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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 2017

HIGHLIGHTS OF RESULTS

For the year ended 31 December 2017:

- Revenue increased by approximately 12.5% to approximately RMB35,474 million
- Overall gross profit increased by approximately 37.7% to approximately RMB3,768 million
- Interest and service income from the financial services business amounted to approximately RMB522 million for the year, representing an increase of approximately RMB124 million as compared to the previous year. This segment delivered reportable profit of approximately RMB378 million in 2017, representing a year-on-year increase of 71.0%
- Profit for the year and profit attributable to equity shareholders of the company increased by approximately 138.4% and 141.6% to approximately RMB1,211 million and RMB1,191 million respectively
- Basic earnings per share increased by approximately 141.3% to RMB53.8 cents per share
- Recommended payment of a final dividend of HK$0.14 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 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	For the year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	3	**35,474,325**	31,519,255
Cost of sales		**(31,705,979)**	(28,782,921)
Gross profit		**3,768,346**	2,736,334
Other income	4	**418,216**	531,640
Selling and distribution expenses		**(1,027,736)**	(948,116)
Administrative expenses		**(733,072)**	(1,072,188)
Profit from operations		**2,425,754**	1,247,670
Finance costs	5(a)	**(700,993)**	(482,275)
Share of profit of joint venture and associates		**29,030**	25,403
Profit before taxation	5	**1,753,791**	790,798
Income tax	6(a)	**(542,329)**	(282,439)
Profit for the year		**1,211,462**	508,359
Attributable to:			
Equity shareholders of the company		**1,190,795**	493,282
Non-controlling interests		**20,667**	15,077
Profit for the year		**1,211,462**	508,359
Earnings per share	7		
Basic (RMB cents)		**53.8**	22.3
Diluted (RMB cents)		**53.8**	22.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

		At 31 December	
	Note	**2017**	2016
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**4,477,980**	3,912,899
Lease prepayments		**1,290,275**	1,108,570
Intangible assets		**3,675,288**	3,691,704
Goodwill		**1,998,733**	1,926,551
Interest in a joint venture		**275,722**	244,114
Interest in associates		**16,398**	21,803
Receivables from financial services		**2,478,202**	1,931,884
Deferred tax assets		**171,230**	154,912
Other financial assets		**–**	143,456
		14,383,828	13,135,893
Current assets			
Inventories	*9*	**4,084,168**	3,018,856
Trade and other receivables	*10*	**8,307,804**	6,384,103
Receivables from financial services		**2,924,012**	1,732,996
Pledged bank deposits and balances with central bank		**3,686,098**	1,831,934
Time deposits		**837,000**	–
Cash and cash equivalents		**2,716,220**	1,625,128
		22,555,302	14,593,017
Current liabilities			
Loans and borrowings for financial services		**4,023,938**	3,252,885
Loans and borrowings for non-financial services		**9,072,155**	5,392,584
Obligations under finance leases		**84,996**	101,720
Trade and other payables	*11*	**6,338,004**	5,501,303
Income tax payables	*6(c)*	**1,419,846**	1,129,926
		20,938,939	15,378,418
Net current assets/(liabilities)		**1,616,363**	(785,401)
Total assets less current liabilities		**16,000,191**	12,350,492

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
At 31 December 2017

		At 31 December	
	Note	**2017**	2016
		RMB'000	*RMB'000*
Non-current liabilities			
Loans and borrowings for non-financial services		**3,705,990**	224,000
Bonds payable		**901,463**	2,314,703
Deferred tax liabilities		**869,171**	869,628
Obligations under finance leases		**35,582**	–
Other financial liabilities		**134,353**	–
		5,646,559	3,408,331
NET ASSETS		**10,353,632**	8,942,161
CAPITAL AND RESERVES			
Share capital		**193,425**	188,788
Reserves		**10,007,386**	8,669,543
Total equity attributable to equity shareholders of the company		**10,200,811**	8,858,331
Non-controlling interests		**152,821**	83,830
TOTAL EQUITY		**10,353,632**	8,942,161

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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group.

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, after-sales services, provision of logistics services, sales of lubricant oil and financial services. Revenue represents the sales of goods, services income rendered to customers, and interest income.

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

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Sales of passenger motor vehicles	**30,289,320**	27,042,043
After-sales services	**3,898,520**	3,422,142
Provision of logistics services	**537,724**	411,946
Sales of lubricant oil	**226,498**	245,280
Interest and service income from financial services	**522,263**	397,844
	35,474,325	31,519,255

4 OTHER INCOME

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Service income	**577,027**	377,447
Interest income from bank deposits	**22,187**	20,605
Net gain on disposal of property, plant and equipment	**25,073**	20,860
Net (loss)/gain on derivative financial instruments	**(225,447)**	96,148
Others	**19,376**	16,580
	418,216	531,640

5 PROFIT BEFORE TAXATION

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

		For the year ended 31 December	
	Note	**2017**	2016
		RMB'000	*RMB'000*
(a) Finance costs:			
Interest on loans and borrowings for non-financial services and bonds payable		**692,645**	470,519
Other finance costs	*(i)*	**47,246**	43,818
Less: Interest capitalised*		**(38,898)**	(32,062)
		700,993	482,275

* The borrowing costs have been capitalised at a rate of 4.16–6.99% per annum (2016: 4.35–7.80%).

(b) Staff costs:			
Salaries, wages and other benefits		**750,630**	661,372
Contributions to defined contribution retirement plans	*(ii)*	**59,050**	51,674
		809,680	713,046

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

(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	
		2017	2016
		RMB'000	*RMB'000*
(c)	**Other items:**		
	Cost of inventories	**31,052,025**	28,295,264
	Cost of interests*	**154,637**	141,458
	Depreciation	**310,392**	278,158
	Amortisation of lease prepayments	**27,984**	23,860
	Amortisation of intangible assets	**103,607**	101,509
	Operating lease charges	**356,805**	306,170
	Net loss/(gain) on derivative financial instruments	**225,447**	(96,148)
	Net foreign exchange (gain)/loss	**(228,449)**	169,254
	Allowance for doubtful debts of receivables from financial services	**41,099**	30,728

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

6 INCOME TAX

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

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current tax:		
Provision for income tax for the year	**578,320**	342,695
Deferred tax:		
Origination of temporary differences	**(35,991)**	(60,256)
	542,329	282,439

(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% (2016:25%).

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

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit before taxation	**1,753,791**	790,798
Notional tax on profit before taxation, calculated at PRC income tax rate of 25%	**438,448**	197,700
Non-deductible expenses	**94,398**	58,884
Unused tax losses not recognised	**16,741**	32,206
Non-taxable income on:		
– Share of profits recognised under the equity method	**(7,258)**	(6,351)
Income tax	**542,329**	282,439

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

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Balance at beginning of the year	**1,129,926**	972,331
Provision for current income tax for the year	**578,320**	342,695
Payment during the year	**(288,400)**	(185,100)
Balance at the end of the year	**1,419,846**	1,129,926

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2017 was based on the profit attributable to equity shareholders of the company of RMB1,190,795,000 (2016: RMB493,282,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2017 of 2,212,717,736 (2016: 2,210,200,440), calculated as follows:

Weighted average number of ordinary shares

	For the year ended 31 December	
	2017	2016
Issued ordinary shares at 1 January	**2,210,200,440**	2,210,200,440
Effect of share options exercised	**2,106,337**	–
Effect of shares issued for placing	**410,959**	–
Weighted average number of ordinary shares at 31 December	**2,212,717,736**	2,210,200,440

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2017 is based on the profit attributable to equity shareholders of the company of RMB1,190,795,000 (2016: RMB493,282,000) and the weighted average number of ordinary shares of 2,214,936,438 (2016: 2,212,369,686) 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	
	2017	2016
Weighted average number of ordinary shares for the year ended 31 December	**2,212,717,736**	2,210,200,440
Effect of deemed issue of shares under the pre-IPO employee share option scheme	**2,218,702**	2,169,246
Weighted average number of ordinary shares (diluted) at 31 December	**2,214,936,438**	2,212,369,686

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 and after-sales 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.

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**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**34,187,840**	30,464,185	**764,222**	657,226	**522,263**	397,844	**35,474,325**	31,519,255
Inter-segment revenue	**–**	–	**–**	–	**165,428**	58,788	**165,428**	58,788
Reportable segment revenue	**34,187,840**	30,464,185	**764,222**	657,226	**687,691**	456,632	**35,639,753**	31,578,043
Reportable segment profit	**1,490,018**	586,319	**101,457**	119,703	**377,764**	221,431	**1,969,239**	927,453
Depreciation and amortisation for the year	**403,707**	371,409	**14,110**	16,967	**24,166**	15,151	**441,983**	403,527
Reportable segment assets	**18,437,763**	16,175,278	**308,528**	234,729	**7,235,983**	4,413,169	**25,982,274**	20,823,176
Additions to non-current segment assets during the year	**1,194,619**	764,634	**23,004**	10,465	**153,232**	277,799	**1,370,855**	1,052,898
Reportable segment liabilities	**(15,618,286)**	(12,523,755)	**(200,754)**	(144,001)	**(4,478,777)**	(3,531,114)	**(20,297,817)**	(16,198,870)
Investment in a joint venture and associates	**–**	–	**275,722**	247,314	**16,398**	18,603	**292,120**	265,917

(b) Reconciliations of reportable segment

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue:		
Reportable segment revenue	**35,639,753**	31,578,043
Elimination of inter-segment revenue	**(165,428)**	(58,788)
Consolidated revenue	**35,474,325**	31,519,255
Profit before taxation:		
Reportable segment profit	**1,969,239**	927,453
Elimination of inter-segment profits	**(98,795)**	(17,274)
Unallocated head office expenses	**166,124**	(168,746)
Other income	**418,216**	531,640
Finance costs	**(700,993)**	(482,275)
Consolidated profit before taxation	**1,753,791**	790,798

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Assets:		
Reportable segment assets	**25,982,274**	20,823,176
Intangible assets	**3,675,288**	3,691,704
Goodwill	**1,998,733**	1,926,551
Deferred tax assets	**171,230**	154,912
Unallocated head office assets	**6,346,423**	2,356,499
Elimination of inter-segment receivables	**(1,234,818)**	(1,223,932)
Consolidated total assets	**36,939,130**	27,728,910
Liabilities:		
Reportable segment liabilities	**(20,297,817)**	(16,198,870)
Income tax payables	**(1,419,846)**	(1,129,926)
Deferred tax liabilities	**(869,171)**	(869,628)
Unallocated head office liabilities	**(5,233,482)**	(1,812,257)
Elimination of inter-segment payables	**1,234,818**	1,223,932
Consolidated total liabilities	**(26,585,498)**	(18,786,749)

(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	
	2017	2016
	RMB'000	*RMB'000*
Motor vehicles	**3,796,651**	2,765,645
Automobile spare parts	**258,172**	229,487
Others	**29,345**	23,724
	4,084,168	3,018,856

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

	For the year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**31,040,691**	28,275,220
Write down of inventories	**17,843**	20,044
Reversal of write-down of inventories	**(6,509)**	–
	31,052,025	28,295,264

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain motor vehicles as a result of a change in consumer preferences.

10 TRADE AND OTHER RECEIVABLES

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**952,792**	713,488
Bills receivable	**–**	340
	952,792	713,828
Prepayments	**1,056,881**	1,054,354
Other receivables and deposits	**6,298,131**	4,615,921
Trade and other receivables	**8,307,804**	6,384,103

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	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**917,015**	676,669
More than 3 months but within 1 year	**29,455**	26,404
Over 1 year	**6,322**	10,755
	952,792	713,828

11 TRADE AND OTHER PAYABLES

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade payables	**730,081**	615,156
Bills payable	**3,997,869**	3,489,345
	4,727,950	4,104,501
Receipts in advance	**540,532**	503,332
Other payables and accruals	**1,057,898**	887,826
Payables due to related parties	**11,624**	5,644
Trade and other payables	**6,338,004**	5,501,303

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	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**4,632,655**	3,831,245
Over 3 months but within 6 months	**90,765**	271,299
Over 6 months but within 12 months	**4,530**	1,957
	4,727,950	4,104,501

12 DIVIDENDS

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

	2017	2016
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of HK$0.14 per ordinary share (2016: HK$0.10 per ordinary share)	**281,271**	197,705

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

	2017	2016
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.10 per ordinary share (2016: HK$0.10 per ordinary share)	**193,215**	187,209

(iii) Other dividends

During the year of 2017, certain subsidiaries of the Group declared and paid dividends of RMB6,676,000 (2016: RMB13,868,000) in cash to non-controlling shareholders.

13 CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2017, China recorded a GDP growth of 6.9% 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 saw an improvement of 10.2% over the previous year.

According to the China Association of Automobile Manufacturers, the sales of passenger vehicles hit a record high in 2017 to 24,719,300 units, representing an increase of 1.40% as compared to the previous year, representing a lower growth rate of 13.53 percentage points as compared to last year. While the overall market of the passenger automobiles saw a steady growth year-on-year, the market of the luxury-branded automobiles experienced growths to a different extent, the competition was also intensified. In respect of the major brands under the Group's dealership, the sales volume of BMW and MINI brands in China was 594,388 units, representing an increase of 15.1% as compared to the corresponding year; the sales volume of Audi brand in China was 597,866 units, representing an increase of 1.1% as compared to the corresponding year; the sales volume of Benz brand in China was 587,868 units, representing an increase of 25.9% as compared to the corresponding year; the sales volume of Jaguar and Land Rover brands in China was 146,399 units, representing an increase of 23.0% as compared to the corresponding year; the sales volume of Volvo brand in China was 114,410 units, representing an increase of 25.8% as compared to the corresponding year; the sales volume of Porsche brand in China was 71,508 units, representing an increase of 9.6% as compared to the corresponding year.

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.

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 more personalized and competitive auto finance solutions, which were significantly supported by the growth of the sales of new and pre-owned automobiles, financial leasing and customer relationship development.

In 2017, the Group was committed to the establishment of a comprehensive auto finance technology platform in a bid to provide customers with one-stop auto finance and related services. Increasing demand of upgrade of consumption and market penetration of auto finance in China will create a new consumption model for the domestic automobile market. The Group will also expand its business coverage to the Fintech aspect of online automobile finance while further consolidating its differentiated strengths in offline automobile finance. These initiatives will make online and offline purchase of automobile more convenient and facilitate the development of intelligent automobile finance and diversification of automobile consumption, enhancing customer experience throughout the entire life cycle of automobiles.

According to the Traffic Management Bureau of the Ministry of Public Security, as of the end of 2017, the number of vehicles registered in China was 310 million units (national car ownership reached 217 million), and the number of licensed drivers was over 342 million. The number of registered passenger vehicles amounted to 185 million units, including 170 million passenger vehicles registered in the name of individuals (private cars), accounting for 92% of registered passenger vehicles. Judging from the increasing number 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 sales of automobiles face tremendous opportunities with increasingly severe competition. Demand for more professional and personalized services and diversified after-sales services and value-added services for vehicles from consumers continues to increase. Commercial opportunities for vehicles that cater daily needs of users are arising.

BUSINESS REVIEW

In 2017, the Group was committed to developing luxury and ultra-luxury auto sales and traditional after-sales services. At the same time, it actively explored new business models, formulated industry management standards and management output, expanded its network coverage and enhanced its competitiveness. By leveraging on its distinctive advantages in finance, financial leasing, insurance agency, informationization and supply chain, the Group has actively expanded its automotive aftermarket business based on its market-oriented and customer-centric strategy. For the year ended 31 December 2017, the Group recorded revenue and gross profit of approximately RMB35,474 million and RMB3,768 million, respectively, representing increases of approximately 12.5% and 37.7% as compared to the corresponding year, respectively. Profit attributable to equity shareholders of the Company was approximately RMB1,191 million and the basic earnings per share was approximately RMB53.8 cents, representing increases of approximately 141.6% and 141.3% as compared to the corresponding year, respectively.

I. Sales of new automobiles business

In 2017, the sales of passenger vehicles in the PRC recorded a slight growth in general. Nonetheless, benefiting from the steady growth of household disposable income and upgrade of consumption in the PRC, more consumers shifted to the high-end market. In addition, luxury brands of automobiles expanded the production of various models in the PRC, and launched various entry-level models with more energetic design in order to satisfy the needs of young consumers. The product line was also enriched, and sales of different automobile models including BMW 1 and 2 Series produced in China, Audi A3 and Q3 and Mercedes-Benz GLA recorded rapid growth in 2017. During the year, the Group focused on unlocking its same-store sales and consolidating its existing regional competitive strengths. The Group recorded the sales volume of new automobiles of 109,016 units, representing a year-on-year increase of approximately 12.5%, including 80,012 units luxury and ultra-luxury branded automobiles with a year-on-year increase of approximately 17.7%.

Benefiting from replacement need of major luxury branded automobile products under the Group's dealership, together with the broadened product portfolio and strengthened competitiveness, the average selling prices continued a stable upward trend. Among which, the brand new BMW 5 Series was launched into the market and the profile of BMW 7 Series was enhanced in 2017; the Mercedes-Benz continued to maintain strong sales performance. In particular, the E-Class long wheelbase vehicles (長軸距E級車) completed a full year of sales in 2017, and its annual domestic sales recorded a year-on-year increase of 108%; Volvo's brand new XC60 was launched into the market, while its XC90 continued to expand their market shares; Jaguar and Land Rover put more efforts in the promotion of localization by particularly offering various models with new engines series (煥「芯」車型), while the new Jaguar XFL and an all-terrain controlled, medium-sized luxury SUV, Land Rover Discovery Sport (路虎發現神行) continued to be strong competitors in their respective market segments. Strengthened product competiveness of these brands laid a solid foundation for the significant increase in the gross profit of the Group. In 2017, the Group recorded an overall gross profit margin for new auto sales of approximately 4.9%, representing a significant increase of approximately 2 percentage points as compared to the corresponding year, mainly attributable to the following major measures:

Justified and stable network layout

The Group strategically expands its luxury car dealership network with a balanced and rational layout. During the year, 16 authorized dealership stores were opened. At the same time, it actively explored an innovative expansion model Strategic Operation Management Cooperation Scheme ("**SOMCS**"), in order to set up a high quality of industry management standard. As a result, the brand mix of the Group has become more steady and solid, facilitating the growth of the Group.

Highly efficient operation and management system

The Group is dedicated to sustainable enhancement of its operation quality. Based on data management and flat management (扁平化管理), the Group was able to address operational problems promptly. In addition, the Group also refined its capital sharing and financial sharing, so as to strengthen the efficiency and accuracy of its internal review.

Upgraded Information systems

Through application of Internet and upgrade of information systems, the Group has achieved the sharing of customer information and vehicle resources, as well as data visualization from vehicle purchase to sales, which can enrich customers' experiences and enhance internal efficiency. An efficient utilization of information resources has been achieved with synergy effect and accelerated turnover of new automobiles.

Expansion of sales channels

The Group reorganized its internal structure and established the group customers department (集團大客戶部) in order to fully integrate and share the customer base, brands and resources of the Group and effectively expand the marketing channel for major customers. Adhering to the principle of "going global and brining in", various brands of the Group entered into major agreements with a number of enterprises and organizations, including procurement of government vehicles, automobile purchase of civil servants, industry associations, automobile purchase of employees of different enterprises and organisations, automobile hiring and leasing companies. The expansion in business channels has facilitated the growth of the Group.

Control of gross profit of new automobiles

By collecting and analysing data through information systems, the Group is able to monitor the status of its procurement, sales and inventory on a real time basis and optimize its inventory structure. By inputting relevant business policies into its systems, the unit cost of the vehicle can be visualized and recommendations on sale strategies will be automatically generated according to the prevailing market situation. Based on the strategies in respect of sales, finance, insurance, automotive supplies, warranty extension and value-added services as well as an electronic sales order processing system, an integrated gross profit for each individual vehicle will be automatically generated. By making reference with the gross profit and earning of each individual vehicle, the Group will be well-positioned to grasp every perspective business opportunity to maximizing its gross margins.

II. After-sales services business

In 2017, revenue and gross profit of after-sales services of the Group amounted to approximately RMB3,899 million and approximately RMB1,839 million, representing an increase of 13.9% and 13.4% as compared to the corresponding year, respectively. The gross profit margin was approximately 47.2%. The steady growth of after-sales services business in 2017 was mainly attributable to the rapid growth of car ownership. In 2017, the Group served 1,128,534 units of automobiles in aggregate, representing an increase of approximately 14.3% as compared to the corresponding year. The major initiatives of the Group were as follows:

Based on the car ownership cycle of customers and its business process, the Group refined its customer management information system in order to fulfill the needs of customers. The system supports numerous functions in various business scenario, including early automatic reminder and push function, and allows communication through SMS, WeChat and APP.

In terms of marketing, leveraging on its own advantages, the Group promoted its products based on the characteristics of brands and regions. The Group identified the needs of different customers through big data analysis and providing visualized images to its customers. The Group enhanced the development of customized solutions in maintenance, repairing, warranty renewal and extension, in order to further increase our product penetration rate.

In terms of cost control, the Group further optimized its purchasing channels and reduced its cost effectively through sharing parts and strict inventory control.

In terms of customers' experience, the Group provided instant appointment and express bodywork for customers. Our loaner vehicle services included loaner vehicle insurance and loaner vehicle subsidies for customers. Targeting to provide perfect customer services, the Group has continuously enhanced its efficiency and customer satisfaction level through improving customers' experience. Therefore, the revenue and gross profit of after-sales services increased.

III. Used Car Operating Model

During the year, the Group's used car operating model was gradually improved and formulated a correlated online exhibition and auction platform under Zhengtong Mall and Zhengtong Auction (正通拍). Among them, Zhengtong Auction was officially launched in May 2017 and was recognized by commercial stores in multi-dimensions. Regarding to the offline network layout, Zhengtong formed a co-built retail network under the existing authorized dealers and used car retail centers.

IV. Auto finance technology segment

The auto consumption finance market of China has entered into a rapid growth period. In 2016, auto retail market scale of China exceeded RMB3,800 billion with the average permeability rate of automobile finance of 30%. Among which, the permeability rate of luxury automobiles exceeded 40%. The transaction scale of auto finance market reached RMB1,300 billion and is expected to increase to RMB3,500 billion in 3 years with a compound growth rate exceeding 20%. The data indicates consumers of luxury automobile tend to use auto financial instruments during the automobile transaction process. Driven by finance technology, a new consumption pattern will present in the PRC automobile market in the future. New consumption pattern, including convenient online and offline automobile purchase, intelligent auto finance and diversification of automobile consumption, will popularize.

In 2017, the Group strived to develop a completely closed-loop auto finance technology platform, aiming to provide customers with one-stop auto finance and related services and offer automobile-related financial products covering new automobiles, pre-owned automobiles and automobile mortgage. The platform involved Shanghai Dongzheng Automotive Finance Co., Ltd. ("**Dongzheng AFC**"), which held an auto financial license granted by the China Banking Regulatory Commission (the "**CBRC**"), Shenzhen Zhengyuan Automobile Technology Co., Ltd. (深圳正源汽車科技有限公司) ("**Zhengyuan Technology**"), which was specialized in financial technology and big-data risk control, Xiamen International Financial Asset Exchange Co., Limited ("**Xiamen**

International Financial Asset Exchange"), which provided an online asset transaction platform, Shanghai Zhengtong Dingze Financial Leasing Co., Ltd. ("**Dingze Leasing**") and Dingze Insurance Agency Co., Ltd. ("**Dingze Insurance Agency**"), which provided financial leasing, insurance brokerage and other related services. With a focus on the internet auto finance business, the Group developed online and offline channels for customer acquisition. By improving big-data risk control technology and integrating resources of ABS platform, a completely closed-loop ecosystem of auto consumer finance with interconversion of assets and capital has been developed.

Fostering differentiated advantages of offline auto finance

Dongzheng AFC obtained the financial business permit from the CBRC on 6 March 2015 and commenced its operation on 11 March. Dongzheng AFC obtained the approval for capital increase from the CBRC on 1 June 2017. The Group completed the capital injection into Dongzheng AFC during the reporting period. Currently, Dongzheng AFC has a registered capital of RMB1.6 billion and a core capital of over RMB2.0 billion. With the rapid growth of the auto finance market in China, Dongzheng AFC further improved its capital adequacy ratio after the capital increase, which facilitated its future business expansion and profit improvement. In 2017, by further leveraging on the Group's unique competitive strengths in product design, risk control and marketing channels, Dongzheng AFC reported a growth in high quality loan assets across the country.

By further identifying the needs of customers inside and outside the Group, Dongzheng AFC diversified its products offerings and modified the product design, thereby catering to the needs of end customers. Through the cooperation for auto finance with major OEMs and long-term strategic cooperation with dealership groups, Dongzheng AFC continuously broadened the channels for its retail loan business. Furthermore, Dongzheng AFC also developed the outreach business to further explore potential financial needs of automotive logistics commercial vehicles and pre-owned automobiles.

In respect of the establishment of financial service network, benefiting from 134 4S/5S stores and other dealership outlets in 40 cities across 16 provinces and municipalities nationwide, Dongzheng AFC established 400 financial service outlets in major cities with over 1 million population in the PRC, which expanded the existing offline customer acquisition channels.

In respect of risk control, by combining the Credit Reference Center of the Peoples' Bank of China with the big-data financial technology risk control system of Zhengyuan Technology, the Group leveraged its experience in traditional bank credit and internet financial technology to develop a three-in-one risk management structure involving customers, merchants and transactions.

In 2017, interest and service income from the financial services business amounted to approximately RMB522 million, representing a year-on-year increase of approximately RMB124 million. Reportable profit of such segment amounted to approximately RMB378 million, representing a year-on-year increase of 71.0%. Reportable assets amounted to RMB7,236 million, representing a year-on-year increase of 64.0%. The financial services business recorded rapid growth in asset size while ensuring the high quality of assets. In 2017, the non-performing loans ratio of Dongzheng AFC was 0.27%, which was lower than the industry average.

Exploring the Fintech area for online auto finance

Zhengyuan Technology, owned as to 80% by the Group and established in December 2017, explored the Fintech area for online auto finance and was committed to creating a comprehensive financial technology loan support platform. Based on the analysis on actual business scenarios, variations and lines were obtained from effective risk assessment graphs, and a precise risk control model was developed by using big-data, in order to conduct risk assessment and classification on end customers, which will significantly enhance quality and speed of loan approval process, allowing consumers to receive the approval result as soon as possible. The use of financial technology optimized customers' experience in auto transaction and greatly expanded the customer coverage of auto finance.

The effective Fintech risk control technology of Zhengyuan Technology further ensured the quality of loan assets. In the closed-loop system of the Group, high quality loan assets were crucial to rapid transformation into capital, while Xiamen International Financial Asset Exchange also played a significant role as a financial asset transaction platform. Dongzheng AFC and Zhengyuan Technology were able to bundle and sell their high quality loan assets. Through the online transaction platform, the issue costs of ABS were reduced and the efficiency of fundraising was improved.

In respect of the financial leasing business, the Group continued to optimize its product design and diversify its financing channels in 2017. Dingze Leasing engaged in the businesses for large corporate customers and auto-related consumption, so to achieve synergistic benefits with Dongzheng AFC. A series of leading products with higher flexibility were launched, boosting the general competitiveness of the entire internet auto financial technology segment.

Improving the insurance brokerage businesses

For the insurance brokerage business, the Group further increased its penetration rate for insurance renewal in 2017 while sustaining the penetration rate for new insurance policy. Under the reform of auto insurance rate in the PRC, the Group is improving the online platform of the insurance brokerage business. With the cooperation between Dongzheng AFC and Zhengyuan Technology, the Group offered insurance-related products bundled with auto financial products. Through providing insurance, extension and instalment financial products for its customers, the Group improved the service quality and efficiency of the insurance brokerage business, and extended the service cycles of customers in the Group.

V. Supply chain business

The Group's supply chain business segment mainly consists of automobile logistics business and trading of auto maintenance supplies. The automobile logistics business enjoys a cutting-edge and comprehensive proprietary logistics management system with national "5A" logistic enterprise qualifications, and its scope of business covers the full supply chain for automobile logistics from procurement logistics, production logistics, distribution processing, distribution logistics and vehicle logistics to logistics-related consulting services. The trading of auto maintenance supplies mainly includes trading of lubricant oil. Our automobile logistics business provides services primarily to mainstream automobile groups in China through a service network that covers 25 provinces and municipalities in China. As an automobile logistics service platform with leading technologies in China, the segment has enormous potential for future growth, aiming to develop into one of the largest independent third-party automobile logistics service providers in China owned by non-OEMs.

In order to further support the rapid development of the supply chain business, under the strong support from the government of Wuhan City, the Company proposed to establish an automobile supply chain platform with coverage in China's major cities. On 29 June 2017, the Company and Wuhan Economic and Technological Development Zone officially signed a cooperation agreement for Shengze Jietong logistics base project.

The logistics base is geographically advantages, with construction area of total approximately 350,000 square meters. The main construction of the project would include quay berths, multi-storey automobiles warehouse integrated with intelligent logistics platform, spare parts warehouse as well as office and living supporting facilities area. The logistic base will be constructed by leveraging on the current OEMs and major production base, it is strategically positioned as multimodal transport system with truck, railway and vessel, so called "three vertical and four horizontal", and riding on the existing mutual transportation mode between truck transportation and short-distance regional transfer, in order to build the largest regional logistics hub in Central China, to be one of the largest express logistics channel network in China. The project is scheduled to be completed in 2019, and will be fully operated in 2020, it is estimated that the handling capacity can reach 800,000 vehicles per annum.

VI. Network development

Balanced and reasonable deployment of the nationwide dealership network for luxury brands and strategic core brands complemented by ongoing optimization, integrating industry resources through innovative business models such as mergers and acquisitions and strategic business cooperation, to enhance overall sustainable profitability

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, 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 2017, the Group operated 134 dealership stores in 40 cities across 16 provinces and municipalities in China.

In 2017, the Group has 16 newly operating dealership stores for luxury automobiles through establishment and acquisition, including:

Brand	**Location**
Porsche	Guangzhou
Benz	Zhuhai, Yiwu, Yongkang, Suzhou
BMW	Shanghai, Chenzhou, Yichang, Chengdu (used car center)
Audi	Baoding, Foshan, Qingyuan
Jaguar and Land Rover	Shenzhen
Hongqi	Shanghai, Wuhan
Faw-Volkswagen	Qingyuan

In addition, referring to the announcement dated December 23, 2017, the Group added a total of 10 dealership stores for luxury automobiles through the innovative expansion model Strategic Operation Management Cooperation Scheme ("**SOMCS**") for ten years since 1 January 2018. The cooperation covers Shenzhen, Guangzhou, Foshan and Jieyang with a total of 6 BMW 4S stores, 1 MINI 4S store, 2 BMW showrooms and one repair center. The Group has set up separate companies ("**Operating Entities**") to obtain dealership authorizations and conduct the relevant 4S business in the place of incorporation of the above-mentioned dealership stores.

In January 2018, Mr. Li Wangxing and Mr. Lin Yihao had officially entrusted the Group with 10 dealership stores in Shenzhen, Guangzhou, Foshan and Jieyang. The management team of the Group's operations and finance has already settled and all businesses have been conducted smoothly via the Operating Entities.

The Group believes that the 10-year SOMCS will further enhance the Group's coverage of the automobile operation network of the BMW brand in China and integrate the Company's advantages in automobile finance and services platform to enhance the profitability of the BMW brand.

Since the Operating entities are controlled by the Group, its results will be consolidated into the Group and it will be entitled to the future earnings of the Operating Entities. It is expected that profits will be distributed to the Group on a regular basis according to operating conditions. At the completion of the ten-year cooperation period, the Operating Entities will be transferred to the counterparty at zero consideration and at the time of transfer, the net equity value of the Operating entities is expected to be close to zero. Based on the above, the Directors believe that the SOMCS and transfer at zero consideration is in the interest of the Company.

In the future, the Group will continue to explore strategic business cooperation with its peers which will become one of the core ways for the Company's network development. The Company's business scale would expand rapidly at low cost while the operating quality and profitability of those stores of partners' can be improved by cooperation, thus initiating an industrial standard for future management outsourcing, as well as optimizing our capital deployment and capital structure, thereby effectively increasing the return on shareholders' funds.

As of the date of this report, the Group has authorization for 16 dealership stores for core luxury brands, including Porsche, Mercedes-Benz, Audi, BMW, Jaguar and Land Rover and Volvo, under construction or to be constructed. The newly authorized projects will further enhance the Group's competitive advantages in traditional provinces and cities such as Beijing, Shanghai, Guangdong, Hubei and Hunan, and will open up new development areas with high potentials such as Chongqing, Yunnan and Jiangsu. The scale and channels of the Group were further expanded.

The following table sets forth the details of dealership stores of the Group:

	Dealership stores in operation	**Authorized dealership stores to be opened**	**Total**
5S/4S store for luxury and ultra-luxury brands	96	16	112
4S store for mid – to high-end brands	14	0	14
Urban showroom for luxury brands	16	0	16
Authorized repair service centre for luxury brands	7	0	7
Pre-owned automobile centre	1	0	1
Total	134	16	150

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

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, the revenue of the Group increased by approximately 12.5% to approximately RMB35,474 million from approximately RMB31,519 million in 2016, of which the revenue of automobile financial services increased by approximately 31.2% to approximately RMB522 million from approximately RMB398 million in 2016. The growth in revenue was mainly benefited from a steady growth in sales of new automobiles and after-sales services as well as a rapid increase in automobile financing revenue.

The Group generated revenue from sales of new automobiles, after-sales services and other businesses. In 2017, the revenue from sales of new automobiles increased by approximately 12.0% to approximately RMB30,289 million from approximately RMB27,042 million in 2016. Revenue from luxury and ultra-luxury branded automobiles increased by approximately 13.8% to approximately RMB26,774 million in 2017 from approximately RMB23,522 million in 2016, representing approximately 88.4% of sales revenue from new automobiles. Revenue from after-sales services increased by approximately 13.9% to approximately RMB3,899 million from approximately RMB3,422 million in 2016. In 2017, revenue from sales of new automobiles and revenue from after-sales services accounted for 85.4% and 11.0% of the total revenue, respectively.

Cost of sales

For the year ended 31 December 2017, the cost of sales of the Group increased by approximately 10.2% to approximately RMB31,706 million from approximately RMB28,783 million in 2016, which was 2.3 percentage points lower than the increase in revenue. The cost of sales for new automobiles increased by approximately 9.7% to approximately RMB28,815 million in 2017 from approximately RMB26,260 million in 2016. The increase was 2.3 percentage points lower than the increase in the revenue from sales of new automobiles. The cost of sales for after-sales services increased by approximately 14.3% to approximately RMB2,059 million from approximately RMB1,801 million in 2016.

Gross profit and gross profit margin

For the year ended 31 December 2017, the gross profit of the Group substantially increased by approximately 37.7% to approximately RMB3,768 million from approximately RMB2,736 million in 2016 while the gross profit margin improved by approximately 1.9 percentage points to approximately 10.6% from approximately 8.7% in 2016.

The Group recorded gross profit mainly from after-sales services, sales of new automobiles and automobile financial services. In 2017, gross profit from sales of new automobiles amounted to approximately RMB1,474 million, representing an increase of approximately 88.5% as compared to the corresponding year. Gross profit margin from sales of new automobiles amounted to 4.9%, representing a significant increase as compared to that of 2016. Gross profit from sales of luxury and ultra-luxury branded automobiles amounted to approximately RMB1,398 million, representing an increase of approximately 93.4% as compared to the corresponding year. Gross profit margin from sales of luxury and ultra-luxury branded automobiles improved significantly to 5.2% from 3.1% in 2016, which was mainly due to new product life cycles of certain brands and effective margin control through implementing information system. In 2017, gross profit from after-sales services of the Group amounted to approximately RMB1,839 million, representing an increase of approximately 13.4% as compared to the corresponding year. Gross profit margin from after-sales services decreased slightly by approximately 0.2 percentage point to approximately 47.2% from approximately 47.4% in 2016. Dongzheng AFC recorded gross profit of approximately RMB410 million in 2017 and its gross profit margin amounted to approximately 65.7%.

Selling and distribution expenses

For the year ended 31 December 2017, the selling and distribution expenses of the Group increased by approximately 8.4% to approximately RMB1,028 million from approximately RMB948 million in 2016, such increase is relatively lower than the increase in revenue. 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 2017, the administrative expenses of the Group decreased by approximately 31.6% to approximately RMB733 million from approximately RMB1,072 million in 2016, which was mainly due to an exchange gain incurred from the appreciation of Renminbi during the period under review as compared to the beginning of the year.

Profit from operations

For the year ended 31 December 2017, the profit from operations of the Group significantly increased by approximately 94.4% to approximately RMB2,426 million from approximately RMB1,248 million in 2016. The operating profit margin increased by approximately 2.8 percentage points to approximately 6.8% from approximately 4.0% in 2016.

Income tax expenses

For the year ended 31 December 2017, the income tax expenses of the Group amounted to approximately RMB542 million. The effective tax rate was approximately 30.9%.

Profit during the period

For the year ended 31 December 2017, the profit during the period of the Group significantly increased by approximately 138.4% to approximately RMB1,211 million from approximately RMB508 million in 2016. During the period, the profit margin increased by approximately 1.8 percentage points to approximately 3.4% from approximately 1.6% in 2016.

Contingent liabilities

As at 31 December 2017, 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 2017, the current assets of the Group increased by approximately RMB7,962 million to approximately RMB22,555 million from approximately RMB14,593 million as at 31 December 2016, which was mainly due to an increase in the cash and cash equivalents, pledged bank deposits and balances with the central bank, receivables from financial services due to the growth of business and increase in inventories arising from strategic purchase based on market demand.

As at 31 December 2017, the current liabilities of the Group increased by approximately RMB5,561 million to approximately RMB20,939 million from approximately RMB15,378 million as at 31 December 2016, which was mainly due to an expansion of the automobile financing business of the Group.

Cash flow

As at 31 December 2017, the cash and cash equivalents of the Group increased by approximately RMB1,091 million to approximately RMB2,716 million from approximately RMB1,625 million as at 31 December 2016. 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 2017, the Group had net cash outflow generated from operating activities of approximately RMB866 million (for the year ended 31 December 2016, the Group had net cash inflow generated from operating activities of approximately RMB647 million).

Capital expenditure and investment

For the year ended 31 December 2017, the capital expenditure and investment of the Group amounted to approximately RMB1,284 million (2016: approximately RMB1,049 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 2017, the inventories of the Group amounted to approximately RMB4,084 million, representing an increase of approximately RMB1,065 million as compared to RMB3,019 million as of 31 December 2016, mainly attributable to the inventory increase of new automobiles by the Group based on the market demand. The average inventory turnover days of the Group for 2017 increased by 1.6 days to 41.1 days from 39.5 days for 2016. The following table sets forth its average inventory turnover days for the years indicated:

	For the year ended 31 December	
	2017	2016
Average inventory turnover days	**41.1**	39.5

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 bank loans in US dollars and HK dollars by adopting cross currency swap. As at 31 December 2017, a financial liability of approximately RMB134 million at fair value (as at 31 December 2016: a financial asset of RMB143 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 2017, cash and bank deposits of the Group were approximately RMB7,239 million (including pledged bank deposits and balances with the central bank of approximately RMB3,686 million, and time deposits of approximately RMB837 million and cash and cash equivalents of RMB2,716 million), representing an increase of approximately RMB3,782 million as compared to approximately RMB3,457 million as at 31 December 2016. As at 31 December 2017, loans and borrowings, obligations under finance leases and bonds payable of the Group amounted to approximately RMB17,824 million (as at 31 December 2016: approximately RMB11,286 million). As at 31 December 2017, save as loans and borrowings, obligations under finance leases and bonds payable of approximately RMB11,231 million that bore interest at fixed rates, other loans and borrowings bore interest at floating rates. As at 31 December 2017, net gearing ratio of the Group was approximately 102.2% (as at 31 December 2016: approximately 87.5%). 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 2017, the pledged assets of the Group amounted to approximately RMB5,926 million (as at 31 December 2016: approximately RMB3,748 million).

Material acquisition and disposal of subsidiaries and associates

On 31 March 2017, the Group acquired Yiwu Xinhui Auto Trading Company Limited and Yongkang Guobang Auto Trading Company Limited as subsidiaries, with an increase of 2 Benz 4S stores, as a result, the Group's Benz dealership business has successfully entered the strategic market in East China. Save as disclosed above, for the year ended 31 December 2017, there was no material acquisition or disposal of subsidiaries and associates by the Group.

Investments held in foreign currency and hedging

For the year ended 31 December 2017, 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 2017, the Group had 10,342 employees in China (as at 31 December 2016: 9,120 employees). For the year ended 31 December 2017, the total labour cost of the Group amounted to approximately RMB810 million (for the year ended 31 December 2016: RMB713 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 disposable 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 differentiated auto finance technology platform 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) On 16 January 2018, 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) nineteen financial institutions (as lenders) for a syndicated term loan facility for an initial aggregate amount of US$380 million (with a green shoe option of an amount up to US$600 million (inclusive of the said initial amount)). 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 improve the structure of indebtedness and for the funding requirements of the Group, including Wuhan port logistics hub and other comprehensive projects. Upon completion, the Group further optimizes its debt structure and effectively reduce its finance costs. For further details of the Facility Agreement, please refer to the announcement of the Company dated 23 January 2018.

(2) On 19 January 2018, the placing of 226 million new shares of the Company at the placing price of HK$7.70 per placing shares under general mandate and the placing agreement dated 11 January 2018 (the "**Placing**"), was completed. The net proceeds from the placing amounted to HK$1,727 million. The Company intends to apply the proceeds for development of its finance technology platform. For further details of the Placing, please refer to the announcements of the Company dated 11 January 2018 and 19 January 2018.

PROPOSED FINAL DIVIDEND

The Board resolved to propose to the shareholders of the Company on the forthcoming annual general meeting expected to be held on 18 May 2018 (the "**2018 AGM**") for the distribution of a final dividend of HK$0.14 per share ("**Final Dividend**") for the year ended 31 December 2017 payable to the shareholders of the Company whose names are listed in the register of members of the Company on 29 May 2018. The proposal for the distribution of the Final Dividend is subject to the consideration and approval by the shareholders of the Company at the 2018 AGM. Subject to the said approval, the Final Dividend will be paid in cash to the shareholders of the Company on or around 4 June 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018 (both days inclusive) and from Friday, 25 May 2018 to Tuesday, 29 May 2018 (both days inclusive), during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the 2018 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 Monday, 14 May 2018. In order to qualify for the proposed final dividend (subject to the approval by shareholders at the 2018 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 Thursday, 24 May 2018.

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 2017.

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

During the year, on 26 April 2017 the Company redeemed the US$335,000,000 4.5% credit enhanced bonds due 2018 ("**Bonds**") in whole, and the early redemption bond prices (being early redemption bond together with the interest accrued to and unpaid on the redemption date) amounting to US$351,632,628.59.

Subsequent to the completion of the redemption, the Bonds were cancelled and the listing of the Bonds was withdrawn from the Stock Exchange of Hong Kong Limited.

Save as disclosed above, 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 2017.

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 2017, the Company has complied with the respective code provisions ("**Code Provisions**") of the CG Code.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2017 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 2017 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 2018

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.