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China ZhengTong Auto Services Holdings Limited
中國正通汽車服務控股有限公司
(Incorporated under the laws of the Cayman Islands with limited liability)
(Stock Code: 1728)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

The board of directors (the “**Board**”) of China ZhengTong Auto Services Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018 as set out below.

HIGHLIGHTS OF RESULTS

For the six months ended 30 June 2019:

- revenue declined by approximately 7.1% to approximately RMB17,431 million;
- overall gross profit declined by approximately 11.0% to approximately RMB2,051 million, gross profit margin dropped by 0.5 percentage points to 11.8%;
- profit attributable to equity shareholders of the Company declined by approximately 33.8% to approximately RMB471 million;
- proposed an interim dividend of HK\$0.10 per ordinary share.

Financial Services Business

- interest and service income from the financial services business amounted to approximately RMB466 million (from external customers), with a year-on-year increase of 27.7%;
- total assets of Shanghai Dongzheng Automotive Finance Co., Ltd., the Company’s subsidiary, before any elimination for consolidation at group level, increased from RMB9,532 million to RMB11,857 million, with a year-on-year growth rate of 24.4%;

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2019 – unaudited
(Expressed in RMB'000)

	<i>Note</i>	Six months ended 30 June	
		2019	2018 <i>(Note)</i>
Revenue	4	17,430,565	18,767,748
Cost of sales		<u>(15,379,204)</u>	<u>(16,463,682)</u>
Gross profit		2,051,361	2,304,066
Other income	5	386,475	471,227
Selling and distribution expenses		(523,521)	(496,218)
Administrative expenses		<u>(609,246)</u>	<u>(753,083)</u>
Profit from operations		1,305,069	1,525,992
Finance costs	6(a)	(555,489)	(461,029)
Share of profit of a joint venture and an associate		<u>18,028</u>	<u>14,915</u>
Profit before taxation	6	767,608	1,079,878
Income tax	7	<u>(247,961)</u>	<u>(353,903)</u>
Profit for the period		<u>519,647</u>	<u>725,975</u>
Attributable to:			
Equity shareholders of the Company		471,498	710,503
Non-controlling interests		<u>48,149</u>	<u>15,472</u>
Profit for the period		<u>519,647</u>	<u>725,975</u>
Earnings per share			
– Basic (RMB cents)	8	<u>19.2</u>	<u>29.0</u>
– Diluted (RMB cents)	8	<u>19.2</u>	<u>29.0</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

for the six months ended 30 June 2019 – unaudited

(Expressed in RMB'000)

	Six months ended 30 June	
	2019	2018
		<i>(Note)</i>
Profit for the period	519,647	725,975
Other comprehensive income for the period (after tax): Item that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of:		
– financial statements of entities outside of the Mainland China	<u>(954)</u>	<u>(1,962)</u>
Other comprehensive income for the period	<u>(954)</u>	<u>(1,962)</u>
Total comprehensive income for the period	<u>518,693</u>	<u>724,013</u>
Attributable to:		
Equity shareholders of the Company	470,544	708,541
Non-controlling interests	<u>48,149</u>	<u>15,472</u>
Total comprehensive income for the period	<u>518,693</u>	<u>724,013</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 – unaudited

(Expressed in RMB'000)

	<i>Note</i>	At 30 June 2019	At 31 December 2018 (<i>Note</i>)
Non-current assets			
Property, plant and equipment	10	6,364,785	6,324,514
Right-of-use assets	3, 11	3,505,423	–
Lease prepayments		–	1,555,846
Intangible assets		4,271,417	4,366,363
Goodwill		2,006,335	2,006,335
Interest in a joint venture		311,523	293,906
Interest in an associate		15,220	14,809
Receivables from financial services	12	4,204,858	3,880,977
Deferred tax assets		294,246	214,688
Long-term receivables		202,138	191,879
Other financial assets		148,649	410,045
		<u>21,324,594</u>	<u>19,259,362</u>
Current assets			
Inventories	13	3,770,821	3,845,727
Trade and bills receivables	14	1,255,362	1,071,509
Prepayment, deposits and other receivables		10,648,075	9,864,964
Receivables from financial services	12	4,768,904	4,318,729
Other financial assets		150,735	–
Pledged bank deposits and balances with central bank		2,100,810	2,139,017
Time deposits		730,850	788,515
Cash and cash equivalents		3,771,684	2,911,395
		<u>27,197,241</u>	<u>24,939,856</u>
Current liabilities			
Loans and borrowings for financial services		7,575,916	5,779,533
Loans and borrowings for non-financial services		10,651,717	9,390,938
Trade and other payables	15	7,267,763	6,726,648
Obligations under finance leases		–	91,273
Lease liabilities		424,600	–
Income tax payables		1,958,484	1,813,425
Other financial liabilities		159	–
		<u>27,878,639</u>	<u>23,801,817</u>
Net current (liabilities)/assets		<u>(681,398)</u>	<u>1,138,039</u>
Total assets less current liabilities		<u>20,643,196</u>	<u>20,397,401</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
at 30 June 2019 – unaudited
(Expressed in RMB'000)

	At 30 June 2019	At 31 December 2018 <i>(Note)</i>
Non-current liabilities		
Loans and borrowings for financial services	–	378,591
Loans and borrowings for non-financial services	3,160,684	5,405,811
Bonds payable	903,907	903,062
Lease liabilities	1,554,408	–
Deferred tax liabilities	1,041,272	1,052,551
Other financial liabilities	25,821	32,638
Long-term payables	288,548	299,302
	<u>6,974,640</u>	<u>8,071,955</u>
NET ASSETS	<u>13,668,556</u>	<u>12,325,446</u>
Capital and reserves		
Share capital	209,150	209,320
Reserves	12,242,499	11,933,956
Total equity attributable to equity shareholders of the Company	<u>12,451,649</u>	<u>12,143,276</u>
Non-controlling interests	<u>1,216,907</u>	<u>182,170</u>
TOTAL EQUITY	<u>13,668,556</u>	<u>12,325,446</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, 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 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 2018 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.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

(a) Changes in the accounting policies

(i) *Lessee accounting*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

(ii) *Lessor accounting*

The Group leases out a number of motor vehicles as the lessor of finance leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(b) **Transitional impact**

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	6,324,514	(111,748)	6,212,766
Right-of-use assets	–	3,080,659	3,080,659
Lease prepayments	1,555,846	(1,555,846)	–
Deferred tax assets	214,688	49,669	264,357
Total non-current assets	19,259,362	1,462,734	20,722,096
Prepayment, deposit and other receivables	9,864,964	(17,530)	9,847,434
Total current assets	24,939,856	(17,530)	24,922,326
Trade and other payables	6,726,648	(17,530)	6,709,118
Obligations under finance leases	91,273	(91,273)	–
Lease liabilities (current)	–	368,723	368,723
Current liabilities	23,801,817	259,920	24,061,737
Net current assets	1,138,039	(277,450)	860,589
Total assets less current liabilities	20,397,401	1,185,284	21,582,685
Lease liabilities (non-current)	–	1,362,231	1,362,231
Total non-current liabilities	8,071,955	1,362,231	9,434,186
Net assets	12,325,446	(176,947)	12,148,499
Reserves	11,933,956	(176,901)	11,757,055
Total equity attributable to equity shareholders of the Company	12,143,276	(176,901)	11,966,375
Non-controlling interests	182,170	(46)	182,124
Total equity	12,325,446	(176,947)	12,148,499

(c) **Impact on the financial result and cash flows of the Group**

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported profit for the period in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the period.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

4 REVENUE

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of passenger motor vehicles	14,098,689	15,804,887
Provision of after-sales services	2,434,798	2,257,825
Provision of logistics services	267,024	220,652
Sales of lubricant oil	163,597	119,041
Service income from financial services	128,211	130,230
	17,092,319	18,532,635
Revenue from other sources		
Interest income from financial services	338,246	235,113
	17,430,565	18,767,748

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

5 OTHER INCOME

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Service income	365,939	304,054
Interest income from bank deposits	26,827	33,218
Net gain on disposal of property, plant and equipment	18,835	20,475
Realised and unrealised net (loss)/gain on derivative financial instruments	(33,566)	66,115
Government grants	–	38,405
Others	8,440	8,960
	<u>386,475</u>	<u>471,227</u>

6 PROFIT BEFORE TAXATION

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

	<i>Note</i>	Six months ended 30 June	
		2019	2018
		<i>RMB'000</i>	<i>RMB'000</i>
(a) Finance costs:			
Interest on loans and borrowings for non-financial services and bonds payable		501,501	459,256
Interest on lease liabilities		76,595	–
Other finance costs	<i>(i)</i>	22,923	21,702
Less: interest capitalised		(45,530)	(19,929)
		<u>555,489</u>	<u>461,029</u>
(b) Staff costs:			
Salaries, wages and other benefits		419,117	391,680
Contributions to defined contribution retirement plans	<i>(ii)</i>	34,303	32,994
		<u>453,420</u>	<u>424,674</u>

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

(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.

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	(Note) <i>RMB'000</i>
(c) Other items:		
Cost of inventories	14,768,660	16,245,970
Cost of interests*	250,773	158,308
Depreciation		
– Owned property, plant and equipment	196,350	164,014
– Right-of-use assets	183,200	–
Amortisation		
– Lease prepayments	–	13,480
– Intangible assets	97,255	96,882
Operating lease charges	33,631	214,324
Allowance for impairment losses of receivables from financial services	42,512	37,443
Net foreign exchange loss	309	183,921

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

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, 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	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax:		
Provision for PRC income tax for the period	289,129	392,981
Deferred tax:		
Origination of temporary differences	(41,168)	(39,078)
	247,961	353,903

- (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

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the profit attributable to equity shareholders of the Company for the six months of RMB471,498,000 (30 June 2018: RMB710,503,000) and the weighted average number of ordinary shares of 2,452,220,420 (30 June 2018: 2,452,220,728) in issue during the period.

There were no dilutive potential ordinary shares for the six months ended 30 June 2019 and, therefore, diluted earnings per share are equivalent to basic earnings per share.

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, and after-sales 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.

For the six months ended	4S dealership business		Supply chain business		Financial services business		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers	16,533,487	18,062,712	430,621	339,693	466,457	365,343	17,430,565	18,767,748
Inter-segment revenue	-	-	-	-	153,264	176,340	153,264	176,340
Reportable segment revenue	16,533,487	18,062,712	430,621	339,693	619,721	541,683	17,583,829	18,944,088
Reportable segment profit	701,369	1,006,198	41,861	59,246	276,200	276,401	1,019,430	1,341,845
Depreciation and amortisation for the period	441,899	248,506	17,552	8,544	17,354	17,326	476,805	274,376
Reportable segment assets at 30 June 2019/ 31 December 2018	24,476,917	22,066,386	598,870	584,454	12,678,828	9,714,107	37,754,615	32,364,947
Additions to non-current segment assets during the period	995,025	1,657,019	152,021	95,233	2,984	65,790	1,150,030	1,818,042
Reportable segment liabilities as at 30 June 2019/ 31 December 2018	(21,086,352)	(17,985,325)	(240,022)	(169,359)	(7,983,033)	(6,522,289)	(29,309,407)	(24,676,973)
Investment in a joint venture and an associate as at 30 June 2019/31 December 2018	-	-	311,523	293,906	15,220	14,809	326,743	308,715

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

(b) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment profit	1,019,430	1,341,845
Elimination of inter-segment profits	(79,661)	(87,844)
Unallocated head office expenses	(3,147)	(184,321)
Other income	386,475	471,227
Finance costs	(555,489)	(461,029)
Consolidated profit before taxation	767,608	1,079,878

(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 2019 RMB'000	At 31 December 2018 RMB'000
Assets:		
Reportable segment assets	37,754,615	32,364,947
Intangible assets	4,271,417	4,366,363
Goodwill	2,006,335	2,006,335
Deferred tax assets	294,246	214,688
Unallocated head office assets	6,127,021	5,938,842
Elimination of inter-segment receivables	(1,931,799)	(691,957)
	<u>48,521,835</u>	<u>44,199,218</u>
Liabilities:		
Reportable segment liabilities	(29,309,407)	(24,676,973)
Income tax payables	(1,958,484)	(1,813,425)
Deferred tax liabilities	(1,041,272)	(1,052,551)
Unallocated head office liabilities	(4,475,915)	(5,022,780)
Elimination of inter-segment payables	1,931,799	691,957
	<u>(34,853,279)</u>	<u>(31,873,772)</u>
Consolidated total assets		
Consolidated total liabilities		

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property, plant and equipment with original costs of RMB 428,009,000 in aggregate (six months ended 30 June 2018: RMB 760,953,000). Items of property, plant and equipment with a net book value of RMB268,928,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB201,212,000), resulting in net gain on disposal of RMB18,835,000 (six months ended 30 June 2018: RMB20,475,000).

11 RIGHT-OF-USE ASSETS

As discussed in note 3, on 1 January 2019 the Group has initially applied HKFRS 16 using the modified retrospective method and recognised right-of-use assets from the commencement of lease period, for certain leases which were previously classified as operating leases under HKAS 17. In addition, finance leased assets carried at depreciated cost which were previously included in property, plant and equipment, and lease prepayments carried at amortised cost are also reclassified as right-of-use assets.

During the six months ended 30 June 2019, the Group acquired land use rights and entered into a number of lease agreements for use of buildings, and therefore recognised the additions to right-of-use assets of RMB719,712,000.

12 RECEIVABLES FROM FINANCIAL SERVICES

	At 30 June 2019 <i>RMB'000</i>	At 31 December 2018 <i>RMB'000</i>
Current		
Receivable from retail customers	4,412,780	4,204,798
Receivable from auto dealers	461,833	209,329
Less: allowance for impairment losses	(105,709)	(95,398)
	<u>4,768,904</u>	<u>4,318,729</u>
Non-Current		
Receivable from retail customers	4,252,407	3,927,899
Less: allowance for impairment losses	(47,549)	(46,922)
	<u>4,204,858</u>	<u>3,880,977</u>
Net receivables from financial services	<u>8,973,762</u>	<u>8,199,706</u>

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.

13 INVENTORIES

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

	At 30 June 2019 <i>RMB'000</i>	At 31 December 2018 <i>RMB'000</i>
Motor vehicles	3,438,627	3,508,903
Motor spare parts	294,742	301,767
Others	37,452	35,057
	<u>3,770,821</u>	<u>3,845,727</u>

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

	Six months ended 30 June	
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Carrying amount of inventories sold	14,760,459	16,246,812
Write down of inventories	8,939	5,070
Reversal of write-down of inventories	(738)	(5,912)
	<u>14,768,660</u>	<u>16,245,970</u>

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

14 TRADE AND BILLS RECEIVABLES

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

	At 30 June 2019 <i>RMB'000</i>	At 31 December 2018 <i>RMB'000</i>
Within 3 months	1,237,629	1,025,394
Over 3 months but within 1 year	13,186	39,460
Over 1 year	4,547	6,655
	<u>1,255,362</u>	<u>1,071,509</u>
Trade receivables	1,254,712	1,070,104
Bills receivables	650	1,405
	<u>1,255,362</u>	<u>1,071,509</u>

All of the trade and bills receivables are expected to be recovered within one year. Management has a credit policy in place and the exposure to these credit risk are monitored on an ongoing basis.

Credit risk in respect of trade and bills receivables is limited since credit sales to individuals are offered in rare cases subject to management's approval. The counterparties are mainly banks and financial institutions that will release mortgage loans to the Group. The Group considers such counterparties to have low credit risk.

15 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 2019 <i>RMB'000</i>	At 31 December 2018 <i>RMB'000</i>
Within 3 months	4,690,479	4,267,235
Over 3 months but within 6 months	220,451	327,398
Over 6 months but within 12 months	2,895	3,867
	<u>4,913,825</u>	4,598,500
Total creditors and bills payable	4,913,825	4,598,500
Contract liabilities	826,472	569,331
Other payables and accruals	1,527,466	1,532,777
	<u>7,267,763</u>	6,700,608
Payables due to third parties	7,267,763	6,700,608
Payables due to related parties	–	26,040
	<u>7,267,763</u>	<u>6,726,648</u>
Trade and other payables	7,267,763	6,726,648

16 DIVIDENDS

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

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend proposed after the interim period of HK\$0.10 per ordinary share (six months ended 30 June 2018: HK\$0.10)	220,930	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	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
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 2018: HK\$0.14 per ordinary share)	300,787	283,413

17 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019. 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 2019, based on comparable prices, China's gross domestic production (GDP) grew by 6.3% year-on-year, indicating a continuous growth within a reasonable interval and an overall development trend of stability and growth of China's economy. However, under the complicated and challenging domestic and foreign economic environments and increasing external instable and uncertain factors, the global economic growth has slowed down and the issues of imbalance and insufficiency in the development of the PRC stood out. Downward pressure on the economy has affected the market demand for automobile consumption geographically and structurally.

According to information released by the China Association of Automobile Manufacturers, affected by the sluggish macroeconomic growth, sales of passenger automobiles in China decreased by 14.0% year-on-year, to 10,127,000 units in the first half of 2019. The overall sales of automobiles remained low. Nonetheless, driven by the automobile replacement and consumption upgrades in China, the sales of luxury-branded automobiles remained its rapid growth. In the first half of 2019, the sales of luxury-branded automobiles reached 1,440,000 units, representing a year-on-year growth of 9.0%. As a core dealer of various luxury brands in China, China ZhengTong Auto Services Holdings Limited (the “**Company**” and its subsidiaries, collectively, the “**Group**”) continues to collaborate closely with respective automobile manufacturers. According to pre-determined development strategies and targets, the Group continuously strives to identify industry dynamics and maximize service opportunities fostered by changing trend of consumer habit in the market. Through providing diversified products, transparent sales and after-sales service procedures and competitive prices, the Group offered continuous, constant and quality customer experiences. The Group fully utilized its advantages in financing and supply chains to strengthen its core competitiveness and optimized its business scope covering the entire life cycle of passenger automobile so as to bring synergies among different business segments into full play. Meanwhile, the Group leveraged on its diversified brand portfolios, efficient and optimal sales network and well-rounded sales and services platform and adopted a new management model of sophisticated management philosophy to further enhance customers' service experience.

The number of registered passenger vehicles continues to increase every year. Automobile users have become more mature, supporting the development of a more professional and branded automobile market. The auto service industry will focus more on high quality, personalized and integrated services. The Group will further expand its business presence based on the existing business network and streamline its management to explore the business potentials of existing outlets 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. Looking forward, China's automobile consumption market will become increasingly sophisticated. There will be tremendous business opportunities and more keen competitions in the automobile consumption environment. Consumers' demand for more professional services will further increase. The Group will continue to explore customer base and consolidate its competitive strengths. The Group will also provide quality, convenient and comprehensive automobile-related services to customers and create greater value for the shareholders of the Company (“**Shareholders**”) and employees of the Group as well as the society.

The Group's good performance in the first half of 2019 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 2019.

BUSINESS REVIEW

In the first half of 2019, the Group was committed to developing luxury and ultra-luxury branded auto sales and after-sales services. We strived to develop innovative business and optimize service procedure through streamlined management, resulting in higher customer service quality and efficiency and lower operation and management costs. By leveraging on its distinctive advantages in diversified businesses such as finance, financial leasing, insurance agency and supply chain as well as the operational management information system, the Group has actively expanded its automotive aftermarket and extended business based on its market-oriented and customer-centric strategy. At the same time, it endeavored to explore new business models, expand its network coverage and enhance its competitiveness. For the six months ended 30 June 2019, the Group recorded a revenue of approximately RMB17,431 million, representing a year-on-year decline of approximately 7.1%, and gross profit of approximately RMB2,051 million, representing a year-on-year decline of approximately 11.0% mainly due to weaker new car sales. Profit attributable to equity shareholders of the Company was approximately RMB471 million with basic earnings per share of the Company of approximately RMB19.2 cents, both representing a year-on-year decline of approximately 33.8%.

(I) Sales of new automobiles business

In the first half of 2019, the passenger vehicle market in the PRC showed a year-on-year downward trend. Though the decline constantly narrowed down, the market was still facing greater downward pressure. Benefiting from the restructuring of automobile market and continuous consumption upgrade, the sales of luxury-branded automobiles maintained its rapid growth. Under our prudent brand and network development strategy, we expanded our distribution network for luxury and ultra-luxury brands to increase the proportion of brands with higher profitability. The Group managed to maintain a good balance between "quantity" and "quality" in business growth under fierce market competition. During the first half of the year, the automobile manufacturers of major luxury brands under the Group's dealership launched more affordable new models in response to the market needs, which included new products or replaced automobile products of their major series, to enrich their product portfolios, for example, the launch of BMW X5 and X7, Benz A-Class and S-Class, Jaguar and Land Rover's Range Rover, Porsche Cayenne and other new series of luxury brands.

For the six months ended 30 June 2019, the sales of new automobiles reached 52,060 units, representing a year-on-year decline of approximately 5.6%, including 40,869 units of luxury-branded and ultra-luxury-branded automobiles with a year-on-year decrease of approximately 3.8%. For the first half of 2019, the Group's gross profit margin from the sales of new automobiles reached 4.7%, representing a year-on-year drop of 1.6 percentage points as compared to the same period of last year.

The Group is highly conscious of environmental protection and energy conservation. With focus on new energy automobiles, we strengthened the promotion and sales of new energy automobiles of our licensed brands, enhancing the sales proportion of new energy automobiles. We kept track on the new development trend of automobiles manufacturing and commenced multi-directional cooperation with new brands such as Leapmotor in various ways. To better respond to the market, the Group conducted in-depth research on the vehicle market and changes in customers' needs and actively explored new model of automobile retailing. By adopting more flexible sales strategy, we timely adjusted the sales strategy of vehicles in respond to the changing customers' needs. We reformed the collection of internet leads of potential customers, and carried out marketing and promotion based on market focus in an attempt to acquire more potential customers. By offering more attractive sales service and product mix, the conversion rate of the customers' orders increased.

The Group was committed to utilizing advanced technology. By further developing and applying informationized and intelligent management platform (cloud platform/OMS2.1), we established a data-centric alert mechanism to carry out multi-dimensional analysis, monitor operation of stores and follow up problems discovered in the course of operation on a real-time basis. With the intelligent data management system, we were able to adjust the sales progress by controlling the manufacturing quotas and available-for-sales resources in advance, and monitor the changes in inventory vehicles timely. We analyzed and adjusted the inventory structure so to ensure the reasonable scale and structure of the inventory of new vehicles. As such, utilization of funds on inventories was refined, utilization efficiency of working capital was improved and inventory cost was reduced effectively. We also made use of the internet technology to establish a more scientific and efficient operation management system in order to obtain more accurate and visible data based on facts in a timely manner. The Group continued to streamline the processes, improved the relevance and timeliness of its decision-making and accelerated the response to customers' needs. The overall operation management quality of the Group was further enhanced.

(II) After-sales services business

In the first half of 2019, after-sales services business of the Group (including repair and maintenance services and automobile augmented products and services) achieved sound and rapid growth. The Group served 705,610 units of automobiles in aggregate, representing an increase of approximately 14.1% compared to the same period last year. Revenue of after-sales services of the Group amounted to approximately RMB2,435 million with an increase of 7.8% as compared to the same period of last year, and the gross profit was approximately RMB1,127 million with gross profit margin of approximately 46.3%.

With the outburst of automotive after-sales market, automobile users have become more mature, supporting the development of a more professional and branded automotive after-sales market. The after-sales service business of the Group focused on addressing customers' needs. The Group continued to improve its customer information management and implemented classified customer management. Throughout the car ownership cycle, the Group offered more customised services and streamlined the business procedures in order to enhance the satisfaction of customers. The Group endeavoured to satisfy the personal, exquisite and differentiated needs of customers and improve their experience and loyalty, which stimulated the growth of after-sales service and profitability. In addition, the Group explored new business model and sources of revenue, expanded service and product portfolios and refined the classification of products and services, so as to fulfil different customer's needs. In the first half of 2019, sales guidelines for frontline staff were issued and service contracts for after-sales services were secured to further improve the customer retention rate. Through the advancement and upgrade of management system, the efficiency and effectiveness of business processes were enhanced and customer experience has become the sole criterion for the evaluation of procedures, model, management and control. Throughout the life cycle of customers, we continued to explore the potential demand, further refine the governance structure, and develop standardized services and products based on the characteristics of customers to ensure the rapid growth of after-sales services in a right direction.

(III) Operation system of pre-owned automobiles

According to China Automobile Dealers Association, a total of 6,862,000 units of pre-owned automobiles were traded in the first half of 2019, representing a year-on-year increase of 3.9%. The growth of pre-owned automobile market slowed down and the industry has entered a new adjustment cycle. As one of the Group's important strategic business segments, we have attached great importance to the sound and rapid development of the pre-owned automobile business. While closely tracking the trend of customer needs in the pre-owned automobile market, we also integrated internal resources to enrich and modify the offerings of our pre-owned automobile services. Diversified and comprehensive services including automobile evaluation, retail, insurance agency, extended warranty and financial mortgage were provided and customer experience was improved. With the launch of online platform, "Zhengtong Auction", and advanced information platform and management system, we proactively studied the business model suitable for authorized dealers and the business of used cars of the Group significantly grew in terms of quantity and quality.

(IV) Auto finance technology segment

Shanghai Dongzheng Automotive Finance Co., Ltd. (“Dongzheng AFC”), a subsidiary of the Company, was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) on 3 April 2019 and received net proceeds from the global offering of approximately HK\$1,529 million (equivalent to RMB1,309 million). Dongzheng AFC is a company established in March 2015 with the approval of the China Banking and Insurance Regulatory Commission (the “CBIRC”) and is the only auto finance company regulated by the CBIRC with a dealership background. Dongzheng AFC is the only listed auto finance company among 25 auto finance companies in China. Dongzheng AFC positions itself as a specialized financial enterprise with an international vision focusing on luxury-brand cars and providing after-sales services in the automobile market in China.

In the first half of 2019, interest and service income from the financial services business amounted to approximately RMB466 million (from external customers), with a year-on-year increase of 27.7%. Reportable profit of such segment amounted to approximately RMB276 million, flat with the same period of last year. Reportable assets amounted to RMB12,679 million, representing an increase of 30.5% by comparing with that at 31 December 2018. In the first half of 2019, Dongzheng AFC’s loans and advances to customers increased from RMB8,426 million to RMB9,969 million, with a growth rate of 18.3%, before any elimination for consolidation at group level. In the first half of 2019, the non-performing loans ratio, provision for impairment losses ratio and provision coverage ratio of Dongzheng AFC was 0.33%, 1.57% and 471.01%, respectively.

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

- Dongzheng AFC holding an auto financial license granted by the CBIRC is the only auto finance company with a dealership background in China;
- Shenzhen Zhengyuan Automobile Technology Co., Ltd. (“Zhengyuan Technology”) specializing in big-data risk control and ABS cloud finance technology;
- 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. Under the guidance of enhanced regulatory policies, the market environment has been further purified, and the licensed financial institutions benefited from the standardization of operation. 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 operation from the regulators.

Covering National Offline Auto Finance Channels by Licensed Financial Institution

Dongzheng AFC obtained the financial business permit from the CBIRC and commenced its operation in 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, as a result, its registered capital increased from RMB0.5 billion to RMB1.6 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.

Dongzheng AFC has established a dealer network with a broad geographical coverage in China. The number of dealers within the sales network grew from 1,280 as of 31 December 2018 to 1,373 as of 30 June 2019. Capitalizing on the advantages of 4S automobile distribution channels of the Group and the brand advantages of automobiles of Dongfeng Motor, Dongzheng AFC has proactively expanded its business to cover over 200 mid- to high-end 4S stores in over 300 cities and cooperated with over 1,200 dealers. The distribution channels of Dongzheng AFC mainly focus on mid- to high-end brands and target customer base with high consumption power. Leveraging on the network advantages and reasonable marketing strategies, Dongzheng AFC provides consumers with satisfactory customers’ experiences and services.

Product Design

Adhering to its customer-oriented strategy, Dongzheng AFC provides short-term, medium-term and medium- to long-term products and formulates a wide range of flexible repayment methods based on demands of its customers, competition in the market and other market factors. Dongzheng AFC also effectively manages the life cycle of its products. The financial products of Dongzheng AFC cover the following businesses: (i) retail loan business, whereby Dongzheng AFC offers retail loan and other financing services to end customers for their purchase of cars; (ii) dealer loan business, whereby Dongzheng AFC provides inventory financing services to dealers to facilitate their purchase of cars to be sold to their end customers. The dealer loan business helps Dongzheng AFC gain a better understanding of dealers’ needs and strengthens relationships with them; and (iii) direct leasing business, whereby Dongzheng AFC has effectively explored and carried out direct leasing business to provide direct leasing products and services to major customers and corporate customers so as to fulfill their needs of business development, tax settlement and optimization of their asset structures.

Risk Control

In respect of risk control, by combining the Credit Reference Center of the People's 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, on 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 ensures the high speed transfer of auto financial assets that were 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.

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 Dongzheng AFC. 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. Currently, various trusts of the financial institutions have been integrated while account consolidation is in process.

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 implements performance insurance with real-time full coverage for each loan business, and has effectively reduced the risk of capital loss, in addition to laying a foundation for subsequent assets transfer.

After Zhengyuan Technology has accomplished its assets and capital accumulation, it will empower other subsidiaries 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 Asset Exchange is also a 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 inclusive 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 recognised by the market dealer groups and 4S stores, and has achieved a great performance.

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 division and assessment of management have been enhanced. Therefore, management efficiency has been released, and insurance benefits are reflected.

(V) Supply chain business

The Group's automobile supply chain business segment mainly consists of automobile logistics business and trading of lubricant oil, which is the growth driver of the Group in addition to automobile sales business.

In 2019, Shengze Jietong Supply Chain Co., Ltd. ("**Shengze Jietong**") continued to strengthen the cooperation with FAW and Dongfeng Group and its business operation remained stable in the first half of the year. Taking advantages of automobiles production base, front warehouse model and logistics planning of FAW, the transportation business from FAW has been further expanded resulting from the cost advantage of logistics network convention service. Shengze Jietong built a comprehensive transportation network comprising road, railway and water transportation in respect of Dongfeng Nissan. The water transportation from Guangzhou to Tianjin and Yantai was also commenced. In 2019, based on the proposal of improvement of cost efficiency of logistics business, the trial operation of railway containers transportation was recognised by customers of Dongfeng Nissan, and the market share of railway transportation business has been expanded. In addition, the businesses of new energy automobiles, pre-owned automobiles, group transfer automobiles and imported automobiles have been developed.

As announced previously, in 2019, Shengze Jietong invested and constructed a comprehensive transportation and logistics base in Hannan Port, Wuhan. The construction of the base had obtained the land use permit and will commence in November and is expected to complete and put into operation by the end of 2020. The project will consist of four dock berths, a 6-storey vehicle warehouse, an automated spare parts warehouse and two spare parts mechanized warehouses, office and living facilities. It will increase its investments in logistics facilities, which will further increase its core competitiveness and cost advantages, and get well-prepared for the expansion of the integrated logistics business of terminal operations, warehousing, PDI and transportation.

During the reporting period in 2019, the Company strengthened its operation and management, standardised its operation processes, refined its safety management system and effectively shortened the delivery time and enhanced delivery quality of commercial automobiles so as to strengthen its management. During the period, the Company introduced a strategic investor, Waterwood Santong Investment, L.P.. The proceeds were planned to be used for the construction of intelligent logistics platform, recruitment of talents and purchase of automated logistics equipment. In the second half of 2019, the Company will implement logistics planning consultancy and intelligent logistics information system in order to improve the informatisation and automation of the Company. In 2019, the management has continued to focus on its development strategies and recruited talents to strengthen its management team and streamlined its resources to secure a growth of its revenue and consolidate its competitiveness. In the future, the Company will refine its business segments and accelerate the expansion of its business through investment, merger and acquisition of quality companies in the industry.

In respect of sales of lubricant oil business, in the first half of 2019, the revenue from sales was RMB164 million, representing an increase of 37.8% as compared to the corresponding period of last year. In the second half of the year, the Company will strive to maintain its high business growth under the uncertainties of the market.

(VI) Network development

Balanced and reasonable deployment of the nationwide dealership network for luxury brands complemented by ongoing optimization of 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, including Porsche, Benz, BMW, Audi, Jaguar and Land Rover, Volvo, Cadillac and Infiniti. The Group also operates dealership stores of mid-end market brands, including FAW-Volkswagen, Buick, Nissan, Toyota, Honda and Hyundai.

As at 30 June 2019, the Group operated 141 dealership stores in 41 cities across 17 provinces and municipalities in China. In the first half of 2019, the Group opened a Benz 4S store in Kunming, Yunnan.

As at the date of this report, there are 13 dealership stores under development or to be developed, which are franchised by core luxury automobile brands, including Porsche, Benz, Audi, BMW, Jaguar and Land Rover as well as Volvo and Leapmotor, the new energy automobile brand. Authorized dealership stores to be opened can enhance our competitive advantages in traditional provinces and regions, including Guangdong, Hubei, Hunan and Sichuan, as well as regions with potential for rapid development, such as Chongqing, Jiangsu and Liaoning. The expansion in geographical coverage will further enhance the Group's advantages in terms of scale and channels. In addition, in response to the development trend of the automobile market, the Group actively participated in new energy automobile projects in order to explore new growth drivers.

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

	Dealership stores in operation	Authorized dealership stores to be opened	Total
5S/4S store for luxury and ultra-luxury brands	101	10	111
4S store for mid- to high-end and new energy brands	14	1	15
Urban showroom for luxury and new energy brands	18	1	19
Authorized repair service centre for luxury brands	7	1	8
Pre-owned automobile centre	1	0	1
	<hr/>	<hr/>	<hr/>
Total	<u>141</u>	<u>13</u>	<u>154</u>

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 strategic merger and acquisition opportunities and innovative strategic operation cooperation scheme to rapidly enlarge its business scale and enhance its profitability.

(VII) Innovation of management and improvement of operational quality

In the first half of 2019, the Group accelerated its transformation and upgrading of automobile dealership management. We developed and utilized information technology in corporate operation and management and refined our management. The Group improved its management through innovative ideas and measures to streamline the business processes for enhancing the Group's core competitiveness.

Establishment of smart 4S stores

The Group has enhanced customer experiences with the aid of internet and information technology. To this end, the Group cooperated with Tencent Technology. The Group independently developed a new generation of Cloud Platform (雲平台) operation management intermediary system enabled by Tencent Industry, integrating data analysis, customer service, product deployment, and business management through technological means. By linking information islands and building up communication channels between front line business at stores and back office management, the order, door-to-door delivery and online payment by customers, all through one click, can be realized. The scope of business and service have been expanded and the customer experience has been greatly enhanced.

Integration of marketing activities

The Group integrated marketing activities of dealership stores of our brands in the first half of 2019 and established a data bank for customer communication to proactively capture the market development trend and customer's demands. The real-time assessment on the effectiveness of marketing activities has contributed to the modification of the marketing activities. The facilities effectively lowered the cost of customer acquisition and could collect more sales information, which significantly enhanced the quality of sales information.

Classification management of stores

In the first half of 2019, the Group continued to optimise the operation assessment system of stores so as to conduct a scientific analysis and assessment of all key operation figures. The results can allow the managers to manage their stores at different levels, and further expand the authority of outstanding stores in performance management, resources allocation and decision-making so as to stimulate the initiative and motivation of the stores and enhance customers' satisfaction by offering better services.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, the Group recorded a revenue of approximately RMB17,431 million, representing a decline of approximately 7.1% as compared to the revenue of approximately RMB18,768 million in the first half of 2018. The decline was mainly due to a decline in sales of new automobiles in the period under review.

Revenue of the Group was derived from the sales of new automobiles, after-sales services, financial services and other businesses. In the first half of 2019, revenue from the sales of new automobiles amounted to approximately RMB14,099 million, representing a decline of approximately 10.8% as compared to approximately RMB15,805 million in the first half of 2018, and accounted for approximately 80.9% and 84.2% of the total revenue in the first half of 2019 and 2018, respectively. The revenue from sales of luxury and ultra-luxury branded automobiles declined by approximately 10.5% to RMB12,766 million from approximately RMB14,258 million in the first half of 2018, accounting for 90.5% and 90.2% of revenue from the sales of new automobiles for the first half of 2019 and 2018, respectively.

Revenue from the after-sales services business was approximately RMB2,435 million, representing a growth of approximately 7.8% as compared to approximately RMB2,258 million in the first half of 2018. In the first half of 2019, revenue from the after-sales services business accounted for approximately 14.0% of our total revenue, representing an increase of approximately 2.0 percentage points as compared to the same period of last year.

Cost of sales

For the six months ended 30 June 2019, the Group's cost of sales declined by approximately 6.6% to approximately RMB15,379 million as compared to approximately RMB16,464 million in the first half of 2018. In the first half of 2019, the cost of sales of new automobiles declined by approximately 9.3% to approximately RMB13,439 million from approximately RMB14,812 million in the first half of 2018. Cost of the after-sales services business increased by approximately 8.9% to approximately RMB1,308 million from approximately RMB1,201 million in the first half of 2018.

Gross profit and gross profit margin

For the six months ended 30 June 2019, the Group's gross profit declined by approximately 11.0% to RMB2,051 million from approximately RMB2,304 million in the first half of 2018, and the Group's gross profit margin dropped by approximately 0.5 percentage point to approximately 11.8% from 12.3% in the first half of 2018.

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 2019, gross profit of sales of new automobiles declined by approximately 33.5% to approximately RMB660 million from approximately RMB992 million in the first half of 2018; gross profit margin of sales of new automobiles dropped to 4.7% as compared to the first half of 2018. Gross profit of sales of luxury and ultra-luxury branded automobiles declined by approximately 32.4% as compared to the same period of last year to approximately RMB660 million, and gross profit margin of sales of luxury and ultra – luxury branded automobiles dropped to 5.2% from 6.8% in the first half of 2018. In the first half of 2019, gross profit of our after-sales services business was approximately RMB1,127 million, representing an increase of approximately 6.6% as compared to the same period of last year, and gross profit margin of after-sales services business decreased by approximately 0.5 percentage point to approximately 46.3% from approximately 46.8% in the first half of 2018.

Selling and distribution expenses

For the six months ended 30 June 2019, the Group's selling and distribution expenses increased by approximately 5.6% to approximately RMB524 million from approximately RMB496 million in the first half of 2018. Such increase was primarily due to the increase in wages and depreciation as a result of an increase in number of dealership stores.

Administrative expenses

For the six months ended 30 June 2019, the Group's administrative expenses amounted to approximately RMB609 million, representing a decline of approximately 19.1% over approximately RMB753 million in the first half of 2018. Such decline was primarily due to the fact that the exchange loss incurred from the depreciation of Renminbi during the period under review was substantially less than that in the same period of last year.

Profit from operations

For the six months ended 30 June 2019, the Group's profit from operations declined by approximately 14.5% to approximately RMB1,305 million from approximately RMB1,526 million in the first half of 2018, and the operating profit margin was approximately 7.5%, representing a decrease of approximately 0.6 percentage point over approximately 8.1% in the first half in 2018.

Income tax expenses

For the six months ended 30 June 2019, the Group's income tax expenses amounted to approximately RMB248 million and the effective tax rate was approximately 32.3% (for the six months ended 30 June 2018: 32.8%).

Profit for the period

For the six months ended 30 June 2019, the Group's profit for the period declined by approximately 28.4% to approximately RMB520 million from approximately RMB726 million in the first half of 2018. During the period, profit margin dropped by approximately 0.9 percentage point to approximately 3.0% from approximately 3.9% in the first half of 2018.

Please refer to the unaudited interim financial report note 3(c) for the impact on financial result of the Group as a result of initial application of HKFRS 16, Leases, from 1 January 2019.

Contingent liabilities

As at 30 June 2019, 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 2019, the Group's current assets amounted to approximately RMB27,197 million, representing an increase of approximately RMB2,257 million as compared to the current assets of approximately RMB24,940 million as at 31 December 2018. Such increase was mainly due to increase in receivable in line with growth in auto finance business and the new funding raised from listing of Dongzheng AFC.

As at 30 June 2019, the Group's current liabilities amounted to approximately RMB27,879 million, representing an increase of approximately RMB4,077 million as compared to the current liabilities of approximately RMB23,802 million as at 31 December 2018, which was mainly due to an increase in loans and borrowings from financial services business.

Cash flow

As at 30 June 2019, the Group had cash and cash equivalents amounting to approximately RMB3,772 million, representing an increase of approximately RMB861 million over approximately RMB2,911 million as at 31 December 2018. The Group's transactions and monetary assets were principally conducted in Renminbi. 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 2019, the Group had net cash inflow of approximately RMB300 million generated from its operating activities (for the six months ended 30 June 2018: net cash outflow of approximately RMB1,087 million), which was primarily due to the expansion of auto finance business for offering more retail loans with self-owned cash at the Group in 2018 but it did not happen in 2019.

Please refer to the unaudited interim financial report note 3(c) for the impact on financial result of the Group as a result of initial application of HKFRS 16, Leases, from 1 January 2019.

Capital expenditure and investment

For the six months ended 30 June 2019, the Group's capital expenditure and investment were approximately RMB714 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 RMB3,771 million as at 30 June 2019, decreased by approximately RMB75 million when compared with RMB3,846 million as at 31 December 2018. Such change was mainly 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 2019 increased by 0.2 days to 44.6 days from 44.4 days for the first half of 2018. The following table sets forth our average inventory turnover days for the six-months indicated:

	For the six months ended	
	30 June (day)	
	2019	2018
Average inventory turnover days	<u>44.6</u>	<u>44.4</u>

Risks of foreign exchange

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 and HK-dollar future loans repayment. As at 30 June 2019, a financial liability of RMB26 million measured at fair

value was recognised by the Group on the cross currency swap, and other financial assets of RMB14 million (excluding wealth management products) measured at fair value was recognised (31 December 2018: a financial liability of RMB33 million measured at fair value was recognised by the Group on the cross current swap, and other financial assets of RMB25 million (excluding wealth management products) measured at fair value was recognised).

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 2019, the Group's cash and bank deposits were approximately RMB6,604 million (including: pledged bank deposits and balances with central bank of approximately RMB2,101 million, time deposits of RMB731 million and cash and cash equivalents of RMB3,772 million), representing an increase of approximately RMB765 million, from approximately RMB5,839 million as at 31 December 2018. As at 30 June 2019, loans and borrowings, lease liabilities (recorded due to the adoption of HKFRS 16 since 1 January 2019), and bonds payable of the Group amounted to approximately RMB24,271 million (31 December 2018: approximately RMB21,949 million for loans and borrowings, obligation under finance leases, and bonds payable). Save as loans and borrowings, lease liabilities, and bonds payable of approximately RMB15,431 million that bore interest at fixed rates, other loans and borrowings bore interest at floating rates. As at 30 June 2019, net gearing ratio of the Group was approximately 129.3% (approximately 114.2% excluding the impact of HKFRS 16) (31 December 2018: approximately 130.7%, not restated for HKFRS 16 impact). Net gearing ratio was calculated as loans and borrowings, lease liabilities, and bonds payable less cash and bank deposits divided by total equity.

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 2019, the pledged assets of the Group amounted to approximately RMB6,549 million (31 December 2018: approximately RMB5,443 million).

Issuance of new shares of a subsidiary

On 3 April 2019, Dongzheng AFC had completed the spin-off and separate listing on the Hong Kong Stock Exchange (the "IPO"), by issuing 533,336,000 new ordinary shares at HK\$3.06 per share, the net proceeds after deducting the issuance costs approximately amounted to HK\$1,511 million (approximately equivalent to RMB1,293 million). On 25 April 2019, Dongzheng AFC partially exercised the over-allotment option at HK\$3.06 per share, the net proceeds after deducting the issuance costs approximately amounted to HK\$18 million (approximately equivalent to RMB16 million).

Upon completion of IPO and exercise of over-allotment option, the Group's equity interest in Dongzheng AFC had been diluted from 95% to 71.04% and the Group retains control over Dongzheng AFC.

Investments held in foreign currency and hedging

For the six months ended 30 June 2019, 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 2019, the Group had a total of 12,053 employees in China (31 December 2018: 12,353 employees). The staff costs incurred for the six months ended 30 June 2019 was approximately RMB453 million (for the six months ended 30 June 2018: approximately RMB425 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.

FUTURE OUTLOOK AND STRATEGIES

In the coming few years, China's macroscopic economy will maintain its moderate growth. Due to the steady growth of household disposable income, the consumption needs of automobile market will vary geographically and structurally. Driven by the consumption upgrades, the sales of luxury-branded automobiles remained its rapid growth. In a mature market, market players seek business growth in quality rather than quantity and consumer needs will change significantly. In a buyer's market, customers have higher demand on the quality and services of automobile products. The demand for professionalism and diversity has pressed dealers to consistently enhance their services and standards. The Group follows the trend of the industry to enrich its services and products from the perspective of customers' needs, expand service channels, in order to provide best consumption experience for customers by the advantages of diversified portfolio of luxury brands, relatively extensively national network, industry-leading platform of automobile financing and advanced network and information technologies. The Group will also adopt innovative management approach to optimize operation efficiency to create higher value for shareholders, staff 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 2019 payable to the equity shareholders of the Company whose names are listed in the register of members of the Company on Friday, 27 September 2019. The Interim Dividend will be paid in cash to the Shareholders on or around Friday, 25 October 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 25 September 2019 to Friday, 27 September 2019 (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, 24 September 2019.

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), Dr. Cao Tong and Ms. Wang Tan Tan.

The Audit Committee has reviewed the unaudited consolidated interim financial statements for six months ended 30 June 2019. KPMG, the Group’s external auditor, has carried out a review of the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2019 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

In November 2018, a total of 1,922,000 Shares (those repurchased by the Company during the period at prices ranging from HK\$4.22 to HK\$4.59 per Share) were settled by the Company during the period. The aggregate amount paid by the Company for such repurchase cancelled on 18 January 2019 was approximately HK\$8.51 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 2019.

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 Fintech platform. For the year ended 31 December 2017, no net proceeds from the placing were utilized. From 1 January 2018 to 30 June 2019, around HK\$180 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. During 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 2019.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a securities dealing code (“**Securities Dealing Code**”) regarding securities transactions of the directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (“**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 2019.

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 2019 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

30 August 2019

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