APPRECIATION

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

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

Hong Kong, 21 March 2017

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