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 2011

- Turnover increased by approximately 92.3% to approximately RMB6,016 million
- Gross profit increased by approximately 118.0% to approximately RMB630 million
- Gross profit margin increased 1.3 percentage point to approximately 10.5%
- Net profit attributable to equity holders increased by approximately 91.5% to approximately RMB293 million
- Basic earnings per share increased by approximately 44.1% to RMB0.147 per share

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 (the "Company" or "ZhengTong Auto") 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 2011 together with the comparative figures for the corresponding period in 2010 as set out below.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011
(Expressed in RMB'000)

		Six months ended 30 June	
	Note	**2011**	2010
		(unaudited)	(audited)
Turnover	*4*	**6,016,376**	3,127,922
Cost of sales		**(5,386,289)**	(2,838,727)
Gross profit		**630,087**	289,195
Other revenue	*5*	**38,111**	18,189
Other net income	*5*	**10,008**	4,996
Selling and distribution expenses		**(113,825)**	(69,177)
Administrative expenses		**(115,016)**	(57,434)
Profit from operations		**449,365**	185,769
Finance costs	*6(a)*	**(45,368)**	(21,953)
Share of profit of an associate or a jointly controlled entity		**7,340**	3,657
Gain on remeasurement of previously held equity interest in a jointly controlled entity		**–**	3,177
Gain on bargain purchase		**–**	27,266
Profit before taxation	*6*	**411,337**	197,916
Income tax	*7*	**(100,898)**	(39,537)
Profit for the period		**310,439**	158,379
Other comprehensive income for the period, net of tax:			
Exchange differences on translation of financial statements of foreign operations		**1,004**	343
Total comprehensive income for the period		**311,443**	158,722

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2011
(Expressed in RMB'000)

	Note	Six months ended 30 June 2011 (unaudited)	2010 (audited)
Profit attributable to:			
Equity holders of the Company		**293,322**	153,101
Non-controlling interests		**17,117**	5,278
Profit for the period		**310,439**	158,379
Total comprehensive income attributable to:			
Equity holders of the Company		**294,326**	153,444
Non-controlling interests		**17,117**	5,278
Total comprehensive income for the period		**311,443**	158,722
Earnings per share	*8*		
Basic and diluted (RMB cent)		**14.7**	10.2

CONSOLIDATED BALANCE SHEET

At 30 June 2011
(Expressed in RMB'000)

	Note	**At 30 June 2011 (unaudited)**	At 31 December 2010 (audited)
Non-current assets			
Property, plant and equipment		**535,392**	404,424
Lease prepayments		**161,092**	117,864
Intangible assets		**404,565**	58,601
Goodwill		**217,852**	16,236
Interest in a jointly controlled entity		**127,815**	120,475
Deferred tax assets		**2,280**	4,530
		1,448,996	722,130
Current assets			
Inventories	*10*	**1,270,983**	748,733
Trade and other receivables	*11*	**1,240,729**	868,442
Pledged bank deposits	*12*	**1,141,198**	960,928
Cash and cash equivalents	*13*	**3,363,055**	3,432,060
		7,015,965	6,010,163
Current liabilities			
Loans and borrowings	*14*	**1,103,261**	721,292
Trade and other payables	*15*	**2,740,102**	1,847,037
Income tax payables		**124,624**	73,053
		3,967,987	2,641,382
Net current assets		**3,047,978**	3,368,781
Total assets less current liabilities		**4,496,974**	4,090,911
Non-current liabilities			
Deferred tax liabilities		**105,200**	17,920
		105,200	17,920
NET ASSETS		**4,391,774**	4,072,991
Equity			
Share capital		**171,420**	171,420
Reserves		**4,155,433**	3,843,363
Equity attributable to equity holders of the Company		**4,326,853**	4,014,783
Non-controlling interests		**64,921**	58,208
TOTAL EQUITY		**4,391,774**	4,072,991

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 9 July 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Group is principally engaged in 4S dealership business, motor-related logistics business and lubricant oil trading business in the People's Republic of China (the "PRC").

Pursuant to a group reorganisation completed on 17 November 2010 (the "Reorganisation") to rationalise the Group's structure in preparation for the public offering of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as defined in the Company's prospectus dated 29 November 2010 (the "Prospectus"), the Company became the holding company of the Group. Details of the Reorganisation are set out in the Prospectus. The Company's shares were listed on the Stock Exchange on 10 December 2010.

Since all entities which took part in the Reorganisation were under common control of the same controlling shareholder, the Group is regarded as a continuing entity resulting from the reorganisation of entities under common control. The unaudited interim financial report has been prepared on the basis that the current group structure had been in existence at the beginning of the earliest period presented. Accordingly, the consolidated results of the Group for the six months ended 30 June 2010 and 2011 include the results of the Company and its subsidiaries with effect from 1 January 2010 or, if later, since their respective dates of incorporation/establishment/acquisition as if the current group structure had been in existence throughout the two periods presented. All material intra-group transactions and balances have been eliminated on consolidation.

2 BASIS OF PREPARATION

The Company has a financial year end date of 31 December. The interim financial report has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to 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 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of the interim financial report in conformity with HKAS 34 requires management to make judgments, 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 annual financial statements for the year ended 31 December 2010 which were issued on 12 March 2011 (the "2010 Annual Financial Statements"). The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report for the six month period ended 30 June 2011 is unaudited, and it was authorised for issue on 29 August 2011. The interim financial report has been reviewed by the Company's auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2010 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those statutory financial statements in their report dated 12 March 2011.

3 CHANGES IN ACCOUNTING POLICIES

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

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)

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

Developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements have had no material impact on the contents of the interim financial report.

4 TURNOVER

The Group is mainly engaged in sales of passenger automobile, motor spare parts, provision of maintenance services, provision of logistics services and sales of lubricant oil. Turnover represents the sales of goods and services income rendered to customers.

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Sales of motor vehicles	**5,392,638**	2,684,616
Sales of motor spare parts	**100,690**	51,139
Provision of maintenance services	**323,101**	191,779
Provision of logistics services	**67,817**	73,777
Sales of lubricant oil	**132,130**	126,611
	6,016,376	3,127,922

5 OTHER REVENUE AND NET INCOME

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Other revenue:		
Commission income	**25,880**	13,229
Interest income from bank deposits	**11,690**	3,873
Rental income	**–**	431
Others	**541**	656
	38,111	18,189
Other net income:		
Net gain on disposal of property, plant and equipment	**8,406**	4,498
Others	**1,602**	498
	10,008	4,996

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Note	Six months ended 30 June 2011 RMB'000 (unaudited)	2010 RMB'000 (audited)
(a)	**Finance costs:**			
	Interest on loans and borrowings wholly repayable within 5 years		**12,133**	8,534
	Other finance costs	*(i)*	**33,235**	13,419
			45,368	21,953
(b)	**Staff costs:**			
	Salaries, wages and other benefits		**93,977**	50,530
	Contributions to defined contribution retirement plans	*(ii)*	**6,367**	2,850
	Equity settled share-based transactions		**7,744**	–
			108,088	53,380

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

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

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

		Six months ended 30 June 2011 RMB'000 (unaudited)	2010 RMB'000 (audited)
(c)	**Other items:**		
	Cost of inventories	**5,321,494**	2,773,446
	Depreciation	**25,880**	18,121
	Amortisation of lease prepayments	**1,420**	2,311
	Amortisation of intangible assets	**2,477**	–
	Operating lease charges	**18,822**	7,948
	Net foreign exchange loss	**1,869**	–

7 INCOME TAX

Income tax in the consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Current tax:		
Provision for PRC income tax for the period	**97,893**	38,859
Deferred tax:		
Reversal of temporary differences	**3,005**	678
	100,898	39,537

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

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

(iii) On 16 March 2007, the PRC government enacted the new Enterprise Income Tax law ("new EIT law"), which unified the income tax rate to 25% for all companies. The new EIT law was effective as of 1 January 2008. Consequently, the Group's PRC subsidiaries (including the PRC Operating Entities under the Contractual Arrangements) are subject to income tax at 25% from 2008 onwards, except for Wuhan Jietong, which as a qualified production-oriented foreign invested enterprise, is subject to income tax at 12.5% for the three years from 2009 to 2011. Thereafter, it will be subject to the unified tax rate of 25%.

(iv) The new EIT law and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of the PRC from earnings accumulated from 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

Under the Arrangement between the Mainland of China and Hong Kong Special Administration Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or China-HK Tax Arrangement, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest in a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%.

On 27 October 2009, the State Administration of Taxation issued Guoshuihan [2009] No. 601 which clarified that a "beneficial owner" under a tax treaty is determined not purely by its place of legal registration but also by other factors which depend on the specific facts and circumstances and significant judgment may be involved. Hence, this reduction of withholding tax rate from 10% to 5% requires pre-approval by respective local tax bureaux in the PRC.

The Group's subsidiaries in the PRC are directly or indirectly held by the Group's intermediate holding company, Rising Wave Development Limited ("Rising Wave"), a Hong Kong tax resident. Deferred tax liabilities have not been recognised in respect of the withholding tax that would be payable on the distribution of retained profits, as the Group can control the quantity and timing of distribution of profits of these subsidiaries, and Directors are of the view that profits will not be distributed in the foreseeable future.

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2011 was based on the profit attributable to equity holders of the Company for the six months of RMB293,322,000 (30 June 2010: RMB153,101,000) and the weighted average of 2,000,000,000 ordinary shares (30 June 2010: 1,500,000,000) in issue during the period.

The weighted average number of shares in issue during the six months ended 30 June 2010 was based on the assumption that the 1,500,000,000 shares before the listing of shares on the Stock Exchange was in issue, as if such shares had been outstanding throughout the six months ended 30 June 2010.

The pre-IPO employee share option scheme does not give rise to any dilution effect on the Company's earnings per share and there were no other dilutive potential ordinary shares in existence during the six months ended 30 June 2011 and the six months ended 30 June 2010, and therefore, the basic and diluted earnings per share are the same.

No options were exercised during the six months ended 30 June 2011.

9 SEGMENT REPORTING

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

1 4S dealership business

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

2 Logistics business

Logistics business mainly includes provision of motor-related logistics services.

3 Lubricant oil business

Lubricant oil business mainly includes trading of lubricant oil.

As neither of logistics business nor lubricant oil business has exceeded the quantitative threshold for determining a reportable segment, they are grouped together to form one reportable segment. Consequently, the Group has two reportable segments, namely "4S dealership business" and "Logistics and lubricant oil businesses".

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

- The measure used for reporting segment profit is profit before taxation. To arrive at profit before taxation, the Group's earnings are adjusted for items not specifically attributed to individual segments, such as head office and corporate administration costs, other revenue, other net income and finance costs.

- Segment assets include all current and non-current assets with the exception of intangible assets, goodwill, deferred tax assets, unallocated head office assets and non-trade receivables due from related parties. Segment liabilities include all current and non-current liabilities with the exception of income tax payables, deferred tax liabilities, unallocated head office liabilities and non-trade payables due to related parties.

- In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment sales), loans and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

	4S dealership business		**Logistics and lubricant oil businesses**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(audited)	**(unaudited)**	(audited)	**(unaudited)**	(audited)
For six months ended 30 June						
Turnover from external customers	**5,816,429**	2,927,534	**199,947**	200,388	**6,016,376**	3,127,922
Inter-segment turnover	**–**	–	**4,725**	1,635	**4,725**	1,635
Reportable segment turnover	**5,816,429**	2,927,534	**204,672**	202,023	**6,021,101**	3,129,557
Reportable segment profit	**374,641**	136,650	**40,182**	60,314	**414,823**	196,964
Depreciation and amortisation for the period	**27,680**	18,052	**2,097**	2,380	**29,777**	20,432
Reportable segment assets as at 30 June 2011/31 December 2010	**4,963,169**	3,358,051	**1,025,807**	414,035	**5,988,976**	3,772,086
Additions to non-current segment assets during the period	**209,984**	89,643	**337**	12,056	**210,321**	101,699
Reportable segment liabilities as at 30 June 2011/31 December 2010	**(3,903,327)**	(2,396,624)	**(537,862)**	(280,816)	**(4,441,189)**	(2,677,440)
Interest in a jointly controlled entity as at 30 June 2011/31 December 2010	**–**	–	**127,815**	120,745	**127,815**	120,745

(b) Reconciliations of reportable segment turnover, profit before taxation, assets and liabilities

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Turnover:		
Reportable segment turnover	**6,021,101**	3,129,557
Elimination of inter-segment turnover	**(4,725)**	(1,635)
Consolidated turnover	**6,016,376**	3,127,922
Profit before taxation:		
Reportable segment profit	**414,823**	196,964
Unallocated head office expenses	**(6,237)**	(280)
Other revenue	**38,111**	18,189
Other net income	**10,008**	4,996
Finance costs	**(45,368)**	(21,953)
Consolidated profit before taxation	**411,337**	197,916

	At 30 June 2011	At 31 December 2010
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Assets:		
Reportable segment assets	**5,988,976**	3,772,086
Intangible assets	**404,565**	58,601
Goodwill	**217,852**	16,236
Deferred tax assets	**2,280**	4,530
Unallocated head office assets	**2,449,154**	3,020,927
Elimination of inter-segment receivables	**(597,866)**	(140,087)
Consolidated total assets	**8,464,961**	6,732,293
Liabilities:		
Reportable segment liabilities	**(4,441,189)**	(2,677,440)
Income tax payables	**(124,624)**	(73,053)
Deferred tax liabilities	**(105,200)**	(17,920)
Unallocated head office liabilities	**(40)**	(23,796)
Non-trade payables due to related parties	**–**	(7,180)
Elimination of inter-segment payables	**597,866**	140,087
Consolidated total liabilities	**(4,073,187)**	(2,659,302)

(c) Geographic information

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

10 INVENTORIES

	At 30 June 2011 *RMB'000* (unaudited)	At 31 December 2010 *RMB'000* (audited)
Motor vehicles	**1,167,122**	675,918
Automobile spare parts	**95,274**	69,609
Others	**8,587**	3,206
	1,270,983	748,733

Inventories with carrying amount of RMB664,777,000 have been pledged as security for the bills payable (see note 15) as at 30 June 2011 (31 December 2010: RMB413,281,000).

Inventories with carrying amount of RMB108,137,000 have been pledged as security for loans and borrowings from other financial institutions as at 30 June 2011 (31 December 2010: RMB45,311,000).

11 TRADE AND OTHER RECEIVABLES

	At 30 June 2011 *RMB'000* (unaudited)	At 31 December 2010 *RMB'000* (audited)
Trade receivables	**138,729**	131,247
Bills receivable	**4,026**	4,409
	142,755	135,656
Prepayments	**593,926**	480,129
Other receivables and deposits	**504,048**	252,657
Trade and other receivables	**1,240,729**	868,442

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

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

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	At 30 June 2011 *RMB'000* (unaudited)	At 31 December 2010 *RMB'000* (audited)
Current	**137,142**	133,608
Less than 1 month past due	**1,807**	–
1 to 3 months past due	**765**	1,525
3 to 12 months past due	**3,041**	523
Total amount past due	**5,613**	2,048
	142,755	135,656

12 PLEDGED BANK DEPOSITS

Guarantee deposits in respect of:

	At 30 June 2011 *RMB'000* **(unaudited)**	At 31 December 2010 *RMB'000* (audited)
Bank loans	**10,000**	10,120
Bills payable *(note 15)*	**1,131,198**	950,808
	1,141,198	960,928

The pledged bank deposits will be released upon the settlement of relevant bank loans and bills payable.

13 CASH AND CASH EQUIVALENTS

	At 30 June 2011 *RMB'000* **(unaudited)**	At 31 December 2010 *RMB'000* (audited)
Deposit with banks within 3 months of maturity	**33,630**	984,439
Cash at banks and on hand	**3,329,425**	2,447,621
Cash and cash equivalents in condensed consolidated cash flow statements	**3,363,055**	3,432,060

14 LOANS AND BORROWINGS

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

	At 30 June 2011 *RMB'000* **(unaudited)**	At 31 December 2010 *RMB'000* (audited)
Unsecured bank loans	**893,722**	418,400
	893,722	418,400
Secured bank loans	**180,469**	270,277
Secured borrowings from other financial institutions	**29,070**	32,615
	209,539	302,892
	1,103,261	721,292

15 TRADE AND OTHER PAYABLES

	At 30 June 2011 *RMB'000* (unaudited)	At 31 December 2010 *RMB'000* (audited)
Trade payables	**46,750**	39,956
Bills payable	**2,223,012**	1,515,172
	2,269,762	1,555,128
Receipts in advance	**226,904**	159,364
Other payables and accruals	**243,436**	121,521
Payables due to third parties	**2,740,102**	1,836,013
Payables due to related parties	**–**	11,024
Trade and other payables	**2,740,102**	1,847,037

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

Bills payable of RMB1,131,198,000 as at 30 June 2011 (31 December 2010: RMB950,808,000), were secured by pledged bank deposits (see note 12).

Bills payable of RMB1,091,814,000 as at 30 June 2011 (31 December 2010: RMB564,364,000), were secured by inventories (see note 10).

An ageing analysis of trade and bills payables is as follows:

	At 30 June 2011 *RMB'000* (unaudited)	At 31 December 2010 *RMB'000* (audited)
Due within 3 months	**2,199,956**	1,480,539
Due after 3 months but within 6 months	**68,134**	53,787
Due after 6 months but within 12 months	**1,672**	20,802
	2,269,762	1,555,128

16 CONTINGENT LIABILITIES

At 30 June 2011 and 31 December 2010, the Group did not have any significant contingent liabilities.

MARKET REVIEW

In the first half of 2011, Chinese economy continued to maintain steady growth. According to the statistics released by the National Bureau of Statistics of China, in the first half of 2011, the gross domestic products (GDP) of China recorded a surge of approximately 9.6% over the same period last year, signifying a slight slowdown in terms of growth rate. Meanwhile, upon rapid growth over years, the passenger vehicle market in China also entered into a stage of moderate growth. In the first half of 2011, the sales volume of Chinese passenger automobile market reached 7.1 million, representing a growth of 5.8% over the same period last year. In particular, the premium and ultra premium branded automobile market achieved outstanding performance with a continuously swift growth trend. Premium branded automobiles such as BMW and Audi achieved excellent results in the first half of the year, in particular, sales volume of Audi of Faw-Volkswagen branded automobiles in China reached 139,130 in the first half of the year, representing a growth of 28.0% over the same period last year, BMW group has a total of sales volume of 121,614 BMW and MINI automobiles in Chinese market, representing an increase of 60.8% over the same period last year.

According to the statistics of Traffic Bureau under Ministry of Public Security of the People's Republic of China, as at the end of June this year, motor vehicle ownership in China reached 217 million, of which, automobiles accounted for approximately 98 million, while private car ownership in China has exceeded 70 million. As the hot spot of automobile consumption, the ownership of small automobiles has shown a rapid growth trend.

In the future, Chinese government will continue to implement active financial policies and stable monetary policies in order to reinforce and improve macro adjustment and control continuously, including the adjustment in economical structure and change in the way of development. With the acceleration on the upgrading of industry as well as the vitality and energy brought by economic growth, it is expected that the growth of Chinese economy would be stable for a certain period in the future. At the same time, with the continuous increase in the disposable income of urban and rural residents, as well as the continuous surge in the consumption level brought by the sustained improvement in social security and consumption environment, the Group is very confident about the sales of premium and ultra premium branded automobiles and the rapid growth of after-sales business for automobiles in the Chinese market for the second half of the year.

BUSINESS REVIEW

As a premium and ultra premium branded automobile dealership group, the Group fully capitalized on the tremendous potential in the premium and ultra premium branded automobile market in China. During the period under review, apart from adopting its strategies consistently to raise operation and management efficiency, the Group also adhered to its strategy of placing focus on premium and ultra premium branded automobiles as always via active expansion of dealership network by means of mergers and acquisitions as well as new establishment. Upholding the concept for after-sales services of being customer-oriented as well as adhering to the basic profitability model under the coordinated development of diversified segments of automobile dealership together with lubricant oil and logistics business, the Group has achieved outstanding results in respect of the above aspects.

Continuously blooming sales of premium and ultra premium branded automobile

In the first half of 2011, although the overall automobile market in China was steady, the market for premium and ultra premium branded automobiles had maintained a rapid growth trend. In particular, sales volume of Audi branded automobiles of Faw-Volkswagen in the first half of 2011 increased by 28.0% from the same period last year while the total sales volume of BMW and MINI branded automobiles of BMW group in the first half of 2011 increased by 60.8% from the same period last year. The significant surge of sales volume of premium and ultra premium branded automobiles was due to the fact that the consumption of premium and ultra premium branded automobiles was in the strong demand stage in the first half of 2011 as well as the supreme and continuous purchasing power of the customer base targeted by premium and ultra premium branded automobiles, while the impact of the policies was relatively limited.

As the Group's strategies focus on premium and ultra premium brands, benefited from the above market trends, in the first half of 2011, the sales revenue of premium and ultra premium branded automobiles for the Group was approximately RMB4,350 million, representing an increase of approximately 162.7% from the same period last year. The sales revenue of premium and ultra premium branded automobiles accounted for approximately 80.7% of the sales revenue of new automobiles (first half of 2010: approximately 61.7%).

Significant upgrade of after-sales service business

In the first half of 2011, the Group's after-sales service business contributed turnover of approximately RMB424 million, up by approximately 74.5% from the turnover of approximately RMB243 million in the same period last year, while the gross profit margin of after-sales services also increased to 43.5% (first half of 2010: 41.6%). Benefited from the innovation of after-sales services by the Group, the profitability of after-sales service business has increased. All 4S dealership stores raised the number of automobiles using after-sales services via enhancement on customer care, invitation, self-experience and commencement of marketing campaigns for after-sales services. Quality of after-sales service is enhanced via active optimization of the flow of after-sales services, reasonable introduction of informationization and management tools by segments, and satisfaction on customer services was enhanced, thereby nurturing loyalty among customer base. In addition, the surge in the accumulative total of new car sales of the Group as well as the continuous increase in car ownership in China also represents great potential for growth of the after-sales service business of the Group. The Group also puts full efforts on fostering used automobile related business to satisfy needs of different customers and further facilitates the expansion of after-sales business.

Focus on optimizing distribution network

The Group has established dealership stores in 15 cities, covering all the largest, established automobile markets of the affluent regions of China, such as Beijing, Shanghai, Guangzhou, Zhuhai, Dongguan, Shantou and Qingdao as well as the rapidly developing regions such as Baotou, Nanchang, Chenzhou, Yichang, Hohhot, Changsha, Wuhan and Shiyan. The Group's strategy for dealership network distribution is to achieve a balanced development in the established markets as well as those with growth potential.

In the first half of 2011, the Group has established 1 Faw-Volkswagen 4S dealership store, and 1 Land Rover and Jaguar urban exhibition hall in Baotou. The Group has also acquired 2 Audi 4S dealership store, respectively in Nanchang and Qingdao. As at 30 June 2011, the Group has 27 4S dealership stores and 1 urban exhibition hall in operation. Meanwhile, 10 4S dealership stores are also under construction, with the brands of Faw-Volkswagen, BMW, Land Rover and Audi, and three of which (respectively in Xiangtan, Shangrao and Ganzhou of BMW brand) have gradually been open in July and August 2011. Majority of the other new stores under construction are anticipated to be open in 2011.

Expansion strategy with focus on premium and ultra premium brands

To capture the market opportunities from the rapid growth of sales revenue of premium and ultra premium branded automobiles in China, the Group has been placing its strategic focus on the sales of the most popular premium and ultra premium branded automobiles in China, such as BMW, MINI, Audi and Porsche. The recognition of premium and ultra premium branded automobile dealership business boosted the sustainable growth of new automobile sales revenue and profit. Sales revenue of new premium and ultra premium branded automobiles increased by approximately 162.7% over the first half of 2010, accounting for approximately 80.7% of the sales income of new automobiles.

The Group has been focusing on the expansion of its premium and ultra premium brands' 4S dealership stores. As at 30 June 2011, the Group has 27 4S dealership stores, 17 of which are dealership stores for premium and ultra premium brands, accounting for approximately 63.0% of all 4S dealership stores of the Group. In the first half of 2011, both the newly established and acquired 4S dealership stores and urban exhibition hall are for premium brands, including Audi, Faw-Volkswagen, Jaguar and Land Rover.

Number of 4S dealership stores by category

	As at 30 June 2011	As at 31 December 2010
Premium and ultra premium brand 4S dealership stores	**17**	14
Middle market brand 4S dealership stores	**10**	10
Total	**27**	24

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2011, the Group generated turnover of approximately RMB6,016 million, representing an increase of approximately 92.3% over the turnover of approximately RMB3,128 million in the first half of 2010. The increase in turnover was mainly due to the strong growth in the income from dealership business for premium and ultra premium branded automobiles of the Group. The Group adopted a number of strategies, such as expanding its dealership network, to enhance its operating efficiency and take advantage of market opportunities in a timely manner. Turnover grew rapidly as a result.

The Group generated most of its revenue from the sales of new automobiles, whereas the remaining was from the provision of after-sales services and other business. During the first half of 2011, revenue from the sales of new automobiles amounted to approximately RMB5,393 million, representing an increase of RMB2,708 million or approximately 100.9% over the first half of 2010, and accounted for approximately 89.6% of the total revenue of the first half of 2011; whereas revenue from the provision of after-sales services amounted to approximately RMB424 million, representing an increase of approximately 74.5% over the first half of 2010, and accounted for approximately 7.0% of the total revenue of the first half of 2011.

For the six months ended 30 June 2011, turnover from premium and ultra premium branded automobiles was approximately RMB4,350 million, representing a growth of approximately RMB2,694 million or approximately 162.7% over the first half of 2010, and accounted for approximately 80.7% of the revenue from the sales of new automobiles.

For the six months ended 30 June 2011, revenue from the Group's logistics service business and lubricant oil trading business amounted to approximately RMB200 million (first half of 2010: approximately RMB200 million).

Cost of sales

For the six months ended 30 June 2011, cost of sales of the Group amounted to approximately RMB5,386 million, representing an increase of approximately RMB2,547 million or approximately 89.7% over the first half of 2010. Such increase was mainly due to the increase in the cost of sales for new automobiles. In the first half of 2011, the cost of sales for new automobiles of the Group rose by approximately 96.5% to approximately RMB4,986 million, as compared with approximately RMB2,537 million for the first half of 2010.

The cost of sales for premium and ultra premium branded automobiles was up by approximately 159.3% to approximately RMB4,017 million, as compared with approximately RMB1,549 million for the first half of 2010; whereas the cost of sales for middle market branded automobiles decreased by approximately 1.9% to approximately RMB969 million, as compared with approximately RMB988 million in the first half of 2010. The increase in the cost of sales for new automobiles was generally in line with the growth in the revenue generated from the sales of new automobiles.

The increase in cost of sales was also partially due to the increase in cost of sales for after-sales services from approximately RMB142 million in the first half of 2010 to approximately RMB240 million, representing an increase of approximately 69.0%, which was in line with the increase in turnover of after-sales services.

Gross Profit

For the six months ended 30 June 2011, the Group's gross profit was approximately RMB630 million, representing an increase of approximately 118.0% over approximately RMB289 million for the first half of 2010. In particular, gross profit generated from the sales of premium and ultra premium branded automobiles increased from approximately RMB107 million in the first half of 2010 to approximately RMB333 million, representing a growth of 211.2%. Gross profit generated from the provision of after-sales services increased from approximately RMB101 million in the first half of 2010 to approximately RMB184 million, representing an increase of 82.2%.

For the six months ended 30 June 2011, the gross profit margin of the Group was approximately 10.5%, representing an increase of approximately 1.3 percentage point as compared with approximately 9.2% for the first half of 2010. In particular, the gross profit margin for the sales of new automobiles was 7.5% (first half of 2010: 5.5%) and the gross profit margin for after-sales services was 43.5% (first half of 2010: 41.6%). The increase in gross profit margin was due to the increase in the proportion of the sales of premium and ultra premium branded automobiles, which have higher gross profit margin.

For the six months ended 30 June 2011, the gross profit from the Group's logistics and lubricant oil trading business was approximately RMB39 million (first half of 2010: RMB40 million).

Selling and distribution expenses

For the six months ended 30 June 2011, the Group's selling and distribution expenses amounted to approximately RMB114 million, representing an increase of approximately 65.2% over approximately RMB69 million for the first half of 2010. Such increase was primarily as a result of the expansion of the Group's sales network.

Administrative expenses

For the six months ended 30 June 2011, the Group's administrative expenses amounted to approximately RMB115 million, representing an increase of approximately 101.8% over approximately RMB57 million for the first half of 2010. Such increase was primarily as a result of the increase in staff remuneration, salary expenses as well as staff benefits and depreciation cost for the newly added 4S dealership stores of the Group, and the increase in rental expenses for the newly added 4S dealership stores for buildings under operating leases.

Profit from operations

For the six months ended 30 June 2011, the Group's profit from operations amounted to approximately RMB449 million, representing an increase of approximately 141.4% as compared with approximately RMB186 million for the first half of 2010. The operating profit margin was approximately 7.5%, an increase of approximately 1.6 percentage point over that in the first half of 2010.

Income tax expenses

For the six months ended 30 June 2011, the Group's income tax expenses amounted to approximately RMB101 million and the effective tax rate was approximately 24.5%.

Profit for the period

For the six months ended 30 June 2011, the Group's profit was approximately RMB310 million, representing an increase of approximately 96.2% over approximately RMB158 million for the first half of 2010. The net profit margin for the period was approximately 5.2%, representing an increase of approximately 0.1 percentage point over that in the first half of 2010.

Interim dividend

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2011.

Contingent liabilities

As at 30 June 2011, 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 2011, the Group's current assets amounted to approximately RMB7,016 million, representing an increase of RMB1,006 million as compared to current assets of approximately RMB6,010 million as at 31 December 2010. Such increase was primarily attributable to the increase in inventories, prepayments and pledged bank deposits for the Group's newly added 4S dealership stores and the expansion of the existing 4S dealership store business.

As at 30 June 2011, the Group's current liabilities amounted to approximately RMB3,968 million, representing an increase of approximately RMB1,327 million as compared to approximately RMB2,641 million as at 31 December 2010. Such increase was mainly due to the increase in borrowing for liquidity for the Group's newly added 4S dealership stores and the expansion of the existing 4S dealership store business, as well as the increase in bills payable used for the purchase of inventories.

Cash flow

As at 30 June 2011, the Group has cash and cash equivalents amounting to approximately RMB3,363 million, representing a decrease of approximately RMB69 million over approximately RMB3,432 million as at 31 December 2010.

The Group's transactions and monetary assets are principally conducted in RMB. During the first half of 2011, the Group's working capital or liquidity did not face any material difficulties or material impacts as a result of the movement in exchange rate.

The primary uses of cash are to pay for purchases of new automobiles, spare parts and automobile accessories and automobile lubricant oil, to repay the loans, borrowings and other indebtedness, to fund the working capital and normal 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 2011, the Group had net cash inflow of approximately RMB41 million in its operating activities.

Capital expenditure and investment

For the six months ended 30 June 2011, the Group's capital expenditure and investment was approximately RMB679 million.

Inventory analysis

The Group's inventories included vehicles, which primarily consisted of new automobiles kept in its dealership stores and warehouses as well as automobiles in transit of which the titles and risks had been transferred to the Group. The Group's inventories also included automobile spare parts. Generally, each of its dealership stores individually manages the quotas and orders for new automobiles, automobile spare parts and other inventories. In addition, the Group also monitors the inventories within its dealership network and, subject to the consent of automobile manufacturers, may also transfer automobiles from one dealership store to another to rebalance inventory levels. The Group utilizes its information technology systems to manage its inventory.

The inventories of the Group increased from approximately RMB749 million as at 31 December 2010 to approximately RMB1,271 million as at 30 June 2011, which was primarily attributable to the Group's newly added 4S dealership stores and the expansion of the sales business of the existing 4S stores.

The following table sets forth the average inventory turnover days of the Group for the half-year periods indicated:

	For the six months ended 30 June	
	2011	2010
Average inventory turnover days	**33.7**	33.6

Exchange risks

The Group conducts its business primarily in Renminbi and the majority of its monetary assets and liabilities are denominated in Renminbi. Accordingly, the Directors consider that the Group is not exposed to any material foreign exchange risks. The Group does not use any financial instruments for hedging purposes.

Loans and borrowings

As at 30 June 2011, the Group's loans and borrowings amounted to approximately RMB1,103 million (31 December 2010: approximately RMB721 million). The reason for the increase in loans and borrowings for the period was the increase in borrowing for liquidity for the Group's newly added 4S dealership stores and the expansion of the existing 4S dealership store business. The gearing ratio of the Group as at 30 June 2011 was approximately 39.3%, which was calculated as total interest bearing liabilities divided by total assets. Interest bearing liabilities include bank loans and other borrowings and bills payable.

Pledged assets of the Group

The Group has pledged its corporate 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 2011, the pledged assets of the Group amounted to approximately RMB1,914 million (31 December 2010: approximately RMB1,429 million).

Investments held in foreign currency and hedging

For the six months ended 30 June 2011, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not face any material difficulties or material impacts as a result of the movement in exchange rate. Currently, the Group does not employ any financial instruments for hedging purposes.

Employees and remuneration policies

As at 30 June 2011, the Group had a total of 3,320 employees in China (31 December 2010: 3,103 employees).

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 provides good working environment and diversified training program.

Future prospects

The Group anticipates that GDP of China will achieve sustainable growth, while the growth of the premium and ultra premium branded automobile markets will exceed that of the general automobile market. This will bring a tremendous business opportunity for the Group as it focuses on the sales of premium and ultra premium branded automobiles. The Group will actively implement its development strategies, and comprehensively cater for the keen demand in the premium and ultra premium automobile consumer markets in Mainland China.

In view of the promising prospects of the premium and ultra premium brand market in China, ZhengTong Auto will continuously consolidate and raise the Group's leading position in the premium and ultra premium automobile brand dealership market in China, and reinforce its core automobile dealership business, while actively accelerating the expansion of the existing dealership network on the basis of the optimization and expansion of the current premium brand offerings. Customer-oriented after-sales business will also be deepened to enable it to make a astainedly greater contribution to the Group's profit, and strive for a rapid development in respect of used automobiles, automobile accessories and automobile financing and insurance business, while adding a new profit growth point for the Group to ensure its stable and sustainable development. The Group will also better utilize its after-sales service channels and its good relationship with automobile manufacturers to accelerate the development of logistics and lubricant oil business, hence achieving excellent results.

The management believes that the Group will continue to maintain its leading position during the rapid growth of premium and ultra premium automobile market in China, and it is determined to strive for the maximum return for the shareholders. During such process, ZhengTong Auto team will try its best to make the largest contribution to the development and continuous improvement of the Group.

REVIEW OF INTERIM RESULTS

The Group's interim results for the six months ended 30 June 2011 have been reviewed by the audit committee of the Company ("Audit Committee"), which comprises all independent non-executive directors, namely Dr. Wong Tin Yau, Kelvin (Chairman of the Audit Committee), Mr. Zhang Yansheng and Mr. Tan Xiangyong. The Audit Committee considers that the interim results for the six months ended 30 June 2011 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

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 2011.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2011, except for the deviation mentioned below:

The Company has not yet appointed the Chairman of the Board and Mr. Wang Kunpeng, the Chief Executive Officer, usually chairs the meetings of the Board. In performing his role as chairman of the meetings, Mr. Wang provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices. The Board considers that the current arrangement does not impair the balance of power and authority between the management of the Board and the management of the business of the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is available for viewing on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.zhengtongauto.com) and the interim report for the six months ended 30 June 2011 of the Company containing all the information required by the Listing Rules will be despatched to the Company's shareholders and published on the above websites in due course.

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 Kunpeng
Chief Executive Officer and Executive Director

29 August 2011

As at the date of this announcement, the Board of the Company comprises Mr. WANG Kunpeng (Chief Executive Officer), Mr. LI Zhubo, Mr. SHAO Yong Jun, Mr. LIU Dongli and Mr. CHEN Tao as Executive Directors; Mr. WANG Muqing as Non-Executive Director; and Dr. WONG Tin Yau, Kelvin, Mr. TAN Xiangyong and Mr. ZHANG Yansheng as Independent Non-Executive Directors.