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

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

(Stock Code: 1728)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

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**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017 as set out below.

HIGHLIGHTS OF RESULTS

For the six months ended 30 June 2018:

- Revenue increased by approximately 20.1% to approximately RMB18,768 million;
- Overall gross profit increased by approximately 32.9% to approximately RMB2,304 million, gross profit margin grew by 1.2 percentage points to 12.3%;

Financial Services Business

- interest and service income from the financial services business amounted to approximately RMB365 million (from external customers), with a year-on-year increase of 50.2%;
- the Company's subsidiary, Shanghai Dongzheng Automobile Finance Co., Ltd. significantly optimized its financial asset structure, and its retail market share increased further. Its asset size increased from RMB4,156 million to RMB8,134 million, with a year-on-year growth rate of 95.7%;
- Profit attributable to equity Shareholders of the Company increased by approximately 37.8% to approximately RMB711 million;
- Proposed an interim dividend HK$0.10 per ordinary share.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018 – unaudited
(Expressed in RMB'000)

	Note	**Six months ended 30 June** **2018**	2017 *(Note)*
Revenue	*4*	**18,767,748**	15,627,910
Cost of sales		**(16,463,682)**	(13,894,194)
Gross profit		**2,304,066**	1,733,716
Other income	*5*	**471,227**	220,808
Selling and distribution expenses		**(496,218)**	(462,219)
Administrative expenses		**(753,083)**	(393,307)
Profit from operations		**1,525,992**	1,098,998
Finance costs	*6(a)*	**(461,029)**	(343,823)
Share of profit of joint venture and associates		**14,915**	8,290
Profit before taxation	*6*	**1,079,878**	763,465
Income tax	*7*	**(353,903)**	(237,148)
Profit for the period		**725,975**	526,317
Attributable to:			
Equity shareholders of the Company		**710,503**	515,737
Non-controlling interests		**15,472**	10,580
Profit for the period		**725,975**	526,317
Earnings per share	*8*		
– Basic (RMB cents)		**29.0**	23.3
– Diluted (RMB cents)		**29.0**	23.3

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018 – unaudited
(Expressed in RMB'000)

	Note	Six months ended 30 June **2018**	2017 *(Note)*
Profit for the period		**725,975**	526,317
Other comprehensive income for the period (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of:			
– financial statements of entities outside the Mainland China		**(1,962)**	18,888
Other comprehensive income for the period		**(1,962)**	18,888
Total comprehensive income for the period		**724,013**	545,205
Attributable to:			
Equity shareholders of the Company		**708,541**	534,625
Non-controlling interests		**15,472**	10,580
Total comprehensive income for the period		**724,013**	545,205

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018 – unaudited

(Expressed in RMB'000)

	Note	**At 30 June 2018**	At 31 December 2017 *(Note)*
Non-current assets			
Property, plant and equipment		**4,873,707**	4,477,980
Lease prepayments		**1,439,554**	1,290,275
Receivables from financial services	*10*	**3,896,555**	2,478,202
Intangible assets		**4,460,615**	3,675,288
Goodwill		**2,006,335**	1,998,733
Interest in a joint venture		**281,799**	275,722
Interest in associates		**17,236**	16,398
Deferred tax assets		**199,907**	171,230
Long-term receivables		**182,141**	–
Other financial assets	*11*	**468,807**	–
		17,826,656	14,383,828
Current assets			
Inventories	*12*	**4,020,598**	4,084,168
Trade and other receivables	*13*	**9,584,697**	8,307,804
Receivables from financial services	*10*	**4,244,909**	2,924,012
Pledged bank deposits and balances with central bank		**2,473,280**	3,686,098
Time deposits		**683,915**	837,000
Cash and cash equivalents	*14*	**2,578,894**	2,716,220
		23,586,293	22,555,302
Current liabilities			
Loans and borrowings for financial services	*15*	**4,517,822**	4,023,938
Loans and borrowings for non-financial services	*15*	**8,445,515**	9,072,155
Obligations under finance leases		**23,101**	84,996
Trade and other payables	*16*	**6,261,430**	6,338,004
Income tax payables		**1,585,602**	1,419,846
		20,833,470	20,938,939
Net current assets		**2,752,823**	1,616,363
Total assets less current liabilities		**20,579,479**	16,000,191

	Note	**At 30 June 2018**	At 31 December 2017 *(Note)*
Non-current liabilities			
Loans and borrowings for non-financial services	*15*	**5,749,916**	3,705,990
Loans and borrowings for financial services	*15*	**435,666**	–
Bonds payable		**902,250**	901,463
Deferred tax liabilities		**1,070,017**	869,171
Obligations under finance leases		**–**	35,582
Other financial liabilities		**85,154**	134,353
Long-term payables		**309,365**	–
		8,552,368	5,646,559
NET ASSETS		**12,027,111**	10,353,632
Capital and reserves			
Share capital		**209,320**	193,425
Reserves		**11,650,866**	10,007,386
Total equity attributable to equity shareholders of the Company		**11,860,186**	10,200,811
Non-controlling interests		**166,925**	152,821
TOTAL EQUITY		**12,027,111**	10,353,632

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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 business in the People’s Republic of China (the “PRC”).

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements for the year ended 31 December 2017 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those statutory financial statements in their report dated 21 March 2018.

3 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

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

HK(IFRIC) 22 do not have a material effect on how the Group's results and financial position for the current or prior period have been prepared or presented in this interim financial report.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses and impacted by HKFRS 15 in relation to presentation of contract liabilities. Details of the changes in accounting policies are discussed in note 3(b) for HKFRS 9 and note 3(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9 and HKFRS 15.

	At 31 December 2017 *RMB'000*	Impact on initial application of HKFRS 9 *(Note 3(b))* *RMB'000*	Impact on initial application of HKFRS 15 *(Note 3(c))* *RMB'000*	At 1 January 2018 *RMB'000*
Receivables from financial services (current)	2,924,012	(2,230)	–	2,921,782
Total current assets	**22,555,302**	**(2,230)**	–	**22,553,072**
Trade and other payables				
– Receipts in advance	540,532	–	(540,532)	–
– Other payables and accruals	1,057,898	–	(4,696)	1,053,202
– Contract liabilities	–	–	545,228	545,228
Total current liabilities	**(20,938,939)**	**–**	–	**(20,938,939)**
Net current assets	**1,616,363**	**(2,230)**	–	**1,614,133**
Receivables from financial services (non-current)	2,478,202	(34,251)	–	2,443,951
Deferred tax assets	171,230	9,120	–	180,350
Total non-current assets	**14,383,828**	**(25,131)**	–	**14,358,697**
Total assets less current liabilities	**16,000,191**	**(27,361)**	–	**15,972,830**
Total non-current liabilities	**(5,646,559)**	**–**	–	**(5,646,559)**
Net assets	**10,353,632**	**(27,361)**	–	**10,326,271**
Reserves	(10,007,386)	25,993	–	(9,981,393)
Total equity attributable to equity shareholders of the Company	**(10,200,811)**	**25,993**	–	**(10,174,818)**
Non-controlling interests	(152,821)	1,368	–	(151,453)
Total equity	**(10,353,632)**	**27,361**	–	**(10,326,271)**

Further details of these changes are set out in sub-sections (b) and (c) of this note.

(b) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and non-controlling interests and the related tax impact at 1 January 2018.

Retained earnings and non-controlling interests	**Impact of adopting HKFRS9 on opening balance** *RMB'000*
Recognition of expected credit losses on:	
Financial assets measured at amortised cost	(36,481)
Related tax	9,120
Net decrease in total equity at 1 January 2018	(27,361)
Net decrease in non-controlling interests at 1 January 2018	1,368
Net decrease in retained earnings at 1 January 2018	(25,993)

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The measurement categories for all financial assets and financial liabilities of the Group remain the same.

The carrying amounts for all financial assets and financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and balances with central bank, trade and other receivables, receivables from financial services and time deposits).

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– receivables from financial lease: discount rate used in the measurement of the lease receivable;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for receivables from financial lease, trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset has past due certain periods under different risk profiles. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor;

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group;

– significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost; and

– significant increases in credit risk on other financial instruments of the same debtor.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB36,481,000, which decreased retained earnings by RMB25,993,000 and non-controlling interests by RMB1,368,000 and increased gross deferred tax assets by RMB9,120,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under HKAS 39	55,525
Additional credit loss recognised at 1 January 2018 on:	
– Receivables from financial services	36,481
Loss allowance at 1 January 2018 under HKFRS 9	92,006

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method. Comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Presentation of contract liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, advance payments from customers relating to sales of passengers motor vehicles were presented in "receipts in advance" and deferred revenue relating to after-sales services were presented in "other payables and accruals" respectively.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

– "Receipts in advance" and deferred revenue in "other payables and accruals" amounting to RMB540,532,000 and RMB4,696,000 respectively as at 1 January 2018, are now included in contract liabilities.

4 REVENUE

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

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Sales of passenger motor vehicles	**15,804,887**	13,215,237
After-sales services	**2,257,825**	1,817,435
Provision of logistics services	**220,652**	249,408
Sales of lubricant oil	**119,041**	102,536
Interest and service income from financial services	**365,343**	243,294
	18,767,748	15,627,910

5 OTHER INCOME

		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Service income		**304,054**	256,588
Interest income from bank deposits		**33,218**	12,391
Net gain on disposal of property, plant and equipment		**20,475**	14,791
Net gain/(loss) on derivative financial instruments		**66,115**	(73,998)
Government grants	*(i)*	**38,405**	3,876
Others		**8,960**	7,160
		471,227	220,808

(i) The government grants were received unconditionally from the local government where they reside.

6 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
(a) Finance costs:			
Interest on loans and borrowings for non-financial services and bonds payable		**459,256**	343,827
Other finance costs	*(i)*	**21,702**	20,590
Less: interest capitalised		**(19,929)**	(20,594)
		461,029	343,823
(b) Staff costs:			
Salaries, wages and other benefits		**391,680**	367,493
Contributions to defined contribution retirement plans	*(ii)*	**32,994**	26,724
		424,674	394,217

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

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

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

	Six months ended 30 June	
	2018	2017
		(Note)
	RMB'000	*RMB'000*
(c) Other items:		
Cost of inventories	**16,245,970**	13,643,106
Cost of interests*	**158,308**	47,435
Depreciation	**164,014**	141,164
Amortisation of lease prepayments	**13,480**	12,018
Amortisation of intangible assets	**96,882**	50,949
Operating lease charges	**214,324**	175,215
Allowance for doubtful debts of receivables from financial services	**37,443**	266
Net (gain)/loss on derivative financial Instruments	**(66,115)**	73,998
Net foreign exchange loss/(gain)	**183,921**	(56,081)

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

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

7 INCOME TAX

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current tax:		
Provision for PRC income tax for the period	**392,981**	257,671
Deferred tax:		
Origination of temporary differences	**(39,078)**	(20,523)
	353,903	237,148

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

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

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

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

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on the profit attributable to equity shareholders of the Company for the six months of RMB710,503,000 (30 June 2017: RMB515,737,000) and the weighted average number of ordinary shares of 2,452,220,728 (30 June 2017: 2,210,200,440) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2018 is based on the profit attributable to ordinary equity shareholders of the Company of RMB710,503,000 (30 June 2017: RMB515,737,000) and the weighted average number of ordinary shares of 2,452,220,728 (30 June 2017: 2,213,262,950) in issue after adjusting for the effect of all dilutive potential ordinary shares under the Company's pre-IPO employee share option scheme matured in 2017.

Weighted average number of shares (diluted)

	Six months ended 30 June	
	2018	2017
	Number of shares	Number of shares
Weighted average number of ordinary shares	**2,452,220,728**	2,210,200,440
Effect of deemed issue of shares under the pre-IPO employee share option scheme	**–**	3,062,510
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,452,220,728**	2,213,262,950

9 SEGMENT REPORTING

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

1 4S dealership business

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

2 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) Information about profit or loss, 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 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**	
For the six months ended	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Point in time	**18,062,712**	15,032,672	**300,035**	320,860	**114,454**	90,294	**18,477,201**	15,443,826
Over time	**–**	–	**39,658**	31,084	**250,889**	153,000	**290,547**	184,084
Revenue from external customers	**18,062,712**	15,032,672	**339,693**	351,944	**365,343**	243,294	**18,767,748**	15,627,910
Inter-segment revenue	**–**	–	**–**	–	**176,340**	19,753	**176,340**	19,753
Reportable segment revenue	**18,062,712**	15,032,672	**339,693**	351,944	**541,683**	263,047	**18,944,088**	15,647,663
Reportable segment profit	**1,006,198**	655,075	**59,246**	17,624	**276,401**	184,408	**1,341,845**	857,107
Depreciation and amortisation for the period	**248,506**	182,393	**8,544**	10,448	**17,326**	11,290	**274,376**	204,131
Reportable segment assets as at 30 June 2018/ 31 December 2017	**19,794,469**	18,437,763	**577,529**	308,528	**8,361,112**	7,235,983	**28,733,110**	25,982,274
Additions to non-current segment assets during the period	**1,657,019**	623,948	**95,233**	10,481	**65,790**	67,071	**1,818,042**	701,500
Reportable segment liabilities as at 30 June 2018/ 31 December 2017	**(16,501,023)**	(15,618,286)	**(209,772)**	(200,754)	**(5,466,379)**	(4,478,777)	**(22,177,174)**	(20,297,817)
Investment in a joint venture and associates as at 30 June 2018/ 31 December 2017	**–**	–	**281,799**	275,722	**17,236**	16,398	**299,035**	292,120

(b) **Reconciliations of reportable segment profit or loss**

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Reportable segment profit	**1,341,845**	857,107
Elimination of inter-segment profits	**(87,844)**	(17,006)
Unallocated head office (expenses)/gain	**(184,321)**	46,379
Other income	**471,227**	220,808
Finance costs	**(461,029)**	(343,823)
Consolidated profit before taxation	**1,079,878**	763,465

(c) **Geographic information**

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

(d) **Reconciliations of reportable segment assets and liabilities**

	At 30 June 2018	At 31 December 2017
	RMB'000	*RMB'000*
Assets:		
Reportable segment assets	**28,733,110**	25,982,274
Intangible assets	**4,460,615**	3,675,288
Goodwill	**2,006,335**	1,998,733
Deferred tax assets	**199,907**	171,230
Unallocated head office assets	**6,147,260**	6,346,423
Elimination of inter-segment receivables	**(134,278)**	(1,234,818)
Consolidated total assets	**41,412,949**	36,939,130
Liabilities:		
Reportable segment liabilities	**(22,177,174)**	(20,297,817)
Income tax payables	**(1,585,602)**	(1,419,846)
Deferred tax liabilities	**(1,070,017)**	(869,171)
Unallocated head office liabilities	**(4,687,323)**	(5,233,482)
Elimination of inter-segment payables	**134,278**	1,234,818
Consolidated total liabilities	**(29,385,838)**	(26,585,498)

10 RECEIVABLES FROM FINANCIAL SERVICES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Current		
Receivable from retail customers	**4,125,982**	2,768,794
Receivable from auto dealers	**192,587**	200,807
Less: allowance for doubtful debts	**(73,660)**	(45,589)
	4,244,909	2,924,012
Non-Current		
Receivable from retail customers	**3,939,063**	2,488,003
Less: allowance for doubtful debts	**(42,508)**	(9,801)
	3,896,555	2,478,202
Net receivables from financial services	**8,141,464**	5,402,214

Receivable from retail customers are expected to be recovered within one to five years. Receivable from auto dealers are expected to be recovered within one year.

11 OTHER FINANCIAL ASSETS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Financial assets carried at FVPL	**468,807**	–

Other financial assets mainly included certain investment portfolio, being managed by Western Trust Co., Ltd.

12 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Motor vehicles	**3,735,118**	3,796,651
Motor spare parts	**259,707**	258,172
Others	**25,773**	29,345
	4,020,598	4,084,168

13 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Within 3 months	**1,833,082**	917,015
Over 3 months but within 1 year	**41,843**	29,455
Over 1 year	**8,756**	6,322
Less: allowance for doubtful debts	**–**	–
Trade debtors	**1,883,681**	952,792
Prepayments	**912,763**	1,056,881
Other receivables and deposits	**6,788,253**	6,298,131
Less: allowance for doubtful debts	**–**	–
Trade and other receivables	**9,584,697**	8,307,804

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

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

The Group grants credit to its customers of the major segments as below:

Reportable segments	*Credit terms in general*
4S dealership business	Cash on delivery to 180 days
Supply chain business	30 to 90 days

14 CASH AND CASH EQUIVALENTS

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Deposit with banks within 3 months of maturity	**116,500**	295,000
Cash at banks and on hand	**2,462,394**	2,421,220
Cash and cash equivalents in the consolidated statements of financial position	**2,578,894**	2,716,220
Cash and cash equivalents in the cash flow statements	**2,578,894**	2,716,220

15 LOANS AND BORROWINGS

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

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Current		
Loans and borrowings for financial services		
Unsecured bank loans	**4,408,905**	4,023,938
Unsecured long-term bank loans repayable within 1 year	**108,917**	–
	4,517,822	4,023,938
Loans and borrowings for non-financial services		
Unsecured bank loans	**3,162,936**	5,115,941
Current portion of unsecured long-term bank loans	**1,512,457**	613,245
Unsecured short-term commercial paper	**1,800,000**	1,600,000
Unsecured borrowings from other financial institutions	**80,000**	220,000
	6,555,393	7,549,186
Secured bank loans	**1,097,556**	759,288
Secured borrowings from other financial Institutions	**718,716**	713,681
Current portion of secured long-term bank loans	**73,850**	50,000
	8,445,515	9,072,155
Sub-total	**12,963,337**	13,096,093
Non-current		
Loans and borrowings for financial services		
Unsecured bank loans	**435,666**	–
Loans and borrowings for non-financial services		
Unsecured bank loans	**5,364,766**	3,455,990
Secured bank loans	**385,150**	250,000
	5,749,916	3,705,990
Sub-total	**6,185,582**	3,705,990
Total	**19,148,919**	16,802,083

16 TRADE AND OTHER PAYABLES

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

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Within 3 months	**4,123,055**	4,632,655
Over 3 months but within 6 months	**84,634**	90,765
Over 6 months but within 12 months	**1,166**	4,530
Total creditors and bills payable	**4,208,855**	4,727,950
Receipts in advance	**–**	540,532
Contract liabilities	**582,629**	–
Other payables and accruals	**1,458,177**	1,057,898
Payables due to third parties	**6,249,661**	6,326,380
Payables due to related parties	**11,769**	11,624
Trade and other payables	**6,261,430**	6,338,004

17 DIVIDENDS

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

	Six months ended 30 June	
	2018 *RMB'000*	2017 *RMB'000*
Interim dividend proposed after the interim period of HK$0.10 per ordinary share (six months ended 30 June 2017: nil)	**214,811**	–

The interim 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 interim period:

	Six months ended 30 June	
	2018 *RMB'000*	2017 *RMB'000*
Final dividend proposed in respect of the previous financial year, approved and paid during the following interim period, of HK$0.14 per ordinary share (six months ended 30 June 2017: HK$0.10 per ordinary share)	**283,413**	193,210

18 CONTINGENT LIABILITIES

As of 30 June 2018, the Group did not have any significant contingent liabilities.

19 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

For the first half of 2018, China's gross domestic production (GDP) grew by 6.8% year-on-year, indicating an overall trend of stability and growth of the China economy.

According to statistics released by the China Association of Automobile Manufacturers, sales of passenger automobiles in China continued its stable upward trend in the first half of 2018 and increased by 4.6% year-on-year, to 11,775,300 units, representing a higher growth rate as compared to the corresponding period of last year. Driven by the consumption upgrades and the increasing competitiveness of imported automobiles resulting from the reduction of import tariff for luxury-branded automobiles, the sales of luxury-branded automobiles remained its rapid growth. For the first half of 2018, the sales of luxury-branded automobiles reached 1,321,603 units, representing a year-on-year growth of 11.4%. As a core dealer of various luxury brands in China, China Zhengtong Auto Services Holdings Limited (the "**Company**" and its subsidiaries, collectively, the "**Group**") continue to collaborate closely with respective automobile manufacturers. For the first half of 2018, the sales of new automobiles of the Group reached 55,163 units, representing a year-on-year growth of 19.8%, which was higher than the industry average growth rate of 11.4%. The Group continuously strives to identify industry dynamics and maximize service opportunities fostered by changing trend of automotive consumer habit. In addition to further improving its existing services, the Group also actively explored innovative service models to further enhance customers' service experience leveraging on its diversified brand portfolios, efficient and optimal sales network and well-rounded sales and services platform.

During the first half of 2018, 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 improve customer experience and 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 the future, the auto service industry will focus more on high quality, personalized and integrated services. Based on the existing business network, the Group will further expand its business presence and improve the profitability of new outlets. In order to enrich the personalized automobile-related services for customers, the Group will continue to invest in innovation. The Group will also strive to enhance internal management efficiency and service platform, explore customer base and consolidate its competitive strengths. The Group is also committed to providing quality, convenient and comprehensive automobile-related services in order to create greater values for the shareholders of the Company ("**Shareholders**") and employees of the Group as well as the society.

The Group's remarkable performance in the first half of 2018 is attributable to the dedication of employees as well as the trust and support of its business partners and Shareholders. The Board would like to express its sincere gratitude to our Shareholders, business partners and customers for their long-term support and trust, as well as our loyal staff for their hard work and valuable contributions to the Group over the first half of 2018.

BUSINESS REVIEW

In the first half of 2018, the Group was committed to developing luxury and ultra-luxury auto sales and traditional after-sales services. 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. 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. For the six months ended 30 June 2018, the Group recorded a revenue of approximately RMB18,768 million, representing a year-on-year increase of approximately 20.1%, and gross profit of approximately RMB2,304 million, representing a year-on-year increase of approximately 32.9%. Profit attributable to equity Shareholders of the Company was approximately RMB711 million with basic earnings per share of the Company ("**Share**") of approximately RMB29.0 cents, representing a year-on-year growth of 37.8% and 24.5% respectively.

(1) Sales of new automobiles business

In the first half of 2018, the sales of passenger vehicles in the PRC continued its stable upward trend. Driven by the consumption upgrades and the increasing competitiveness of imported automobiles resulting from the reduction of import tariff for part of luxury-branded automobile, the sales of luxury-branded automobiles remained its rapid growth. For the six months ended 30 June 2018, the sales of new automobiles reached 55,163 units, representing a year-on-year growth of approximately 19.8%, including 42,463 units of luxury-branded and ultra-luxury-branded automobiles with a year-on-year increase of 24.8%.

The automobile manufacturers of major luxury brands under the Group's dealership launched new products or replaced automobile products of their major series in 2018. Those manufacturers enriched its product portfolio to cater market needs by launching more affordable new series. Benefiting from the launching of BMW 525Li and X3 Series, Audi Q5L and A8, Jaguar and Land Rover's Range Rover and Range Rover Sport, Porsche Cayenne and other new series of luxury brands, the Group recorded increases in both sales volume and gross profit.

For the first half of 2018, the Group's gross profit margin from the sales of new automobiles reached 6.3%, representing a year-on-year increase of 1.5 percentage points as compared with 4.8% in the same period of last year.

In the first half of 2018, 4 authorized dealership stores were opened. The smooth execution of strategic operation management cooperation agreement entered in 2017 and exploring innovative model enabled the Group to grow and gain management experience, laying a solid foundation for further its expansion and management output.

Through data management, an early-warning mechanism was established and multi-dimensional analysis report on operation and management was prepared. The Group closely monitored and handled issues regarding operation and solved them in a timely manner. The Group predicted and controlled the production quotas and wholesales resources of manufacturers by using intelligent data management system. As the Group was able to control sales progress and monitor turnover days of new automobiles, the inventory structure remained stable.

By taking advantage of internet technology, an efficient, insightful and advanced operation management system was established and the preliminary testing of which was completed. The system was able to mitigate human factors and provide the latest, accurate and visualized data. With an aim to improve customer experience on each brand of the Group, the Group further enhanced the sales performance and customer loyalty through various research efforts, including assessing quality of services of stores with potential and popular outlet stores by mystery shopping, on-site inspection and self-evaluation on satisfaction in the first half of 2018. The order and delivery process of automobiles was optimized through order and delivery kit. Therefore, the customer experience was improved and internal operation efficiency was also enhanced.

In order to maintain its market competitiveness and control its gross profit from sales, the Group adjusted its organizational structure, analyzed market condition of different regions and implemented unified pricing policies, including limited price and standardized services of sales, finance, insurance, automotive supplies, warranty extension and value-added business of new automobiles. Benefiting from the upgrade of information technology, the overall profitability of the Group was significantly improved and the performance of the Group was remarkable.

In 2018, the Group provided guidance on the sales and operation to dealership stores and established a balanced scorecard evaluation system for its dealership stores with reference to its historical operation data and industrial benchmark. With reference to the operation quality performance of stores, the balanced scorecard evaluation system was used to assess the operation of dealership stores in terms of business management, human resources management and financial management. The Group continuously improved and enhanced its operation through learning from experience concluded in such evaluation. The Group has placed great emphasis on the operation performance, brand value and customer retention rate of dealership stores and valued them as the development strategies of the Group. After six-month period of guidance, the dealership stores of the Group achieved significant improvement in terms of the ability to respond to changes in market, sales and profit, the acquisition rate of manufacturers and the overall ranking of operation performance of manufacturers.

(2) After-sales services business

In the first half of 2018, revenue and gross profit of after-sales services of the Group amounted to approximately RMB2,258 million and approximately RMB1,057 million, representing an increase of 24.3% and 21.9% as compared to the corresponding period last year, respectively. The gross profit margin was approximately 46.8%. The steady growth of after-sales services business in the first half of 2018 was mainly attributable to the rapid growth of car ownership. In the first half of 2018, the Group served 618,357 units of automobiles in aggregate, representing an increase of approximately 17.4% as compared to the corresponding period last year.

In the car ownership cycle of customers, the Group refined its customer management information system based on its business process in order to fulfill the needs of customers and improve their experience and loyalty. The Group recorded increases in both income and gross profit of after-sales services. The Group also exerted efforts in research and development and marketing of new products and services with an aim to increase the penetration rate of maintenance, repair, warranty renewal, extension and other services. In terms of cost control, the Group optimized its centralized purchasing channels and its management of inventory and spare parts, so as to reduce inventory level and strictly control costs.

With an aim to improve customer experience on each brand of the Group, the Group further enhanced the sales performance and customer loyalty through various research methods, including assessing quality of after-sales services of stores with potential and popular outlet stores by mystery shopping, on-site inspection and self-evaluation on satisfaction in the first half of 2018.

(3) Operation system of pre-owned automobiles

The Group formulated its pre-owned automobile development strategy in the first half of 2018, and has completed the construction of a digitalized platform for the replacement and sale of pre-owned automobiles. In June 2018, we decided the location of the first retail centre in Dongguan, which will be put into operation in the second half of the year, marking the first step of our strategic plan. We also initiated our online platform, "Zhengtong Auction (正通拍)", which contributed to realizing the internal share of automobiles and facilitating the development of its pre-owned automobile business effectively.

(4) 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 be present in the PRC automobile market in the future. New consumption patterns, including convenient online and offline automobile purchase, intelligent auto finance and diversification of automobile consumption, will popularize.

In the first half of 2018, interest and service income from the financial services business amounted to approximately RMB365 million (from external customers), with a year-on-year increase of 50.2%. Reportable profit of such segment amounted to approximately RMB276 million, representing a year-on-year increase of 50.0%. Reportable assets amounted to RMB8,361 million, representing an increase of 15.5% by comparing with that at 31 December 2017. Among, the Company's subsidiary, Shanghai Dongzheng Automobile Finance Co., Ltd. ("**Dongzheng AFC**") significantly optimized its financial asset structure in the first half of 2018, and its retail market share increased further. Its asset size increased from RMB4,156 million to RMB8,134 million, with a year-on-year growth rate of 95.7%. In the first half of 2018, the non-performing loans ratio of Shanghai Dongzheng Automotive Finance Co., Ltd. ("**Dongzheng AFC**") was 0.24%, which was lower than the industry average.

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

- Dongzheng AFC holding an auto financial license granted by the China Banking and Insurance Regulatory Commission (the "**CBIRC**", formerly known as "China Banking Regulatory Commission);

- Shenzhen Zhengyuan Automobile Technology Co., Ltd. ("**Zhengyuan Technology**") specializing in financial technology and big-data risk control;

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

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

The Group has been more mature and clearer in exploring the model of automobile finance consumer loan and future development direction. The burgeoning growth of auto finance market has provided a broader development for financial institutions. In addition, the market environment has been further purified, and the licensed financial institutions benefited from the standardization. The market reshuffle will facilitate the "good money drives out the bad" for the auto finance service institutions, and will also be helpful for the licensed financial institutions' business to remain reasonable and healthy. Dongzheng AFC has gained the recognition for its compliance management from the regulators.

Covering National Offline Auto Finance Channels by Licensed Financial Institution

Fostering differentiated advantages of offline auto finance Dongzheng AFC obtained the financial business permit from the CBIRC on 6 March 2015 and commenced its operation on 11 March 2015. Dongzheng AFC obtained the approval for capital increase from the CBIRC on 1 June 2017. The Group completed the capital injection into Dongzheng AFC by the end of 2017. 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 will facilitate its future business expansion and profit improvement.

In respect of the establishment of financial service network, benefiting from 138 4S/5S stores and other dealership outlets in 40 cities across 16 provinces and municipalities nationwide, Dongzheng AFC completed the establishment of financial service outlets in major cities in China, the accumulated number of financial service outlets was over 1,000, which was in favour of expansion of customer acquisition channels.

Product Design

In 2018, the Group has recorded a growth in the size of high quality loan assets by continuing to leverage on its unique advantages in product design, risk control and channel promotions. 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 pre-owned automobiles.

Risk Control

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, 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.

Creating Comprehensive Auto Finance Fintech Platform by Professional Team

Zhengyuan Technology, established in December 2017, was committed to exploring the online auto finance fintech field and establishing a comprehensive loan support platform, which financial assets and capitals are highly-efficient connected to the financial technology.

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

By the end of June 2018, Zhengyuan Technology has fully developed and launched the trading systems for the entire trading process. The core system has been fully constructed, and will enable the big-data risk management system to achieve the speedy trading approvals online. Meanwhile, end-customers were able to enjoy the speedy approval and contracted lending service on distant system because of the successful connection between systems and the CFCA.

Zhengyuan Technology was introducing financial institutions to carry out business linkage based on the support of its shareholders. With more capital injected, the increase of loan assets will not only be helpful in market expansion, but the increase in the number of end-customer samples will also drive the improvement of the database for its own risk control system.

Within the entire closed-loop financial ecosystem, trading performance guarantee is crucial in the fundamental credit enhancement step, so Zhengyuan Technology has signed a strategic cooperation agreement with PICC after the interim period. While the system docking is in progress, the electronic policy implemented performance insurance with real-time full coverage for each loan business, and has effectively reduced the risk of capital loss, in addition laying a foundation for subsequent assets transfer.

After Zhengyuan Technology has accomplished its assets and capital accumulation, it will empower other subsidies of the Group with Fintech. In an effort to realize information sharing and integrate different operations, the Group will create a multi-win situation amid the financial closed-loop ecology.

As the financial asset transaction circulation platform, Xiamen International Financial Assets Exchange Center, is also key part of the closed-loop. The cumulative acceptance of assets has exceeded RMB100 billion. Fundraising through ABS platform has a lower cost and higher efficiency. In order to quickly enlarge its coverage of end-customers and to create a new high in the field of auto finance industry, the Group will expand the channels of auto financing asset securitization, and accelerate assets circulation.

Financial Leasing and Insurance Brokerage have been further refined

Under the synergy effect of the Group, Dingze Leasing has made substantial progress in its business. In response to the development trend and industry rules of the small B-end of the automotive industry chain, the company has created and launched the OCF financial concept and new financial service product U-car (U享車) at the same time. It has been recognized by the market dealer groups and 4S stores, and has achieved a great performance.

In the first half of 2018, the insurance brokerage business has made a comprehensive upgrade management for new insurance business, renewal insurance business and extended warranty business of the Group's network. Through the internal management integration, the management of division of labor and assessment of the insurance breakage has increased. Therefore, management efficiency has been released, and insurance benefits are reflected.

(5) 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 a logistics base project. The logistics base is geographically advantageous, 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.

In 2018, in view of the development of new energy automobiles industry, on top of the existing comprehensive logistic network and resources, the Group has formed logistics strategic plans with various new energy automobile manufacturers for the provision of supply-chain logistics services for parts before, during and after the manufacturing process and for automobiles. In order to capture the growing demand for imported cars, the Group has established high speed transportation channels at Tianjin port and Shanghai port, which enable direct access to all major cities in China. In 2019, for the vehicle logistics sector, the Group aims to expand into the logistics market for major automobile brands in China rapidly and further extend the logistics network for different brands by establishing joint ventures or through mergers and acquisition with other large logistics companies. For parts warehouse and logistics sector, in response to the development plan of Wuhan City to become the capital of automobiles, the Group will promote the parts logistics services for major OEMs in Wuhan and the delivery services in Central China by taking advantage of the premium location of the logistics base.

(6) Network development

Balanced and reasonable deployment of the nationwide dealership network for luxury brands complemented by ongoing optimization brand portfolio and stable development

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 mid-end market brands, such as FAW-Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

As of 30 June 2018, the Group operated 138 dealership stores in 40 cities across 16 provinces and municipalities in China.

During the first half of 2018, the Group had 4 new operating dealership stores for luxury automobiles as follows,

Brand	**City/nature of store**
Benz	Foshan 4S
BMW	Changsha (BMW Motorcycle) City Showroom
Hongqi	Shanghai 4S, Wuhan 4S

At 30 June 2018, there are 13 dealership stores under development or to be developed, which are franchised by core luxury automobile brands, such as Porsche, Benz, Audi, BMW, Jaguar and Land Rover as well as Volvo. Authorized dealership stores to be opened definitely expand competitive advantages in traditional provinces and regions, including Beijing, Guangdong, Hubei, Hunan and Sichuan, as well as regions with potential for rapid development, such as Chongqing, Yunnan, Jiangsu and Liaoning, in further enhancement of the Group's advantage in scale and channels.

The following table sets forth the details of our dealership stores as at 30 June 2018:

	Dealership stores in operation	**Authorized dealership stores to be opened**	**Total**
5S/4S store for luxury and ultra-luxury brands	99	12	111
4S store for mid- to high-end brands	14	0	14
Urban showroom for luxury brand	17	0	17
Authorized repair service centre for luxury brands	7	1	8
Pre-owned automobile centre	1	0	1
Total	**138**	**13**	**151**

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 integrate industry resources by seeking appropriate merger opportunities and innovative strategic operation management cooperation scheme to rapidly enlarge its business scale and enhance its profitability.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2018, the Group recorded a revenue of approximately RMB18,768 million, representing an increase of approximately 20.1% as compared to the revenue of approximately RMB15,628 million in the first half of 2017. The increase was mainly due to an increase in number of dealership stores, steady sales of new automobiles and rapid increase in automobile financing revenue in the period under review.

Revenue of the Group was derived from the sales of new automobiles, after-sales services, financial services and other business. In the first half of 2018, revenue from the sales of new automobiles amounted to approximately RMB15,805 million, representing an increase of approximately 19.6% as compared to approximately RMB13,215 million in the first half of 2017, and accounted for approximately 84.2% and 84.6% of the total revenue in the first half of 2018 and 2017, respectively. The revenue from sales of luxury and ultra-luxury branded automobiles increased by approximately 21.2% to RMB14,258 million from approximately RMB11,767 million in the first half of 2017, accounting for 90.2% and 89.0% of revenue from the sales of new automobiles for the first half of 2018 and 2017, respectively.

Revenue from the after-sales services business was approximately RMB2,258 million, representing a growth of approximately 24.3% as compared to approximately RMB1,817 million in the first half of 2017. In the first half of 2018, revenue from the after-sales services business accounted for approximately 12.0% of our total revenue, representing an increase of approximately 0.4 percentage point in revenue from the after-sales services business.

Cost of sales

For the six months ended 30 June 2018, the Group's cost of sales increased by approximately 18.5%, which was lower than the increase in revenue, to approximately RMB16,464 million as compared to approximately RMB13,894 million in the first half of 2017. In the first half of 2018, the cost of sales for new automobiles increased by approximately 17.7% to approximately RMB14,812 million from approximately RMB12,582 million in the first half of 2017. Cost of the after-sales services business increased by approximately 26.4% to approximately RMB1,201 million from approximately RMB950 million in the first half of 2017.

Gross profit and gross profit margin

For the six months ended 30 June 2018, the Group's gross profit increased by approximately 32.9% to RMB2,304 million from approximately RMB1,734 million in the first half of 2017, and the Group's gross profit margin grew by approximately 1.2 percentage points to approximately 12.3% from 11.1% in the first half of 2017.

The Group's gross profit was principally generated from after-sales services, sales of new automobiles business and automobile financing services. In the first half of 2018, gross profit of sales of new automobiles increased by approximately 56.5% to approximately RMB992 million from approximately RMB634 million in the first half of 2017; gross profit margin of sales of new automobiles increased to 6.3% as compared to the first half of 2017. Gross profit of sales of luxury and ultra-luxury branded automobiles dramatically boosted by approximately 65.1% as compared to the same period of last year to approximately RMB976 million, and gross profit margin of sales of luxury and ultra – luxury branded automobiles increased to 6.8% from 5.0% in the first half of 2017, such boost was mainly due to entering into the new product cycle of dealership brands. In the first half of 2018, gross profit of our after-sales services business was approximately RMB1,057 million, representing an increase of approximately 21.9% as compared to the same period last year, and gross profit margin of after-sales services business decreased by approximately 0.9 percentage point to approximately 46.8% from approximately 47.7% in the first half of 2017. Gross profit and gross profit margin of Dongzheng AFC for the first half of 2018 were RMB309 million and 63.8%, respectively.

Selling and distribution expenses

For the six months ended 30 June 2018, the Group's selling and distribution expenses increased by approximately 7.4% to approximately RMB496 million from approximately RMB462 million in the first half of 2017. Such increase was primarily due to increase in leasing charges, wages and depreciation as a result of an increase in number of dealership stores.

Administrative expenses

For the six months ended 30 June 2018, the Group's administrative expenses amounted to approximately RMB753 million, representing a an increase of approximately 91.6% over approximately RMB393 million in the first half of 2017. Such increase was primarily due to an exchange loss incurred from the depreciation of Renminbi during the period under review.

Profit from operations

For the six months ended 30 June 2018, the Group's profit from operations increased by approximately 38.9% to approximately RMB1,526 million from approximately RMB1,099 million in the first half of 2017, and the operating profit margin was approximately 8.1%, representing an increase of approximately 1.1 percentage points over approximately 7.0% in the first half in 2017.

Income tax expenses

For the six months ended 30 June 2018, the Group's income tax expenses amounted to approximately RMB354 million and the effective tax rate was approximately 32.8% (first half of 2017: 31.1%).

Profit for the period

For the six months ended 30 June 2018, the Group's profit for the period increased by approximately 38.0% to approximately RMB726 million from approximately RMB526 million in the first half of 2017. During the period, profit margin was increased by approximately 0.5 percentage points to approximately 3.9% from approximately 3.4% in the first half of 2017.

Contingent liabilities

As at 30 June 2018, the Group had no material contingent liabilities or guarantees save as those assets pledged to the bank.

Current assets and current liabilities

As at 30 June 2018, the Group's current assets amounted to approximately RMB23,586 million, representing an increase of approximately RMB1,031 million as compared to the current assets of approximately RMB22,555 million as at 31 December 2017. Such increase was mainly due to increase in receivable in line with growth in 4S dealership and auto finance business.

As at 30 June 2018, the Group's current liabilities amounted to approximately RMB20,833 million, representing a decrease of approximately RMB106 million as compared to the current liabilities of approximately RMB20,939 million as at 31 December 2017, which was basically flat.

Cash flow

As at 30 June 2018, the Group had cash and cash equivalents amounting to approximately RMB2,579 million, representing a decrease of approximately RMB137 million over approximately RMB2,716 million as at 31 December 2017. The Group's transactions and monetary assets were principally conducted in RMB. The Group's primary uses of cash were to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the Group's loans, borrowings and other indebtedness, to fund the Group's working capital and ordinary recurring expenses and to establish new dealership stores or to acquire dealership stores or other businesses. The Group finances its liquidity requirements through a combination of cash flows generated from the operating activities, bank loans and other financings. For the six months ended 30 June 2018, the Group had net cash outflow of approximately RMB1,087 million used for its operating activities (six months ended 30 June 2017: net cash inflow of approximately RMB169 million) which was primarily due to the expansion of auto finance business for offering more retail loans with self-owned cash at the Group.

Capital expenditure and investment

For the six months ended 30 June 2018, the Group's capital expenditure and investment were approximately RMB952 million.

Inventory

The Group's inventories included vehicles and automobile spare parts. In general, each of the Group's dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group utilizes its information technology systems to manage its inventory, and also monitors the inventories within its whole dealership network and may transfer automobiles from one dealership store to another to rebalance inventory levels. The inventories of the Group was approximately RMB4,021 million as at 30 June 2018, decreased by approximately RMB63 million when compared with RMB4,084 million as at 31 December 2017. Such change was due to reduction of capital in the inventories of new automobiles by the Group based upon market situation. The Group's average inventory turnover days for the first half of 2018 increased by 3.8 days to 44.4 days from 40.6 days for the first half of 2017. The following table sets forth our average inventory turnover days for the six-months indicated:

	For the six months ended 30 June (day)	
	2018	2017
Average inventory turnover days	**44.4**	40.6

Risks of foreign exchange fluctuation

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. However, the Group's operating cash flow and liquidity has not been subject to significant influence from fluctuations in exchange rate. The Group used cross currency swap to hedge its US-dollar future borrowings. As at 30 June 2018, a financial liability of RMB85 million measured at fair value was recognised by the Group on the cross currency swap, and other financial assets of RMB54 million (excluding an investment in trust products) measured at fair value was recognised (31 December 2017: a financial liability of RMB134 million).

Liquidity and capital resources

Working capital and capital expenditures of the Group were primarily funded through cash generated from internal operation and borrowings provided by principal banks. As at 30 June 2018, the Group's cash and bank deposits were approximately RMB5,736 million (including: pledged bank deposits and balances with central bank of approximately RMB2,473 million, time deposits of RMB684 million and cash and cash equivalents of approximately RMB2,579 million), representing a decrease of approximately RMB1,503 million, from approximately RMB7,239 million as at 31 December 2017. As at 30 June 2018, loans and borrowings, obligations under finance leases, and bonds payable of the Group amounted to approximately RMB20,074 million (31 December 2017: RMB17,824 million). Save as loans and borrowings, obligations under finance leases, and bonds payable of approximately RMB11,128 million that bore interest at fixed rates, other loans and borrowings bore interest at floating rates. As at 30 June 2018, net gearing ratio of the Group was approximately 119.2% (31 December 2017: approximately 102.2%). Net gearing ratio was calculated as loans and borrowings, obligations under finance leases, and bonds payable less cash and bank deposits divided by total equity. The increase in the ratio was mainly attributable to the growth in the scale of the Group's auto finance business.

Pledged assets of the Group

The Group has pledged its group assets as the security for loans and borrowings as well as bank financings to be used as working capital for daily operations. As at 30 June 2018, the pledged assets of the Group amounted to approximately RMB4,012 million (31 December 2017: approximately RMB5,926 million).

Material acquisition and disposal of subsidiaries and associated companies

As disclosed in 2017 annual report, on 23 December 2017, the Group entered into an agreement on strategic operation management cooperation scheme ("**SOMCS**") with independent third parties, which was effective from 1 January 2018 for 10 years. The Group has obtained the right to engage in the 4S business of 10 BMW/Mini brands stores during the 10 years' period. Such SOMCS constitutes a business combination. For further information, please refer to the Company's announcement dated 23 December 2017.

Investments held in foreign currency and hedging

For the six months ended 30 June 2018, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had a total of 11,234 employees in China (31 December 2017: 10,342 employees). The staff costs incurred for the six months ended 30 June 2018 was approximately RMB425 million (for the six months ended 30 June 2017: approximately RMB394 million). The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans. The Group also provided good working environment and diversified training program. The Company has adopted share option schemes for granting options to eligible employees as incentives or rewards for the 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 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.

PROPOSED INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK$0.10 per Share ("**Interim Dividend**") for the six months ended 30 June 2018 payable to the equity shareholders of the Company whose names are listed in the register of members of the Company on Friday, 21 September 2018. The Interim Dividend will be paid in cash to the Shareholders on or around Friday, 19 October 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 19 September 2018 to Friday, 21 September 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the Interim Dividend, 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 Tuesday, 18 September 2018.

REVIEW OF INTERIM RESULTS

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

The Audit Committee has reviewed the unaudited consolidated interim financial statements for six months ended 30 June 2018. KPMG, the Group's external auditor, has carried out a review of the unaudited consolidated interim financial statements for the six months ended 30 June 2018 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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

Purchase of Own Shares

A total of 37,397,000 Shares (those repurchased by the Company during the period at prices ranging from HK$5.81 to HK$6.50 per Share) were settled and cancelled by the Company during the period. The aggregate amount paid by the Company for such repurchase cancelled on 23 May 2018 was approximately HK$229 million.

The Shares repurchased were cancelled and accordingly the issued share capital of the Company was reduced. The repurchase of the Company's Shares during the period were effected by the Directors pursuant to the mandate granted by Shareholders at the previous annual general meeting of the Company, with a view to benefiting Shareholders as a whole by enhancing the net asset value per Share and earnings per Share of the Company.

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 six months ended 30 June 2018.

PLACEMENT OF NEW SHARES AND USE OF PROCEEDS

Based on the placing agreement dated 15 December 2017, the Company completed the placing of 50,000,000 new Shares on 28 December 2017, which represent approximately 2.21% of 2,265,539,420 the issued Shares of the Company immediately after the completion as enlarged by the issue of the placing Shares, at the placing price of HK$7.60 per placing Share. For details of this placing, please refer to the announcements dated 15 December 2017 and 28 December 2017. The net proceeds from the placing were approximately HK$377 million, which the Company totally dedicated to the development of our fin-tech platform. For the year ended 31 December 2017, no net proceeds from the placing were utilized. For the six months ended 30 June 2018, around HK$100 million has been utilized as planned, and the remaining funds will be fully utilized on or before 31 December 2019 in accordance with the intended use.

Based on the placing agreement dated 11 January 2018, the Company completed the placing of 226,000,000 new Shares on 19 January 2018, which represent approximately 9.07% of the 2,491,539,420 issued Shares of the Company immediately after the completion as enlarged by the issue of the placing Shares, at the placing price of HK$7.70 per placing Share. For details of this placing, please refer to the announcements dated 11 January 2018 and 19 January 2018. The net proceeds from the placing were approximately HK$1,727 million, which the Company totally dedicated to the development of auto finance business. For the six months ended 30 June 2018, the funds has been fully utilized as planned.

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company had complied with the code provisions set out in the CG Code throughout the six months ended 30 June 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code ("**Securities Dealing Code**") regarding securities transactions of the directors with standards no less exacting than that of the Model Code. In response to a specific enquiry by the Company, each of the Directors confirmed that they had complied with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2018.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com) and the interim report for the six months ended 30 June 2018 of the Company containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the above websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the management team and employees 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

25 August 2018

As at the date of this announcement, the Board comprises Mr. WANG Muqing (Chairman), Mr. WANG Kunpeng, Mr. KOH Tee Choong, 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. WANG Tan Tan as independent non-executive Directors.