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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 2022

The board (the "**Board**") of directors (the "**Directors**") 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 2022 together with the comparative figures for the corresponding period in 2021 as set out below.

HIGHLIGHTS OF RESULTS

For the six months ended 30 June 2022:

- revenue increased by approximately 15.2% to approximately RMB11,069 million;
- overall gross profit increased by approximately 2,961.3% to approximately RMB949 million, and gross profit margin increased by 8.3 percentage points to 8.6%;
- profit attributable to equity shareholders of the Company was approximately RMB8 million, as compared to a loss attributable to equity shareholders of the Company of approximately RMB1,455 million for the same period in 2021;
- basic earnings per share was approximately RMB0.3 cents as compared to a basic loss per share of RMB54.0 cents for the same period in 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2022 — unaudited
(Expressed in RMB'000)

		Six months ended 30 June	
	Note	**2022**	2021
Continuing operations			
Revenue	*4*	**11,068,764**	9,612,130
Cost of sales		**(10,119,500)**	(9,580,777)
Gross profit		**949,264**	31,353
Other income		**393,264**	481,826
Selling and distribution expenses		**(542,098)**	(585,652)
Administrative expenses		**(500,141)**	(528,409)
Reversal of/(provision for) impairment losses on intangible assets	*8*	**232,426**	(161,308)
Profit/(loss) from operations		**532,715**	(762,190)
Finance costs	*5(a)*	**(482,527)**	(599,888)
Share of profit of associates		**20,219**	19,435
Profit/(loss) before taxation	*5*	**70,407**	(1,342,643)
Income tax (expenses)/credit	*6*	**(64,732)**	25,304
Profit/(loss) for the period from continuing operations		**5,675**	(1,317,339)
Discontinued operations			
Loss for the period from discontinued operations, net of tax		—	(201,356)
Profit/(loss) for the period		**5,675**	(1,518,695)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the six months ended 30 June 2022 — unaudited (continued)
(Expressed in RMB'000)

		Six months ended 30 June	
	Note	**2022**	2021
Profit/(loss) for the period attributable to:			
Equity shareholders of the Company			
— from continuing operations		**8,150**	(1,312,432)
— from discontinued operations		—	(143,042)
		8,150	(1,455,474)
Non-controlling interests			
— from continuing operations		**(2,475)**	(4,907)
— from discontinued operations		—	(58,314)
		(2,475)	(63,221)
Profit/(loss) for the period		**5,675**	(1,518,695)
Basic and diluted earnings/(loss) per share	*7*		
— from continuing operations (RMB cents)		**0.3**	(48.7)
— from discontinued operations (RMB cents)		—	(5.3)
		0.3	(54.0)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2022 — unaudited
(Expressed in RMB'000)

	Six months ended 30 June	
	2022	2021
Profit/(loss) for the period	**5,675**	(1,518,695)
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	**(10,245)**	2,589
Other comprehensive income for the period	**(10,245)**	2,589
Total comprehensive income for the period	**(4,570)**	(1,516,106)
Attributable to:		
Equity shareholders of the Company		
— from continuing operations	**(2,095)**	(1,309,843)
— from discontinued operations	**—**	(143,042)
	(2,095)	(1,452,885)
Non-controlling interests		
— from continuing operations	**(2,475)**	(4,907)
— from discontinued operations	**—**	(58,314)
	(2,475)	(63,221)
Total comprehensive income for the period	**(4,570)**	(1,516,106)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2022 — unaudited

(Expressed in RMB'000)

	Note	**At 30 June 2022**	At 31 December 2021
Non-current assets			
Property, plant and equipment		**5,747,625**	5,688,860
Investment properties		**119,921**	115,631
Right-of-use assets		**2,928,714**	2,915,812
Intangible assets	*8*	**2,786,848**	2,631,734
Goodwill	*8*	**566,736**	566,736
Interest in associates		**513,180**	533,367
Deferred tax assets		**635,302**	616,626
Long-term receivables		**311,848**	270,075
		13,610,174	13,338,841
Current assets			
Inventories	*9*	**2,975,888**	2,649,031
Trade and bills receivables	*10*	**1,068,822**	1,005,066
Prepayments, deposits and other receivables	*11*	**3,985,292**	4,294,473
Other financial assets		**127,052**	122,589
Pledged bank deposits		**2,770,571**	2,696,460
Time deposits		—	413,841
Cash and cash equivalents		**1,004,689**	208,771
Asset held for sale	*13*	**1,410,560**	1,400,714
		13,342,874	12,790,945
Current liabilities			
Loans and borrowings		**17,427,697**	14,776,527
Bonds payable		—	365,936
Lease liabilities		**426,572**	309,477
Trade and other payables	*12*	**4,569,454**	5,974,680
Income tax payables		**426,617**	414,378
Other financial liabilities		**11,148**	—
		22,861,488	21,840,998
Net current liabilities		**(9,518,614)**	(9,050,053)
Total assets less current liabilities		**4,091,560**	4,288,788

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2022 — unaudited (continued)
(Expressed in RMB'000)

	Note	**At 30 June 2022**	At 31 December 2021
Non-current liabilities			
Loans and borrowings		**1,304,723**	1,519,457
Lease liabilities		**1,170,654**	1,169,334
Deferred tax liabilities		**875,050**	839,606
Trade and other payables	*12*	**203,758**	219,770
		3,554,185	3,748,167
NET ASSETS		**537,375**	540,621
CAPITAL AND RESERVES			
Share capital		**235,203**	235,203
Reserves		**272,456**	273,227
Total equity attributable to equity shareholders of the Company		**507,659**	508,430
Non-controlling interests		**29,716**	32,191
TOTAL EQUITY		**537,375**	540,621

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

2 BASIS OF PREPARATION

The interim financial statements have 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**"). It was authorised for issue on 29 August 2022.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial statements 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 statements contain 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 2021 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 statements are 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 Group had net current liabilities of RMB9,519 million as at 30 June 2022, including a sum of loans and borrowings of RMB6,228 million due to Xiamen ITG Holding Group Co., Ltd. ("**ITG Holding**") and its subsidiaries. Notwithstanding these conditions, the Group's condensed consolidated interim financial statements for the six months ended 30 June 2022 have been prepared on a going concern basis and the directors of the Company consider that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern. This is because, based on the cash flow projections for at least the next twelve months, the directors of the Company concluded that the Group will have adequate funds having considered the current available banking facilities as well as the financial support from ITG Holding, who has informed the Group that, on the basis that in compliance with regulatory regime applicable to state owned enterprises and after obtaining internal resolutions and approvals, it will provide financial support to the Group as may be necessary to enable the Group to continue operation as a going concern for at least the next twelve months.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

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

4 REVENUE

The Group is mainly engaged in sales of passenger motor vehicles, provision of after-sales services, provision of logistics services and sales of lubricant oil. 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	
	2022	2021
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Continuing operations		
Sales of passenger motor vehicles	**9,281,151**	7,566,395
Provision of after-sales services	**1,467,521**	1,613,169
Provision of logistics services	**220,270**	290,679
Sales of lubricant oil	**99,156**	135,882
	11,068,098	9,606,125
Discontinued operations		
Service income from financial services	**—**	19,565
Revenue from other sources		
Continuing operations		
Others	**666**	6,005
Discontinued operations		
Interest income from financial services	**—**	158,820
	11,068,764	9,790,515
Revenue from continuing operations	**11,068,764**	9,612,130
Revenue from discontinued operations	**—**	178,385

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 PROFIT/(LOSS) BEFORE TAXATION

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

	Note	Six months ended 30 June 2022 RMB'000	2021 RMB'000
(a) Finance costs:			
Continuing operations:			
Interest on loans and borrowings and bonds payable		**446,818**	576,294
Interest on lease liabilities		**55,022**	47,003
Finance cost for consideration of business combination	*(i)*	**5,466**	8,843
Other finance costs	*(ii)*	**12,615**	11,679
Less: interest capitalised		**(37,394)**	(43,931)
		482,527	599,888
Discontinued operations:			
Interest on lease liabilities		**—**	719
		482,527	600,607
(b) Staff costs:			
Continuing operations:			
Salaries, wages and other benefits		**399,200**	433,640
Contributions to defined contribution retirement plans	*(iii)*	**29,298**	25,860
Equity settled share-based payment expenses		**1,324**	13,609
		429,822	473,109
Discontinued operations:			
Salaries, wages and other benefits		**—**	26,653
Contributions to defined contribution retirement plans		**—**	2,991
		—	29,644
		429,822	502,753

(i) It represents the unwinding of interest element of business combination consideration.

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

(iii) 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 remits all pension fund contributions to the respective tax bureau, which are responsible for the payment and liabilities relating to the pension funds.

The Group also operates a Mandatory Provident Fund Scheme (the "**MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Company's and its subsidiaries' contributions made to the above defined contribution schemes are non-refundable and cannot be used to reduce the future or existing level of contribution of the Company and its subsidiaries should any forfeiture be resulted from the schemes.

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	
	2022	2021
	RMB'000	*RMB'000*
(c) Other items:		
Continuing operations:		
Cost of inventories *(note 9(b))*	**9,824,236**	9,597,426
Depreciation		
— Owned property, plant and equipment	**197,696**	168,545
— Right-of-use assets	**156,556**	194,994
— Investment properties	**635**	—
Amortisation of intangible assets	**78,730**	82,049
Operating lease charges	**2,851**	2,887
(Reversal of)/provision for impairment losses on		
— Intangible assets *(note 8)*	**(232,426)**	161,308
— Property, plant and equipment	**(21,239)**	—
Net foreign exchange loss/(gain)	**160,847**	(43,347)
	10,167,886	10,163,862
Discontinued operations:		
Cost of interests	**—**	80,098
Operating lease charges	**—**	50
Impairment losses		
— Receivables from financial services	**—**	375,416
Net foreign exchange gain	**—**	(425)
	—	455,139

6 INCOME TAX

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

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Continuing operations		
Current tax:		
Provision/(credit) for PRC income tax for the period	**47,964**	(2,182)
Deferred tax:		
Reversal/(origination) of temporary differences	**16,768**	(23,122)
	64,732	(25,304)
Discontinued operations		
Current tax:		
Provision for PRC income tax for the period	**—**	27,593
Deferred tax:		
Origination of temporary differences	**—**	(97,555)
	—	(69,962)

(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.

7 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2022 was based on the profit attributable to equity shareholders of the Company of RMB8,150,000 (six months ended 30 June 2021: loss attributable to equity shareholders of the Company of RMB1,312,432,000 from continuing operations and loss attributable to equity shareholders of the Company of RMB143,042,000 from discontinued operations) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2022 of 2,716,922,420 shares (six months ended 30 June 2021: 2,697,442,420 shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2022 was based on the profit attributable to equity shareholders of the Company of RMB8,150,000 and the weighted average number of ordinary shares of 2,724,245,883, after adjusting for the effect of the Company's share award scheme. As the dilutive effect on earnings per share resulting from the Company's share award scheme was negligible, therefore diluted earnings per share were same as basic earnings per share.

For the six months ended 30 June 2021, the potential ordinary shares in respect of vesting of restricted shares and the remaining unvested restricted shares pursuant to the share award scheme was anti-dilutive, as they would lead to a decline in the loss per share.

8 INTANGIBLE ASSETS AND GOODWILL

Intangible assets — car dealerships and goodwill

The car dealerships arise from prior business combinations and relate to relationships with automakers, with an estimated useful life of 40 years. The fair value of the car dealerships as at the respective acquisition date was determined by using the multiple excess earning method.

The dealership operation rights arise from a prior business combination through an agreement on strategic operation management cooperation scheme, with an estimated useful life of 10 years. The fair value of the dealership operation rights as at the acquisition date was determined by using the multiple excess earning method.

The amortisation charge for the period ended 30 June 2022 is included in administrative expenses in the consolidated statement of profit or loss.

As disclosed in note 13 to the Company's annual financial statements for the year ended 31 December 2020, due to the operational disruption and the liquidity strain brought about by the COVID–19 at that time, certain automakers alleged that the Group had damaged their brands and threatened to terminate the dealership agreements with the Group. Certain major dealerships remained suspended as at 31 December 2020 and the management of the Group expected at the time that the related stores would only focus on after-sale services without any further revenue from the sales of motor vehicles.

Since then the Group had been in active negotiation with the related automakers. In early 2021, some of these automakers agreed to offer short-term dealership agreements ranging from six months to a year, with more stringent performance targets taking into account the Group's operation and financial performance at that time for further observation. Those short-term dealership agreements for six months were extended for another six months in later 2021.

During the six months ended 30 June 2022, the Group has seen continual improvement in the operating performance of its dealership stores. A specific automaker among those as mentioned above, which had previously threatened to terminate the dealership and offered short-term dealership agreements to the Group, has informed the Group with the decision to resume the Group's long-term dealership agreements, as the relevant performance targets set by the automakers in short-term dealership agreements have been met. Therefore, certain of the Group's dealership stores had regained the original long-term dealership agreements during the period and resumed normal sale operations, contributing to the increase in the amount of estimated future cash inflow.

As such, the management of the Group considers that there are indications that impairment loss recognised in prior periods for these 4S dealership stores that have resumed normal operations, which were independent CGUs, may no longer exist or may have decreased. The impairment losses of intangible assets — car dealership recognised for these resumed 4S dealership stores in prior years amounted to approximately RMB250 million, after which the remaining carrying amount of these intangible assets were RMB105 million as at 31 December 2021. The management engaged an external valuer to assist with the determination of the recoverable amount of the aforementioned CGUs as at 30 June 2022, with the result of reversal of impairment loss of intangible assets — car dealerships of approximately RMB232 million (30 June 2021: Nil).

In addition, the external valuer assisted the management with an impairment test to determine the recoverable amount of the remaining CGUs containing intangible assets — car dealerships and/or goodwill other than the aforementioned CGUs as at 30 June 2022. No further impairment losses of intangible assets — car dealerships and goodwill were recognised with respect to these other CGUs (for the six months ended 30 June 2021: impairment losses of RMB133 million and Nil, respectively).

An impairment loss in respect of goodwill is not reversed. For intangible assets — car dealerships, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognised.

Impairment testing of intangible assets — car dealerships and goodwill

The recoverable amounts of CGUs have been determined based on the higher of their fair values less costs to sell and value-in-use calculations in accordance with the requirements of Hong Kong Accounting Standard 36 *Impairment of Assets*, and the fair values less costs to sell of the CGUs are estimated to be not materially different from their respective value-in-use amounts. The value-in-use calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated by using an estimated growth rate of 3% (2021: 3%) which is consistent with the forecasts included in industry reports. The pre-tax discount rates applied to the cash flow projections beyond the one year period are with a range from 13% to 16% (2021: from 13% to 14%).

Key assumptions used in the value-in-use calculation for CGUs containing intangible assets — car dealerships and/or goodwill

Key assumptions used in the value-in-use calculations include: (i) annual revenue growth rates during the forecast period, (ii) gross profit margin, (iii) working capital as a percentage of revenue and (iv) discount rates.

The key inputs and assumptions used in the impairment test for the six months ended 30 June 2022 and the year of 2021 are listed as follows:

As at 30 June 2022

Inputs	**2022**	**2023**	**2024–2026**
Annual Revenue Growth Rate	–8.0% ~ 97.4%	3.0% ~ 60.0%	3.0% ~ 35.0%
Gross Profit Margin	5.5% ~ 13.8%	5.9% ~ 14.5%	
Working Capital as % of Revenue	–24.8% ~ 10.6%	–24.7% ~ 10.6%	

As at 31 December 2021

Inputs	**2022**	**2023**	**2024–2026**
Annual Revenue Growth Rate	–1.6% ~ 79.0%	3.0% ~ 36.1%	3.0% ~ 12.0%
Gross Profit Margin	5.3% ~ 14.2%	5.9% ~ 14.5%	
Working Capital as % of Revenue	–31.0% ~ 13.9%	–31.0% ~ 13.9%	

The key assumptions are estimated by the management with reference to the actual and historical financial performance, expected market growth trend for different brands based on open market data and the trend estimation for repositioned stores:

— For annual revenue growth rate:

a) For certain dealership stores that have resumed normal operations during the six months ended 30 June 2022 as mentioned above, a significant growth rate in estimated revenue for 2022 through 2026 was expected as explained below;

b) For the other dealership stores, the estimated revenue growth rates for 2022 through 2026 were consistent with the value-in-use calculations prepared by the management for the year ended 31 December 2021.

— Gross profit margin was mainly estimated based on the historical performance of each store (before COVID–19 and liquidity strain) and take into consideration of mix for different revenue categories like new car sales and after-sale services and of the actual performance for the first half of 2022.

— Working capital as percentage of revenue was estimated by calculation based on historical trend (before COVID–19 and liquidity strain) of turnover days of different balance sheet items or expense to revenue ratios of different profit or loss items, which is generally in line with years comparable to the periods before COVID–19.

The pre-tax discount rate applied to the impairment test had been adjusted mainly due to the overall economic environment changed and the risk of overall macroeconomic environment increased during the six months ended 30 June 2022, leading to the increase in overall market risk.

Among the key inputs and assumptions highlighted above, the main changes compared to 31 December 2021 related to the changes in estimates of revenue growth. As mentioned above, for those dealership stores that have resumed normal operations during the six months ended 30 June 2022, a significant revision to the growth rate in the estimated revenue for 2022 through 2026 was expected from a relatively low base in 2021 due to the purchase quota limitation caused by the short-term dealership agreements; under the revised projection, the estimated revenue for the sales of passenger motor vehicles is expected to gradually return to a level comparable to the periods before COVID-19, and reflecting the extension of the duration of certain dealership agreements from short-term agreements to long-term agreements, and the effect of easement on the situation of insufficient supply by automakers. Such impacts were not fully reflected in the inputs and assumptions used in the 2021 year end assessment, as both the extension of dealership agreements and the easement on the situation of insufficient supply by automakers occurred in first half of 2022 were non-adjusting subsequent events for the year ended 31 December 2021. There have been no changes in the valuation methods used compared with those adopted in the year of 2021.

9 INVENTORIES

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

	At 30 June 2022 *RMB'000*	At 31 December 2021 *RMB'000*
4S dealership business		
— Motor vehicles	**2,154,821**	1,796,851
— Automobile spare parts	**163,344**	216,724
— Others	**43,608**	43,917
	2,361,773	2,057,492
Comprehensive properties business		
— Properties under development for sale	**614,115**	591,539
	2,975,888	2,649,031

(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	
		2022	2021
		RMB'000	*RMB'000*
Carrying amount of inventories sold		**9,790,629**	9,520,777
Write-down of inventories		**33,607**	37,331
Reversal of write-down of inventories	*(i)*	**—**	(2,791)
Re-assessment of rebate receivables		**—**	42,109
		9,824,236	9,597,426

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

10 TRADE AND 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 2022	At 31 December 2021
	RMB'000	*RMB'000*
Within 3 months	**1,045,512**	976,505
Over 3 months but within 1 year	**9,631**	7,565
Over 1 year	**13,679**	20,996
	1,068,822	1,005,066
Trade receivables	**1,068,080**	1,004,158
Bills receivables	**742**	908
Trade and bills receivables	**1,068,822**	1,005,066

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 risks are monitored on an ongoing basis.

Credit risk in respect of trade and bills receivables is limited since credit sales are offered in rare cases subject to high level management's approval. Trade receivables balances mainly represent receivables from individual customers, who obtain mortgages from their financial institutions and used the drawn-down mortgage principal to settle the Group's trade receivables within one month when the mortgages were granted by their financial institutions, and warranty receivables from automobile manufacturers. For the receivables from automobile manufacturers, risk of default is considered low, as these are companies with good credit rating.

11 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2022 *RMB'000*	At 31 December 2021 *RMB'000*
Prepayments	**264,207**	583,669
Deposits	**495,690**	475,735
Other receivables	**3,225,395**	3,235,069
Prepayments, deposits and other receivables	**3,985,292**	4,294,473

All of the prepayments, deposits and other receivables are expected to be recovered within one year.

12 TRADE AND OTHER PAYABLES

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

	At 30 June 2022 *RMB'000*	At 31 December 2021 *RMB'000*
Current		
Within 3 months	**2,865,912**	3,715,365
Over 3 months but within 6 months	**187,321**	211,543
Over 6 months but within 12 months	**3,069**	4,888
Total creditors and bills payable	**3,056,302**	3,931,796
Contract liabilities	**696,891**	1,150,320
Other payables and accruals	**815,323**	891,626
Payables due to related parties	**938**	938
	4,569,454	5,974,680
Non-current		
Long-term payables	**203,758**	219,770
Total	**4,773,212**	6,194,450

13 ASSET HELD FOR SALE

As disclosed in note 31 to the Company's annual financial statements for the year ended 31 December 2021, the Company concluded that by the end of 2021 it has lost control over and ceased to consolidate the assets, liabilities and activities of Shanghai Dongzheng Automotive Finance Co., Ltd. ("Dongzheng"), and has since recognised its interests in Dongzheng as a financial asset at fair value through profit or loss. This was in view of a number of developments, including an administrative decision against the Company from the Shanghai Office of the China Banking and Insurance Regulatory Commission(the "CBIRC") and a subsequent ruling by the Shanghai Financial Court of the People's Republic of China on the compulsory liquidation of the Company's interests in Dongzheng by way of judicial auction.

On 19 May 2022, the judicial auction was conducted and completed. In accordance with a notice received by the Company from the CBIRC on 16 June 2022, the final amount to be received by the Company, is expected to be approximately RMB1,410,560,000 (31 December 2021: the fair value was RMB1,400,714,000).

The difference of RMB9,846,000 between the final amount to be received and the fair value as at 31 December 2021 was recognised as gain of financial instruments in "Other income" during the six months ended 30 June 2022.

14 DIVIDENDS

(i) No interim dividend was proposed after the end of reporting periods of six months ended 30 June 2022 and 30 June 2021.

(ii) No final dividend was proposed in respect of the previous financial year, approved and paid during the interim periods of six months ended 30 June 2022 and 30 June 2021.

15 FINANCIAL GUARANTEES ISSUED

In March 2016, Wuhan Zhengtong United Industrial Investment Group Co., Ltd. ("**Wuhan Zhengtong**"), an indirect wholly-owned subsidiary of the Company, had entered into an undertaking (the "**2016 Undertaking**") to provide financial guarantees for Beijing Guangze Real Estate Development Co., Ltd. ("**Beijing Guangze**")'s obligations to 1). pay the redemption price for the equity investment made by Ningbo Yuchen Fengze Equity Investment Partnership (Limited Partnership) ("**Yuchen Fengze**") in Beijing Zunbaocheng Real Estate Co., Ltd. ("**Beijing Zunbaocheng**") and Beijing Baoze Automobile Technology Development Co., Ltd. ("**Beijing Baoze**") ("**Equity Investment Redemption Obligation**"); and 2). repay the outstanding loan balance owed by Beijing Guangze to Yuchen Fengze ("**Unsettled Loan Balance**"). In March 2020, Wuhan Zhengtong renewed the 2016 Undertaking as certain shortfall agreements ("**2020 Shortfall Agreements**") to further provide financial guarantees for the Equity Investment Redemption Price and the Unsettled Loan Balance.

Beijing Guangze is a majority-controlled company held indirectly by a family member of Mr. Wang Muqing, a former executive director of the Company, who has resigned on 10 January 2022. Beijing Guangze holds 8.6758% and 4.3478% equity interest in Beijing Zunbaocheng and Beijing Baoze, respectively.

Other than by the financial guarantees provided by Wuhan Zhengtong as mentioned above, the Equity Investment Redemption Obligation and Unsettled Loan Balance were also secured by, among other things, certain land use rights and properties located in Beijing, belonging to Beijing Zunbaocheng and Beijing Baoze (the "**Pledged Assets**") since 2016.

On 17 December 2021, the Company was notified that a court judgement had been granted by the Ningbo Intermediate People's Court in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong.

On 28 December 2021, the Company was notified that another court judgement had been granted in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong by the Yangzhou Intermediate People's Court (together with the aforementioned court judgement being notified on 17 December 2021, as "**First Instance Judgement**").

Pursuant to the First Instance Judgement, Beijing Guangze shall:

— pay to Yuchen Fengze a principal amount of RMB420 million together with interest, comprising, among others, the redemption price for the equity investment made by Yuchen Fengze in Beijing Zunbaocheng and Beijing Baoze. Wuhan Zhengtong was held jointly and severally liable for the same amount (the "**Equity Investment First Judgement**");

— pay to Yuchen Fengze approximately RMB1.41 billion (comprising the loan principal of RMB1.35 billion, accrued interest, default interest and compound interest) and late payment interest, the actual amount of which will increase with time and relevant costs. Wuhan Zhengtong was held jointly and severally liable for the same amount.

Wuhan Zhengtong has filed appeals against the First Instance Judgement through Zhejiang and Jiangsu Higher People's Court, respectively. Among others, the Zhejiang Higher People's Court had held the initial court hearing in February 2022. The Company received the second instance judgement in respect of the Equity Investment First Judgement (the "**Judgement**") from Zhejiang Higher People's Court on 23 June 2022, pursuant to which, Zhejiang Higher People's Court disagreed with and overturned the first instance finding that Wuhan Zhengtong was jointly and severally liable for the amounts involved. Pursuant to the Judgement, the guarantee given by Wuhan Zhengtong in respect of the amounts owed by Beijing Guangze was held to be a general guarantee instead of a joint liability guarantee (i.e. Wuhan Zhengtong shall only be responsible for any shortfalls if Beijing Guangze fails to fulfill its repayment obligations), and after having assumed its general guarantee liability, Wuhan Zhengtong shall be entitled to claim repayment from Beijing Guangze to the extent of the guarantee obligation it has performed.

According to the PRC legal opinion issued by an external legal advisor, the Group is only obliged to pay the shortfall based on the 2020 Shortfall Agreements, if any, after Beijing Guangze fails to fulfill its obligation including liquidating the Pledged Assets to repay the liabilities. And even if Wuhan Zhengtong has assumed the obligation, no matter being general guarantee liabilities or being jointly and severally liable, it has the legal right to be reimbursed for the payment it made from the proceeds of sales for the Pledged Assets, which could be enforced for sale according to relevant PRC laws and regulations.

Accordingly, cash shortfalls for the Group are the expected payments to reimburse Yuchen Fengze for a credit loss that it incurs less any amounts that the Group expects to receive from Beijing Guangze including the proceeds obtained from the sales of the Pledged Assets.

The maximum amount guaranteed by Wuhan Zhengtong with the 2020 Shortfall Agreements as at 30 June 2022 was RMB1.93 billion (31 December 2021: RMB1.83 billion). Both the Equity Investment Redemption Obligation and the Unsettled Loan Balance were collateralized by the Pledged Assets.

The fair value of the Pledged Assets and the estimated net realisable amount calculated as fair value less cost to sell as at 30 June 2022 were RMB2.85 billion and RMB1.99 billion (31 December 2021: RMB2.88 billion and RMB2.01 billion), respectively, according to the valuation reports issued by an external valuer on 24 August 2022.

The initial fair value of the financial guarantees was measured for the future net cash outflow based on the credit spread (after considering macroeconomic and industry factors) of Beijing Guangze, the maximum exposure and value of the Pledged Assets, as well as a discount factor. Subsequently, the financial guarantee contract was measured at the higher of the initial recognised amount, minus accumulated amortisation (which was nil accordingly), and the expected credit loss allowance. As at 30 June 2022 and 31 December 2021, the expected credit loss allowances for the financial guarantees, based on the Group's expected cash outflows less the expected recoveries from Beijing Guangze and the Pledged Assets, were assessed to be immaterial based on the value of the Pledged Assets, and other factors such as the volatility of the value, and disposal expenses, of the Pledged Assets.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is committed to developing its luxury and ultra-luxury auto sales business and after-sales services business. With the additional resources that came with the introduction of its state-owned shareholder in 2021 and the new team's efforts in facilitating the recovery and development of business relationships, improving efficiency, optimizing management and implementing cost controls etc., the Group has managed to achieve growth in its automobile dealership business despite the various challenges brought forth by the pandemic and supply restrictions within the industry in the first half of the year. From mid to late May onwards, the Group seized a series of opportunities presented by policies to stimulate consumption and steady growth (in particular, the positive effects the 50% reduction on vehicle purchase tax has had on the market) to increase its marketing and sales efforts, which has resulted in a rapid rebound of sales volume.

For the six months ended 30 June 2022, the Group recorded a revenue of approximately RMB11,069 million, representing a period-on-period growth of approximately 15.2%, and gross profit of approximately RMB949 million, representing a period-on-period growth of approximately 2,961.3%.

In the first half of 2022, the stores of the Company received a total of 79 awards from automobile manufacturers, local governments, industry media, industry associations, among which, 49 were awarded by manufacturers, while 30 were awarded by local governments, media and industry associations.

The following is a review of the business development of the Group's various business sectors in the first half of 2022, and the progress made in improving management:

(I) Automobile dealership segment

1. Sales of new automobiles

At the beginning of 2022, the automobile dealership market in China witnessed a stable start and a favorable sales trend. However, in March, production and sales growth in the automobile market started to slow down as the pandemic swept through major Chinese cities. In April, as the pandemic situation in China worsened and expanded in scope, supply chain, logistics, vehicle production, terminal sales and other facets of the automobile industry nationwide became significantly impacted.

Towards the end of the first half of 2022, with the pandemic receding, the stimulus of the policy on halving purchase tax, and the gradual recovery of the supply side, China's automobile sales industry began to show robust recovery. According to the June production and sales data of the automobile industry issued by China Passenger Car Association, the production and sales of passenger automobile in China was at its highest level among the first six months of the year. Among which, the production, wholesale and retail of traditional passenger automobile was 2.20 million, 2.18 million and 1.94 million, representing a period-on-period increase of 46.2%, 42.3% and 42.5% respectively.

While overcoming the impact of unfavorable factors such as the effects of the COVID-19 pandemic in China and the supply shortage of automobile among automobile manufacturers, the Group strengthened its online marketing and customer care, and piloted the combination of online transactions and offline services, such as the use of "Cheweixing (車微星)" WeCom application, electronic signatures and other digital means to provide customers with online goods and services and facilitate online order placement, thus minimizing the adverse impact of the pandemic on the business. In addition, the Group further strengthened its communication with automobile manufacturers, increased high-quality resources, and further improved the profitability and operational efficiency of its sales business through optimizing operational procedures, improving its derivative businesses and standardizing operations etc.

The Group's sales of new automobile were in aggregate 26,100 units as of 30 June 2022, representing a period-on-period increase of approximately 6.9%, including 21,452 units of luxury and ultra-luxury branded automobiles, representing a period-on-period increase of approximately 17.9%.

2. After-sales services business

Focusing on customer experience, the Group identified customer needs by relying on its digital information management system, and strengthened customer care through classified customer management and corresponding personalized service, so as to enhance customer loyalty and effectively expand its customer base. The Group accelerated the turnover of accessories, optimized inventory structure, and enhanced circulation efficiency. It also strengthened the synergy between its sales of new automobile and pre-owned automobile replacement businesses to provide "one-stop" services for customers as well as further improve the penetration of maintenance, care, warranty renewal, extended warranty and other derivative products. The Group provided customers with a safe and efficient after-sales experience through strengthening the pilot combination of online marketing and offline services.

For the six months ended 30 June 2022, the Group provided after-sales service for 573,615 units of automobiles in aggregate. Revenue from the after-sales services of the Group amounted to approximately RMB1,468 million.

3. Pre-owned automobile business

According to the Report on the Development of Pre-owned Automobile of the Top 100 Dealer Groups issued by the China Automobile Dealers Association, due to the recurrent impact of the pandemic, the cumulative transaction volume of pre-owned automobile in the first half of 2022 amounted to 7,585,200 units nationwide, representing a period-on-period decrease of 10.07%. However, as overall pandemic prevention and control has stabilized and improved, particularly as restrictions on the registration of small non-operating pre-owned automobile were completely lifted by the state, the aggregate transaction volume of pre-owned automobile amounted to 1,416,600 units nationwide in June 2022, representing a month-on-month increase of 19.20%. It is expected that, with the issuance and implementation of a number of favorable policies and notices in various regions, the trading rules of the pre-owned automobile market will gradually be improved, and the potential of the pre-owned automobile consumption market will be realised.

Pre-owned automobile business is an important strategic business segment of the Group, and the Group attaches great importance to its development. During the reporting period, the Group has established a standardized system for the management of pre-owned automobile replacement, and further improved the management tools for its pre-owned automobile business. The Group also cooperated with four online pre-owned automobile auction platforms, namely Autostreets (汽車街), Youxinpai (優信拍), Cheyipai (車易拍) and Xiaoningpai (小檸拍), which increased the proportion of its pre-owned automobile retail business and enhanced the segment's profitability. The Group maximized the synergy among sales of new automobile, after-sales services and pre-owned automobile replacement businesses to promote business transformation. It also continued to increase the proportion of its pre-owned automobile business and effectively improved its operational efficiency.

DEVELOPMENT AND LAYOUT OF COMPANY NETWORK

As a leading dealership group of luxury brands in China, the Group continued to focus on the dealership of luxury and ultra-luxury branded automobiles, including, among others, Porsche, Benz, BMW, Audi, Jaguar and Land Rover, Hongqi, Volvo, Cadillac and Infiniti. The Group also operates dealership stores of mid to high-end market brands, including FAW Volkswagen, Buick, Dongfeng Nissan, FAW Toyota, Dongfeng Honda and Beijing-Hyundai.

As of 30 June 2022, the Group owned 115 dealership stores in 39 cities across 17 provinces and municipalities in China, and was authorized to develop 5 dealership stores, including 4S stores for core luxury brands such as Mercedes-Benz, Audi and repair centres. In the first half of 2022, the Group opened a new Porsche centre in Dalian, Liaoning Province. With now 6 Porsche brand stores, the Group has further strengthened its relationship with Porsche brand manufacturers and improved its profitability.

The following table sets forth the details of the Group's dealership stores as of 30 June 2022:

	Dealership stores in operation	**Dealership stores in development**	**Total**
5S/4S stores for luxury and ultra-luxury brands	69	2	71
4S stores for mid to high-end brands	12	2	14
Urban showrooms for luxury brands	10	0	10
Authorized repair service centres for luxury brands	6	1	7
Self-operated stores	18	0	18
Total	**115**	**5**	**120**

In the first half of 2022, with the liquidity and full resources support of its state-owned shareholder, the Group has gradually recovered and strengthened its foundation and ability to cope with market fluctuations in the auto dealer industry. By fully exploiting the Group's resources and historical advantages, the core and profitable brand projects will be fully put into operation as soon as possible according to plan. At the same time, the Group has comprehensively streamlined the brands and stores with poor profitability, strategically closed some stores, carried out brand conversion or leased out some self-owned properties, so as to continuously improve its overall profitability. Meanwhile, in order to enhance the confidence of OEMs and customers in the Group, the Group actively cooperated with OEMs to upgrade its brand image, strengthened interaction with OEMs, and continuously improved customer experience.

The Group will continue to optimize its brand structure and the profitability of its stores, and pay attention to new energy and new distribution model market opportunities. The Group will continue to focus its long-term network expansion strategies on luxury branded automobiles, strengthen all-around cooperation with OEMs including with respect to new energy projects, and keep optimizing its brand structure and the profitability of its stores. Meanwhile, the Group actively monitored the development trends and direction of the automobile distribution industry and paid close attention to new energy and new distribution model market opportunities. The Group has maintained close communication and contact with a number of mainstream new energy brands in the market. The Group also attaches great importance to and pays attention to existing luxury brands' plans for the new energy space, and strives to develop new sources of growth.

(II) Auto finance segment

Benefiting from the Group's overall synergies and business connections, the insurance brokerage business of the Group has achieved good results and performance in the first half of 2022. During the six months ended 30 June 2022, new insurance was made for 25,000 units, representing a period-on-period increase of 5%. In particular, new car insurance rate reached 95%, and renewal insurance was made for 87,000 units, representing a period-on-period increase of 12%. In addition, the Group also completed the development, launch and implementation of the dual insurance products for each brand department in the first half of 2022.

By pursuing a "customer-oriented" business philosophy, the Group continuously provided its customers with a diversified product mix to meet various insurance demands at different stages of vehicle usage. Through designing and developing management tools, the Group improved the diagnostic analysis and operational capabilities of the insurance business of each store. The Group also improved management efficiency and profitability through the integration of its online new insurance business and insurance renewal business, as well as personnel optimization.

(III) Supply chain business segment

In the first half of 2022, Shengze Jietong Supply Chain Co., Ltd. ("**Shengze Jietong**"), a company mainly engaging in supply chain business under the Group, adhered to its goal of maximizing revenue and minimizing costs and continuously operated its vehicle logistics, warehousing and spare parts logistics businesses.

As a result of the pandemic and a shortage of chips in the OEM supply chain, vehicle shipment declined in the first half of the year, and the Group recorded a revenue of approximately RMB220 million for this business segment, representing a period-on-period decrease of 24.4%. However, Shengze Jietong was able to better meet the delivery requirements of customers by optimizing its shipment model and process. In particular, with the gradual improvement of the pandemic since May, Shengze Jietong has been recognized by its customers for making adequate capacity reserve and planning, and properly coping with the pressure of a significant uptick in shipment. In addition, Shengze Jietong has also steadily progressed the construction of the logistics base in Hannan, intensified the expansion of the vehicle logistics business, and continued to improve its logistics network layout.

(IV) Management improvement

In the first half of 2022, the Group has made the following optimization and improvement in corporate governance, organizational structure, internal supervision, risk prevention, human resources, information development and other aspects through management's planning and the effective facilitation and implementation by employees at all levels:

- In terms of corporate governance, the Company has further clarified the hierarchical decision-making system and the responsibilities and authorities of decision-making/managing institutions at all levels, and developed a scientific and effective division of responsibilities and checks and balances mechanism. The Company has conducted a comprehensive revision of the Company's rules and regulations, covering the optimization and improvement of core control systems such as risk management, investment management, procurement bidding, cost management and internal supervision. The Company has also streamlined the review and approval matrix of various automobile dealerships and headquarters departments in accordance with the principles of appropriate rights and responsibilities, conciseness and efficiency.

- In terms of organizational structure, the Company has reorganised the responsibilities of general departments based on the principle of linear, streamlined and efficient management. The Company has also adjusted the division of responsibilities among senior management and separated the roles of chairman of the board and chief executive officer based on the necessity of centralized management and reasonable distribution of affairs to ensure that the management's responsibilities are clearer and more conducive to the checks and balances in governance and internal control.

- In terms of internal supervision, the Company worked hard to develop a supervision and inspection system that covers various levels within the headquarters and subsidiaries to assess and supervise the implementation of controls in each business area by increasing the frequency of regular review, special investigation, on-site inspection and other means. The Company also required rectification of the issues found in automobile, logistics, project bidding, collection and other areas, and set up special fraud reporting channels to improve its risk prevention system in terms of professional ethics.

- In terms of risk prevention, the Company dynamically identified, analyzed and evaluated risks based on its development stage and business expansion, and adjusted its risk response strategies accordingly. The Company has formulated operational risk management measures and rules for the reporting of risk control matters, strengthened the identification, prevention and control of operational risks, established an emergency management team and an emergency response mechanism. The Company has established and optimized its financing, guarantee and foreign exchange transaction management systems, strictly controlled the execution risks of its financial and fund raising activities and took precautions to ameliorate its exchange rate fluctuation risks.

- In terms of human resources, the Company has further optimized a reasonable renumeration system and established an employee career management system which is compatible with the Company's development strategy. The Company has expanded its promotion channels and promoted internal competition for middle and senior-level posts in accordance with the principles of fairness, justness and openness. The Company has established channels for internal talents to exchange and learn, and constantly enhanced its talent discovery, growth, development and incentive mechanism. It has strengthened multi-dimensional training to improve the professional knowledge and skills of its management and business personnel, organised various activities to promote corporate culture, selected excellent individuals and announced the milestones and deeds of the outstanding individuals to help employees constantly challenge themselves and achieve breakthroughs and goals.

- In terms of information development, in the first half of 2022, by focusing on the digital operation and management of the customer life cycle, the Group independently designed and developed a series of automotive informatization projects, including the creation of client WeCom mini-programs, in-store pre-owned automobile inspection on mobile, dual insurance product system development, sales funnel accounting management, centralized procurement project management, customer solicitation project development, data center network and information security system optimization. The continuous digital transformation has played an important role in the Company's development of a business indicator monitoring system and performance benchmarking system and its consolidation of refinement management, which allows it to timely and effectively adapt to changes in market conditions and consumer demand.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2022, the Group recorded a revenue of approximately RMB11,069 million, representing an increase of 15.2% as compared to the revenue of approximately RMB9,612 million in the first half of 2021. The increase in revenue was mainly due to an increase in sales of new automobiles during the period.

Revenue of the Group was derived from the sales of new automobiles, after-sales services and other businesses. In the first half of 2022, revenue from the sales of new automobiles amounted to approximately RMB9,281 million, representing an increase of approximately 22.7% as compared to approximately RMB7,566 million in the first half of 2021, and accounted for approximately 83.8% of the total revenue in the first half of 2022 (corresponding period in 2021: 78.8%), among which the revenue from sales of luxury and ultra-luxury branded automobiles accounted for 93.5% of the revenue from the sales of new automobiles (corresponding period in 2021: 89.5%).

Revenue from the after-sales services was approximately RMB1,468 million, representing a decline of approximately 9.0% as compared to approximately RMB1,613 million in the first half of 2021. In the first half of 2022, revenue from the after-sales services accounted for approximately 13.3% of the Group's total revenue.

Cost of sales

For the six months ended 30 June 2022, the Group's cost of sales increased by approximately 5.6% to approximately RMB10,120 million as compared to approximately RMB9,581 million in the first half of 2021. In the first half of 2022, the cost of sales for new automobiles of the Group increased by approximately 7.6% to approximately RMB8,755 million from approximately RMB8,137 million in the first half of 2021. Cost of the after-sales services increased by approximately 3.1% to approximately RMB1,077 million from approximately RMB1,045 million in the first half of 2021.

Gross profit/(loss) and gross profit/(loss) margin

For the six months ended 30 June 2022, the Group's gross profit increased by approximately 2,961.3% to approximately RMB949 million from approximately RMB31 million in the first half of 2021, and the gross profit margin increased by approximately 8.3 percentage points to approximately 8.6% from 0.3% in the first half of 2021.

The Group's gross profit was principally derived from sales of new automobiles and after-sales services business. In the first half of 2022, gross profit from sales of new automobiles amounted to approximately RMB526 million (corresponding period in the first half of 2021: loss of approximately RMB570 million). In the first half of 2022, the gross profit margin of sales of new automobiles was 5.7% (corresponding period in the first half of 2021: gross loss margin of 7.5%). In the first half of 2022, the Group's gross profit of after-sales services business was approximately RMB391 million, representing a decrease of approximately 31.2% as compared to approximately RMB568 million for the same period of last year, and gross profit margin of after-sales services business decreased by approximately 8.6 percentage points to approximately 26.6% from approximately 35.2% in the first half of 2021.

Selling and distribution expenses

For the six months ended 30 June 2022, the Group's selling and distribution expenses decreased by approximately 7.5% to approximately RMB542 million from approximately RMB586 million in the first half of 2021. The decrease in selling and distribution expenses was mainly attributable to the decrease in staff costs.

Administrative expenses

For the six months ended 30 June 2022, the Group's administrative expenses amounted to approximately RMB500 million, representing a decrease of approximately 5.3% from approximately RMB528 million in the first half of 2021.

Profit from operations

For the six months ended 30 June 2022, the Group's profit from operations amounted to approximately RMB533 million, as compared to a loss of approximately RMB762 million for the same period in 2021. Such increase was mainly due to an increase in sales of new automobiles and a decrease in staff costs during the period.

Income tax

For the six months ended 30 June 2022, the Group's income tax expenses amounted to approximately RMB65 million, and the income tax credit amounted to approximately RMB25 million in the first half of 2021.

Profit for the period

For the six months ended 30 June 2022, the Group's profit for the period was approximately RMB6 million, as compared with a loss of approximately RMB1,519 million in the first half of 2021. Such increase was mainly due to an increase in sales of new automobiles and gross margin and a decrease in staff costs and finance costs during the period.

Current assets and current liabilities

As at 30 June 2022, the Group's current assets amounted to approximately RMB13,343 million, representing an increase of approximately RMB552 million as compared to the current assets of approximately RMB12,791 million as at 31 December 2021.

As at 30 June 2022, the Group's current liabilities amounted to approximately RMB22,861 million, representing an increase of approximately RMB1,020 million as compared to the current liabilities of approximately RMB21,841 million as at 31 December 2021.

Cash flow

As at 30 June 2022, the Group had cash and cash equivalents amounting to approximately RMB1,005 million, representing an increase of approximately RMB796 million from approximately RMB209 million as at 31 December 2021. The Group's transactions and monetary assets were principally denominated in Renminbi. The Group's primary uses of funds 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 finance the Group's working capital and daily operating 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 2022, the Group had net cash inflow of approximately RMB171 million generated from its operating activities (for the six months ended 30 June 2021: net cash outflow of approximately RMB60 million), which was primarily due to the increase in the revenue generated from operating activities.

Capital expenditure and investment

For the six months ended 30 June 2022, the Group's capital expenditure and investment were approximately RMB371 million (2021: RMB661 million).

Inventory

The Group's inventories included vehicles, automobile spare parts and properties under development for sale. 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 inventories, 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 amounted to approximately RMB2,976 million as at 30 June 2022, representing an increase of approximately RMB327 million when compared with approximately RMB2,649 million as at 31 December 2021. Such change was mainly due to the increase in the inventories of new automobiles by the Group based upon market demand. The Group's average inventory turnover days in the first half of 2022 was 40.8 days, representing an increase of 13.3 days as compared to 27.5 days in the first half of 2021. The following table sets forth our average inventory turnover days (excluding the impact of properties under development for sale) for the period indicated:

	For the six months ended 30 June (day)	
	2022	2021
Average inventory turnover days (excluding the impact of properties under development for sale)	**40.8**	27.5

Foreign exchange risk

The Group conducts its business primarily in Renminbi. Certain bank deposits and bank loans were denominated in foreign currencies. The Group used forward exchange instruments to partially hedge its US-dollar future loans repayment.

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 and other financial institutions. As at 30 June 2022, the Group's cash and bank deposits were approximately RMB3,775 million (including: pledged bank deposits of approximately RMB2,770 million, and cash and cash equivalents of approximately RMB1,005 million), representing an increase of approximately RMB456 million, from approximately RMB3,319 million as at 31 December 2021. As at 30 June 2022, loans and borrowings, lease liabilities of the Group amounted to approximately RMB20,330 million (31 December 2021: loans and borrowings, lease liabilities, and bonds payable of the Group amounted to approximately RMB18,141 million). As at 30 June 2022, net gearing ratio of the Group was approximately 3,080.6% (31 December 2021: approximately 2,741.6%). Net gearing ratio was calculated as loans and borrowings, lease liabilities, and bonds payable less cash and bank deposits divided by total equity. The Group will actively improve its operating efficiency and consider various methods to improve its existing financial position and reduce the degree of leverage of the Group.

Pledged assets

The Group has pledged its assets as security for loans and borrowings and as working capital for daily operations. As at 30 June 2022, the pledged assets of the Group amounted to approximately RMB6,337 million (31 December 2021: approximately RMB6,310 million).

Investments held in foreign currency and hedging

For the six months ended 30 June 2022, the Group did not hold any investments denominated in foreign currencies.

Employees and remuneration policies

As at 30 June 2022, the Group had a total of 7,531 employees in China (at 31 December 2021: 7,760 employees). The total staff costs incurred for the six months ended 30 June 2022 were approximately RMB430 million (as of 30 June 2021: approximately RMB503 million).

The Group attaches great importance to human resources and understands the importance of attracting and retaining high-quality employees to the long-term success of the Group. The Group offers competitive remuneration packages and welfare benefits, including pension, work-related compensation benefits, maternity insurance, medical and unemployment benefit plans.

FUTURE OUTLOOK AND STRATEGIES

In the second half of 2022, the Group will focus on its main business of automobile sales and services and aim to maintain high and continuous growth, particularly in respect of the development of its luxury brand dealership business. The Company will take advantage of merger and acquisition opportunities as the industry consolidates to continuously improve its luxury brand dealership network. In terms of its existing network, the Company will progress its facility renovation and capacity expansion plan, and continue to close down or convert stores with poor profitability in order to revitalize existing assets and optimize brand structure and regional distribution. The Group will continue to adhere to a development path underpinned by a dual emphasis on scalable advantages and efficiency improvement, further bring its cost advantages into play and enhance the level of specialisation and regulation in its businesses and standardisation in its processes. The Group will develop its brand and competitiveness through digitalisation and consistently enhance its service capacity and customer loyalty.

By tapping into the dealership group's natural advantages in the pre-owned vehicle space, the Group will vigorously expand the scale of its pre-owned vehicle business, improve profitability, enhance the scale and profitability of its certified pre-owned vehicle retail business and improve the influence of its pre-owned vehicle brands in the market. At the same time, the Group will pay close attention to the new energy vehicle service industry, actively cooperate with up and coming new energy vehicle manufacturing brands, leading domestic independent brands and traditional international luxury brands on the sales services of new energy vehicles. The Group will expand its network, improve its authorized maintenance and new models of operation such as centralized plate and spray center by capitalizing on its resource advantages in terms of facilities, customer groups and marketing channels and explore business opportunities within the new energy service industry chain while rapidly improving business scale.

MATERIAL ACQUISITIONS AND DISPOSALS

On 20 October 2020, the Company received from the Shanghai Office of the CBIRC an administrative decision against the Company (the "**Decision**"), alleging that (I) the Company obtained administrative licenses and permits for the establishment of Dongzheng, a subsidiary of the Company, by improper means and the Company and its related parties engaged in non-compliant related-party transactions with Dongzheng; and (II) Dongzheng's dealer auto loan business was carried out in serious violation of the principle of prudent operation. CBIRC required that the Company withdraw its interests in Dongzheng within 3 months from the date of the Decision.

In response to the Decision, the Company had committed to sell its entire interests in Dongzheng. Prior to the Ruling (as defined below), the Company had been actively identifying potential purchasers with an objective of achieving a completed sale within 2021.

On 29 January 2022, the Company received a ruling on administrative proceeding and a notice of property preservation (the "**Ruling**") from the Shanghai Financial Court. Pursuant to the Ruling, the Company's 1.52 billion shares in Dongzheng shall be liquidated by auction and its 1.52 billion shares and dividends held in Dongzheng shall be frozen for a period from 26 January 2022 to 25 January 2025.

In view of the Ruling, the Company had terminated its previous discussions with independent purchasers regarding the potential disposal.

On 16 April 2022, the Company was made aware of an auction announcement issued by the Shanghai Financial Court on the judicial auction online platform on JD.com (https://paimai.jd.com/287421325) in relation to the auction of the shares held by the Company in Dongzheng, details of which are (among others) as follows:

Subject of auction: 1.52 billion shares held by the Company in Dongzheng.

Base bid price: RMB1,606,812,970.00; deposit: RMB160,000,000; increment interval of bid: RMB5,000,000 or in multiples thereof.

Time of auction: 10:00 a.m., 18 May 2022 to 10:00 a.m., 19 May 2022 (excluding extensions of time).

Qualification of the bidder: The bidder shall be a corporate legal person in compliance with PRC laws and regulations as well as the regulations and requirements of the CBIRC and other relevant regulatory authorities in relation to any changes in the controlling shareholder of an automotive finance company. The bidder shall also be aware of the relevant Hong Kong regulatory requirements.

As set out in the announcement dated 19 May 2022, pursuant to the judicial auction online platform on JD.com, the final auction sale price of the 1.52 billion unlisted foreign shares held by the Company in Dongzheng was RMB1,606,812,970.00 (the "**Final Auction Sale Price**"). On 16 June 2022, the Company received a notice from the Shanghai Office of the CBIRC which stated that, since the Final Auction Sale Price is RMB1,606,812,970.00, after deducting the necessary charges, the final amount to be received by the Company with respect to the ordered withdrawal of its shares in DongZheng will be RMB1,410,560,000.00 (the "**Sale Proceeds**").

As set out in the announcement dated 5 August 2022, pursuant to a registration of transfer confirmation issued by China Securities Depository and Clearing Corporation Limited, registration of the transfer of the Company's equity interest in Dongzheng to the purchaser has been completed on 4 August 2022 (the "**Completion**"). Following the Completion, the Company no longer has any equity interest in Dongzheng. As at the date of this announcement, the Company has received the Sale Proceeds, and applied them towards repayment of outstanding dealership loans from Dongzheng.

Given that the Company must comply with the court order for the disposal by way of auction of the equity interest held in Dongzheng, and had no discretion otherwise, such disposal did not constitute a transaction under Chapter 14 of the Listing Rules, and therefore the requirements for notifiable transactions, including shareholders' approval and the dispatch of a circular to shareholders, did not apply to such disposal.

For details, please refer to the announcements of the Company dated 7 December 2020, 3 February 2021, 9 March 2021, 8 February 2022, 21 April 2022, 19 May 2022, 17 June 2022 and 5 August 2022.

Save as disclosed above, for the six months ended 30 June 2022 and up to the date of this announcement, the Group did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

PROGRESS OF THE MATERIAL LEGAL PROCEEDINGS

In 2016 and 2020, Wuhan Zhengtong United Industrial Investment Group Co., Ltd.* 武漢正通聯合實業投資集團有限公司 ("**Wuhan Zhengtong**"), an indirect wholly owned subsidiary of the Company, undertook to pay for any shortfalls in the event of default by Beijing Guangze Real Estate Development Co., Ltd.* 北京廣澤房地產開發有限公司 ("**Beijing Guangze**"), in support of Beijing Guangze's (i) redemption obligations under certain investment agreements relating to the investment made by Ningbo Yuchen Fengze Equity Investment Partnership (Limited Partnership)* 寧波禹宸豐澤股權投資合夥企業(有限合夥) ("**Yuchen Fengze**") in Beijing Baoze Automobile Technology Development Co., Ltd.* 北京寶澤汽車科技發展有限公司 ("**Beijing Baoze**") and Beijing Zunbaocheng Real Estate Co., Ltd.* 北京尊寶成置業有限公司 ("**Beijing Zunbaocheng**") (the "**Redemption Obligations**"); and (ii) repayment obligations in respect of a loan provided under an entrusted loan agreement (the "**Repayment Obligations**").

To the best knowledge and belief of the Directors, Beijing Guangze is held indirectly by family members of Mr. Wang Muqing, a former executive Director of the Company, who has resigned on 10 January 2022.

The Redemption Obligations and Repayment Obligations were secured by, among others, real estate owned by Beijing Zunbaocheng and Beijing Baoze.

The Company was notified on 17 December 2021 and 28 December 2021 that separate court judgements (the "**First Instance Judgement**") had been granted by Ningbo Intermediate People's Court and Yangzhou Intermediate People's Court, respectively, in favour of Yuchen Fengze and against (among others) Beijing Guangze, Beijing Zunbaocheng, Beijing Baoze and Wuhan Zhengtong.

Pursuant to the First Instance Judgement, Beijing Guangze shall:

- pay to Yuchen Fengze a principal amount of RMB420 million together with interest, comprising, among others, the redemption price for the equity investment made by Yuchen Fengze in Beijing Baoze and Beijing Zunbaocheng. Wuhan Zhengtong was held jointly and severally liable for the same amount (the "**Equity Investment First Instance Judgement**"); and

- pay to Yuchen Fengze approximately RMB1.41 billion (comprising the loan principal of RMB1.35 billion, accrued interest, default interest and compound interest) and late payment interest, the actual amount of which will increase with time and relevant costs. Wuhan Zhengtong was held jointly and severally liable for the same amount (the "**Loan First Instance Judgement**").

Wuhan Zhengtong has filed appeals against the Equity Investment First Instance Judgement and Loan First Instance Judgement through Zhejiang Higher People's Court and Jiangsu Higher People's Court, respectively. The Company has, in respect of its appeal against the Equity Investment First Instance Judgement, received a second instance judgement (the "**Equity Investment Second Instance Judgement**"), pursuant to which the guarantee given by Wuhan Zhengtong in respect of the amounts owed by Beijing Guangze was held to be a general guarantee (i.e. Wuhan Zhengtong shall only be responsible for any shortfalls if Beijing Guangze fails to fulfill its repayment obligations), and after having assumed its general guarantee liability, Wuhan Zhengtong shall be entitled to claim repayment from Beijing Guangze to the extent of the guarantee obligation it has performed. The Equity Investment Second Instance Judgement is the final judgement. If Beijing Guangze fails to pay the amounts owed by it, Wuhan Zhengtong will proceed in accordance with the court's instructions and reserves its right to claim repayment from Beijing Guangze.

As at the date of this announcement, the appeal in respect of the Loan First Instance Judgement has not reached conclusion.

For details, please refer to the announcements of the Company dated 22 December 2021, 31 December 2021, 30 March 2022, 24 June 2022 and 20 July 2022.

* *For identification purposes only*

PROPOSED INTERIM DIVIDEND

Given the COVID-19 epidemic development across the world and its potential and uncertain impact on the industry and the Company in the foreseeable future, the Board has decided that no interim dividends shall be paid out for the six months ended 30 June 2022 after careful consideration.

REVIEW OF INTERIM RESULTS

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

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for six months ended 30 June 2022. KPMG, the Group's external auditor, has carried out a review of the unaudited interim consolidated financial statements for the six months ended 30 June 2022 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.

EVENTS AFTER THE REPORTING PERIOD

Ms. Ng Sau Mei has ceased to serve as a company secretary of the Company, and Ms. Fung Wai Sum has been appointed as the company secretary of the Company, both with effect from 6 July 2022.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2022.

CORPORATE GOVERNANCE

The Group is committed to achieving high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Group also acknowledges the vital importance of good corporate governance to the success and sustainability of the Group.

The Company has adopted the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**CG Code**"). So far as the current Board is aware, during the six months ended 30 June 2022, the Company has complied with the code provisions set out in the CG Code, except for the following deviation:

Pursuant to the code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Wang Ming Cheng was appointed as the Chairman of the Board and the Chief Executive Officer on 9 September 2021 and 17 September 2021, respectively. In order to focus on the performance of his responsibilities as the Chairman of the Board and an executive Director, Mr. Wang Ming Cheng subsequently resigned as the Chief Executive Officer on 10 March 2022 and the role of Chief Executive Officer was taken up by Mr. Chen Hong.

Although the positions of Chairman and Chief Executive Officer were not separate during the period from 17 September 2021 to 9 March 2022, the powers and authorities have not been concentrated as all major decisions have been made in consultation with the Board and appropriate Board committees, as well as senior management. In addition, there are three independent non-executive Directors on the Board offering their experience, expertise, independent advice and views from different perspectives. The Board is therefore of the view that there were adequate balance of power and safeguards in place. Since Mr. Chen Hong was appointed as the new Chief Executive Officer on 10 March 2022, there has been segregation of duties between the Chairman of the Board and the Chief Executive Officer. The Company has complied with the code provision C.2.1 of the CG Code.

The Company will periodically review and enhance its corporate governance practices to ensure that it will continue to comply with the requirements of the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a set of securities dealing code (the "**Securities Dealing Code**") regarding securities transactions of the Directors with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**"). In response to a specific enquiry by the Company, each of the existing Directors confirmed that they had complied with the Securities Dealing Code and the Model Code throughout the six months ended 30 June 2022.

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 2022 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 of the Group 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 Ming Cheng
Chairman

29 August 2022

As at the date of this announcement, the Board comprises Mr. WANG Ming Cheng (Chairman), Mr. LI Zhi Huang and Mr. ZENG Ting Yi as executive Directors; and Dr. WONG Tin Yau, Kelvin, Dr. CAO Tong and Ms. WONG Tan Tan as independent non-executive Directors.